

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS) (UNAUDITED)

- (1) The half-yearly financial reports for the reporting period have not been audited.
 (2) Financial Statements and the notes thereto are as follows:

Balance Sheet

Assets	Note	Consolidated		Company	
		30 June 2003	31 December 2002 <i>(audited)</i>	30 June 2003	31 December 2002 <i>(audited)</i>
		RMB	RMB	RMB	RMB
Current assets:					
Cash and bank balances	1	427,077,441.59	685,007,974.75	68,220,404.38	216,954,772.23
Short term investment	2	200,000,000.00	97,462,000.00	100,000,000.00	97,462,000.00
Bills receivable	3	3,990,731.49	76,725,663.74	—	—
Dividends receivable	4	6,575,295.45	3,500,295.45	8,393,771.28	4,682,220.89
Interest receivable		—	—	—	—
Accounts receivable	5	644,736,551.43	358,869,682.41	14,205,331.73	9,045,357.34
Other receivables	6	145,132,345.86	97,650,249.38	811,801,412.86	567,365,365.99
Prepayments	7	246,426,746.26	70,737,960.35	16,976,998.94	43,721,035.25
Subsidies receivable		—	—	—	—
Inventories	8	708,006,556.54	231,176,686.54	57,715,594.12	40,241,913.85
Deferred expenses	9	32,047,250.71	46,539,382.74	59,823.01	69,961.47
Long term debts investment due within one year		—	—	—	—
Other current assets		1,224,240.63	—	—	—
Total current assets		2,415,217,159.96	1,667,669,895.36	1,077,373,336.32	979,542,627.02
Long term investments:					
Long term equity investments	10	673,057,231.35	637,566,046.79	876,814,321.64	810,917,130.30
Long term debts investments		—	—	—	—
Total long term investments		673,057,231.35	637,566,046.79	876,814,321.64	810,917,130.30
Comprising: consolidated difference					
		—	—	—	—
Fixed assets:					
Fixed assets, at cost	11	561,790,026.67	543,394,518.73	397,573,567.79	397,193,396.79
Less: accumulated depreciation	11	204,876,142.97	188,219,806.63	124,749,320.76	117,768,622.47
Fixed assets, net		356,913,883.70	355,174,712.10	272,824,247.03	279,424,774.32
Less: provision for diminution in value of fixed assets	11	25,415,698.97	25,701,055.13	25,415,698.97	25,415,698.97
Fixed assets, net		331,498,184.73	329,473,656.97	247,408,548.06	254,009,075.35
Construction resources		—	—	—	—
Construction in progress	12	8,154,092.89	7,718,447.97	5,238,122.50	5,080,567.50
Clearance of fixed assets		—	—	—	—
Total fixed assets		339,652,277.62	337,192,104.94	252,646,670.56	259,089,642.85
Intangible and other assets:					
Intangible assets	13	67,077,206.94	75,197,876.94	65,642,185.33	73,661,185.33
Long term deferred expenses	14	6,587,733.63	10,009,521.44	5,327,648.85	8,667,121.35
Other long term assets		—	—	—	—
Total intangible and other assets		73,664,940.57	85,207,398.38	70,969,834.18	82,328,306.68
Deferred taxation: Deferred tax					
		—	—	—	—
Total assets		3,501,591,609.50	2,727,635,445.47	2,277,804,162.70	2,131,877,706.85

Balance Sheet (Continued)

Liabilities and shareholders' interest	Note	Consolidated		Company	
		30 June 2003 RMB	31 December 2002 (audited) RMB	30 June 2003 RMB	31 December 2002 (audited) RMB
Current liabilities:					
Short term loans	15	1,341,000,000.00	991,800,000.00	1,002,000,000.00	852,800,000.00
Bills payable	16	357,608,861.93	134,773,950.00	—	—
Accounts payable	17	329,739,317.87	181,179,055.34	12,279,802.66	14,449,270.23
Receipts in advance	17	71,916,046.55	26,872,494.48	37,133,785.21	875,843.99
Accrued salaries	18	766,481.70	1,883,097.00	56,417.90	—
Staff welfare payable		7,704,725.02	6,565,531.70	2,853,354.28	2,115,060.54
Dividends payable		—	—	—	—
Taxes payable	19	12,097,650.98	62,792,769.51	60,506,661.96	61,104,716.22
Sundry payables	20	6,210,604.22	6,479,607.38	5,586,221.25	5,869,942.83
Other payables	21	163,061,716.28	159,960,487.42	48,924,350.41	125,805,761.08
Accrued expenses	22	19,708,530.12	5,372,331.73	2,565,966.57	3,392,657.79
Estimated liabilities		—	—	—	—
Long term liabilities due within one year		—	—	—	—
Other current liabilities		—	—	—	—
Total current liabilities		2,309,813,934.67	1,577,679,324.56	1,171,906,560.24	1,066,413,252.68
Long term liabilities:					
Long term borrowing		—	—	—	—
Bonds payable		—	—	—	—
Long term payables		39,222,490.08	38,978,306.97	38,075,400.44	38,000,000.00
Special payable		—	—	—	—
Other long term liabilities		—	—	—	—
Total long term liabilities		39,222,490.08	38,978,306.97	38,075,400.44	38,000,000.00
Deferred tax:					
Deferred tax loan	23	11,550.64	11,550.64	11,550.64	11,550.64
Total liabilities		2,349,047,975.39	1,616,669,182.17	1,209,993,511.32	1,104,424,803.32
Minority interests:					
Minority interests	24	89,209,035.07	80,610,181.35	—	—
Shareholders' funds:					
Share capital	25	655,015,000.00	655,015,000.00	655,015,000.00	655,015,000.00
Capital reserve	26	478,741,666.39	478,616,539.92	478,741,666.39	478,616,539.92
Surplus reserve	27	188,137,542.53	188,137,542.53	188,137,542.53	188,137,542.53
Including: statutory public welfare fund		38,425,804.72	38,425,804.72	38,425,804.72	38,425,804.72
Undistributed profits	28	(258,559,609.88)	(291,413,000.50)	(254,083,557.54)	(294,316,178.92)
Total shareholders' funds		1,063,334,599.04	1,030,356,081.95	1,067,810,651.38	1,027,452,903.53
Total liabilities and shareholders' funds		3,501,591,609.50	2,727,635,445.47	2,277,804,162.70	2,131,877,706.85

Profit and Loss Statement and Profit Appropriation Statement

Items	Note	Consolidated		Company	
		Jan-Jun, 2003 RMB	Jan-Jun, 2002 RMB	Jan-Jun, 2003 RMB	Jan-Jun, 2002 RMB
1. Revenues from principal operations	29	1,523,034,474.64	328,825,023.17	87,435,602.89	48,284,163.19
Less: Principal operating cost	29	1,372,813,067.28	288,841,311.59	81,076,316.80	43,591,297.78
Principal business taxes and surcharges		1,247,349.75	861,292.33	89,394.69	1,660.56
2. Profit from principal operations		148,974,057.61	39,122,419.25	6,269,891.40	4,691,204.85
Add: Other operating profit	30	9,824,132.42	10,391,087.35	6,830,821.92	8,997,178.52
Less: Selling expenses		37,859,659.52	7,196,827.98	190,625.90	154,193.14
Administrative expenses		82,971,801.30	54,645,557.26	41,799,345.58	39,380,734.05
Financial expenses	31	35,447,946.84	22,089,589.29	9,022,529.22	17,926,245.35
3. Operating profit		2,518,782.37	(34,418,467.93)	(37,911,787.38)	(43,772,789.17)
Add: Investment income	32	42,104,184.55	63,498,575.95	78,139,018.37	64,982,293.06
Subsidy income		780,040.84	377,000.00	—	—
Non-operating income	33	286,895.02	113,641.17	18,809.08	68,687.36
Less: Non-operating expenses	34	214,508.48	1,010,550.01	13,418.69	740,678.44
4. Total profit		45,475,394.31	28,560,199.18	40,232,621.38	20,537,512.81
Less: Income tax		3,266,397.25	661,175.31	—	—
Minority interests		9,355,606.44	7,613,517.46	—	—
5. Net profits		32,853,390.62	20,285,506.41	40,232,621.38	20,537,512.81
Add: Unallocated profits at the beginning of year		(291,413,000.50)	(382,597,950.40)	(294,316,178.92)	(387,877,382.67)
Other transfers		—	—	—	—
6. Profits available for distribution		(258,559,609.88)	(362,312,443.99)	(254,083,557.54)	(367,339,869.86)
Less: Transfer to statutory surplus reserve		—	—	—	—
Transfer to statutory public welfare fund		—	—	—	—
7. Profits available for distribution to shareholders		(258,559,609.88)	(362,312,443.99)	(254,083,557.54)	(367,339,869.86)
Less: Dividend payable for preference shares		—	—	—	—
Transfer to discretionary statutory surplus reserve		—	—	—	—
Dividend payable for ordinary shares		—	—	—	—
Scrip dividend		—	—	—	—
8. Undistributed profits		<u>(258,559,609.88)</u>	<u>(362,312,443.99)</u>	<u>(254,083,557.54)</u>	<u>(367,339,869.86)</u>

