

# Report of the Board of Directors

The Board is pleased to submit its report together with the audited financial statements for the year ended 31 December 2007.

## Day-to-day Operation of the Board

### 1. During the reporting period, the Board held 4 board meetings to consider and approve the following issues:

- (1) On 25 April 2007, the Company held the 13th Meeting of the 5th Board at its headquarters. The meeting approved the 2006 annual report and the summary thereof, Report of the Board of Directors, 2006 financial statements as audited respectively by the international and domestic auditors and the Proposal for Not Appropriating any of the Profit for 2006. It was approved that Horwath Hong Kong CPA Limited and Yue Hua Certified Public Accountants Company Limited be reappointed and retained respectively as the international and domestic auditors of the Company for 2007. The Resolution of Implementation of New Accounting Standards was considered and approved. Election of Mr. Li Anjian, Mr. Xu Guofei, Ms. Liu Ailian, Mr. Zhu Lifeng, Mr. Shi Qiusheng and Mr. Lu Qing as directors of the Sixth Board of the Company, and the election of Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong as independent directors of the Sixth Board of the Company were approved. Issues related to the 2006 Annual General Meeting and the 2007 First Quarterly Report of the Company were passed.

The announcement of aforesaid resolutions passed by the Board was published in the Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard on 26 April 2007.

- (2) On 12 June 2007, the Company held the First Meeting of the Sixth Board at its headquarters. The following resolutions were approved in the meeting:
  - I. The election of Mr. Li Anjian and Mr. Xu Guofei as Chairman and Vice Chairman respectively.
  - II. The election of Mr. Li Anjian, Mr. Xu Guofei, Ms. Liu Ailian, Mr. Zhu Lifeng, Mr. Shi Qiusheng, Mr. Lu Qing and Mr. Ma Chung Lai, Lawrence as members of Strategy Committee and Mr. Xu Guofei as the chairman of the committee. The election of Ms. Liu Ailian, Mr. Shi Qiusheng, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong as members of the Audit Committee and Mr. Cai Lianglin as the chairman of the committee. The election of Mr. Li Anjian, Mr. Xu Guofei, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong as members of the Nomination Committee and Mr. Tang Yousong as the chairman of the Committee. The election of Mr. Zhu Lifeng, Mr. Lu Qing, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong as members of the Remuneration & Evaluation Committee and Mr. Ma Chung Lai, Lawrence as the chairman of the Committee.
  - III. The appointment of Mr. Li Anjian as the General Manager of the Company. The appointment of Mr. Wang Hongjin, Mr. Wu Liulin and Mr. Liu Kun as Deputy General Managers of the Company. The appointment of Mr. Shen Jianlong as the Chief Accountant of the Company and the Secretary to the Board.

The announcement of the aforesaid resolutions passed by the Board was published in the Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard on 13 June 2007.

- (3) On 14 August 2007, the Company held the Second Meeting of the Sixth Board by way of written resolutions. The meeting approved the 2007 Interim Report of the Company and its summary.
- (4) On 25 October 2007, the Company held the Third Meeting of the Sixth Board by way of written resolutions. The meeting approved the 2007 Third Quarterly Report of the Company.



# Report of the Board of Directors

## Day-to-day Operation of the Board (Continued)

2. During the reporting period, the Board strictly complied with the resolutions approved at the general meetings and will diligently seek the best interest of the Company and shareholders pursuant to the principles of “honesty and industriousness”.

## Designated Press for Information Disclosure

During the reporting period, discloseable information of the Company was published on Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard.

## Principal Activities

The principal activities of the Group are the development, production and sale of satellite communication products, mobile communication products, electromechanical products, electronic information products and electronic manufacturing business, etc.

