

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH PRC ACCOUNTING SYSTEM) (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

	Consolidated		Company	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
	<i>Unit: RMB</i>			
Assets				
Current assets:				
Cash and bank balances	364,562,031.66	788,498,054.79	64,483,738.59	182,850,743.92
Short term investment	—	155,175,485.37	—	50,000,000.00
Bills receivable	177,291,946.25	176,336,432.50	1,800,000.00	40,000.00
Dividends receivable	4,682,220.89	8,328,295.45	4,682,220.89	9,510,220.89
Interest receivable	—	1,722,744.00	—	—
Accounts receivable	891,369,481.23	743,368,044.82	12,464,323.71	11,354,496.07
Other receivables	1,195,691,895.04	285,855,245.82	1,233,824,569.13	819,754,070.14
Prepayments	192,597,202.08	75,687,053.35	47,291,789.59	26,060,853.10
Subsidies receivable	—	—	—	—
Stocks	801,535,177.98	364,940,839.02	57,012,418.97	6,820,812.10
Deferred expenses	44,995,059.13	20,834,513.17	1,219,643.39	6,666.70
Long term debt investment due within one year	—	—	—	—
Other current assets	—	—	—	—
Total current assets	3,672,725,014.26	2,620,746,708.29	1,422,778,704.27	1,106,397,862.92
Long term investments:				
Long term equity investments	557,576,990.72	547,601,094.54	852,908,019.89	834,791,096.34
Long term debt investments	—	—	—	—
Total long term investments	557,576,990.72	547,601,094.54	852,908,019.89	834,791,096.34
Including: Difference from Consolidation	—	—	—	—
Fixed assets:				
Fixed assets, at cost	605,802,755.37	589,684,745.00	401,709,183.17	391,834,879.76
Less: accumulated depreciation	216,814,168.29	210,578,798.98	130,168,541.35	123,430,476.22
Fixed assets, net	388,988,587.08	379,105,946.02	271,540,641.82	268,404,403.54
Less: provision for impairment loss	22,192,728.38	22,192,728.38	21,907,372.22	21,907,372.22
Fixed assets, net book value	366,795,858.70	356,913,217.64	249,633,269.60	246,497,031.32
Construction supplies	—	—	—	—
Construction in progress	8,067,552.12	5,938,662.25	6,664,427.06	5,895,097.25
Clearance of fixed assets	871,941.42	—	—	—
Total fixed assets	375,735,352.24	362,851,879.89	256,297,696.66	252,392,128.57
Intangible and other assets:				
Intangible assets	51,292,619.90	59,095,959.93	49,604,185.33	57,623,185.33
Long term deferred expenses	1,693,875.57	2,134,287.37	1,417,598.75	1,988,176.25
Other long term assets	—	—	—	—
Total intangible and other assets	52,986,495.47	61,230,247.30	51,021,784.08	59,611,361.58
Deferred tax:				
Debit balance of deferred tax	—	—	—	—
Total assets	4,659,023,852.69	3,592,429,930.02	2,583,006,204.90	2,253,192,449.41

Balance Sheet (Continued)

	Consolidated		Company	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
				<i>Unit: RMB</i>
Liabilities and Shareholders' Equity				
Current liabilities:				
Short term loans	1,346,376,700.00	1,217,500,000.00	900,000,000.00	830,000,000.00
Bills payable	626,683,068.22	410,204,168.00	—	—
Accounts payable	945,505,110.43	289,595,905.49	29,713,784.07	18,684,199.19
Advances from customers	185,529,043.37	48,328,950.19	89,779,677.12	32,490,170.67
Salaries payable	224,764.03	2,107,786.05	30,803.27	9,641.71
Staff welfare payable	8,910,045.26	9,401,914.17	2,007,069.80	3,469,557.62
Dividends payable	—	—	—	—
Taxes payable	36,052,563.74	86,254,906.56	60,925,856.11	60,719,181.05
Other accruals	6,650,895.92	8,084,577.45	5,818,304.56	5,925,853.01
Other payables	141,331,163.05	192,542,086.63	295,800,236.35	128,029,756.85
Accrued expenses	40,866,658.91	28,549,314.58	6,270,987.40	4,945,828.94
Provisions	—	—	—	—
Long term liabilities due within one year	—	—	—	—
Other current liabilities	—	—	—	—
Total current liabilities	3,338,130,012.93	2,292,569,609.12	1,390,346,718.68	1,084,274,189.04
Long term liabilities:				
Long term loans	—	—	—	—
Bonds payables	—	—	—	—
Long term payables	—	—	—	—
Specific payables	—	38,000,000.00	—	38,000,000.00
Other long term liabilities	—	—	—	—
Total long term liabilities	—	38,000,000.00	—	38,000,000.00
Deferred tax:				
Credit balance of deferred tax	11,550.64	11,550.64	11,550.64	11,550.64
Total liabilities	3,338,141,563.57	2,330,581,159.76	1,390,358,269.32	1,122,285,739.68
Minority interests:				
Minority interests	133,906,753.26	132,874,785.97	—	—
Shareholders' equity:				
Share capital	655,015,000.00	655,015,000.00	655,015,000.00	655,015,000.00
Capital reserve	478,887,643.72	478,887,643.72	478,887,643.72	478,887,643.72
Surplus reserve	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	(135,064,650.39)	(193,066,201.96)	(129,392,250.67)	(191,133,476.52)
Total shareholders' equity	1,186,975,535.86	1,128,973,984.29	1,192,647,935.58	1,130,906,709.73
Total liabilities and shareholders' equity	4,659,023,852.69	3,592,429,930.02	2,583,006,204.90	2,253,192,449.41

The accompanying notes from an integral part for these financial statements.

Provision for Impairment of Assets Condensed Statement (Consolidated)

	31 December 2003	Increase in the period	Transfer to in the period	Transfer out in the period	Unit: RMB 30 June 2004
1. Total provision for bad debt	91,267,375.12	21,500,000.00	—	35,000.00	112,732,375.12
Including: Accounts receivable	29,406,713.48	6,000,000.00	—	—	35,406,713.48
Other accounts receivable	61,860,661.64	15,500,000.00	—	35,000.00	77,325,661.64
2. Total provision for impairment of short term investment	—	—	—	—	—
Including: Share investment	—	—	—	—	—
Bond investment	—	—	—	—	—
3. Total provision for impairment of inventories	31,721,119.62	18,079,527.39	—	—	49,800,647.01
Including: Stored commodities	12,187,755.73	18,079,527.39	—	—	30,267,283.12
Raw materials	13,295,916.61	—	—	—	13,295,916.61
4. Total provision for impairment of long term investment	3,528,377.81	—	—	—	3,528,377.81
Including: Long term share investment	3,528,377.81	—	—	—	3,528,377.81
Long term debt investment	—	—	—	—	—
5. Total provision for impairment of fixed assets	22,192,728.38	—	—	—	22,192,728.38
Including: Housing, building and machinery	285,356.16	—	—	—	285,356.16
	20,497,085.14	—	—	—	20,497,085.14
6. Provision for impairment of intangible asset	—	—	—	—	—
Including: License	—	—	—	—	—
Trademark	—	—	—	—	—
7. Provision for impairment of construction in progress	15,491,848.16	—	—	—	15,491,848.16
8. Provision for impairment of entrusted loans	—	—	—	—	—

Provision for Impairment of Assets Condensed Statement (the Company)

Items	31 December 2003	Increase in the period	Transfer to in the period	Transfer out in the period	Unit: RMB 30 June 2004
1. Total provision for bad debt	55,164,237.40	15,000,000.00	—	35,000.00	70,129,237.40
Including: Accounts receivable	815,739.50	—	—	—	815,739.50
Other accounts receivable	54,348,497.90	15,000,000.00	—	35,000.00	69,313,497.90
2. Total provision for impairment of investment	—	—	—	—	—
Including: Share investment	—	—	—	—	—
Bond investment	—	—	—	—	—
3. Total provision for impairment of inventories	860,213.90	3,079,527.39	—	—	3,939,741.29
Including: Stored commodities	860,213.90	3,079,527.39	—	—	3,939,741.29
Raw materials	—	—	—	—	—
4. Total provision for impairment of long term investment	3,528,377.81	—	—	—	3,528,377.81
Including: Long term share investment	3,528,377.81	—	—	—	3,528,377.81
Long term debt investment	—	—	—	—	—
5. Total provision for impairment of fixed assets	21,907,372.22	—	—	—	21,907,372.22
Including: Housing, building and machinery	20,497,085.14	—	—	—	20,497,085.14
6. Provision for impairment of intangible assets	—	—	—	—	—
Including: License	—	—	—	—	—
Trademark	—	—	—	—	—
7. Provision for impairment of construction in progress	15,491,848.16	—	—	—	15,491,848.16
8. Provision for impairment of entrusted loans	—	—	—	—	—

The accompanying notes from an integral part for these financial statements.

Profit and Loss Statement

Items	Consolidated		Company	
			<i>Unit: RMB</i>	
	Jan-June 2004	Jan-June 2003	Jan-June 2004	Jan-June 2003
1. Income from principal operations	1,230,728,722.68	1,523,034,474.64	18,472,880.18	87,435,602.89
Less: Costs of principal operations	1,093,331,510.62	1,372,813,067.28	15,949,520.32	81,076,316.80
Business taxes and surcharges	2,021,393.39	1,247,349.75	84,194.68	89,394.69
2. Profit from principal operations	135,375,818.67	148,974,057.61	2,439,165.18	6,269,891.40
Add: Profit from other operation	7,849,099.41	9,824,132.42	5,566,678.13	6,830,821.92
Less: Sales expenses	36,656,280.83	37,859,659.52	551,589.49	190,625.90
Administrative expenses	111,268,233.52	82,971,801.30	56,783,241.02	41,799,345.58
Financial expenses	36,365,055.88	35,447,946.84	8,177,617.18	9,022,529.22
3. Operating Profit	(41,064,652.15)	2,518,782.37	(57,506,604.38)	(37,911,787.38)
Add: Profit from investment	106,851,574.74	42,104,184.56	118,842,738.28	78,139,018.37
Subsidy income	606,228.94	780,040.84	—	—
Non-operating income	508,186.42	286,895.02	406,740.00	18,809.08
Less: Non-operating expenses	538,793.09	214,508.48	1,648.05	13,418.69
4. Total profit	66,362,544.86	45,475,394.31	61,741,225.85	40,232,621.38
Less: Income tax	6,325,393.56	3,266,397.25	—	—
Minority interests	2,035,599.73	9,355,606.44	—	—
5. Net profit	58,001,551.57	32,853,390.62	61,741,225.85	40,232,621.38
Add: Undistributed profit from the beginning of the period	(193,066,201.96)	(291,413,000.50)	(191,133,476.52)	(294,316,178.92)
Other transfer	—	—	—	—
6. Distributable profit	(135,064,650.39)	(258,559,609.88)	(129,392,250.67)	(254,083,557.54)
Less: Transfer to statutory surplus reserves	—	—	—	—
Transfer to statutory public welfare fund	—	—	—	—
7. Profit distributable to shareholders	(135,064,650.39)	(258,559,609.88)	(129,392,250.67)	(254,083,557.54)
Less: Dividends payable for preference shares	—	—	—	—
Transfer to discretionary surplus reserves	—	—	—	—
Dividends payable for ordinary shares	—	—	—	—
Dividends for ordinary shares transferred to capital	—	—	—	—
8. Undistributed profit	(135,064,650.39)	(258,559,609.88)	(129,392,250.67)	(254,083,557.54)

The accompanying notes from an integral part for these financial statements.