Statement of Cash Flows

Items	Jan-Jun, 2003	
	Consolidated RMB	Company RMB
1. Cash flow from operating activities:		
Cash received from sale of goods and services provided	1,641,928,980.85	133,143,974.62
Tax refund	—	—
Other cash received relating to operating activities	—	—
Cash inflow, sub-total	<u>1,641,928,980.85</u>	<u>133,143,974.62</u>
Cash paid on purchase of goods and services	1,735,777,920.95	86,537,614.46
Cash paid to staff and paid on behalf of staff	30,601,689.15	16,628,455.21
Tax paid	20,464,287.42	4,355,440.26
Other cash paid relating to operating activities	153,468,994.78	17,351,978.06
Cash outflow, sub-total	<u>1,940,312,892.30</u>	<u>124,873,487.99</u>
Net cash flow from operating activities	<u>(298,383,911.45)</u>	<u>8,270,486.63</u>
2. Cash flow from investment activities:		
Cash proceed arising from investments recovered	—	—
Cash received from investment income	1,117,403.10	1,117,403.10
Net cash proceed on the disposal of fixed assets, intangible assets and other long term assets	—	—
Other cash receipts relating to investment activities	10,255,552.86	9,222,667.11
Cash inflow, sub-total	<u>11,372,955.96</u>	<u>10,340,070.21</u>
Net cash paid on purchase of fixed assets, intangible assets and other long term assets	11,076,207.69	214,205.00
Cash paid for investment	200,000,000.00	100,000,000.00
Other cash paid relating to investment activities	47,035,025.68	104,035,025.68
Cash outflow, sub-total	<u>258,111,233.37</u>	<u>204,249,230.68</u>
Net cash flow from investment activities	<u>(246,738,277.41)</u>	<u>(193,909,160.47)</u>
3. Cash flow from financing activities:		
Cash received from equity investment	—	—
Cash received from borrowing	349,200,000.00	149,200,000.00
Cash received from other financing activities	—	—
Cash inflow, sub-total	<u>349,200,000.00</u>	<u>149,200,000.00</u>
Cash paid on repayment of debts	—	—
Cash paid on distribution of dividends or profits and interest repayment	37,692,120.61	10,730,694.01
Cash paid on other financing activities	181,910,177.30	106,300,000.00
Cash outflow, sub-total	<u>219,602,297.91</u>	<u>117,030,694.01</u>
Net cash flow from financing activities	<u>129,597,702.09</u>	<u>32,169,305.99</u>
4. Effect on cash due to foreign currency exchange	—	—
5. Net increase in cash and cash equivalents	<u>(415,524,486.77)</u>	<u>(153,469,367.85)</u>

Supplementary Information to Statement of Cash Flows

Items	Jan-Jun, 2003	
	Consolidated RMB	Company RMB
1. Cash flow involving the adjustment of net profit to operating activities:		
Net profit	32,853,390.62	40,232,621.38
Add: Minority interests	9,355,606.44	—
Provision for diminution in value of assets	22,375,201.93	359,748.02
Depreciation of fixed assets	17,191,424.74	7,000,985.07
Amortisation of intangible assets	8,120,670.00	8,019,000.00
Amortisation of long term deferred expenses	3,635,956.31	3,339,472.50
Decrease in deferred expenses (less: increase)	14,492,132.03	10,138.46
Increase in accrued expenses (less: decrease)	14,336,198.39	826,691.22
Loss arising from disposal of fixed assets, intangible assets and other long term assets (less: income)	11,033.66	—
Loss in written off of fixed assets	—	—
Financial expenses	35,447,946.84	9,022,529.22
Loss in investment (less: income)	(42,104,184.55)	(78,139,018.37)
Loans for deferred tax (less: borrowing)	—	—
Decrease in inventories (less: increase)	(487,391,011.23)	(17,599,852.72)
Decrease in trade debtors (less: increase)	(500,021,879.86)	46,838,475.36
Increase in trade creditors (less: decrease)	573,313,603.24	(11,640,303.51)
Others	—	—
Net cash flow from operating activities	<u>(298,383,911.45)</u>	<u>8,270,486.63</u>
2. Non-cash investments and financing activities :		
Liabilities converted to capital	—	—
Convertible bonds with maturity within one year	—	—
Fixed assets under financial lease	—	—
3. Net increase in cash and cash equivalents:		
Cash balance as at end of the period	245,167,264.29	61,920,404.38
Less: Cash balance as at beginning of the period	660,691,751.06	215,389,772.23
Add: Cash equivalents as at end of the period	—	—
Less: Cash equivalents as at beginning of the period	—	—
Net increase in cash and cash equivalents	<u>(415,524,486.77)</u>	<u>(153,469,367.85)</u>

Notes to the Financial Statements (the financial data as at 31 December 2002 which were used herein have been audited)

I. Changes in Accounting Policies and the Scope of Consolidated Financial Statements and their inferences

- The accounting policies adopted in this reporting period are identical to the accounting policies adopted in the preparation of the financial statements for the year ended 2002. There is no influence as a result of change in accounting policies and anticipated accounting changes.
- During the reporting period, there was no material change in the scope and preparation method of consolidated financial statements as compared with the preparation of the financial statements for the year ended 2002.

II. Tax

Major types of tax and tax rates applicable to the Company are as follows:

1. Enterprise income tax

The applicable tax rate for income tax of the Company is 33%.

On 29 August 1995, the Company was certified as a high-tech enterprise by Jiangsu Provincial Science and Technology Committee and is entitled to preferential income tax policy. The Company has been paying taxes at a rate of 15% of the amount of assessable income since 1 January 1995.

The Company's subsidiary Nanjing Panda International Telecommunication System Co., Ltd. is a production-based foreign enterprise with advance technology. It is incorporated in Nanjing High-new Technology Industrial Development Zone. Upon approval by the taxation department, it has been paying income tax at a rate of 10% from 2001 to 2003.

2. Value-added tax

Value-added tax is applicable to the Company's revenue from sales of goods. The sales tax rate for domestic sales of goods is 17%.

The value-added tax (import duty) paid for purchase of raw materials etc. can be offset against sales tax. The tax rate is 17%. Of this tax, application can be made for refund of the import duty paid for export of products.

The assessable amount of value-added tax is the balance after current import duty is deducted by current sales tax.

By virtue of the Ning Guo Shui (Gao Liu) Zi (2001) No. 05 Approval Document of the High-new Technology Industrial Development Zone Branch of the Nanjing State Tax Bureau, some of the satellite telecommunication products made by the Company were exempted from value-added tax for 2003.

3. Sales tax

Sales tax is applicable to the Company's revenue from lease of premises, provision of other technical services, etc.

Of this tax, the tax rate of revenue from lease of premises is 5% while the tax rate of revenue from assignment of other technical services is 5%.

4. Urban development tax and education surcharge

The Company's Urban development tax and education surcharge are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 4% respectively.

5. Real property tax

Tax is calculated on the basis of 70% of the original value of the Company's real property. The applicable tax rate is 1.2%.

In addition, if premises are leased, tax is calculated on the basis of the revenue from the lease of such premises. The applicable tax rate is 12%.

III. Controlling Subsidiaries and Joint Venture Companies

Particulars of controlling subsidiaries and joint venture companies are as follows:

Name	Registered capital '0000	Investment '0000	% of equity held	Principal operations	Note
Nanjing Panda Electronic Material Co., Ltd.	RMB53.00	RMB50.00	94.34	metallic, chemical, electronic	
Shenzhen Panda Electronic Co., Ltd.	RMB650.00	RMB617.50	95	Home appliance, telecommunication equipment and appliance and apparatus	
Nanjing Panda Technology Equipment Co., Ltd.	RMB500.00	RMB350.00	70	production and installation of production line	
Nanjing Panda International Telecommunication System Co., Ltd.	USD124.00	RMB765.50	72	development, production sale of telephone and telecommunication system	Note 1
Nanjing Guanghua Electronic Plastic Casings Factory	RMB1,149.76	RMB827.11	71.94	PVC, ABS products	
Nanjing Panda Information Industry Co., Ltd.	USD340.00	RMB2,100.00	72	development, production and sale of electronic information products	
Nanjing Panda Appliance & Apparatus Co., Ltd.	RMB100.00	RMB70.00	70	production, development and sale of testing appliance; design and installation of electronic information system	
Nanjing Panda Mechanical Engineering Plant	RMB4,500.00	RMB3,055.38	99	production and sale of electronic products, telecommunication equipment and appliance and apparatus	
Nanjing Panda Accurate Machinery Co., Ltd.	RMB500.00	RMB250.00	50	production of equipment and spare parts for electronic industry; processing of sophisticated machinery	
Nanjing Panda Netcom Technology Co. Ltd.	RMB500.00	RMB350.00	70	development, production and sale of network communication system, software and products	
Nanjing Panda Mechanical Manufacturing Co. Ltd.	RMB500.00	RMB350.00	70	manufacture of metal components and parts for production	
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd	RMB500.00	RMB300.00	60	plastic products and spare parts	
Nanjing Panda Mobile Communication Equipment Co., Ltd.	RMB6,000.00	RMB3,060.00	51	sale of mobile communication equipment	Note 1
Nanjing Panda Communications Development Co., Ltd.	RMB2,000.00	RMB2,000.00	100	development, production and sale of mobile communication and digital communication	Note 1
Nanjing Panda Machinery Co., Ltd.	RMB300.00	RMB210.00	70	processing and manufacture of mechanical parts	

Name	Registered capital '0000	Investment '0000	% of equity held	Principal operations	Note
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	RMB100.00	RMB51.00	51	production and sale of household appliance	Note 3
Nanjing Electronic Calibration Co., Ltd.	RMB100.00	RMB70.00	70	accreditation of electromechanical products	
Nanjing Panda Network Technology Co., Ltd.	RMB1,000.00	RMB500.00	50	digital communication terminal products and network communication products	
Nanjing Panda System Integration Co., Ltd.	RMB300.00	RMB180.00	60	development and sale of computer software	
Nanjing Panda Electronic Advertment Company	RMB100.00	RMB60.00	100	design and production of video, printing advertisement	Note 2
Nanjing Panda Electronic Eastern Suburb Technology Department	RMB50.00	RMB50.00	100	hardware and electronic labour products	Note 2
Nanjing Panda Chenguang Electronic Co. Ltd.	USD180.00	RMB760.08	51	production and sale of monitors	Note 2
Shenzhen Panda Golden Card Enterprise Co. Ltd.	RMB600.00	RMB360.00	60	development of IC and computer software	Note 2
Nanjing Panda Broadcast and Television Products Repair and Maintenance Center	RMB50.00	RMB50.00	100	repair/maintenance of electronic products	Note 2
Nanjing Panda Computer Co. Ltd.	RMB500.00	RMB500.00	100	production and sale of computer	Note 2
Nanjing Asia-Pacific Satellite Communication Company	RMB50.00	RMB50.00	100	satellite communication service, electronic system design	Note 2
Nanjing Panda Electronics Systems Engineering Company	RMB30.00	RMB30.00	100	installation of communication broadcast, and television systems	Note 2
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	USD80.00	RMB331.08	50	development, production and sale of power supply equipment	Note 4
Nanjing Panda Communication Technology Co., Ltd.	RMB500.00	RMB400.00	80	development, production of mobile communications products	Note 5

Note 1: (A) Nanjing Panda International Telecommunication System Co., Ltd. was incorporated in October 1993 with registered capital of USD1.24 million. This company was held as to 72% by the Company and held as to 28% by Hong Kong Xincheng Industrial Development Co.,Ltd,the joint investment party. Its principal operations include development and production of systems and products regarding mobile phones, digital communication, and network communication.