## Turnover and Contribution by Business Segment

An analysis of consolidated turnover by business segments and their contribution to profit (loss) of the Group under the accounting principles generally accepted in Hong Kong is as follows:

Type of products	Turnover RMB'000	Contribution to the Group's operating profit/(loss) RMB'000
Electronic manufacturing products	305,820	30,252
Satellite communication products	198,771	26,466
Electromechanical products	189,002	16,105
Electronic information products	276,672	13,328
Others products	23,773	5,022
Unallocated expenses		(161,061)
Interest revenue		3,413
Operating loss		(66,475)
Finance costs		(58,454)
Share of results of associates		247,405
Profit before taxation		122,476

## Financial Summary

A summary of the Group's results and assets and liabilities for the last five financial years, prepared in accordance with accounting standards generally accepted in Hong Kong, is set out on “II. Accounting Figures and Financial Highlights”.



# Report of the Board of Directors

## Net Assets Per Share

The details of the net assets per share at the balance sheet date for each of the three years ended 31 December 2007 are as follows:

### (1) As prepared in accordance with accounting principles generally accepted in Hong Kong:

	2007	2006	2005
Net assets per share (Net assets / Total number of shares) (Unit: RMB)	<b>2.28</b>	2.10	1.96
Rate of increase	<b>8.57%</b>	7.14%	7.69%

### (2) As prepared in accordance with PRC accounting standards for Business Enterprises:

	2007	2006	2005
Net assets per share (Net assets / Total number of shares) (Unit: RMB)	<b>2.19</b>	2.06	1.92
Rate of increase	<b>6.31%</b>	7.29%	6.67%

## Purchase, Sale or Redemption of the Listed Securities of the Company

The Group has not purchased, sold or redeemed any of the Company's securities during the reporting period.

## Pre-emptive Rights

There is no provision for pre-emptive rights according to the relevant laws of the PRC and the Articles of Association.

## Directors' and Supervisors' Remuneration

During the year, the aggregate remuneration of the Directors and Supervisors amounted to RMB1,632,800 and RMB480,000 respectively, exclusive of their pension scheme contributions. Save as disclosed above, the Company did not offer other remuneration, allowances, or bonuses to the Directors and Supervisors.

The remuneration paid or payable by the Company to each of the Directors and Supervisors was less than RMB300,000. The pension scheme for executive directors and supervisors was included as part of the staff pension scheme of the Company as there was no other special arrangement.

## Highest Paid Individuals

The five highest paid individuals of the Company during the year were technology specialists of the Company.

## Arrangements to Purchase Shares or Debentures by Directors, Supervisors and Senior Management Staff

At no time during the year 2007 had the Company become a party to any arrangements to enable the Directors, Supervisors or senior management staff or any of their spouses or children under 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporate bodies.



# Report of the Board of Directors

## Directors', Supervisors' and Senior Management Staff's Interests in Contracts

There had been no contract of significance at any time during the year to which the Group was a party and in which the Director, Supervisor or senior management staff of the Company had a material interest.

## Service Agreement for Directors and Supervisors

Service agreements have been signed between the Company and all Directors and Supervisors. The term of service of each agreement was for a term of three years.

None of the Directors or Supervisors has entered into any contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## Privileges of Directors, Supervisors and Senior Management Staff

During the year, no privileges were enjoyed by the Directors, Supervisors or senior management staff of the Company.

## Material Contracts with PEGL

The Group entered into the following agreements ("Agreements") under the New Continuing Connected Transactions ("New Continuing Connected Transactions") to be conducted from 2007 to 2009 with the PEGL Group:

1. An agreement on provision of sub-contracting services and composite services by the Group to the PEGL Group signed on 8 November 2006;
2. An agreement on provision of sub-contracting services and composite services by the PEGL Group to the Group signed on 8 November 2006;
3. An agreement on sale of materials and components and parts by the Group to the PEGL Group signed on 8 November 2006;
4. An agreement on sale of materials and components and parts by the PEGL Group to the Group signed on 8 November 2006;
5. An agreement on import and export agency services provided by the PEGL Group to the Group signed on 27 November 2006;
6. An agreement on licensing of PANDA Trademarks by the Group to the PEGL Group signed on 27 November 2006;
7. An agreement on lease of factory premises by the Group to the PEGL Group signed on 8 November 2006;
8. An agreement on lease of factory premises and land use right by the PEGL Group to the Group signed on 8 November 2006.