Consolidated Statement of Cashflow

Unit: RMB

Jan-June 2004

Items	Consolidated	Company
1. Cash flows from operating activities:		
Cash received from sale of goods and services provided	1,446,140,649.47	99,977,849.53
Return of tax payment	21,263,010.18	—
Other cash received relating to operating activities	171,994,363.87	75,549,083.76
Sub-total of cash inflows	1,639,398,023.52	175,526,933.29
Cash paid on purchase of goods and services	993,772,000.12	97,511,647.42
Cash paid to staff and paid on behalf of staff	52,064,357.98	23,159,122.21
Taxes paid	67,332,092.51	5,113,463.52
Other cash paid relating to operating activities	1,327,811,622.68	408,159,237.11
Sub-total of cash outflows	2,440,980,073.29	533,943,470.26
Net cash flows from operating activities	(801,582,049.77)	(358,416,536.97)
2. Cash flows from investment activities:		
Cash received from investment recovered	233,654,767.78	131,339,490.00
Cash received from bond income	5,882,531.52	—
Cash received from investment income	73,738,288.74	73,738,288.74
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	1,894,967.81	502,000.00
Other cash received relating to operating activities	—	—
Sub-total of cash inflows	315,170,555.85	205,579,778.74
Cash paid on purchase of fixed assets, intangible assets and other long term assets	21,086,687.20	10,051,607.81
Cash paid for investment	—	—
Other cash paid relating to investment activities	—	—
Sub-total of cash outflows	21,086,687.20	10,051,607.81
Net cash flows from investment activities	294,083,868.65	195,528,170.93
3. Cash flows from financing activities:		
Cash received from investment	—	—
Cash received from borrowings	1,189,251,577.92	772,600,000.00
Cash received from other financing activities	—	—
Sub-total of cash inflows	1,189,251,577.92	772,600,000.00
Cash paid on repayment of debts	—	702,600,000.00
Cash paid on distribution of dividends or profits, or interest repayment	1,060,374,877.92	25,478,639.29
Other cash paid relating to financing activities	45,311,970.29	—
Sub-total of cash outflows	1,105,686,848.21	728,078,639.29
Net cash flows from financing activities	83,564,729.71	44,521,360.71
4. Effect on cash due to foreign currency rate change	(2,571.72)	—
5. Net increase in cash and cash equivalents	(423,936,023.13)	(118,367,005.33)

Cashflow Supplementary Information

Unit: RMB

Items	Jan-June 2004	
	Consolidated	Company
1. Reconciliation of net profit to net cash flows:		
from operating activities:		
Net profit	58,001,551.57	61,741,225.85
Add:		
Minority interests	—	—
Provision for impairment loss on assets	39,579,527.39	18,044,527.39
Depreciation of fixed assets	6,235,369.30	6,738,065.13
Amortisation of intangible assets	8,184,282.51	8,019,000.00
Amortisation of long term deferred expenses	1,194,079.87	570,577.50
Decrease (less: increase) in deferred expenses	(24,160,545.96)	(1,212,976.69)
Increase (less: decrease) in accruals	12,317,344.33	1,325,158.46
Loss (less: income) arising from disposal of fixed assets, intangible assets and other long term assets	(403,129.45)	(403,291.95)
Loss from fixed assets scrapped	—	—
Financial expense	36,365,055.88	13,366,481.03
Loss (less: gain) on investment	106,851,574.74	(118,842,738.28)
Deferred tax credit balance (less: debt balance)	—	—
Decrease (less: increase) in inventories	(454,673,866.35)	(53,271,134.26)
Decrease (less: increase) in trade debtors	(1,193,522,673.55)	(424,171,272.05)
Increase (less: decrease) in trade creditors	602,449,379.95	129,679,840.90
Others	—	—
Net cash flows from operating activities	(801,582,049.77)	(358,416,536.97)
2. Investment and financial activities not involving cash:		
Debt capitalization	—	—
Convertible bonds due within one period	—	—
Less: cash balance as at beginning of the period	—	—
3. Net increase in cash and cash equivalents:		
Cash balance as at end of the period	364,562,031.66	64,483,738.59
Less: cash balance as at beginning of the period	788,498,054.79	182,850,743.92
Add: balance of cash equivalents as at the end of the period	—	—
Less: balance of cash equivalents as at the beginning of the period	—	—
Net increase in cash and cash equivalents	<u>(423,936,023.13)</u>	<u>(118,367,005.33)</u>

The accompanying notes from an integral part for these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(For the period from 1 January to 30 June 2004)

(Unless otherwise stated, all the amounts are denominated in Renminbi)

(1) Introduction to the Company

The Company was established on 27 April 1992 as a state-owned enterprise after the approval from Nanjing Economic System Reform Committee with document number Ning Ti Gai Zi (1992) No. 34. It turned into Nanjing Panda Electronics Company Limited (Present name) later. Its sole promoter, Panda Electronics Group Company Limited (PEGCL), acquired the Company's 480,000,000 state-owned legal person shares in establishment with a consideration of total net asset value of RMB 480,000,000.00. Registered capital for the Company at its establishment was RMB 515,000,000.00, comprising 480,000,000 state-owned legal person shares of RMB1 each and 35,000,000 employee's shares of RMB 1 each.

The Company was registered as an enterprise legal person on 29 April 1992, with its business registration number of 13488315-2. Scope of business after approval includes development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching system, electronic component parts, equipment and apparatus, electronic machinery and equipment, general machinery, medical machinery, electronic products, component parts of computers, stationaries equipment, industrial moulds and other equipment.

In the extraordinary general meeting of the Company held on 27 May 1994, except other matters, a special resolution was passed to approve the restructuring report, which included matters concerning disconsolidation and restructuring the assets and liabilities of the Company and companies under PEGC as well as re-affirming the state-owned legal person shares of the Company. In the same meeting, a special resolution was also passed. The Board of Directors was authorized to handle all affairs related to conversion of the Company into Socially Funded Company and to make a public offer and listing of the Company's A & H shares. According to a special resolution, the net asset value of the Company would be adjusted on 29 June 1994. Net asset value of the Company at establishment was re-defined as RMB 322,873,348.00, including registered capital of RMB 322,870,000.00, comprising 287,870,000 state-owned legal person shares, with share capital of RMB 287,870,000.00; 35,000,000 employee's shares, with share capital of RMB 35,000,000.00; and capital reserve of RMB 3,348.00.

According to the restructuring report dated 10 February 1994 and the reply concerning the report released by the State Committee for Changing System dated 11 March 1996. Registered capital for the Company increased from RMB 322,870,000.00 to RMB390,015,000.00. It was diverted into 355,015,000 state-owned legal person shares and 35,000,000 employee's shares. All the above were recorded in accounting books at par and were fully paid and distributed.

In order to issue H shares, a comprehensive evaluation was conducted on the assets and liabilities of the Company on 30 September 1995. Respective book values were adjusted after share issue approved by the Securities Committee of the State Council.

The Company gained approval from the document from Securities Committee of the State Council on 2 April 1996 of issuing Zheng Wei Fa (1996) No. 6, to issue 242,000,000 H shares in Hong Kong, to be sold at HK\$ 2.13 per share. Share issue was completed at 29 April 1996 and was formally listed on the Stock Exchange of Hong Kong on 2 May 1996.

The Company gained approval from the document from Securities Supervision and Management Committee of the State Council on 30 October 1996 of issuing Zheng Gan Fa Zi (1996) No. 304, to issue 23,000,000 ordinary shares in RMB to the public. Selling price is RMB 5.10 per share. At 14 November 1996, all fees for allotment was received in full and the stock was listed on Shanghai Securities Exchange at 18 November 1996. The 350,000,000 internal employee's shares including 5,000,000 shares originally planned to be a source of financing was also listed after completion of issuing shares. Another 30,000,000 shares were listed and started circulating in 1999.

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 03967 18 April 1997. Its registered capital was RMB 655,015,000. The approved scope of business includes research and development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching systems, electronic component parts, apparatus, machinery and equipment, medical machinery, industrial moulds and other equipment, computers and system engineering.

According to resolutions passed at the extraordinary general meeting for 2000, the Company disposed of its interests in 8 subsidiaries in relation to TV set business and assets in 6 internal independent operating units to PEGCL and was transferred interests in Nanjing Panda Mechanical Engineering Plant and Shenzhen Jinghua Electronic Co., Ltd. from PEGCL.

(2) **Principle Accounting Policies and Accounting Estimates and the Method of Consolidating the Financial Statements of the Company and Its Subsidiaries**

1. **Accounting system**

The accounting system adopted by the Company is in conformity with the "Accounting Standards for Enterprises" and "Accounting Regulations of the People's Republic of China for Enterprises" and its supplementary regulations.

2. **Financial year**

The financial year of the Company covered the calendar year from 1 January to 31 December.

3. **Reporting currency**

The Company uses Renminbi as its currency for recording transactions.

4. **Principle of Book-keeping and accounting basis**

The accrual accounting method based on historical cost has been adopted by the Company.

5. **Calculation of foreign currency transaction**

Foreign currency transactions are recorded at the rates of exchange (mid rates), as announced by People's Bank of China, ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange (mid rates), as announced by People's Bank of China, ruling at that date. The resulting translation gain and loss are charged to the profit (loss) statement for the period in which they arise; translation gain and loss during the establishment period are charged to long term deferred expenses; translation gain and loss resulting from acquisition of fixed assets are dealt with according to the principle of capitalization of loans.

6. **Calculation of foreign currency adopted on the financial statement**

Save as shareholders' equity translated on the market rate as announced by People's Bank of China on the transaction date, other items are translated into Renminbi on the market rates as announced by People's Bank of China at the balance sheet date. The resulting differences are dealt with as foreign currency differences as set out on the financial statements.

7. **Definition of cash equivalent**

Cash equivalents as defined by the Company represent short-term (usually with maturity within three months from the date of purchase) highly liquid investments which are easily converted into cash of the known amount with low valuation risk.

8. **Short term investment**

(1) Calculation of short term investment: Short term investment is stated as investment costs upon acquisition. Short term investment by way of cash is stated as investment costs, which are arrived at the total and actual investment costs after deduction of uncollected cash dividends or interest of bonds. Short term investment injected by investors represents investment costs as confirmed by investment parties.

(2) Recognition of short term investment: Any gains (dividends and interest) arising from short term investment during the holding period are not recognized as investment income, but recognized as deduction from investment costs. Any amount received as a result of disposal of short term investment is stated as income gain or loss and charged to the profit (loss) statement for the year after deduction of the book value of such short term investment and the balance of uncollected and recognized dividends and interest payable.

(3) Recognition principles of provision for impairment and provision methods for short term investment: Short term investment as at the end of the period is stated as the lower of costs and market prices of short term investment. Whenever investment costs are higher than market prices at any period, provision is made for impairment of short term investment. Provision is usually made based on impairment of each item of investment.

9. Calculation of entrusted loans

- (1) Loans provided through entrusted financial institutions are recorded at its actual amounts. Of which, the loan falling due within 1 year is included in short term investment, and the loan falling due after 1 year is included in long term investment.
- (2) Interests related to entrusted loans are accrued periodically and taken to the profit and loss account. Where the interests ceased to be collectible at due dates, all previously accrued amount will be reversed.
- (3) At year end, based on the lower of the principal and collectible amount of entrusted loan, should the collectible amount is lower than the principal amount, provision is made for the difference.