(B) Nanjing Panda Communications Development Co., Ltd. was incorporated in August 2002 with registered capital of RMB20 million. It was jointly established by the Company and Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company. Its principal operations include development and production of systems and products regarding mobile phones, digital communication, and network communication, household electronic appliance and relevant high-tech products, provision of services for complete sets of equipment.

(C) Nanjing Panda Mobile Communication Equipment Co., Ltd. was incorporated in February 2002 with registered capital of RMB60 million. It was held as to 51% by the Company and held as to 49% by Mr. Ma Zhiping, the joint investment party. Its principal operations include production of communication equipment (except ground receivers for satellite communication); common machinery; automobiles (except small sedans); provision of maintenance for communication equipment, services and information consulting services.

- Note 2: This company has terminated its operations and is in a stage of liquidation. As such, its financial statements are not consolidated with the Company and the Company's investment in this subsidiary has been reduced to a book value of zero.
- Note 3: This company was managed by the joint investment party, and therefore it was not incorporated into the scope of consolidation.
- Note 4: This company was the jointly invested company and therefore it was not incorporated into the scope of consolidation.
- Note 5: This company was newly incorporated in the year and therefore it was not incorporated into the scope of consolidation.

IV. Notes to the Consolidated Financial Statements (Unit: Renminbi Yuan)

1. Cash and Bank Balances

Item	30 June 2003	31 December 2002
Cash in hand	391,389.54	315,197.24
Cash at banks	244,775,874.75	660,376,553.82
Other monetary fund	181,910,177.30	24,316,223.69
Total	<u>427,077,441.59</u>	<u>685,007,974.75</u>

- (1) The Company's subsidiary, Nanjing Panda Information Industry Co., Ltd. has made a deposit of RMB3,050,000 as pledge for a bank acceptance notes of RMB11,700,000.

2. Short Term Investment

Item	30 June 2003		31 December 2002	
	Investment amount	Provision for diminution	Investment amount	Provision for diminution
Equity investment	—	—	—	—
Including: Share investment	—	—	—	—
Bond investment	200,000,000.00	—	97,462,000.00	—
Including: Treasury bond investment	200,000,000.00	—	97,462,000.00	—
Other bond investment	—	—	—	—
Other investment	—	—	—	—
Total	<u>200,000,000.00</u>	<u>—</u>	<u>97,462,000.00</u>	<u>—</u>

- (1) The above investments are not subject to any significant limitation on realization.

3. Bills Receivable

Type of notes	30 June 2003	31 December 2002
Bank acceptance notes	3,990,731.49	597,500.00
Commercial notes	—	76,128,163.74
Total	<u>3,990,731.49</u>	<u>76,725,663.74</u>

4. Dividends Receivable

Name of invested unit	30 June 2003	31 December 2002
Shenzhen Jinghua Electronic Co. Ltd.	3,500,295.45	3,500,295.45
Nanjing Sharp Electronics Co., Ltd.	3,075,000.00	—
Total	<u>6,575,295.45</u>	<u>3,500,295.45</u>

5. Accounts Receivable

- (1) The ageing analysis of accounts receivable is as follows:

	30 June 2003			31 December 2002		
	Amount RMB	Percentage %	Provision for bad debts RMB	Amount RMB	Percentage %	Provision for bad debts RMB
Within 1 year	643,687,772.95	96.54	15,484,725.83	334,991,628.69	91.30	2,100,899.14
1-2 years	10,210,046.21	1.53	480,296.38	20,932,039.79	5.71	1,234,472.63
2-3 years	5,534,181.09	0.83	1,660,254.33	4,633,873.42	1.26	1,187,487.28
More than 3 years	7,324,569.30	1.10	4,394,741.58	6,345,635.22	1.73	3,510,635.66
Total	<u>666,756,569.55</u>	<u>100</u>	<u>22,020,018.12</u>	<u>366,903,177.12</u>	<u>100</u>	<u>8,033,494.71</u>

- (2) The Company considers that there is no concrete evidence showing that the accounts receivable more than 3 years are non-recoverable.
- (3) The five largest debtors amounted to RMB571,439,287.07, accounting for 85.70% of the total value of the accounts receivable.

Debtors	Outstanding Amounts	Nature of Debts
Jiangsu Tianchuang Communication Industrial Co., Ltd.	523,390,502.21	Advance payment
Nanjing Zongheng Communication Technology Co.,Ltd	29,915,763.32	Advance payment
Topfield Co., Ltd	7,689,677.89	Advance payment
Nanjing Hangda Yihang Science of Technology Co.,Ltd	7,186,698.34	Advance payment
Nanjing Sharp Electronics Co.,Ltd	3,256,645.31	Advance payment
Total	<u>571,439,287.07</u>	

6. Other Receivables

- (1) The ageing analysis of other receivables is as follows:

Item	30 June 2003			31 December 2002		
	Amount RMB	Percentage %	Provision for bad debts RMB	Amount RMB	Percentage %	Provision for bad debts RMB
Within 1 year	126,275,678.23	71.32	12,465,747.84	68,942,333.14	52.33	1,498,458.23
1-2 years	17,848,115.62	10.08	1,070,886.94	8,122,474.63	6.17	131,333.99
2-3 years	4,581,529.16	2.59	1,374,458.75	5,492,298.49	4.17	1,342,986.25
More than 3 years	28,345,290.95	16.01	17,007,174.57	49,183,873.93	37.33	31,117,952.34
Total	<u>177,050,613.96</u>	<u>100</u>	<u>31,918,268.10</u>	<u>131,740,980.19</u>	<u>100</u>	<u>34,090,730.81</u>

- (2) The Company considers that there is no concrete evidence showing that the other receivable more than 3 years are non-recoverable.
- (3) The 5 largest debtors owing other receivables at the end of the period amounting to the total of RMB105,586,223.60, accounting for 59.64% of the total other receivables for the period. The debtors are:

Debtors	Outstanding Amounts	Nature of Debts
Military Representative Office	51,170,000.00	Advance payment
Nanjing Microcell Panda Mobile Terminals Co., Ltd.	20,783,662.00	Technological services fees
Nanjing Panda Chenguang Electronic Co. Ltd.	13,906,478.30	Advance payment
Nanjing Panda Electronic Hong Kong Company Ltd.	12,411,294.80	Advance payment
Panda Wireless Telecommunication Co.	7,314,788.50	Advance payment
Total	<u>105,586,223.60</u>	

7. Prepayments

Item	30 June 2003		31 December 2002	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	237,069,950.20	96.20	30,125,562.91	42.59
1-2 years	2,838,832.60	1.15	1,933,367.45	2.73
2-3 years	5,978,339.58	2.43	38,573,469.65	54.53
More than 3 years	539,623.88	0.22	105,560.34	0.15
Total	246,426,746.26	100	70,737,960.35	100

(1) The closing balances of prepayments do not include any amount due from holders with 5% or above shareholding (with voting power) in the Company.

8. Stocks and Provision for Diminution

Item	30 June 2003		31 December 2002	
	Amount	Provision for diminution	Amount	Provision for diminution
Semi finished goods	—	—	625,724.83	—
Raw materials	194,843,792.89	9,022,795.10	49,139,894.64	9,336,689.72
Packing materials	84,770.81	17,056.91	96,545.91	17,056.91
Low value consumables	1,290,599.43	30,099.22	740,962.37	30,099.22
Stored commodities	486,638,254.36	18,894,275.07	163,102,150.73	6,666,079.94
Sub-contracting materials	294,186.95	—	437,133.38	—
Work in progress	55,898,705.79	3,079,527.39	37,516,887.14	4,432,686.67
Total	739,050,310.23	31,043,753.69	251,659,299.00	20,482,612.46

(1) The realizable net values of the above stocks are determined based on the most recent market prices less the relevant expenses resulting from the future realization of such stocks.

9. Deferred Expenses

Item	30 June 2003	31 December 2002	The reason for closing balance
NRE	29,827,409.19	45,743,425.01	to be amortised
Rent	1,261,356.76	107,413.75	to be amortised
Moulding expenses	313,336.60	286,296.37	to be amortised
Maintenance and repair expense	1,318.86	6,064.96	to be amortised
Other	643,829.30	396,182.65	to be amortised
Total	32,047,250.71	46,539,382.74	

(1) NRE represents non-recycled expenses paid to suppliers for development, supply and production support for mobile communication products. NRE was amortized according to the expected sales volume of each product.