(Details of the aforesaid Agreements under the New Continuing Connected Transactions were published in the China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 12 December 2006 and in the circular of the First Extraordinary General Meeting of 2007 held on 3 April 2007.)

The aforesaid Agreements were approved by the Independent Shareholders as continuing connected transactions in the extraordinary general meeting held on 3 April 2007 and came into effect.



# Report of the Board of Directors

## Convertible Securities, Options, Warrants or Similar Rights

The Company had not issued or granted any convertible securities, options, warrants or similar rights as at 31 December 2007.

## Pension Scheme

The Company participated in a pension scheme established by the government. In accordance with the terms of the scheme, the annual contribution should be equivalent to around 20% of the salary of the employees. According to the said scheme, the pension of present and retired employees of the Company is protected by the Nanjing Social Labour Insurance System Co-ordinating Committee.

Except for the annual contribution, the Company has no further obligation in this regard.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the Company's business were entered into by the Company or existed during the year.

## Results and Distribution of Profit

The results of the Group for the year ended 31 December 2007 and the financial status of the Company and the Group on that date are set out in the financial statements prepared in accordance with accounting principles generally accepted in Hong Kong and PRC accounting standards.

After being audited by Zhong Rui Yue Hua Certified Public Accountants Company Limited and Shu Lun Pan Horwath Hong Kong CPA Limited, the Company realized a net profit after taxation of RMB89,092,710 in 2007 under the PRC Accounting Standards for Business Enterprises; the Company realized a net profit of RMB111,995,000 in 2007 under the accounting principle generally accepted in Hong Kong.

Under the relevant accounting policies and the Articles of Association, the withdrawal from the statutory common fund was RMB50,494,400. In addition, the undistributed profit for 2006 was RMB23,694,620. Hence, the actual profit attributable to shareholders in this year amounted to RMB107,737,880.

With respect to the actual situation of the Company, the Board resolved that the proposed distribution plan for 2007 would be as follows: the Company is to take the aggregate share capital of 665,015,000 shares as the basis to declare a cash dividend of RMB0.08 per share (tax inclusive) to all shareholders. The total amount of cash dividend amounts to RMB52,401,200. The remaining distributable profit of RMB55,336,680 is to be carried forward to next year.

The Company resolved that capitalization of capital reserve would not be made.

The aforesaid profit distribution proposal is subject to the shareholders' approval at the 2007 annual general meeting to be held on 15 May 2008.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group, as of 31 December 2007, are set out in the notes to the financial statements prepared under accounting principles generally accepted in Hong Kong.

Interest which was capitalized during the year is set out in the notes to the financial statements prepared under accounting principles generally accepted in Hong Kong.



# Report of the Board of Directors

## Reserves

The changes in the reserves of the Group for the year are set out in the Consolidated Statement of Changes in Equity prepared under accounting principles generally accepted in Hong Kong and the notes to the financial statements prepared under PRC accounting standards.

## Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in the financial statements prepared under accounting principles generally accepted in Hong Kong and the notes to the financial statements prepared under PRC accounting standards.

## Subsidiaries

Information on the subsidiaries of the Company is set out in the notes to the financial statements prepared under accounting principles generally accepted in Hong Kong.

## Code of Corporate Governance Practices and Model Code

Please refer to Corporate Governance Report for details of compliance with the CGP Code and the Model Code.

## Confirmation by Independent Non Executive Directors on Connected Transactions

The independent non-executive directors of the Company have, in such capacity, reviewed the connected transactions referred to in the financial statements prepared under accounting principles generally accepted in Hong Kong and note 8 to the financial statements prepared under PRC accounting standards and confirmed that:

1. such transactions have been entered into by the Company in the ordinary and usual course of its business;
2. the transactions have been entered into either (1) on normal commercial terms; or (2) where there is no available comparison, on terms no less favourable to the Company than terms available to or from independent third parties; and
3. such transactions have been entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Annual General Meeting

The Board decided to hold the 2007 annual general meeting on 15 May 2008. Please refer to the related announcement for details.

By Order of the Board  
**Li Anjian**  
*Chairman*

Nanjing, the PRC  
27 March 2008