10. Calculation of loss from bad debts

- (1) The following trade debtors are classified as bad debts: if (a) the defaulting party is unable to repay outstanding debts in the foreseeable future as a result of liquidation, bankruptcy, assets outweighed by debts, significantly insufficient cash flow, and cease of production arising from serious natural disasters; if (b) the defaulting party fails to repay outstanding loans more than three years; and if (c) no or remote possibilities to recover any outstanding loans.
- (2) Calculation of loss from bad debts: Bad debts are accrued on a provision method. Provision for bad debts is determined by aging analysis at the end of the year and charged to the profit (loss) statement for the period in which it arises. Subject to the approval of the Board of Directors of the Company or shareholders' general meeting, whenever there is clear evidence showing no or remote possibilities to recover any outstanding trade debtors, such bad debts are written off.

Shares of provisions for loss from bad debts are as follows:

Ageing analysis	Shares of provisions
Within one year	3%
One to two years	6%
Two to three years	30%
Exceeding three years	60%

The Company makes full provision for long-term trade debt should there be clear evidence showing no possibilities to recover such trade debt.

Nanjing Ericsson Panda Communication Co. Ltd., Beijing Ericsson Pu Tian Mobile Communication Limited and Nanjing Flextronics Panda Mobile Terminals Co., Ltd., the associates of the Company, make provision after evaluating the possibilities of recovering and determining with clear evidence that the receivable is unrecoverable. Trade debtors include amounts due from related parties and amounts due from unrelated parties. Should there be evidence that it is difficult to recover any amounts due from related parties or unrelated parties, a special provision for bad debts is made. In the event there is clear evidence showing no possibilities to recover any outstanding trade debtors, with the approval of the management of the Company and the Board of Directors, such trade debtors are stated as loss from bad debts and written off from provision for bad debts.

11. Calculation of inventories

- (1) Classification of inventories: Inventories are classified as raw materials, packaging materials, processing materials, low-value consumables, work in progress and stored commodities.
- (2) Price calculation for received and delivered inventories: The purchase and storage of inventories are stated at actual costs. Refund and sales of raw materials and sales of products are arrived at based on the weighted average method. The Company adopts perpetual inventory method for its inventory system.
- (3) Low-value consumables and packaging materials are charged to cost expense on one-time basis upon collection.
- (4) Price calculation for inventories, and recognition criteria with respect to provision for impairment loss of inventories and provision method as at the end of the period: As at the end of the period, inventories are stated as the lower of its cost and its net realizable value; as at the end of the period, by way of checking the total inventories, the Company makes the provision for impairment loss related to any portions of inventories which are estimated not to be recovered as a result of damage, total or partial obsolete or selling at a price lower than its costs. Provision for impairment loss of inventories is stated as the amount of costs of a single inventory higher than its net realizable value. The net realizable value is arrived at estimated price less estimated costs of completion, selling expenses and tax.

12. Calculation of long term Investment

- (1) Long term equity investment
 - a Price calculation of long term equity investment and recognition of gains: Long term equity investment is stated as the initial cost based on the actual payment or the value of the acquisition. The Company adopted the cost method for invested companies, which the Company invests an amount accounting for less than 20% of the total share capital (with voting power) of the invested companies, or 20% or more of the total share capital (without significant influence) of the invested companies. The Company adopted the equity method for invested companies, which the Company invests an amount accounting for 20% or more of the total share capital (with voting power) of the invested companies, or less than 20% of the total share capital (with significant influence). The Company adopted the equity method for invested companies, in which the Company invests an amount accounting for 50% (exclusive of 50%) or more of the total share capital (with voting power) of the invested companies.
 - b Amortization and period for difference in long term equity investment: Difference in equity investment, which is the initial investment costs upon acquisition less share of difference in owners' equity of the invested companies, is amortized and charged to the profit (loss) statement for a certain period of time. If the investment period is determined under the contract, difference in equity investment is amortized on an equal basis over the investment period. If the investment period is not determined under the contract, difference in equity investment on the part of the borrowing party is amortized on an equal basis over a period of five to ten years. Difference in equity investment on the part of the lending party is amortized on an equal basis over a period of ten years.

- c Following the promulgation of Cai Kuai [2003] Doc No.10, difference in equity investment, in case that the initial investment cost is higher than share of owner's equity in the invested companies, is amortized on an equal basis over a period within 10 years. In case that the initial investment cost is lower than share of owner's equity in the invested companies, the difference is included into "Capital reserve - equity investment provision".
- (2) Long term debt investment
- a Price calculation of long term debt investment and recognition of gains: Long term equity investment is stated as the initial cost based on the actual payment upon acquisition. If cash is paid to acquire long term debt investment, the initial investment costs is the entire and actual payment less the uncollected portion of interest from bonds. Interest arising from long term equity investment is provided based on the principle of "occurrence of right and liability" over the relevant period and is credited to investment.
- b Amortization for premiums and discounts of bonds: The Company states premiums or discounts of bonds as the initial cost of bond investment less the relevant fees, due and uncollected bond interest, and undue bond interest, the difference in the par value of the relevant bonds. If premiums and discounts of bonds are recognized as the relevant interest income, premiums or discounts of bonds are amortized based on the straight-line method.
- (3) Recognition and provision for impairment of long term investment: The Company will review each long term investment at the end of each Reporting Period. If the market value of the investment continue to fall, or the operation condition of the investment continue to deteriorate so that the recoverable value of the investment falls below the book value, and would not bounce in the foresee future, a provision will be made on the difference between the recoverable value and the book value of the long term investment.

13. Fixed assets and depreciation

- (1) Recognition of fixed assets: Fixed assets referred to the tangible assets of the following natures: production of products, provision of labor, holding for lease or operating, useful life exceeding one year and valued at high amount (RMB2,000 or more).
- (2) Fixed assets are classified as houses, buildings, machinery, equipment, transportation vehicle, electronic equipment and other equipment.
- (3) Valuation of fixed assets: Fixed assets are stated as cost. Costs of external acquisition of fixed assets are the sum of the actual price, value-added tax, the relevant tax (such as import tariffs), and any directly attributable costs bringing the assets to its working condition and location for its intended use. Fixed assets contributed by investors are stated as the value as agreed upon by the acquisition and disposal parties.
- (4) Discount of fixed assets: Save as fixed assets fully provided and still in use, and the value of land valued by an independent valuer as required by the regulation and recognized in the statement, the Company makes provisions for all fixed assets based on average useful life method. Useful life, estimated residual rate (no residual rate is reserved for expense on fixed asset fitment or expense on improvement of fixed assets rented by way of operating lease which is eligible for capitalisation) and annual rate of depreciation of fixed assets by type are determined as follows:

Types of Assets	Residual Rate (%)	Useful Life (year)	Annual Rate of Depreciation (%)
Buildings	5	30	3.17
Machinery and equipment	5	8-11	8.63-11.8
Transportation vehicle	5	10	9.5
Electronic equipment	5	5-7	13.57-19
Other equipment	5	5-7	13.57-19

- (5) Recognition and provision for impairment of fixed assets: At the end of the Reporting Period, the Company carries out a review on fixed assets. If the following conditions exist, the Company shall value the recoverable value of fixed assets in order to determine whether there is any impairment of fixed assets. For fixed assets with recoverable value falling below the book value, the Company will make a provision for impairment loss on fixed asset equals to an amount of the difference between the recoverable value and the book value. Provision is made based on a single item basis.
- 1) There is a significant decrease in the market price of fixed assets. Such decrease is beyond any decrease to the large extent in the market price as time goes by or any expected decrease from normal use of fixed assets. The market price of fixed assets is expected not to bounce in the near future;
- 2) Fixed assets are obsolete and damaged;
- 3) There is a significant change to the intended use of fixed assets, such as termination or restructuring of business which lead to operating business and disposal of fixed assets earlier than the end of its useful life, thereby resulting in negative influence on the Company;
- 4) There is a significant change to the environment in which the Company operates, such as technologies, market, economy or jurisdiction or there is a significant change in the market at which products are sold in the period when changes arise or in the recent past, thereby resulting in negative influence on the Company;
- 5) There is a significant increase in the market interest rate, posing a potential impact on the discount rate on the expected recoverable amount by the Company, thereby resulting in significant decrease in recoverable amount from fixed assets; and
- 6) Other circumstances showing an indication of impairment of fixed assets.

14. Calculation of projects under construction

- (1) Calculation of construction prices of projects under construction: project costs are determined on the basis of the expenses actually incurred. Projects for own account are measured on the basis of direct materials, direct wages, direct work commencement expenses, etc. Subcontracted projects are measured on the basis of project prices payable. Costs of equipment installation projects are determined on the basis of the value of the equipment installed, installation fees, expenses incurred by project debugging, etc.
- (2) Timing of converting projects under construction into fixed assets: from the date on which the fixed assets built by the Company come into an expected usable state, the projects under construction are converted into fixed assets on the basis of the estimated value of project estimates or pricing or project actual costs, etc. Depreciation is calculated from the next month. Further adjustments are made after final accounting is completed upon completion of projects.

- (3) Recognition and provision for impairment of projects under construction: the Company carries out a comprehensive inspection of projects under construction at the conclusion of each year. Under any or some of the following circumstances, impairment provisions will be made on the basis of the difference between the amount recoverable by a project and the book value of such projects. Provision is made with respect to each construction project.
- 1) construction of the project under construction has been suspended for a long period of time and is not expected to recommence in the next three years;
 - 2) the project constructed has been lagging behind both in terms of functionality or technology, and will generate very uncertain economic benefits for the Company;
 - 3) other circumstances that are sufficient to prove that there has been impairment of the project under construction.

15. Accounting for borrowing costs

- (1) Principle of confirming capitalization of borrowing costs: borrowing costs include interest accrued as a result of borrowing, discount or premium amortization, and auxiliary expenses as well as foreign exchange conversion differences in connection with foreign currency borrowings. Borrowing costs other than those accrued in connection with special borrowings for the acquisition or construction of fixed assets will be used in the current period in which they are accrued, and included into the financial expenses for that current period. Borrowing costs accrued in connection with special borrowings borrowed for the acquisition or construction of fixed assets will be capitalized under all of the following three conditions:
- 1) capital expenditure has been incurred;
 - 2) borrowing costs have been incurred;
 - 3) acquisition and construction necessary for the assets to come into an expected usable state have been carried out.
- (2) during capitalization of borrowing costs: if the borrowing costs accrued in connection with the acquisition and construction of fixed assets meet the above conditions for capitalization and are accrued before the fixed assets come into an expected usable state, they will be included into the costs of fixed assets acquired and constructed. If the borrowing costs are accrued after the fixed assets come into an expected usable state, they will be directly included into the financial expenses in the current period in which they are accrued.
- (3) calculation of capitalized amount of borrowing costs: the capitalized interest amount for each accounting period is a product derived by multiplying a weighted average, calculated monthly on the basis of the accumulated expenditure on the assets not yet acquired and constructed as at the current period, by a capitalization rate. The capitalization rate is a weighted average interest rate calculated on a monthly basis for special borrowings.