10. Long Term Equity Investments

(1) Long term equity investment

Item	30 June 2003		31 December 2002	
	Investment amount	Provision for impairment	Investment amount	Provision for impairment
Other equity investment	672,524,903.25	3,463,465.36	636,557,949.94	3,463,465.36
Difference in equity investment	3,995,793.46	—	4,471,562.21	—
Total	676,520,696.71	3,463,465.36	641,029,512.15	3,463,465.36
Net equity investment	673,057,231.35		637,566,046.79	

(2) Other equity investment

Names of invested companies	Operating period	Share of equity holding(%)	Initial investment	Equity adjustment for the period	Accumulated equity adjustment	Closing balance	Closing provision for impairment	Opening provision for impairment
Nanjing Ericsson Panda Communication Company Limited	1992.09-2022.09	27.00	60,863,279.60	34,154,871.91	234,800,949.38	295,664,228.98	—	—
Nanjing Microcell Panda Mobile Terminals Co., Ltd.	1998.11-2018.11	35.00	34,769,364.00	(13,321,986.55)	(11,944,181.00)	22,825,183.00	—	—
Shenzhen Jinghua Electronic Co. Ltd.	1984.05-2034.05	38.03	69,687,437.75	3,777,251.42	12,148,272.75	81,835,710.50	—	—
Beijing Ericsson Mobile Communication Limited	1995.08-2015.08	20.00	83,825,254.00	8,002,911.40	29,350,397.47	113,175,651.47	—	—
Jiangsu Software Industrial Co. Ltd	2000.12-	35.00	69,300,000.00	1,569,380.32	(744,957.74)	68,555,042.26	—	—
Intenna (Nanjing) Co. Ltd.	2000.12-	35.00	1,750,000.00	658,434.06	272,617.17	2,022,617.17	—	—
Nanjing Sharp Electronics Co. Ltd	1996.03-2026.03	30.00	61,425,420.00	(1,248,855.47)	7,502,311.47	68,927,731.47	—	—
Nanjing Lingyuan Information Co. Ltd	1998.08-2008.08	30.00	150,000.00	—	(85,087.55)	64,912.45	—	—
MPower Batteries (Nanjing) Ltd.	2001.04-	40.00	4,200,000.00	(941,637.54)	(3,800,809.15)	399,190.85	—	—
Nanjing Panda Tamura Communication Power Supply Co.,Ltd	2001.07-2011.07	50.00	3,310,800.00	255,869.11	407,943.60	3,718,743.60	—	—
Nanjing Panda Hitachi Technology Co. Ltd	2001.11-	49.00	6,533,170.00	(797,332.65)	(2,708,747.34)	3,824,422.66	—	—
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd	1995.12-2005.12	33.33	1,000,000.00	—	106,569.54	1,106,569.54	—	—
Shanghai Zhongtong Information Network Co. Ltd	2005.05-2005.12	45.00	450,000.00	—	(450,000.00)	—	—	—
Nanjing Electronics (Kunshan) Co. Ltd	2000.6-2011.6	40.00	1,757,905.88	—	54,117.09	1,812,022.97	—	—
Nanjing Panda Medical Electronics Co. Ltd	2001.10-2020.8	50.00	500,000.00	—	(180,589.03)	319,410.97	—	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	2002.05-2022.05	51.00	510,000.00	—	—	510,000.00	—	—
Nanjing Panda Communications Technology Co., Ltd.	2003.06-2013.06	80.00	4,000,000.00	4,000,000.00	—	4,000,000.00	—	—
Other investment reflected at cost			3,763,465.36	—	—	3,763,465.36	3,463,465.36	3,463,465.36
Total			<u>407,796,096.59</u>	<u>36,108,806.01</u>	<u>264,728,806.66</u>	<u>672,524,903.25</u>	<u>3,463,465.36</u>	<u>3,463,465.36</u>

There are no material limitations to realization and remittance of gains arising from the aforesaid investments.

(3) Difference in equity Investment

Name of invested parties	Initial amount	Reason	Amortisation period	Amortisation during the period	Carrying amount
Nanjing Panda Mechanical Engineering Plant	511,756.61	Difference in equity acquisition price	5 years	51,175.66	255,878.31
Shenzhen Jinghua Electronic Co. Ltd	2,826,403.07	Difference in equity acquisition price	5 years	282,640.31	1,413,201.51
Beijing Ericsson Mobile Communication Limited	2,839,055.48	Difference in equity acquisition price	5 years	283,905.55	2,413,197.16
Panda Electronics (Kunshan) Co. Ltd	(97,905.88)	Difference in equity acquisition price	10 years	—	(86,483.52)
Total	<u>6,079,309.28</u>			<u>617,721.52</u>	<u>3,995,793.46</u>

11. Fixed Assets at Cost, Accumulated Depreciation and Provision for Impairment

(1) Fixed assets at cost and accumulated depreciation

	Building and Premises	Machinery and Equipment	Transportation	Electronic equipment	Other equipment	Total
Fixed assets, at cost						
31 December 2002	351,553,113.04	164,674,246.54	7,562,027.53	12,181,375.81	7,423,755.81	543,394,518.73
Increase in the period	178,755.00	13,498,206.44	1,430,181.00	1,707,156.02	2,932,272.51	19,746,570.97
Decrease in the period	—	649,190.47	210,000.00	1,878.56	489,994.00	1,351,063.03
30 June 2003	351,731,868.04	177,523,262.51	8,782,208.53	13,886,653.27	9,866,034.32	561,790,026.67
Accumulated depreciation of fixed assets						
31 December 2002	80,321,832.40	92,461,567.09	3,410,961.81	5,796,069.50	6,229,375.83	188,219,806.63
Increase in the period	5,509,350.63	10,254,218.73	367,633.15	463,735.54	596,486.69	17,191,424.74
Decrease in the period	—	274,356.03	100,215.60	—	160,516.77	535,088.40
30 June 2003	85,831,183.03	102,441,429.79	3,678,379.36	6,259,805.04	6,665,345.75	204,876,142.97
Fixed assets, book value						
31 December 2002	<u>271,231,280.64</u>	<u>72,212,679.45</u>	<u>4,151,065.72</u>	<u>6,385,306.31</u>	<u>1,194,379.98</u>	<u>355,174,712.10</u>
30 June 2003	<u>265,900,685.01</u>	<u>75,081,832.72</u>	<u>5,103,829.17</u>	<u>7,626,848.23</u>	<u>3,200,688.57</u>	<u>356,913,883.70</u>

The Company pledged properties located at 301 Zhong Shan Dong Lu, Nanjing with certificates of title to the property (Xuan Wu Chu Zi No.102156, Xuan Bian Zi No.031486 to 031493, Xuan Bian Zi No.031463, No.031464 No.031485 No.031485 No.102154 and No.102155) for loans granted.

(2) Provision for impairment of fixed assets

Type	31 December 2002	Increase in the period	Decrease in the period	30 June 2003	Reasons of provision
Building and premises	285,356.16	—	—	285,356.16	Obsolete and damaged
Machinery and equipment	24,005,411.89	—	168,175.72	23,837,236.17	Obsolete and damaged
Other equipment	1,410,287.08	—	117,180.44	1,293,106.64	Obsolete and damaged
Total	<u>25,701,055.13</u>	<u>—</u>	<u>285,356.16</u>	<u>25,415,698.97</u>	

12. Construction in Progress

(1) Construction in progress

Name of Construction Project	31 December 2002	Increase in the period	Transfer to fixed assets in the period	Other decrease	30 June 2003	Including: loan interest capitalized	Source of fund
Jiangning base	18,153,728.45	—	—	—	18,153,728.45	—	Share proceeds and other sources
Other	3,190,567.68	5,257,654.19	2,956,009.27	—	5,492,212.60	—	Other sources
Digitally controlled punch press	1,866,000.00	13,300.00	1,879,300.00	—	—	—	Other sources
Total	<u>23,210,296.13</u>	<u>5,270,954.19</u>	<u>4,835,309.27</u>	<u>—</u>	<u>23,645,941.05</u>	<u>—</u>	

Including:
Loan capitalized interest — — — — —

(2) Provision for impairment in construction in progress

Name of Construction Project	31 December 2002	Increase in the period	Decrease in the period	30 June 2003	Reasons of Provision
Jiangning base	13,153,728.45	—	—	13,153,728.45	Dormant
Other	2,338,119.71	—	—	2,338,119.71	
Total	<u>15,491,848.16</u>	<u>—</u>	<u>—</u>	<u>15,491,848.16</u>	

13. Intangible Assets

Type	Acquisition method	Original amount	31 December 2002	Increase in the period	Transfer in the period	Amortization for the period	Accumulated amortisation	30 June 2003	Remaining period for amortisation
Land use right	purchase	26,500,000.00	23,240,685.33	—	—	262,000.00	3,521,314.67	22,978,685.33	41.1 year
Trademark	purchase	157,140,000.00	51,940,491.61	—	—	7,857,980.00	113,057,488.39	44,082,511.61	2.7 year
Other	purchase	16,700.00	16,700.00	—	—	690.00	690.00	16,010.00	
Total		<u>183,656,700.00</u>	<u>75,197,876.94</u>	<u>—</u>	<u>—</u>	<u>8,120,670.00</u>	<u>116,579,493.06</u>	<u>67,077,206.94</u>	

14. Long Term Deferred Expenses

Name of project	Original amount	31 December 2002	Increase in the period	Amortisation for the period	Accumulated amortisation	30 June 2003	Remaining period for amortisation
Foreign exchanges loss from investment in ENC	9,750,000.00	—	—	—	9,750,000.00	—	—
Major repair expenses	16,540,446.10	5,513,482.10	—	2,756,741.00	13,783,705.00	2,756,741.10	0.5 year
Expense for increasing capacity of hydro-electricity	11,411,550.00	3,129,331.25	—	570,577.50	8,852,796.25	2,558,753.75	2.5 year
Renovation expense	1,171,015.67	1,053,914.10	97,066.92	296,483.81	316,518.46	854,497.21	3.5 year
Other	481,173.22	312,793.99	117,101.58	12,154.00	63,431.65	417,741.57	
Total	<u>39,354,184.99</u>	<u>10,009,521.44</u>	<u>214,168.50</u>	<u>3,635,956.31</u>	<u>32,766,451.36</u>	<u>6,587,733.63</u>	

15. Short Term Loans

Type of loan	30 June 2003	31 December 2002	Note
Credit loans	—	—	
Charged loans	304,000,000.00	304,000,000.00	Note 2
Guaranteed loans	1,037,000,000.00	687,800,000.00	Note 3
Pledged loans	—	—	
Total	<u>1,341,000,000.00</u>	<u>991,800,000.00</u>	

(1) No loans mentioned above were not unsettled beyond due date.

(2) The Company pledged properties located at 301 Zhong Shan Dong Lu, Nanjing with certificates of title to the property (Xuan Wu Chu Zi No.102156, Xuan Bian Zi No.031486 to 031493, Xuan Bian Zi No.031463, No.031464 No.031485 No.102154 and No.002155) and valued at RMB587,808,100.00 for a loan of RMB304,000,000.00 from Industrial and Commercial Bank of China (Jiangsu Branch) with a term from 31 July 2002 to 12 December 2003.

(3) Panda Electronics Group Company, the parent company of the Company, guaranteed a short term bank loan of RMB548,000,000.00 on behalf of the Company. Nanjing Panda Television Co. Ltd., an associated company of the Company, guaranteed a short term bank loan of RMB150,000,000.00 on behalf of the Company.

16. Bills Payable

Types of Bills	30 June 2003	31 December 2002
Bank bills	288,268,422.50	132,989,950.00
Commercial bills	69,340,439.43	1,784,000.00
Total	<u>357,608,861.93</u>	<u>134,773,950.00</u>

Bills payable did not include any amount due from holders will 5% or above shareholding (with voting power) of the Company.