16. Pricing and amortization of intangible assets

- (1) Valuation of intangible assets: actual costs are calculated upon acquisition of intangible assets. The actual costs of acquired intangible assets are calculated on the basis of the price actually paid. The actual costs of intangible assets contributed by investors are calculated on the basis of the value confirmed by all investors. For intangible assets that are developed on our own and acquired by means of application according to legal procedures, their actual costs are calculated on the basis of the registration fees, legal costs, etc. incurred upon acquisition according to the law. Materials, wages and other expenses incurred during the course of research and development are directly included into the profit and loss account for the current period.
- (2) Amortization of intangible assets and its term: intangible assets will be amortized on average and in phases within the shorter of the estimated life of such intangible assets from the month they are acquired, the beneficial terms stipulated in the contracts and the effective terms stipulated under laws, and included into the profit and loss account for the current period. If no terms are stipulated under the contracts or laws, the amortization terms should not be over ten years. Intangible assets of the Company include land-use rights, trademark rights, etc. of which land-use rights will be amortized over a land grant term of 50 years while trademark rights will be amortized over a statutory term of ten years.
- (3) Recognition standards and calculation method for impairment provisions for intangible assets: at the end of a period, provisions for impairment of intangible assets will be calculated and made on the basis of the difference between the estimated recoverable amount and the book value of such intangible assets under any or some of the following circumstances.
- 1) the intangible assets have been replaced by other new technology so that there is a material adverse effect on their capacity to generate economic benefits for the Company;
 - 2) the market value has fallen substantially in the current period and is not expected to recover in the remaining amortization period;
 - 3) the intangible assets have exceeded the term protected by laws but some of them can still be used;
 - 4) other circumstances sufficient to prove that impairment has been made actually.

17. Amortization of long-term deferred expenses

- (1) Long-term deferred expenses are stated at actual cost incurred and will be amortized on average within the beneficial terms.
- (2) Expenses incurred during the incorporation of the Company (except those for acquisition of fixed assets) are recorded in the long-term deferred expenses at first, and will be included in the profit and loss account in the first month after commencement of its operations.

18. Calculation of payable bonds

- (1) Pricing of payable bonds and amortization of premium and discount: payable bonds are priced on the basis of the actual issue price. The difference between the total issue price and the face value of the bonds is treated as a premium or discount of the bonds which will be amortized upon calculation of interest by means of vertical method during the existence of the bonds, and dealt with according to the principle of dealing with borrowing costs.

- (2) Accrued interest on payable bonds: accrued interest is calculated on schedule on the basis of the face value of the payable bonds and the stipulated interest rate, and dealt with according to the principle of dealing with capitalization of borrowing costs, and included into project costs or current financial expenses.

19. Verification of estimated liabilities

- (1) Principle of confirmation: if the business in connection with such contingencies as a security involving a foreign party, commercial acceptance bill discount, pending litigation or arbitration, product quality assurance, etc. meets all of the following conditions, the Company will confirm the aforesaid as liabilities:
- 1) the obligation is an existing obligation of the Company;
 - 2) performance of the obligation is likely to cause economic benefits to flow out of the enterprise;
 - 3) the amount of the obligation is reliably measurable.
- (2) Measurement: to measure on the basis of the best estimates of the expenses necessary for paying off the contingencies.

20. Recognition of revenue

The Company's sales revenue is mainly comprised of revenue from sale of goods, revenue from provision of labor and revenue from assignment of asset use rights. The principle of recognition of such revenue is as follows:

- (1) Sale of goods: when the major risk and rewards in the ownership of the goods have been transferred to the purchaser, the Company no longer exercises continuing management and actual control over the goods in connection with ownership, economic benefits in connection with transactions can flow in the enterprise and the relevant revenue and costs are reliably measurable, the Company will confirm that revenue from the sale of the goods has been realized.
- (2) Provision of labor services: for labor services which are commenced and completed in the same year, revenue is recognised upon completion of the labor services. If the commencement and completion of a labor service fall in different fiscal years, relevant revenue from the labor service will be recognised on the date of the balance sheet on the basis of the percentage of the completed labor service, provided that the results of the labor service provision transaction is reliably estimable.
- (3) Assignment of asset use rights: the Company will confirm that revenue is realized according to the period and method stipulated under relevant contract or agreement, provided that economic benefits in connection with a transaction can flow in and the revenue amount is reliably estimable.

21. Accounting for income tax

The Company's income tax is arrived at on an accrual tax basis.

22. Influence from changes in accounting policy or estimation in the year

Under the current accounting regulations, cash dividends according to the profit distribution proposal determined by the Board of Directors after the balance sheet day but before the day on which financial statements are approved, without inclusion in account, are separately disclosed in the notes to financial statements for the reporting year. Previously, such dividends were included as a subsequent adjustment to "dividend payable". The restatement method is adopted for such change in accounting policy. As the Company declared no profit distribution for the previous year, no figure of last year needs to be restated.

23. Basis for preparation of consolidated financial statements

- (1) Principle of determination of consolidation: for enterprises in which the Company's investment amount accounts for 50% or more of the total capital with significant voting right or for enterprises in which the Company's investment amount does not account for 50% but the Company has significant control, their financial statements will be consolidated. For enterprises over which the Company has actual control but such control does not have any material adverse effect on consolidated financial statements, their financial statements will not be consolidated. Financial statements of joint ventures are consolidated on a pro rata basis.
- (2) Accounting method adopted in consolidated financial statements: the Company's consolidated financial statements are compiled in accordance with the requirements of the Tentative Provisions for Consolidated Financial Statements of the Ministry of Finance and relevant supplementary provisions. Principal accounting policies of subsidiaries are determined in accordance with the accounting policies adopted by the holding company. All significant inter-company transactions and balances within the scope of consolidation are eliminated on consolidation.

3. Tax

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

1. Enterprise income tax

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 applicable tax rates for income tax of the Company's subsidiaries range from 15% to 33%.

The Company's subsidiary Nanjing Panda Appliance & Apparatus Co. Ltd. was certified as a software enterprise by Jiangsu Provincial Information Industry Department and the relevant authorities, and is entitled to preferential tax policy under the PRC Certain Policies for Encouraging the development of Software Industry and Integrated Circuit Industry.

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 paid for purchase of raw materials of imported raw materials etc. can 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.

Under the PRC relevant policies and approved by 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.

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%.

4. Controlling Subsidiaries and Joint Venture Companies

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

Name	Registered capital 0'000	Investment 0'000	Percentage of equity held (%)	Principal operations	Note
Nanjing Panda Electronics Material Co., Ltd.	RMB53.00	RMB50.00	94.34	metallic, chemical, electronic	
Shenzhen Panda Electronics 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 Systems Co., Ltd.	USD124.00	RMB765.50	72	development, production sale of telephone and telecommunication system	
Nanjing Guanghua Electronic Plastic Castings 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	RMB362.53	70	production of equipment and spare parts for electronic industry; processing of sophisticated machinery	
Nanjing Panda Netcom Technology Co., Ltd	RMB500.00	RMB350.00	70	develop, produce and sell network communication system, software and products	
Nanjing Panda Mechanical Manufacturing Co. Ltd.	RMB500.00	RMB350.00	70	metal components, compressors	
Nanjing Huage Dian Qi Electronic Plastics Co. Ltd	RMB500.00	RMB300.00	60	plastic product & accessories	
Nanjing Panda Mobile Communication Equipment Co., Ltd.	RMB12,000.00	RMB6,120.00	51	sales of communication equipment	Note 1
Nanjing Panda Communications Development Co., Ltd.	RMB2,000.00	RMB2,000.00	100	development, production and sales of mobile communication and digital communication	Note 1
Nanjing Panda Mechanical Co., Ltd.	RMB300.00	RMB210.00	70	processing and manufacturing of mechanical parts	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	RMB100.00	RMB51.00	51	production and sales of household appliance	Note 3
Nanjing Electronic Calibration Co., Ltd.	RMB100.00	RMB70.00	70	accreditation of electromechanical products	

Name	Registered capital 0'000	Investment 0'000	Percentage of equity held (%)	Principal operations	Note
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 sales of computer software	
Nanjing Panda Electronic Advertisement 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 sales of monitors	Note 2
Shenzhen Panda Golden Card Enterprise Co. Ltd.	RMB600.00	RMB360.00	60	system integration and technology 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 sales of computer satellite communication service,	Note 2
Nanjing Asia-Pacific Satellite Communication Company	RMB50.00	RMB50.00	100	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 sales of power supply equipment	Note 4
Nanjing Panda Communication Technology Co., Ltd.	RMB500.00	RMB400.00	80	development and production of mobile communication products	Note 5

Note 1:

A 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.

B Nanjing Panda Mobile Communication Equipment Co., Ltd. was incorporated in February 2002 with registered capital of RMB120 million. It was held as to 51% by the Company and held as to 49% by Mr. Ma Zhiping, the joint investment party. (In 2002, the registered capital was RMB60,000,000. During the year, the capital was increased by way of transferal of its dividend payable last year of RMB31,700,000 and monetary fund of RMB28,300,000. The shareholding percentage remained unchanged following the capital increase.) 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: These companies have terminated their operations and are in a stage of liquidation. As such, the Company's investment in these subsidiaries has been reduced to a book value of zero, and its financial statements are no longer consolidated with the Company.

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 is a jointly invested company controlled by the joint investor. Therefore, by the equity method, it was not incorporated into the scope of consolidation.

Note 5: This company was established in 2003, and was indirectly controlled through the Company's subsidiary Nanjing Panda Mobile Communication Equipment Co., Ltd.

5. Notes to the Consolidated Financial Statements

1. Cash and bank balances

Item	30 June 2004	31 December 2003
Cash on hand	945,474.65	387,295.99
Cash in bank	73,476,646.29	339,730,507.35
Other monetary fund [Note]	290,139,910.72	448,380,251.45
Total	<u>364,562,031.66</u>	<u>788,498,054.79</u>

[Note] mainly including guarantee deposit

2. Short term investment

Item	30 June 2004		31 December 2003	
	Investment amount	Provision for diminution	Investment amount	Provision for diminution
Bond investment	—	—	105,175,485.37	—
Including: Treasury bill investment	—	—	105,175,485.37	—
Other bond investment	—	—	—	—
Loan on trust	—	—	50,000,000.00	—
Total	<u>—</u>	<u>—</u>	<u>155,175,485.37</u>	<u>—</u>

There are no significant limitations on short term investment of the Company.

3. Bills receivable

Type of notes	30 June 2004	31 December 2003	Note
Bank acceptance bill	2,977,461.45	2,021,947.70	
Commercial acceptance bill	174,314,484.80	174,314,484.80	
Total	<u>177,291,946.25</u>	<u>176,336,432.50</u>	

The year-end bills receivables include no amount due from shareholders with 5% or above of shareholding (with voting power) in the Company.

4. Dividends receivable

Name of invested unit	30 June 2004	31 December 2003
Shenzhen Jinghua Electronic Co. Ltd.	4,682,220.89	8,328,295.45
Total	<u>4,682,220.89</u>	<u>8,328,295.45</u>

5. Interest receivable

Item	30 June 2004	31 December 2003
Interest on treasury bonds	—	1,722,744.00

6. Accounts receivable

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

Item	30 June 2004			31 December 2003		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within 1 year	902,036,112.39	97.33	28,003,241.60	749,452,336.16	96.98	22,530,609.87
1-2 years	12,115,540.64	1.31	615,201.88	9,353,371.39	1.21	551,456.23
2-3 years	6,755,932.31	0.73	2,486,346.82	7,507,439.07	0.97	2,274,363.47
More than 3 years	5,868,609.37	0.63	4,301,923.18	6,461,611.68	0.84	4,050,283.91
Total	<u>926,776,194.71</u>	<u>100</u>	<u>35,406,713.48</u>	<u>772,774,758.30</u>	<u>100</u>	<u>29,406,713.48</u>

Percentage of provisions for bad debts is set out on note 2(10).

(2) The year-end accounts receivable include a loan of RMB7,059,285.48 due from Panda Electronic Group Ltd., which was held by the Company as to 54.20% (with voting power).

(3) The five largest debtors amounted to RMB812,898,328.08, accounting for 87.71% of the total value of the accounts receivable, including:

Debtors	Outstanding amounts	Nature of debts
Jiangsu Tianchuang Communication Industrial Co., Ltd.	594,047,439.09	Payments for goods
Shanghai Yimei Communication Industrial Co., Ltd.	162,142,363.78	Payments for goods
Jiangsu Tianchuang Maintenance Equipment Co., Ltd.	30,741,501.26	Payments for goods
Nanjing Panda Television Co., Ltd.	15,915,511.17	Payments for goods
Tpfieldco., Ltd.	10,051,512.78	Payments for goods
Total	<u>812,898,328.08</u>	

7. Other receivables

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

Item	30 June 2004			31 December 2003		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within 1 year	1,130,355,237.15	88.79	18,705,610.96	246,655,806.20	70.94	7,042,674.20
1-2 years	54,218,053.71	4.26	2,332,397.19	30,269,001.70	8.71	1,816,140.10
2-3 years	20,241,133.32	1.59	2,444,413.89	7,209,069.18	2.07	2,162,720.75
More than 3 years	66,203,132.50	5.36	53,843,239.60	63,582,030.38	18.28	50,839,126.59
Total	<u>1,273,017,556.68</u>	<u>100</u>	<u>77,325,661.64</u>	<u>347,715,907.46</u>	<u>100</u>	<u>61,860,661.64</u>

Percentage of provisions for bad debts is set out on note 2(10).

(2) The year-end other receivables include RMB 291,761,690.37 due from shareholders with 5% or above of shareholding (with voting power) in the Company.

- (3) The 5 biggest debtors owing other receivables at the end of the period amounting to the total of RMB1,146,489,803.37, accounting for 90.06% of the total other receivables for the year. The debtors are:

Debtors	Outstanding amounts	Nature of debts
Jiangsu Tianchuang Communication Industrial Co., Ltd.	688,247,697.00	Current
Panda Electronic Group Ltd.	291,761,690.37	Current
Nanjing Mobai Technology Co., Ltd.	100,000,000.00	Current
China Liberation Army Plant 714 Representative Room	51,170,000.00	Current
Shanghai Lakeville Properties Co., Ltd.	15,310,416.00	Current
Total	1,146,489,803.37	

- (4) Taking account of the less possibility of recovery, provision for bad debts was made on a percentage of 100% for other receivables ageing more than 3 years.

8. Prepayment

Item	30 June 2004		31 December 2003	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	191,263,292.85	99.31	74,807,251.18	98.84
1-2 years	578,474.87	0.30	669,470.57	0.88
2-3 years	625,120.37	0.32	99,157.92	0.13
More than 3 years	130,313.99	0.07	111,173.68	0.15
Total	192,597,202.08	100	75,687,053.35	100

- (1) Year-end prepayment does not include any amount due from holders with 5% or above shareholding (with voting power) in the Company.

- (2) Year-end prepayments ageing more than 1 year mainly include outstanding odd amounts.

9. Stocks and provision for diminution

Item	30 June 2004		31 December 2003	
	Amount	Provision for diminution	Amount	Provision for diminution
Raw materials	482,402,745.71	13,295,916.61	182,527,775.69	13,295,916.61
Packing materials	299,266.41	211,666.19	78,864.06	211,666.19
Low value consumables	338,932.61	30,626.17	646,850.24	30,626.17
Stored commodities	298,466,055.81	30,267,283.12	172,097,018.73	12,187,755.73
Sub-contracting material	3,301,879.55	—	7,301,658.80	—
Commodity in delivery	15,095,104.88	4,513,407.67	11,959,013.57	4,513,407.67
Work in progress	51,431,840.02	1,481,747.25	22,050,777.55	1,481,747.25
Total	851,335,824.99	49,800,647.01	396,661,958.64	31,721,119.62

The realizable net values of the above stocks are determined based on the market price made on arm's length and willing basis, net of cost necessary for further processing or sales, for a single stock item.

10. Deferred expenses

Item	30 June 2004	31 December 2003	The reason for closing balance
NRE	42,577,551.48	20,275,612.97	amortisation of 2004 NRE
Rent	65,541.33	80,694.70	amortisation of 2004 rent
Moulding expenses	51,282.05	—	
Maintenance and repair expense	35,000.00	—	
Decoration expenses	26,700.00	10,600.00	amortisation of 2004 decoration expenses
Insurance expenses	1,200.00	660.05	amortisation of 2004 insurance expenses
Motor vehicle overheads	—	2,400.00	amortisation of 2004 motor vehicle overheads
Other	2,237,784.27	464,545.45	
Total	44,995,059.13	20,834,513.17	

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

11. Long term equity investments

(1) Long term equity investment

Item	30 June 2004		31 December 2003	
	Investment amount	Provision for impairment	Investment amount	Provision for impairment
Other equity investment	558,429,699.16	3,528,377.81	547,855,172.05	3,528,377.81
Difference in equity investment	2,675,669.36	—	3,274,300.30	—
Total	561,105,368.52	3,528,377.81	551,129,472.35	3,528,377.81
Net equity investment	557,576,990.71		547,601,094.54	

(2) Other equity investment

Name 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 Co. Ltd.	1992-09-2022.09	27.00	60,863,279.60	52,062,184.99	220,810,836.72	281,674,116.32	—	—
Nanjing Flextronics Panda Mobile Terminal Co., Ltd.*	1998.11-2018.11	35.00	34,769,364.00	—	(34,769,364.00)	—	—	—
Shenzhen Jinghua Electronic Co., Ltd.	1998.08-2026.03	38.03	69,687,437.75	5,140,169.97	16,101,772.56	85,789,210.31	—	—
Beijing Ericsson Pu Tian Mobile Communication Limited	1995.08-2015.08	20.00	83,967,206.77	32,523,349.62	11,348,306.06	95,315,512.83	—	—
Intenna (Nanjing) Co., Ltd.	2000.12-2022.03	35.00	1,750,000.00	516,274.68	71,785.53	1,821,785.53	—	—
Nanjing Sharp Electronics Co., Ltd.	1996.03-2026.03	30.00	61,425,420.00	3,132,499.94	13,496,935.19	74,922,355.19	—	—
Nanjing Lingyun Information Co., Ltd.	1998.08-2008.08	30.00	150,000.00	—	(85,087.55)	64,912.45	64,912.45	64,912.45
MPOWER Batteries (Nanjing) Ltd.	2001.04-	40.00	4,200,000.00	—	(4,200,000.00)	—	—	—
Nanjing Panda Tamura Communication Equipment Co., Ltd.	2001.07-2011.07	50.00	3,310,800.00	204,876.80	972,433.64	4,283,233.64	—	—
Nanjing Panda Hitachi Technology Co., Ltd.	2001.11-	49.00	6,533,170.00	393,398.51	(2,982,067.77)	3,551,102.23	—	—
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	1995.12-2005.12	33.33	1,000,000.00	(246,399.45)	(139,829.91)	860,170.09	—	—
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	205,925.26	260,042.35	2,017,948.23	—	—
Nanjing Panda Medical Electronics Co., Ltd.	2001.10-2020.8	50.00	500,000.00	(52,822.58)	(233,411.61)	266,588.39	—	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	2002.05-2022.05	51.00	510,000.00	—	—	510,000.00	—	—
Nanjing Panda Communication Technology Co., Ltd.		80.00	4,000,000.00	—	(410,701.41)	3,589,298.59	—	—
Other investment reflected at cost			3,763,465.36	—	—	3,763,465.36	3,463,465.36	3,463,465.36
Total			338,638,049.36	83,879,457.74	219,791,649.80	558,429,699.16	3,528,377.81	3,528,377.81

Nanjing Ericsson Panda Communication Co. Ltd., Beijing Ericsson Pu Tian Mobile Communication Limited and Nanjing Flextronics Panda Mobile Terminals Co., Ltd., associated companies of the Company, make provision after determination of recoverability of those accounts receivable. Since there is a clear indication showing that those accounts receivable are not recovered, the Company recognized those accounts receivable as bad debts, which were written off from provision for bad debts according to the written reference of power of the management of the Company and the approval of the Board of Directors.

- (3) * The original name was Nanjing Microcell Panda Mobile Terminals Co., Ltd., which was changed to Nanjing Flextronics Panda Mobile terminal Co., Ltd. as approved by the Board of Directors of the Company.
- (4) There are no material limitations to realization and remittance of gains arising from the aforesaid investments.

(5) Difference in equity investment

Name of invested parties	Initial amount	Reason	Amortisation period	Amortisation during the period	Balance of amortisation
Nanjing Panda Mechanical Engineering Plant	511,756.61	Difference in equity acquisition price	5 years	51,175.66	153,526.99
Shenzhen Jinghua Electronic Co. Ltd	2,826,403.07	Difference in equity acquisition price	5 years	282,640.31	847,920.88
Beijing Ericsson Putian Mobile Communication Limited	2,697,102.71	Difference in equity acquisition price	5 years	269,710.27	1,746,019.12
Panda Electronics (Kunshan) Co. Ltd	(97,905.88)	Difference in equity acquisition price	10 years	(4,895.30)	(71,797.63)
Total	5,937,356.51			598,630.94	2,675,669.36

12. 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						
1 January 2004	356,037,363.51	195,262,062.00	11,100,930.69	17,032,029.19	10,252,359.61	589,684,745.00
Increase in the period	2,269,401.45	16,307,491.33	708,907.00	384,152.42	1,557,260.19	21,227,212.39
Transfer from construction in progress	—	—	—	—	—	—
Decrease in the period	—	3,614,251.79	—	20,590.20	1,474,360.03	5,108,202.02
Decrease in disposal	—	—	—	—	—	—
30 June 2004	358,306,764.96	207,955,301.54	11,809,837.69	17,395,591.41	10,335,259.77	605,802,755.37
Accumulated depreciation of fixed assets						
1 January 2004	91,609,017.02	100,125,899.48	4,200,137.32	6,795,124.95	7,848,620.21	210,578,798.98
Increase in the period	5,392,288.59	928,221.02	450,837.72	2,051,951.32	589,105.06	9,412,403.71
Decrease in the period	—	1,795,402.92	—	1,381,631.49	—	3,177,034.41
30 June 2004	97,001,305.61	99,258,717.58	4,650,975.04	7,465,444.79	8,437,725.27	216,814,168.29
Fixed assets, book value						
1 January 2004	<u>264,428,346.49</u>	<u>95,136,162.52</u>	<u>6,900,793.37</u>	<u>10,236,904.24</u>	<u>2,403,739.40</u>	<u>379,105,946.02</u>
30 June 2004	<u>261,305,459.35</u>	<u>106,696,583.96</u>	<u>7,158,862.65</u>	<u>9,930,146.62</u>	<u>1,897,534.50</u>	<u>388,988,587.08</u>

The Company pledged properties for a loan located at 301 Zhong Shan Dong Lu, Nanjing with certificates of title to the property (Xuan Bian Zi No.031463, No.031464 and No.031485; Xuan Chu No.102154 and No.102155; Xuan Bian Zi No.031486, No.031487, 031488, No.031489, No.031490 and No.031491).