17. Accounts Payable and Receipts in Advance

Item	30 June 2003	31 December 2002	Note
Accounts payable	329,739,317.87	181,179,055.34	Amount with the age exceeding 3 years was RMB5,023,610.94
Receipts in advance	<u>71,916,046.55</u>	<u>26,872,494.48</u>	
Total	<u><u>401,655,364.42</u></u>	<u><u>208,051,549.82</u></u>	

Closing balance of accounts payable did not include any amounts due from holders with 5% or above shareholding (with voting power) of the Company.

Closing balance of receipts in advance did not include any amounts due from holders with 5% or above shareholding (with voting power) of the Company.

18. Salaries Payable

Closing balance of salaries payable was RMB766,481.70. There were no salaries payable which were overdue or paid based on performance.

19. Taxes Payable

Type	30 June 2003	31 December 2002
Value added tax (VAT)	(12,132,653.95)	33,161,099.27
Sales tax	3,520,744.70	5,488,453.92
City maintenance tax	18,810,949.47	18,847,784.04
Enterprise income tax	(1,549,393.74)	1,993,826.65
Personal income tax	188,383.31	(648,591.59)
Property tax	2,640,372.47	3,257,283.31
Land use tax	613,468.72	661,468.72
Consumption tax	—	25,312.01
Transportation tax	5,780.00	5,780.00
Stamp duty	—	353.18
Total	<u><u>12,097,650.98</u></u>	<u><u>62,792,769.51</u></u>

20. Other Charges

Item	30 June 2003	31 December 2002	Rate
Education surcharge	5,393,988.05	5,662,991.21	4% of current tax
Housing surplus reserve	<u>816,616.17</u>	<u>816,616.17</u>	
Total	<u><u>6,210,604.22</u></u>	<u><u>6,479,607.38</u></u>	

21. Other Payables

(1) The period end balance of other payables was RMB163,061,716.28.

(2) Details of the period end balance of other payables in large amount are as follows:

Name of units	Outstanding amounts	Age	Nature
Jiangsu Tianchuang Communication Industrial Co. Ltd.	30,600,000.00	1 to 2 years	Deposit
Nanjing Panda Television Co. Ltd.	<u>2,000,000.00</u>	1 to 2 years	Loans
Total	<u><u>32,600,000.00</u></u>		

(3) Other payables in large amount with the age exceeding 3 years were mainly prepayments from other companies.

22. Accrued Expenses

Item	30 June 2003	31 December 2002	Nature of closing balance
Intermediaries fee	—	2,000,000.00	Outstanding intermediaries fee payable
Interest	4,328,506.48	1,665,844.28	Outstanding loan interest payable
Rent	738,759.93	501,843.80	Outstanding rent payable
Processing fee	9,313,886.01	126,594.07	Outstanding processing fee
Water and electricity fee	1,069,624.56	62,489.69	Outstanding water and electricity payable
Technology development fee	306,000.00	—	Outstanding development fee payable
Insurance premium	5,000.00	—	Outstanding insurance premium payable
Other	3,946,753.14	1,015,559.89	Outstanding other fees payable
Total	<u>19,708,530.12</u>	<u>5,372,331.73</u>	

23. Deferred Tax Loans

Item	30 June 2003	31 December 2002
Income tax payable arising from receipt of non-cash assets	<u>11,550.64</u>	<u>11,550.64</u>

24. Minority Equity

Name of minority shareholders	Share of minority equity	30 June 2003	31 December 2002
Ma Zhiping	49%	56,044,025.50	47,675,404.42
Nanjing Baixia District Shi Menkan Zhen Industrial Co.,Ltd	28.06%	8,406,160.29	8,406,160.29
Hong Kong Tianxing Lianhe Science and Technology Co.,Ltd	50%	3,182,868.69	4,996,801.64
Panda Electronic HK Co. Ltd.	28%	3,837,742.52	3,878,687.86
Hong Kong Xincheng Industrial Development Co.,Ltd	28%	3,357,026.68	3,425,249.88
Other		14,381,211.39	12,227,877.26
Total		<u>89,209,035.07</u>	<u>80,610,181.35</u>

25. Share Capital

- (1) Shares of the Company are ordinary shares of RMB1 each. The shareholding structure (unit: share) is as follows:

Items	31 December 2002	New issue	Increase/decrease for the period			Sub-total	30 June 2003
			Allotment	Bonus issue	Share transfer		
1. Non-circulating shares:							
1. Promoter's shares	355,015,000.00	—	—	—	—	—	355,015,000.00
Including: state owned shares	355,015,000.00	—	—	—	—	—	355,015,000.00
Domestic legal person shares	—	—	—	—	—	—	—
Overseas legal person shares	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
2. Legal person shares	—	—	—	—	—	—	—
3. Employee shares	—	—	—	—	—	—	—
4. Preference shares of others	—	—	—	—	—	—	—
Sub-total of non-circulating shares	355,015,000.00	—	—	—	—	—	355,015,000.00
2. Circulating shares:							
1. Domestic listed RMB ordinary shares	58,000,000.00	—	—	—	—	—	58,000,000.00
2. Domestic listed foreign shares	—	—	—	—	—	—	—
3. Overseas listed foreign shares	242,000,000.00	—	—	—	—	—	242,000,000.00
4. Others	—	—	—	—	—	—	—
Total for circulating share	300,000,000.00	—	—	—	—	—	300,000,000.00
3. Total number of shares	655,015,000.00	—	—	—	—	—	655,015,000.00

- (2) Names of shareholders, natures of shares, shareholding and changes are as follows:

Name of shareholders or class of shares	Nature of shares	30 June 2003	31 December 2002
Panda Electronics Group Limited	Promoter's shares	355,015,000.00	355,015,000.00
Domestic listed RMB ordinary shares	Circulating A shares	58,000,000.00	58,000,000.00
Domestic listed foreign share	—	—	—
Overseas listed foreign shares	Circulating H shares	242,000,000.00	242,000,000.00
Total		655,015,000.00	655,015,000.00

26. Capital Reserve

Item	31 December 2002	Increase in the period	Decrease in the period	30 June 2003
Share premium	478,386,846.10	—	—	478,386,846.10
Provision for acceptance of non-cash asset donation	34,034.50	—	—	34,034.50
Cash donation	—	—	—	—
Provision for equity investment	23,451.31	—	—	23,451.31
Fund transfer	—	—	—	—
Difference in translation of foreign capital	—	—	—	—
Other capital reserve	78,165.37	—	—	78,165.37
Other	94,042.64	125,126.47	—	219,169.11
Total	478,616,539.92	125,126.47	—	478,741,666.39

27. Surplus Reserve

Item	31 December 2002	Increase in the period	Decrease in the period	30 June 2003
Statutory surplus reserve	79,335,096.48	—	—	79,335,096.48
Discretionary surplus reserve	70,376,641.33	—	—	70,376,641.33
Statutory public welfare fund	38,425,804.72	—	—	38,425,804.72
Others	—	—	—	—
Total	<u>188,137,542.53</u>	<u>—</u>	<u>—</u>	<u>188,137,542.53</u>

28. Undistributed Profit

Item	30 June 2003	30 June 2002
Opening undistributed profit	(291,413,000.50)	(382,597,950.40)
Add: opening undistributed profit adjustment	—	—
Adjusted opening undistributed profit	(291,413,000.50)	(382,597,950.40)
Add: net profit for the period	32,853,390.62	20,285,506.41
Less: transfer to statutory surplus reserve	—	—
transfer to discretionary surplus reserve	—	—
transfer to statutory public welfare fund	—	—
distributed dividends for ordinary shares	—	—
capitalization of dividends for ordinary shares	—	—
Closing undistributed profit	<u>(258,559,609.88)</u>	<u>(362,312,443.99)</u>

29. Income and Cost of Principal Activities

(1) Segmented by products

Principal activities	Income from principal activities		Cost of principal activities	
	Jan-Jun 2003	Jan-Jun 2002	Jan-Jun 2003	Jan-Jun 2002
Mobile telecommunication products	1,306,952,709.63	170,523,021.71	1,182,206,184.18	154,278,669.99
Electronic information products	63,723,294.94	42,575,694.08	58,137,989.64	38,833,593.43
Electromechanical products	72,328,779.54	67,315,363.56	62,820,611.28	56,802,501.19
Satellite telecommunication products	19,361,641.03	13,292,735.04	15,397,786.11	10,376,881.83
Others	60,668,049.50	35,118,208.78	54,250,496.07	28,549,665.35
Total	<u>1,523,034,474.64</u>	<u>328,825,023.17</u>	<u>1,372,813,067.28</u>	<u>288,841,311.79</u>

(2) Segmented by geographical areas

Regions	Income from principal activities		Cost of principal activities	
	Jan-Jun 2003	Jan-Jun 2002	Jan-Jun 2003	Jan-Jun 2002
Domestic	<u>1,523,034,474.64</u>	<u>328,825,023.17</u>	<u>1,372,813,067.28</u>	<u>288,841,311.79</u>

(3) Sales revenue from the largest five customers totalled RMB1,211,139,397.00, accounting for 79.52% of total sales revenue for the period.