(2) Provision for impairment of fixed assets

Type	1 January 2004	Increase in the period	Decrease in the period	30 June 2004
Building and premises	285,356.16	—	—	285,356.16
Machinery and equipment	20,497,085.14	—	—	20,497,085.14
Other equipment	1,410,287.08	—	—	1,410,287.08
Total	<u>22,192,728.38</u>	<u>—</u>	<u>—</u>	<u>22,192,728.38</u>

Reason for provision for impairment of fixed assets:

Certain fixed assets has no value in use, as they were used under long time or dormant due to the outdated technology. For such assets with a recoverable amount lower than the book value, provision of impairment of fixed assets is made based on the difference arising from the recoverable amount lower than the book value on a single asset basis.

Reason for the decrease in provision for impairment of fixed assets:

In order to improve the liquidity of assets, the Company disposed of the dormant fixed assets.

13. Construction in Progress

(1) Construction in Progress

Name of Construction	Project 1 January 2004	Increase in the period	Transfer to fixed assets in the period	Decrease in the period	30 June 2004	Including: loan expenses capitalized	Source of fund
Jiangning base	18,153,728.45	—	—	—	18,153,728.45	—	Share proceeds Other sources
Other	3,276,781.96	2,143,989.87	—	15,100.00	5,405,671.83	—	
Total	21,430,510.41	2,143,989.87	—	15,100.00	23,559,400.28	—	
Including: loan expenses capitalized	—	—	—	—	—	—	

(2) Provision for impairment of construction in progress

Name of Construction project	1 January 2004	Increase in the period	Decrease in the period	30 June 2004	Reasons for Provision
Jiangning base	13,153,728.45	—	—	13,153,728.45	Dormant
Other	2,338,119.71	—	—	2,338,119.71	
Total	15,491,848.16	—	—	15,491,848.16	

14. Intangible Assets

Type	Acquisition method	Original amount	1 January 2004	Increase in the period	Transfer to this period	Amortization for the period	Accumulated amortisation	30 June 2004	Remaining period for amortisation
Land use right	purchase	26,500,000.00	22,716,685.33	—	—	262,000.00	4,045,314.67	22,454,685.33	40 years
Trademark use right	purchase	157,140,000.00	36,226,487.61	—	—	7,857,002.00	128,725,514.39	28,369,485.61	1 year
Others	purchase	159,730.00	152,786.99	443,580.00	—	127,918.03	178,481.04	468,448.96	
Total		183,799,730.00	59,095,959.93	443,580.00	—	8,246,920.03	132,949,310.10	51,292,619.90	

Upon investigation, there has been no specific evidence indicating there was any diminution in value of intangible assets.

15. Long Term Deferred Expenses

Name of project	Original amount	1 January 2004	Increase in the period	Amortization for the period	Accumulated amortisation	30 June 2004	Remaining period for amortisation
Major repair expenses	11,411,550.00	1,988,176.25	—	570,577.50	9,993,951.25	1,417,598.75	1 year
Other	310,222.23	146,111.12	164,111.11	33,945.41	33,945.41	276,276.82	
Total	11,721,772.23	2,134,287.37	164,111.11	604,522.91	10,027,896.66	1,693,875.57	

16. Short Term Loans

Type of loan	30 June 2004	31 December 2003	Note
Charged loans	294,000,000.00	254,000,000.00	(2), (3)
Pledged loans	40,000,000.00	—	(4)
Guaranteed loans	1,012,376,700.00	963,500,000.00	(5)
Total	1,346,376,700.00	1,217,500,000.00	

(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 Bian Zi No.031463, No.031464 and No.031485; Xuan Chu No.102154 and No.102155, valued at RMB114,490,000.00) for a loan of RMB74,000,000.00 from Industrial and Commercial Bank of China (Jiangsu Branch) with a term from 12 December 2003 to 11 December 2004.

(3) The Company pledged properties located at 301 Zhong Shan Dong Lu, Nanjing with certificates of title to the property (Xuan Bian Zi No.031486, No.031487, No.031488, No.031489, No.031490 and No.031491) for a loan of RMB220,000,000.00 from Industrial and Commercial Bank of China (Jiangsu Branch) with a term from 26 August 2003 to 24 September 2004.

(4) Nanjing Panda Mobile Communication Equipment Co., Ltd., a subsidiary company of the Company, was granted a short term bank loan of RMB40,000,000.00 under fully-pledged time deposits by Guangdong Development Bank, Chengbei Branch of Nanjing.

(5) Panda Electronic Group Ltd., the parent company of the Company, guaranteed short term bank loans of RMB506,000,000.00 for the Company. Nanjing Panda Television Co., Ltd., an associated company of the Company, guaranteed short term bank loans of RMB100,000,000.00 for the Company. Nanjing Zhongheng Communication Technology Co., Ltd., guaranteed short term bank loans of RMB80,000,000.00 for the Company's subsidiaries. Nanjing Changheng Industrial Co., Ltd., guaranteed short term bank loans of RMB35,000,000.00 for the Company's subsidiaries. Most of the remaining guaranteed loans were granted to the Company's subsidiaries under the guarantees provided by the Company.

17. **Bills Payable**

Types of Bills	30 June 2004	31 December 2003	Note
Bank acceptance bills	572,829,348.22	327,721,680.00	Due in 2004
Commercial acceptance bills	53,853,720.00	82,482,488.00	Due in 2004
Total	<u>626,683,068.22</u>	<u>410,204,168.00</u>	

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

18. **Accounts Payable and Receipts in Advance**

Item	30 June 2004	31 December 2003	Note
Accounts payable	945,505,110.43	289,595,905.49	
Receipts in advance	185,529,043.37	48,328,950.19	
Total	<u>1,131,034,153.80</u>	<u>337,924,855.68</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.

19. **Salaries Payable**

Closing balance of salaries payable was RMB224,764.03. There were no salaries payable which were overdue.

20. **Taxes Payable**

Type	30 June 2004	31 December 2003	Tax rate
Value added tax (VAT)	5,550,435.49	74,629,763.06	17%
Sales tax	3,537,237.31	3,727,587.70	5%
City maintenance tax	18,784,508.59	21,435,719.31	7%
Enterprise income tax	5,386,071.80	(16,284,363.87)	15%-33%
Personal income tax	(465,310.64)	(513,858.21)	Under Individual income tax regulations
Property tax	2,640,372.47	2,640,372.47	1.2% of the 70% property value (at cost), or 12% of the rental income
Land use tax	613,468.72	613,468.72	
Transportation tax	5,780.00	5,780.00	
Stamp duty	—	437.38	
Total	<u>36,052,563.74</u>	<u>86,254,906.56</u>	

Note 1: This item is the outstanding tax accumulated from the previous years.

Note 2: Please refer to Note 3(1).

21. **Other charges**

Item	30 June 2004	31 December 2003	Rate
Education surcharge	5,251,775.72	7,175,408.09	4% of current tax
Housing surplus reserve	1,399,120.20	909,169.36	
Total	<u>6,650,895.92</u>	<u>8,084,577.45</u>	

22. **Other Payables**

(1) The period end balance of other payables was RMB141,331,163.05 of which RMB33,167,181.22 was due from holders with 5% or above shareholding (with voting power) of the Company.

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

Name of units	Outstanding amounts	Age	Nature/Content
Nanjing Ericsson Panda Communication	40,000,000.00	Within one year	Fund transaction
Panda Electronic Group Ltd.	33,167,181.22	One to two years	Fund transaction
Jiangsu Tianchuang Communication Industrial Co., Ltd.	30,600,000.00	Two to three years	Security
Panda Electronic Group (Company) Duantong Company	4,306,454.17	Within one year	Fund transaction
Administrative Committee of Nanjing Economy and Technology Development Zone	4,424,425.48	Exceeding three years	Specific contribution
Total	<u>112,498,060.87</u>		

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

23. Accrued Expenses

Item	30 June 2004	31 December 2003	Reason for closing balance
Intermediaries fee	—	1,602,515.53	Outstanding intermediaries fee payable
Interest	12,411,116.76	6,937,399.03	Outstanding loan interest payable
Rent	1,186,022.24	488,263.46	Outstanding rent payable
Processing fee	5,354,726.01	2,829,268.55	Outstanding processing fee
Depreciation	5,499,714.18	—	Outstanding depreciation
Water and electricity fee	1,767,292.75	—	Outstanding water and electricity payable
Testing fee	7,977,254.47	7,144,360.00	Outstanding testing fee
Transportation expenses	1,166,164.96	2,553,043.24	Outstanding transportation fee
Advertisement promotion expenses	2,289,141.00	2,751,362.70	Outstanding advertisement fee
Inspection and certification fee	600,000.00	941,399.00	Outstanding expenses
Engineering project expenses	437,654.25	701,589.53	Outstanding engineering project expenses
Repair expenses	1,029,382.13	181,690.00	Outstanding maintenance fee
Other	1,148,190.16	2,418,423.54	Outstanding charges
Total	40,866,658.91	28,549,314.58	

24. Credit balance of deferred tax

Item	30 June 2004	31 December 2003
Income tax payable arising from receipt of non-cash assets	11,550.64	11,550.64

25. Share Capital

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

Items	1 January 2004	New issue	Increase/decrease for the period			Sub-total	30 June 2004
			Bonus Allotment	Share issue	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	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
2. Legal person shares	—	—	—	—	—	—	—
3. Employee shares	—	—	—	—	—	—	—
4. Preference shares or 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 of circulating shares	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, nature of shares, shareholding and changes (unit:share) are as follows:

Name of shareholders or class of shares	Nature of shares	1 January 2004	30 June 2004
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 shares	—	—	—
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	1 January 2004	Increase for the period	Decrease for the period	30 June 2004
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	443,311.81	—	—	443,311.81
Total	478,887,643.72	—	—	478,887,643.72

27. Surplus Reserve				
Item	1 January 2004	Increase for the period	Decrease for the period	30 June 2004
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	188,137,542.53	—	—	188,137,542.53

28. Undistributed Profit				
Item		30 June 2004		31 December 2003
Opening undistributed profit		(193,066,201.96)		(291,413,000.50)
Add: opening undistributed profit adjustment		—		—
Adjusted opening undistributed profit		(193,066,201.96)		(291,413,000.50)
Add: net profit for the year		58,001,551.57		98,346,798.54
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		(135,064,650.39)		(193,066,201.96)

According to the relevant resolutions passed at the 2nd meeting of the fifth Board of Directors, realized profit for the period was not distributed.

29. Income and Cost of Principal Activities

(1) Segmented by products

Principal activities	Income from principal activities		Cost of principal activities	
	Jan-Jun 2004	Jan-Jun 2003	Jan-Jun 2004	Jan-Jun 2003
Mobile telecommunication products	944,375,463.70	1,306,952,709.63	837,397,138.28	1,182,206,184.18
Electronic information products	125,282,836.44	63,723,294.94	120,531,777.36	58,137,989.64
Electromechanical products	101,226,943.86	72,328,779.54	85,982,488.50	62,820,611.28
Satellite telecommunication products	4,244,386.29	19,361,641.03	3,198,233.07	15,397,786.11
Others	55,599,092.39	60,668,049.50	46,221,873.41	54,250,496.07
Total	1,230,728,722.68	1,523,034,474.64	1,093,331,510.62	1,372,813,067.28

Note: The above income and cost of principal activities represent the amounts already offset internally.

(2) Segmented by geographical areas

Regions	Income from principal activities		Cost of principal activities	
	Jan-Jun 2004	Jan-Jun 2003	Jan-Jun 2004	Jan-Jun 2003
Domestic	1,230,728,722.68	1,523,034,474.64	1,093,331,510.62	1,372,813,067.28

(3) Sales revenue from the largest five customers totalled RMB1,032,943,688.34, accounting for 83.93% of total sales revenue for the period.

30. Profit from other operation

Item	Jan-Jun 2004			Jan-Jun 2003		
	Income	Expense	Profit	Income	Expense	Profit
Rents	10,574,675.90	5,682,192.28	4,892,483.62	14,069,550.40	6,708,892.81	7,360,657.59
Sales of raw material	18,440,633.84	15,717,783.97	2,722,849.87	1,621,127.39	1,266,827.51	354,299.88
Service income	443,472.70	402,337.98	41,134.72	1,361,651.17	47,324.80	1,314,326.37
Other income	192,631.20	—	192,631.20	886,419.99	91,571.41	794,848.58
Total	29,651,413.64	21,802,314.23	7,849,099.41	17,938,748.95	8,114,616.53	9,824,132.42

31. Financial Expenses

Item	Jan-Jun 2004	Jan-Jun 2003
Interest expenses	41,011,199.04	37,692,120.61
Less: Interest income	(5,347,931.22)	(2,717,552.86)
Add: Exchange loss	40,848.54	—
Less: Exchange gain	(2,569.73)	(17,661.59)
Add: Other expenses	663,509.25	491,040.68
Total	36,365,055.88	35,447,946.84

32. Investment Income

(1) Details of investment income are as follows:

Item	Jan-Jun 2004	Jan-Jun 2003
Income from equity investment	—	—
Income from debenture 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 period end	93,848,292.53	35,183,906.08
Equity investment difference in amortisation	(598,630.94)	(617,721.52)
Gain on equity transfer	13,351,964.00	—
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	—	—
Others	249,949.15	—
Total	106,851,574.74	42,104,184.56

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

(3) Pursuant to the decision on Reorganization of Jiangsu Provincial Software Industry Company Limited as set out in the Proposal on Construction of Jiangsu Software Park (Circular [2003] No.049 of Jiangsu Provincial People's Government Office), a resolution on transfer of the 35% equity interests held by the Company in Jiangsu Provincial Software Industry Company Limited was passed at the 1st meeting of the fifth Board of Directors, of which 25% equity interests will be transferred to Nanjing Jiangning Economic and Technological Development Corporation at a consideration of RMB57,385,350 and 10% equity interests will be transferred to Nanjing Xincheng Company Limited at a consideration of RMB22,954,140. Income from the said transfer amounted to RMB13,351,964.

33. Non-operating income

Item	Jan-Jun 2004	Jan-Jun 2003
Net gain from disposal of fixed assets	416,410.75	11,757.34
Gain from non-monetary transactions	—	—
Compensation from insurers	—	—
Net gain from fine payments	50.00	1,413.75
Income from wasters	71,330.82	—
Others	20,394.85	273,723.93
Total	508,186.42	286,895.02

34. Non-operating Expenses

Item	Jan-Jun 2004	Jan-Jun 2003
State irrigation works fund	—	—
Net loss from disposal of fixed asset	2,449.45	22,791.00
Local fund	337,496.16	—
Fine payments	2,042.18	1,040.14
Donation expenses	—	2,000.00
Non-recurring Loss	8,371.85	—
Overdue fine	71,418.78	—
Other	117,014.67	188,677.34
Total	538,793.09	214,508.48

35. Extraordinary items

Items	Jan-Jun 2004
Profit/loss from disposal of long term equity investments	13,351,964.00
Subsidy income	606,228.94
Non-operating income	508,186.42
Non-operating expenses	(538,793.09)
Profit from short term investments	—
Reversal of provision for impairment	—
Influence of income tax	—
Total	13,927,586.27

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE HOLDING COMPANY

1. Accounts receivable

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

Item	30 June 2004			31 December 2003		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within 1 year	10,739,205.18	80.87	288,371.23	9,888,797.59	81.25	288,371.23
1-2 years	463,842.04	3.49	63,745.65	1,107,826.50	9.10	63,745.65
2-3 years	1,243,745.43	9.37	211,983.35	923,233.38	7.59	261,983.35
More than 3 years	833,270.56	6.27	251,639.27	250,378.10	2.06	201,639.27
Total	13,280,063.21	100	815,739.50	12,170,235.57	100	815,739.50

Please refer to note 2(10) for percentage of provision for bad debts.

- (2) Closing balance did not include any amount due from holders with 5% or above shareholding (with voting power) in the Company.
 (3) The top 5 account receivables totaled RMB8,522,819.86, accounting for 64.18% of the total account receivables for the period.

Debtors	Outstanding amounts	Nature of debts
Nanjing Panda Television Co. Ltd.	6,147,825.95	Payments for goods
Nanjing Panda Television Technology Development Co., Ltd.	1,650,607.31	Payments for goods
Nanjing Electronins (Kunshan) Co., Ltd.	285,545.34	Payments for goods
Shandong Bangrui Co., Ltd.	219,500.00	Payments for goods
Nanjing Sharp Electronic Co., Ltd.	219,341.26	Payments for goods
Total	8,522,819.86	

2. Other receivables

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

Item	30 June 2004			31 December 2003		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within 1 year	624,530,109.26	47.92	15,178,795.80	581,129,825.56	66.48	6,286,328.30
1-2 years	572,546,202.29	43.94	3,331,787.10	219,406,849.17	25.10	1,282,841.96
2-3 years	34,448,591.57	2.64	1,282,841.96	5,006,855.01	0.57	263,367.61
More than 3 years	71,613,163.91	5.50	49,520,073.04	68,559,038.30	7.85	46,515,960.03
Total	1,303,138,067.03	100	69,313,497.90	874,102,568.04	100	54,348,497.90

Please refer to note 2(10) for percentage of provision for bad debts.

- (2) Other receivables were RMB291,761,690.37 due from holders with 5% or above shareholding (with voting power) in the Company at period end.
 (3) The top 5 other receivables totaled RMB1,130,258,661.91, accounting for 86.74% of the total other receivables for the period. Including:

Debtors	Outstanding amount	Nature
Nanjing Panda Mobile Communication Equipment Co., Ltd.	743,210,800.00	Current account
Panda Electronics Group Limited	291,761,690.37	Current account
China Liberation Army Plant 714 Representative Room	51,170,000.00	Current account
Shanghai Lakeville Properties Co., Ltd.	15,310,416.00	Current account
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd.	28,805,755.54	Current account
Total	1,130,258,661.91	

- (4) Taking account of the less possibility of recovery, provision for bad debts was made on a percentage of 100% for part of the other receivables ageing more than 3 years.

3. Long term equity investment

(1) Long term equity investment

Item	30 June 2004		31 December 2003	
	Investment amount	Provision for impairment	Investment amount	Provision for impairment
Share investment	—	—	—	—
Other equity investment	853,688,930.70	3,528,377.81	834,968,480.92	3,528,377.81
Difference in equity investment	2,747,466.99	—	3,350,993.23	—
Total	856,436,397.69	3,528,377.81	838,319,474.15	3,528,377.81
Net equity investment	<u>852,908,019.88</u>		<u>834,791,096.34</u>	

(2) Other equity investment

Name of invested companies	Operating period	Share of interest (%)	Initial investment amount	Equity adjustment for the period	Accumulated equity adjustment	Closing balance	Closing provision for impairment	Opening provision for impairment
Nanjing Panda Mechanical Engineering Plant	1999.05 - 2023.12	99.00	30,042,016.46	265,071.78	(390,801.00)	29,651,215.46	—	—
Nanjing Panda Appliance & Apparatus Co. Ltd.	2000.09 - 2020.09	70.00	700,000.00	669,582.62	3,330,713.41	4,030,713.41	—	—
Nanjing Panda Electronic Material Co. Ltd.	1998.05 - 2028.04	94.34	500,000.00	(248,118.59)	(1,779,090.23)	(1,279,090.23)	—	—
Nanjing Panda Electronic System Engineer Corp.	1991.01 -	100.00	200,000.00	—	(200,000.00)	—	—	—
Shenzhen Panda Electronic Co., Ltd.	1995.12 - 2012.12	95.00	6,175,000.00	(10,207.72)	(2,305,063.24)	3,869,936.76	—	—
Nanjing Panda International Telecommunication System Co., Ltd.	1993.10 - 2003.10	72.00	7,655,000.00	(123,624.45)	(3,934,107.83)	3,720,892.17	—	—
Nanjing Guanghua Electronic Plastic Installing Plant	1988.01 - 2007.12	71.94	8,271,095.45	(1,188,797.77)	7,280,188.63	15,551,284.08	—	—
Nanjing Panda Technology Equipment Co., Ltd.	1998.10 - 2013.10	70.00	3,500,000.00	175,072.67	505,949.51	4,005,949.51	—	—
Nanjing Panda Information Industry Co., Ltd.	1998.07 - 2028.07	72.00	21,000,000.00	413,434.42	(12,769,822.53)	8,230,177.47	—	—
Nanjing Panda Accurate Machinery Co. Ltd.	1999.02 - 2018-02	70.00	3,625,300.00	1,446,106.25	2,589,441.08	6,214,741.08	—	—
Nanjing Panda Network Technology Co. Ltd.	2001.04 - 2011.04	70.00	3,500,000.00	—	—	3,500,000.00	—	—
Nanjing Panda Mechanical Manufacturing Co. Ltd.	2001.06 - 2016.06	70.00	3,500,000.00	849,187.11	2,268,190.69	5,768,190.69	—	—
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd.	2001.12 - 2011.12	60.00	3,000,000.00	858,124.87	1,765,020.79	4,765,020.79	—	—
Nanjing Panda Mobile Communication Equipment Co. Ltd.	2002.02 - 2012.02	51.00	61,200,000.00	766,757.56	48,500,262.42	109,700,262.42	—	—
Nanjing Panda Communications Development Co., Ltd.	2002.08 - 2012.08	95.00	19,000,000.00	8,639,757.44	80,756,534.93	99,756,534.93	—	—
Nanjing Panda Machinery Co., Ltd.	2002.01 - 2011.11	70.00	2,100,000.00	118,022.12	(329,076.26)	1,770,923.74	—	—
Nanjing Electronic Calibration Co., Ltd.	1990.06 - 2012.10	70.00	700,000.00	108,659.74	230,942.47	930,942.47	—	—
Nanjing Panda Network Technology Co., Ltd.	2002.10 - 2022.10	50.00	5,000,000.00	(1,027,136.00)	(5,871,248.73)	(871,248.73)	—	—
Nanjing Panda System Integration Co., Ltd.	2002.09 - 2012.09	60.00	1,800,000.00	409,653.96	876,790.83	2,676,790.83	—	—
Nanjing Ericsson Panda Communication Co., Ltd.	1992.09 - 2022.09	27.00	60,863,279.60	52,062,184.99	220,810,836.72	281,674,116.32	—	—
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	1998.11 - 2018.11	35.00	34,769,364.00	—	(34,769,364.00)	—	—	—
Shenzhen Jinghua Electronic Company, Shenzhen	1998.08 - 2015.08	38.03	69,687,437.75	5,140,169.97	16,101,772.56	85,789,210.31	—	—
Beijing Ericsson Pu Tian Mobile Communications Limited	1995.08 - 2015.08	20.00	83,967,206.77	32,523,349.62	11,348,306.06	95,315,512.83	—	—
Intenna (Nanjing) Co., Ltd.	2000.12 - 1996.03	35.00	1,750,000.00	516,274.68	17,785.53	1,821,785.53	—	—
Nanjing Sharp Electronic Co., Ltd.	2002.03 - 2026.03	30.00	61,425,420.00	3,132,469.94	13,496,935.19	74,922,355.19	—	—
Nanjing Lingyun Information Co., Ltd.	1998.08 - 2008.08	30.00	150,000.00	—	(85,087.55)	64,912.45	64,912.45	64,912.45
Mpower Batteries (Nanjing) Co., Ltd.	2001.04 - 2010.12	40.00	4,200,000.00	—	(4,200,000.00)	—	—	—
Nanjing Panda Tamura Communication Equipment Co., Ltd.	2001.07 - 2011.07	50.00	3,310,800.00	204,876.80	972,433.64	4,283,233.64	—	—
Nanjing Panda Hitachi Technology Co., Ltd.	2001.11 -	49.00	6,533,170.00	393,398.51	(2,982,067.77)	3,551,102.23	—	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	2002.05 - 2022.05	51.00	510,000.00	—	—	510,000.00	—	—
Other investment reflected at cost			3,763,465.36	—	—	3,763,465.36	3,463,465.36	3,463,465.36
Total			512,398,555.39	106,094,300.52	341,290,375.30	853,688,930.69	3,528,377.81	3,528,377.81