30. Income From Other Activities

Item	Jan-Jun 2003			Jan-Jun 2002		
	Income	Expense	Profit	Income	Expense	Profit
Rents	14,069,550.40	6,708,892.81	7,360,657.59	15,565,862.73	6,482,777.20	9,083,085.53
Water and electricity expenses	—	—	—	—	—	—
Sales of raw material	1,621,127.39	1,266,827.51	354,299.88	1,578,163.62	1,320,680.57	257,483.05
Technological services fees	—	—	—	—	—	—
Trademark and land use fees	—	—	—	—	—	—
Labor income	1,361,651.17	47,324.80	1,314,326.37	6,641,718.41	6,685,022.64	(43,304.23)
Other income	886,419.99	91,571.41	794,848.58	4,123,202.35	3,029,379.35	1,093,823.00
Total	<u>17,938,748.95</u>	<u>8,114,616.53</u>	<u>9,824,132.42</u>	<u>27,908,947.11</u>	<u>17,517,859.76</u>	<u>10,391,087.35</u>

31. Financial Expenses

Item	Jan-Jun 2003	Jan-Jun 2002
Interest expenses	37,692,120.61	25,233,438.41
Less: Interest income	(2,717,552.86)	(3,181,973.06)
Add: Exchange loss	—	—
Less: Exchange gain	(17,661.59)	—
Add: Other expenses	491,040.68	38,123.94
Total	<u>35,447,946.84</u>	<u>22,089,589.29</u>

32. Investment Income

(1) Details of investment income are as follows:

Item	Jan-Jun 2003	Jan-Jun 2002
Income from equity investment	—	12,688,001.05
Income from debts investment	7,538,000.00	—
Including: income from debenture	7,538,000.00	—
income from entrusted loans	—	—
income from other debenture investment	—	—
Profit from joint venture and associated companies	—	—
Share of net profit from invested companies after adjustment by equity method at year end	35,183,906.07	51,144,390.87
Equity investment difference in amortisation	(617,721.52)	(333,815.97)
Gain on equity transfer	—	—
Provision for diminution in value on short term investment	—	—
Provision for diminution in value on long term investment	—	—
Provision for diminution in value on entrusted loans	—	—
Total	<u>42,104,184.55</u>	<u>63,498,575.95</u>

(2) There are no significant limitations on remittance of income from the above investments.

33. Non-operating income

Item	Jan-Jun 2003	Jan-Jun 2002
Net gain from disposal of fixed assets	11,757.34	62,880.71
Gain from non-monetary transactions	—	—
Gain from disposal of intangible assets	—	—
Net gain from fine payments	1,413.75	15,403.24
Others	273,723.93	35,357.22
Total	<u>286,895.02</u>	<u>113,641.17</u>

34. Non-operating Expenses

Item	Jan-Jun 2003	Jan-Jun 2002
State irrigation works fund	—	602,000.00
Net loss from disposal of fixed assets	22,791.00	9,130.00
Local fund	—	—
Net fine payment expenses	1,040.14	20,374.70
Donation	2,000.00	139,200.00
Other	188,677.34	239,845.31
Total	<u>214,508.48</u>	<u>1,010,550.01</u>

V. Relationship and transactions with related parties (unit: Renminbi)

(1) Related parties

1. Related parties with controlling relationship

Name of company	Place of registration	Principal activities	Relationship with the Company	Legal nature	Legal representative
Panda Electronics Group Ltd.	Nanjing	Wireless telecommunication equipment	Holding company	State-owned	Xi Yungming

2. Registered capital and its changes regarding related parties with controlling relationship

Name of the related party	31 December 2002	Increase in the period	Decrease in the period	30 June 2003
Panda Electronics Group Ltd.	980,000,000.00	286,060,000.00	—	1,266,060,000.00

3. Shareholding and its change regarding related parties with controlling relationship

Name of the related party	Value of shareholding		Percentage of shareholding	
	30 June 2003	31 December 2002	30 June 2003	31 December 2002
Panda Electronics Group Ltd.	355,015,000.00	355,015,000.00	54.1995%	54.1995%

4. Related parties with non-controlling relationship

(1) Under the same holding company as the Company

Name of related parties	Shares held by the holding company	Principal activities	Related transaction with the Company
Nanjing Panda Electronic Import/Export Company	70%	Agency of its own products and import and export products	Sales and Agency of import products
Nanjing Panda Television Co. Ltd.	100%	Televisions and related products	Sales, provision of labour and acceptance of guarantee
Nanjing Panda Group (Company) Duantong Company	100%	Wireless communication	Sales and provision

(2) Joint venture and associated companies of the Company

Name of related parties	Shares held by the Company	Principal activities	Related transaction with the Company
Nanjing Ericsson Panda Communication Co. Ltd.	27%	Production and sales of exchange and base stations	Purchase and sales
Nanjing Microcell Panda Mobile Terminals Co. Ltd.	35%	Development, manufacture, production and sales of data communication terminal equipment	Purchase
Jiangsu Software Industrial Co. Ltd.	35%	Integration of computer network systems; development and sales of software	Lease
Nanjing Sharp Electronics Co., Ltd.	30%	Development and production of electronic products	Sales
Nanjing Panda Tamura Communication Equipment Co., Ltd.	50%	Production and sale of electronic products	Purchase

(3) Companies with related relationship with the Company

Name of related parties	Related relationship	Principal activities	Related transaction with the Company
Jiangsu Tianchuang Communication Industrial Co. Ltd.	Related party with the subsidiary	Communication equipment	Sales

(2) Related transactions

1. Sales of products

Name of related parties	Jan-Jun 2003 Amount	Jan-Jun 2002 Amount
Jiangsu Tian Chuang Communication Industrial Co. Ltd.	823,027,888.63	—
Nanjing Panda Television Co. Ltd.	15,347,279.75	6,515,068.18
Nanjing Ericsson Panda Communication Co. Ltd.	3,507,235.35	24,437,803.21
Panda Electronic Group (Company) Duantong Company	1,406,756.81	—
Panda Electronics Group Ltd.	3,201,873.00	2,270,627.88
Nanjing Sharp Electronics Co. Ltd.	11,554,675.31	—
Nanjing Panda Electronics Import/Export Company	2,630,733.72	—
Nanjing Microcell Panda Mobile Terminals Co., Ltd.	—	3,420,000.00
Total	860,676,442.57	36,643,499.27

Pricing policy for products purchased from all related parties: Fair market price.

2. Purchase of materials

Name of related parties	Jan-Jun 2003 Amount	Jan-Jun 2002 Amount
Nanjing Microcell Panda Mobile Terminals Co., Ltd.	56,419,053.49	11,327,943.79
Nanjing Ericsson Panda Communications Co. Ltd.	—	22,773,739.00
Nanjing Panda Tamura Communications Equipment Co., Ltd.	7,174,763.26	—
Total	<u>63,593,816.75</u>	<u>34,101,682.79</u>

Pricing policy for labour provided to all related parties: Fair market price.

3. Provision of labour

Name of related parties	Jan-Jun 2003 Amount	Jan-Jun 2002 Amount
Nanjing Electronic Group (Company) Duantong Company	365,300.81	888,532.82
Nanjing Panda Television Co. Ltd.	760,790.25	—
Total	<u>1,126,091.06</u>	<u>888,532.82</u>

Pricing policy for provision of labour from all related parties: Fair market price.

4. Receipt of labour

Name of related parties	Jan-Jun 2003 Amount	Jan-Jun 2002 Amount
Panda Electronics Group Co. Ltd.	—	2,993,131.05

Pricing policy for receipt of labour from all related parties: Fair market price.

5. Lease of assets

Name of related parties	Jan-Jun 2003 Amount	Jan-Jun 2002 Amount	
Jiangsu Software Industrial Co. Ltd.	—	8,548,457.80	Housing
Nanjing Microcell Panda Mobile Terminals Co. Ltd.	—	2,844,873.36	Housing
Panda Electronics Group Co. Ltd.	536,567.11	596,150.00	Land
Total	<u>536,567.11</u>	<u>11,989,481.16</u>	

Pricing policy for leasing assets to all related parties: Fair market price.

6. Acceptance of guarantee

Name of related parties	Jan-Jun 2003 Amount	Jan-Jun 2002 Amount
Panda Electronics Group Co. Ltd.	548,000,000.00	255,000,000.00
Panda Electronics Television Co. Ltd.	150,000,000.00	—
Total	<u>698,000,000.00</u>	<u>255,000,000.00</u>

7. Agency of import and export (handling charge)

Name of related parties	Jan-Jun 2003 Amount	Jan-Jun 2002 Amount
Nanjing Panda Electronics Import/ Export Company	<u>3,330,550.49</u>	<u>423,938.26</u>

Pricing policy: Handling charge is made according to 0.468% of the price as set out on the import contract.

(3) **Balance of accounts with related parties**

Name of the related party	Item	30/06/2003	31/12/2002
Panda Electronics Group Limited	Accounts receivable	3,201,873.00	5,639,771.00
	Other payables	—	26,124,562.62
	Long term payable	—	38,000,000.00
	Other receivables	—	—
Jiangsu Tianchuang Communication Industrial Co. Ltd.	Accounts receivable	523,390,502.21	172,491,172.23
	Other payables	30,600,000.00	30,600,000.00
Nanjing Panda Television Co. Ltd.	Accounts receivable	7,093,558.91	11,066,283.15
	Other receivable	3,671,069.13	6,943,449.42
	Accounts payable	2,000,000.00	3,253,505.54
	Other payables	—	2,000,000.00
Nanjing Ericsson Panda Communication Co. Ltd.	Accounts payable	1,624,545.50	487,462.19
	Accounts receivable	1,287,170.92	—
Nanjing Panda Electronics Import/Export Company	Accounts receivable	315,854.55	1,143,191.77
	Prepayment	8,986,568.24	37,186,018.51
	Accounts payable	57,279,112.50	38,175,179.31
PEGL Wireless Telecommunications Company	Accounts receivable	1,380,288.03	7,314,788.50
Nanjing Microcell Panda Mobile Terminals Co. Ltd.	Accounts receivable	—	2,548,594.15
	Other receivables	20,783,662.00	20,783,662.00
	Accounts payable	1,080,797.48	53,146,898.90

VI. Contingent Liabilities

1. **Contingent liabilities created as a result of discounted commercial bills**

As at 30 June 2003, the Company's discounted commercial bills amounted to RMB684,821,750.14.

2. **Contingent liabilities from pending litigation or arbitration**

As at 30 June 2003, the Company did not have any contingent liabilities created as a result of pending action or arbitration.

3. **Contingent liabilities created as a result of provision of debt guarantees to other parties**

As at 30 June 2003, the Company provided guarantees to the following parties:

Name of parties guaranteed	Guaranteed item	Amount (Unit: Renminbi)	Term
Nanjing Zhongda Mode (Group) Co., Ltd.	Bank loan	50,000,000.00	2002.10.28 -2003.10.15

4. **As at 30 June 2003, the Company did not have any material contingent issues other than the aforesaid.**

VII. Commitments

1. Contractual liabilities of major foreign investments

As at 30 June 2003, the Company still had expenses totalling RMB59,795,000 on contractual major foreign investments for which contracts had been signed but payments had not been made. Details are as follows:

Unit: Renminbi

Name of investment project	Contractual investment amount	Investment paid	Investment unpaid	Remarks
Jiangning Base development	63,045,000.00	5,000,000.00	58,045,000.00	Intended development
Intenna (Nanjing) Co., Ltd.	3,500,000.00	1,750,000.00	1,750,000.00	
	<u>66,545,000.000</u>	<u>6,750,000.00</u>	<u>59,795,000.00</u>	

2. As at 30 June 2003, the Company did not have any material commitments other than the aforesaid.

VIII. Subsequent Events

The Company does not have any material subsequent events.

IX. Other Important Matters

1. Debt restructuring

The Company's subsidiary Nanjing Panda International Telecommunication Systems Co., Ltd. reached an agreement with Shenzhen Hongtiantai Industrial Co., Ltd., Yuyao Huoxin Electronics Accessories Factory, Cangnan Sanxing Communication Accessories Co., Ltd., Zhejiang Zhujizhenfei Metals Factory and Panda Piezoelectric Station respectively for paying off debts in cash which was lower than the book value of the debts such that the Company's debts had been restructured and the total capital reserve was confirmed to be RMB125,126.47.

X. Table of difference for financial statements prepared according to the domestic and international accounting standards

Refer to note 16 to the Financial Statement prepared in accordance with accounting principles generally accepted in Hong Kong.

XI. Supplementary information

1. Explanation on changes in the consolidated financial statements

- (1) Closing balance for cash and bank balances was RMB427,077,441.59, down 37.65% from opening balance of RMB685,007,974.75 mainly due to increase in payments for goods as a result of expansion of production and sale of mobile communication products, and increased investment in short-term treasury bonds.
- (2) Closing balance for short term investments was RMB200,000,000.00, up 105% from opening balance of RMB97,462,000.00 due to increased investment in short term treasury bonds.
- (3) Closing balance for accounts receivable was RMB644,736,551.43, up 80% from opening balance of RMB358,869,682.41 mainly due to expansion of sales scale of mobile phones and accounts receivable for the contract period.
- (4) Closing balance for other accounts receivable was RMB145,132,345.86, up 49% from opening balance of RMB97,650,249.38 mainly due to increase in temporary borrowings to other companies.
- (5) Closing balance for prepayment was RMB246,426,746.26, up 248% from opening balance of RMB70,737,960.35 mainly due to increased prepayment for goods as a result of expansion of sale of mobile communication products.
- (6) Closing balance for inventories was RMB708,006,556.54, up 206% from opening balance of RMB231,176,686.54 mainly due to an increase in inventories arising from an expansion of marketing scale of mobile communication products for the year.
- (7) Closing balance for deferred expenses was RMB32,047,250.71, down 31% from opening balance of RMB46,539,382.74 mainly due to amortisation of the remaining balance of non-recycled expenses ("NRE") for mobile communication products.
- (8) Closing balance for short term loans was RMB1,341,000,000.00, up 35% from opening balance of RMB991,800,000.00 mainly due to increased funding requirement for expansion of the scale of production of mobile communication products.
- (9) Closing balance for accounts payable was RMB329,739,317.87, up 82% from opening balance of RMB181,179,055.34 mainly due to an expansion of production scale of mobile communication products and increase in payments for goods during the term of contracts.
- (10) Closing balance for bills payable was RMB357,608,861.93, up 165% from opening balance of RMB134,773,950.00 mainly due to expansion of production scale of the Company's mobile communication products.

- (11) Closing balance for receipts in advance was RMB71,916,646.55, up 168% from opening balance of RMB26,872,494.48 mainly due to increase in receipts in advance for satellite and mobile communication products.
- (12) Closing balance for accrued expense were RMB19,708,530.12, up 267% from opening balance of RMB5,372,331.73 mainly due to increase in accrued processing fees for mobile communication products.
- (13) Closing balance for capital reserve was higher than opening balance due to gains from debt restructuring of Nanjing Panda International Telecommunication System Co., Ltd., a subsidiary of the Company.
- (14) Income from principle activities for the year was RMB1,523,034,474.64, up 363% from RMB328,825,023.17 for the previous year; cost from principle activities for the year was RMB1,372,813,067.28, up 375% from RMB288,841,311.59 for the previous year mainly due to an increase in sales of mobile communication products.
- (15) Closing balance of management expenses was RMB82,971,801.30, up 52% from the opening balance of RMB54,645,557.26 mainly due to the increase in provisions for bad debts and depreciation in the value of inventories.
- (16) Operating fee for the year was RMB37,859,659.52, up 426% from RMB7,196,827.98 for the previous year mainly due to an increase in advertisements and marketing for mobile communication products.
- (17) Closing balance for financial costs was RMB35,447,946.84, up 60% from the opening balance of RMB22,089,589.29 mainly due to increase in interest expenses as a result of increased funding requirement.
- (18) Investment income for the year was RMB42,104,184.55, down 34% from RMB63,498,575.95 mainly due to a decrease in profit from associated companies of the Company, ENC and BMC for the period.

2. In accordance with the China Securities Regulatory Commission's requirements of No. 9 of the Provisions for Disclosure and Preparation of Information by Companies with Public Offers – Calculation and Disclosure of Return on Net Assets and Earnings Per Share, the Company's fully diluted and weighted average return on net assets and earnings per share from January to June 2003 are as follows:

Unit: Renminbi

Profit during reporting period	Profit during the reporting period		Earnings per share Return on net assets	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	14.01%	14.23%	0.23	0.23
Operating profit	0.24%	0.24%	0.004	0.004
Net profit	3.09%	3.14%	0.05	0.05
Net Profit after extraordinary items	3.01%	3.06%	0.05	0.05

VIII. Financial Report (prepared in accordance with accounting principles generally accepted in Hong Kong) (unaudited)

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

(Expressed in Renminbi thousands)

	Note	Six months ended	
		30/06/2003 (unaudited) RMB'000	30/06/2002 (unaudited) RMB'000 (restated)
Turnover	2	1,521,787	327,969
Cost of sales		<u>(1,372,813)</u>	<u>(288,846)</u>
Gross profit		148,974	39,123
Other revenue		21,320	25,263
Distribution costs		(37,860)	(7,197)
Administrative expenses		<u>(82,254)</u>	<u>(49,773)</u>
Profit from operations		50,180	7,416
Finance costs		(38,183)	(25,272)
Share of results of associates		<u>39,223</u>	<u>64,493</u>
Profit before taxation		51,220	46,637
Income tax expenses	4(a)	<u>(8,918)</u>	<u>(12,641)</u>
Profit before minority interests		42,302	33,996
Minority interests		<u>(9,436)</u>	<u>(8,028)</u>
Profit for the period		<u><u>32,866</u></u>	<u><u>25,968</u></u>
Earnings per share (RMB)	6	<u><u>0.05</u></u>	<u><u>0.04</u></u>

CONSOLIDATED BALANCE SHEET

AT 30TH JUNE 2003

	Note	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Assets and liabilities			
Non-current assets			
Intangible assets		57,767	75,902
Property, plant and equipment	8	354,635	352,957
Construction in progress		8,154	7,718
Interests in associates	9	690,497	658,989
Investments		4,810	810
		<u>1,115,863</u>	<u>1,096,376</u>
Current assets			
Short term investments		200,000	97,462
Inventories		708,007	231,177
Bills receivable		3,991	76,726
Trade debtors	10	108,586	153,409
Other debtors, deposits and prepayments		249,530	124,031
Amounts due from fellow subsidiaries and associates		70,877	55,608
Amount due from a related company		480,915	141,891
Bank balances and cash		427,077	685,008
		<u>2,248,983</u>	<u>1,565,312</u>
Current liabilities			
Borrowings	11	1,698,609	1,126,574
Trade creditors	10	253,134	82,975
Other creditors, customers' deposits and accrued charges		173,291	212,070
Amounts due to fellow subsidiaries and associates		20,826	66,847
Amount due to ultimate holding company		23,427	17,165
Taxation		—	1,994
		<u>2,169,287</u>	<u>1,507,625</u>
Net current assets		<u>79,696</u>	<u>57,687</u>
Total assets less current liabilities		<u>1,195,559</u>	<u>1,154,063</u>
Non-current liabilities			
Long term borrowings	11	(38,000)	(38,000)
		<u>1,157,559</u>	<u>1,116,063</u>
Capital and reserves			
Share capital	12	655,015	655,015
Share premium and reserves		421,638	388,772
Shareholders' funds		<u>1,076,653</u>	<u>1,043,787</u>
Minority interests		80,906	72,276
		<u>1,157,559</u>	<u>1,116,063</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2003**

	Share capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common funds (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1st January 2002							
- As previously stated	655,015	389,338	5,110	189,850	35,688	(309,504)	965,497
- Prior year adjustment on change in accounting policy	—	—	—	—	3,196	(23,713)	(20,517)
As restated	655,015	389,338	5,110	189,850	38,884	(333,217)	944,980
Profit for the period	—	—	—	—	—	25,968	25,968
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—
Balance at 30th June 2002	<u>655,015</u>	<u>389,338</u>	<u>5,110</u>	<u>189,850</u>	<u>38,508</u>	<u>(306,873)</u>	<u>970,948</u>
	Share capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common funds (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1st January 2003	655,015	389,338	5,110	189,850	38,132	(233,658)	1,043,787
Profit for the period	—	—	—	—	—	32,866	32,866
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—
Balance at 30th June 2003	<u>655,015</u>	<u>389,338</u>	<u>5,110</u>	<u>189,850</u>	<u>37,756</u>	<u>(200,416)</u>	<u>1,076,653</u>

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2003**

	Six months ended	
	30/06/2003 (unaudited) RMB'000	30/06/2002 (unaudited) RMB'000 (restated)
Net cash (used in)/generated from operating activities	(357,299)	70,269
Investing activities		
Purchases of property, plant and equipment	(5,801)	(4,205)
Expenditure on construction in progress	(5,275)	(993)
Additional short term investment	—	(300)
Additional investment in treasury bonds	(200,000)	(85,001)
Proceeds on disposal of property, plant and equipment	105	147
Proceeds on disposal of securities	—	79,407
(Placement of)/decrease in pledged bank deposits	(175,112)	8,578
Interest received	2,718	3,182
Dividends received from an associate	—	38,420
Net cash of subsidiaries not consolidated	—	3,000
Net cash (used in)/generated from investing activities	(383,365)	42,235
Financing		
New loans raised	526,665	768,650
Repayment of loans	(224,500)	(615,940)
Advance from/(repayment to) ultimate holding company	6,262	(26,935)
Shares subscribed by minority shareholders	—	32,790
Dividends paid to minority shareholders	(806)	(752)
Net cash generated from financing activities	307,621	157,813
(Decrease)/increase in cash and cash equivalents	(433,043)	270,317
Cash and cash equivalents at beginning of the period	678,210	145,059
Cash and cash equivalents at end of the period	245,167	415,376
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	427,077	426,809
Less: Pledged bank balances	(181,910)	(11,433)
	245,167	415,376

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi)

1. Principal accounting policies

The interim financial statements have been prepared under the historical cost convention, and in accordance with generally accepted accounting principles in Hong Kong.

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("SSAP 25"). The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2002.

For the year ended 31st December 2002, the Group changed its accounting policy in the financial statements prepared in accordance with generally accepted accounting principles in Hong Kong from stating trademark included in intangible assets at cost or valuation less provision to cost or valuation less accumulated amortisation and provision. This change in accounting policy was applied retrospectively by way of prior period adjustment whereby net profit for the six months ended 30 June 2002 was reduced by RMB8,207,000.

2. Turnover

Turnover represents the invoiced value of goods sold to outside customers, net of sales taxes.

3. Depreciation

During the period, depreciation of RMB17,191,000 (six months ended 30th June 2002 : RMB11,222,000) was charged in respect of the Group's property, plant and equipment.

4. Taxation

(a) Taxation charge comprises:-

	Six months ended	
	30/06/2003 (unaudited) RMB'000	30/06/2002 (unaudited) RMB'000
PRC income tax		
Company and its subsidiaries	3,267	661
Associates	5,651	11,980
	<u>8,918</u>	<u>12,641</u>

In 1995, the Company changed the place of its registration to Pukou, Nanjing, which is a High and New Technology Development Zone. On 29th August, 1995, the Company was recognised by the Jiangsu Science and Technology Commission as a High and New Technology Enterprise and such status has enabled the Company to pay income tax at the rate of 15 per cent of its assessable profit with effect from 1st January, 1995.

All subsidiaries of the Company pay income tax at the rates between 10 and 33 per cent.

The Company's principal associated company, namely Nanjing Ericsson Panda Communication Co., Ltd. ("Nanjing Ericsson"), is a Sino-foreign equity joint venture and is subject to income tax at a rate of 15 per cent.

(b) A deferred tax asset has not been recognised in the interim financial statements as it is not certain that the benefits of the deferred tax asset will be utilised in the foreseeable future.

5. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend (six months ended 30th June 2002 : Nil).

6. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders for the six months ended 30th June 2003 of RMB32,866,000 (six months ended 30th June 2002 : RMB25,968,000) and on 655,015,000 shares in issue throughout the period.

7. Segment reporting

(a) Business segment

Mobile telecommunication products: Development, production and sale of mobile telephones and telecommunication products.

Electromechanical products: Development, production and sale of electronic testing devices, equipment and appliances.

Satellite telecommunication products : Development, manufacture and sale of satellite telecommunication products.

	Mobile telecommunication products		Electromechanical products		Satellite telecommunication products		Other operations		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30/6/2003 (unaudited)	30/6/2002 (unaudited)	30/6/2003 (unaudited)	30/6/2002 (unaudited)	30/6/2003 (unaudited)	30/6/2002 (unaudited)	30/6/2003 (unaudited)	30/6/2002 (unaudited)	30/6/2003 (unaudited)	30/6/2002 (unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue										
External sales	1,306,594	170,354	72,078	66,375	19,362	13,250	123,753	77,990	1,521,787	327,969
Results										
Segment results	61,483	9,682	1,926	3,308	1,287	—	(27,947)	(13,276)	36,749	(286)
Unallocated corporate expenses									(8,207)	(8,207)
Operating profit/(loss)									28,542	(8,493)
Other revenue									18,429	12,688
Interest expenses									(37,692)	(25,233)
Interest income									2,718	3,182
Share of results of associates	34,046	60,328					5,177	4,165	39,223	64,493
Income tax expenses									(8,918)	(12,641)
Profit before minority interest									42,302	33,996
Minority interest									(9,436)	(8,028)
Net profit									32,866	25,968

	Mobile		Electromechanical		Satellite		Other		Eliminations		Consolidated		
	telecommunication products	30/6/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000	30/6/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000	30/6/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000	30/6/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000	30/6/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000	30/6/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Assets													
Segment assets	2,167,076	1,129,282	133,136	163,113	61,540	41,911	1,136,006	1,177,483	(1,068,545)	(696,825)	2,429,213	1,814,964	
Investment in associates under equity accounting	454,047	426,077					236,450	232,912			690,497	658,989	
Unallocated corporate assets											245,136	187,735	
											<u>3,364,846</u>	<u>2,661,688</u>	
Liabilities													
Segment liabilities	1,990,828	995,423	81,985	114,021	44,303	22,165	156,716	258,041	(1,068,545)	(696,825)	1,205,287	692,825	
Unallocated corporate liabilities											1,002,000	852,800	
											<u>2,207,287</u>	<u>1,545,625</u>	
Other information													
Depreciation	6,028	668	1,160	832	—	—	10,003	9,722					

(b) Geographical segment

For the six months ended 30th June 2003 and 2002, over 90% of sales of the Group is generated from sales in the PRC.

8. Additions to property, plant and equipment

During the period, the Group spent approximately RMB14,911,000 (six months ended 30th June 2002 : RMB4,205,000) on acquisition of property, plant and equipment.

9. Interests in associates

	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Share of net assets	680,862	647,290
Premium on acquisition	9,635	11,699
	<u>690,497</u>	<u>658,989</u>

10. Trade debtors and creditors

The Group allows a credit period of ranging from 30 to 180 days to its trade customers.

The following is an aged analysis of trade debtors net of allowances for bad and doubtful debts at 30 June 2003:-

	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Within 1 year	95,595	136,155
1 to 2 years	8,305	12,777
2 to 3 years	3,653	2,812
Over 3 years	1,033	1,665
	<u>108,586</u>	<u>153,409</u>

The following is an aged analysis of trade creditors at 30 June 2003:-

	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Within 1 year	234,507	53,633
1 to 2 years	4,893	17,694
2 to 3 years	9,052	8,107
Over 3 years	4,682	3,541
	<u>253,134</u>	<u>82,975</u>

11. Borrowings

	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Bank borrowings		
Short term loans		
- unsecured	1,037,000	687,800
- secured	304,000	304,000
Bills payable	357,609	134,774
Other loan, unsecured	38,000	38,000
	<u>1,736,609</u>	<u>1,164,574</u>
Less : Amount due within 1 year shown under current liabilities	<u>(1,698,609)</u>	<u>(1,126,574)</u>
Borrowings repayable in the 2nd to 5th year	<u>38,000</u>	<u>38,000</u>

12. Share capital

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

13. Related party transactions

During the period, the Group entered into the following transactions with related parties:-

	Fellow subsidiaries, associates and related companies		Ultimate holding company	
	Six months ended 30/06/2003 (unaudited) RMB'000	30/06/2002 (unaudited) RMB'000	Six months ended 30/06/2003 (unaudited) RMB'000	30/06/2002 (unaudited) RMB'000
Sales of components and parts	857,474	30,128	3,202	—
Purchases of components and parts	63,594	34,102	—	—
Fees paid for welfare, support and sub- contracting services	—	—	—	2,993
Income for welfare, support and sub- contracting services provided	1,126	6,515	—	—
Fees paid for import services	3,331	424	—	—
Rental income	—	12,102	537	596

14. Contingent liabilities

As at 30th June, 2003, the Group had the following outstanding contingent liabilities not provided for in the interim financial statements in respect of:-

	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Discounted bills with recourse	684,822	59,994
Guarantees given in respect of banking facilities made available to third parties	50,000	84,910
	<u>734,822</u>	<u>144,904</u>

15. Capital commitments

At the balance sheet date, the Group had the following capital commitments in respect of:-

	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Contracted but not provided for		
- Property, plant and equipment	58,045	58,045
- Development costs	—	1,449
- Investments in subsidiaries and an associate	1,750	1,750
	<u>59,795</u>	<u>61,244</u>

16. Differences between accounting principles generally accepted in Hong Kong and the PRC accounting standards as applicable to the Group

The interim financial statements prepared under accounting principles generally accepted in Hong Kong and those prepared under the PRC accounting standards have the following major differences: Impact on the consolidated income statement

	Six months ended	
	30/06/2003 (unaudited) RMB'000	30/06/2002 (unaudited) RMB'000 (restated)
Profit attributable to shareholders as per interim financial statements prepared under accounting principles generally accepted in Hong Kong	32,866	25,968
Income and expenditure taken directly to reserves	(174)	—
Unrecognised intangible assets	—	100
Minority interest	80	415
Amortisation of revaluation surplus on trademarks	450	450
Amortisation of unrecognised intangible assets	(672)	(80)
Other assets previously written off	(2,757)	(4,302)
Share of profits of associates	3,110	(1,573)
Others	(50)	(692)
	<u>32,853</u>	<u>20,286</u>

Impact on the consolidated balance sheet

	30/06/2003 (unaudited) RMB'000	31/12/2002 (audited) RMB'000
Net assets as per interim financial statements prepared under accounting principles generally accepted in Hong Kong	1,076,653	1,043,787
Revaluation surplus on trademark	(2,473)	(2,923)
Unrecognised intangible assets	3,988	4,659
Other assets written off	2,757	5,513
Goodwill	(6,037)	(7,535)
Share of reserve of associates	(9,894)	(11,506)
Minority interests	(8,303)	(8,334)
Others	6,644	6,695
Net assets as per interim financial statements prepared under the PRC accounting standards	<u>1,063,335</u>	<u>1,030,356</u>

There are also differences in balance sheet items due to differences in classification between accounting principles generally accepted in Hong Kong and the PRC accounting standards.