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

- (3) Pursuant to the decision on Reorganization of Jiangsu Provincial Software Industry Company Limited as set out in the Proposal on Construction of Jiangsu Software Park (Circular [2003] No.049 of Jiangsu Provincial People's Government Office), a resolution on transfer of the 35% equity interests held by the Company in Jiangsu Provincial Software Industry Company Limited was passed at the 1st meeting of the fifth Board of Directors, of which 25% equity interests will be transferred to Nanjing Jiangning Economic and Technological Development Corporation at a consideration of RMB57,385,350, and 10% equity interests will be transferred to Nanjing Xincheng Company Limited at a consideration of RMB22,954,140. Income from the said transfer amounted to RMB13,351,960.

(4) **Difference in equity investment**

Name of invested companies	Initial amount	Reasons	Amortisation period	Amortisation for the period	Closing balance
Nanjing Panda Mechanical Engineering Plant	511,756.61	Difference in equity investment	5 years	51,175.66	153,526.99
Shenzhen Jinghua Electronic Co. Ltd.	2,826,403.07	Difference in equity investment	5 years	282,640.31	847,920.88
Beijing Ericsson Pu Tian Mobile Communication Limited	2,697,102.71	Difference in equity investment	5 years	269,710.27	1,746,019.12
Total	<u>6,035,262.39</u>			<u>603,526.24</u>	<u>2,747,466.99</u>

4. Income and cost of principal activities

(1) **Segmented by income**

Items of principal activities	Income from principal activities		Cost of principal activities	
	Jan-Jun 2004	Jan-Jun 2003	Jan-Jun 2004	Jan-Jun 2003
Mobile telecommunication products	7,041,749.72	58,735,003.82	6,289,849.18	57,281,323.85
Satellite telecommunication products	4,244,386.29	19,361,641.03	3,198,233.07	15,397,786.11
Others	7,186,744.17	9,338,958.04	6,461,438.07	8,397,206.84
Total	<u>18,472,880.18</u>	<u>87,435,602.89</u>	<u>15,949,520.32</u>	<u>81,076,316.80</u>

- (2) The aggregate sales revenues from the five largest clients of the holding company for the period amounted to RMB15,440,213.21, accounting for 83.58% of the total income from principal activities for the period.

5. Investment Income

(1) **Details of investment income are as follows:**

Item	Jan-Jun 2004	Jan-Jun 2003
Income from equity investment	—	—
Income from debenture investment	—	7,538,000.00
Including: income from debenture income from entrusted loans	—	7,538,000.00
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 period end	106,094,300.52	71,218,739.89
Equity investment difference amortisation	(603,526.24)	(617,721.52)
Gain on equity transfer	13,351,964.00	—
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	—	—
Others	—	—
Total	<u>118,842,738.28</u>	<u>78,139,018.37</u>

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

VII. INFLUENCE ON THE CONSOLIDATED FINANCIAL STATEMENT FROM THE INCONSISTENCY OF ACCOUNTING POLICIES OF THE HOLDING COMPANY AND THE SUBSIDIARY

In the event there is an inconsistency of accounting policies between the holding company and the subsidiary, adjustment is made according to the accounting policy of the holding company for the preparation of the consolidated financial statement.

VIII. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

(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 Electronic 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 2003	Increase in the period	Decrease in the period	30 June 2004
Panda Electronic Group Ltd.	1,266,060,000.00	—	—	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 2004	31 Decembr 2003	30 June 2004	31 Decembr 200
Panda Electronic 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 products	Agency of import products
Nanjing Panda Television Co. Ltd.	100%	Televisions and related products	Sales
Nanjing Panda Group (Company) Duantong Company	100%	Wireless communication	Sales and provision of labor
Nanjing 21st Century Electronic technology Plaza Co., Ltd.	99%	Information, communication and trading of communication products	Supply of funds

(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 Flextronics Panda Mobile Terminals Co., Ltd.	35%	Development, manufacture, production and sales of data communication terminal equipment	Purchase
Nanjing Panda Tamura Communication Equipment Co., Ltd.	50%	Development, manufacture and production of power supply	Purchase
Intenna (Nanjing) Co. Ltd.	35%	Research and production of advanced antenna systems	Lease

(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	Sales, supply of fund
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd	Related party with the subsidiary	Supply of labour Provision of services	

(2) Related transactions

1. Sales of products

Name of related parties	Jan-Jun 2004	Jan-Jun 2003
Jiangsu Tian Chuang Communication Industrial Co. Ltd.	487,321,914.53	823,027,888.63
Nanjing Panda Television Co. Ltd.	19,564,638.13	15,347,279.75
Nanjing Ericsson Panda Communication Co. Ltd.	512,820.85	3,507,235.35
Panda Electronic Group (Company) Duantong Company	1,953,512.48	1,406,756.81
Nanjing Sharp Electronic Co., Ltd	7,005,047.26	—
Panda Electronics Group Company Limited	—	3,201,873.00
Total	<u>516,357,933.25</u>	<u>846,491,033.54</u>

Pricing policy for products sold to all related parties: Fair market price.

2. **Purchase of materials**

Name of related parties	Jan-Jun 2004	Jan-Jun 2003
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	92,260.00	56,419,053.49
Nanjing Panda Mobile Communication Equipment Co., Ltd.	7,940,124.00	—
Nanjing Panda Tamura Communication Equipment Co., Ltd.	8,396,614.06	7,174,763.26
Total	<u>16,428,998.06</u>	<u>63,593,816.75</u>

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

3. **Provision of services**

Name of related parties	Jan-Jun 2004	Jan-Jun 2003
Nanjing Panda Group (Company) Duantong Company	—	365,300.81
Nanjing Lianhua Nap New Coating and Decorating Co., Ltd.	809,044.06	—
Total	<u>809,044.06</u>	<u>365,300.81</u>

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

4. **Receipt of services**

Name of related parties	Jan-Jun 2004	Jan-Jun 2003
Panda Electronics Group Co. Ltd.	295,121.80	—
Nanjing Panda Television Co. Ltd.	1,099,353.11	—
Total	<u>1,394,474.91</u>	<u>—</u>

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

5. **Lease of assets**

Name of related parties	Jan-Jun 2004	Jan-Jun 2003	
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	3,985,068.08	1,182,299.44	Housing
Panda Electronics Group Co. Ltd.	—	536,567.11	Land
Total	<u>3,985,068.08</u>	<u>1,718,866.55</u>	

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

6. **Fund transactions with related parties**

Related party	Fund provided to related party		Fund received from related party	
	Amounts	Closing balance	Amounts	Closing balance
Panda Electronic Group Ltd.	259,347,058.04	267,388,540.46	—	—
Jiangsu Tianchuang Communication Industrial Co., Ltd.	1,169,246,697.00	688,247,697.00	—	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	8,450,179.42	23,160,000.00	—	—
Total	<u>1,437,043,934.46</u>	<u>978,796,237.46</u>	<u>—</u>	<u>—</u>

7. **Acceptance of guarantee**

Name of related parties	Jan-Jun 2004	Jan-Jun 2003
Panda Electronics Group Co. Ltd.	506,000,000.00	548,000,000.00
Panda Electronics Television Co. Ltd.	100,000,000.00	150,000,000.00
Jiangsu Tianchuang Communication Industrial Co., Ltd.,	20,000,000.00	—
Total	<u>626,000,000.00</u>	<u>698,000,000.00</u>

8. Agency of import and export (handling charge)

Name of related parties	Jan-Jun 2004	Jan-Jun 2003
Nanjing Panda Import/Export Company	<u>482,019.34</u>	<u>3,330,550.94</u>

Pricing policy: Handling charge payable to Nanjing Panda Electronic Import/Export Company is made according to 0.385% of the price as set out in the import contract .

(3) Balance of accounts with related parties

Name of the related party	Item	30 June 2004	31 December 2003
Panda Electronics Group Limited	Accounts receivable	7,059,285.48	5,440,824.28
	Other payable	33,167,381.22	26,653,067.79
	Special payable	—	38,000,000.00
Nanjing Panda Group (Company) Duantong Company	Other receivable	291,761,690.37	35,904,750.04
	Other payable	6,041,400.00	35,379,782.38
	Accounts receivable	4,306,454.17	4,030,806.49
Jiangsu Tianchuang Communication Industrial Co. Ltd.	Accounts receivable	594,047,439.09	606,223,687.26
	Other payable	30,600,000.00	30,600,000.00
	Bills receivable	115,965,484.80	115,965,484.80
Nanjing Panda Television Co. Ltd.	Other receivable	688,247,697.00	1,298,135.91
	Accounts receivable	15,915,511.17	12,390,691.51
	Other receivable	10,313,785.07	8,147,489.18
Nanjing Ericsson Panda Communication Co. Ltd.	Accounts payable	2,229,611.08	3,418,795.59
	Other payable	2,341,838.09	2,319,779.15
	Accounts receivable	4,485,072.45	8,664,726.36
Nanjing Panda Import / Export Company	Accounts receivable	2,013,355.55	1,672,138.33
	Prepayment	22,657,953.85	595,278.05
	Accounts payable	2,229,993.97	21,031,972.69
PEGL Wireless Telecommunications Company	Other receivable	7,314,788.50	7,314,788.50
	Other receivables	—	20,783,662.00
Nanjing Electronics Panda Mobile Terminals Co., Ltd.	Accounts payable	1,080,797.48	3,629,388.63
	Other receivables	12,411,294.80	12,411,294.80
Nanjing Panda Electronic Hong Kong Company Ltd.	Other receivables	—	—
	Accounts payable	12,411,294.80	12,411,294.80
Nanjing Panda Chenguang Electronic Co. Ltd.	Other receivables	12,986,830.72	12,986,830.72
	Other receivables	14,923,768.72	—
Nanjing Sharp Electronic Co., Ltd	Accounts receivable	5,622,690.93	2,052,698.93
	Other receivables	23,160,000.00	14,709,820.58
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	Accounts payable	5,926,832.48	—
	Accounts payable	—	—
Nanjing Panda Power Supply Equipment Co., Ltd.	Accounts payable	5,926,832.48	—
	Other receivables	1,937,237.07	—
Nanjing Linghua Nap New Coating and Decorating Co., Ltd.	Other receivables	1,937,237.07	—
	Other receivables	—	—
Nanjing Panda Tamura Communication Equipment Co., Ltd	Accounts payable	7,940,124.00	—
	Accounts payable	—	—

IX. CONTINGENT LIABILITIES

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

As at 30 June 2004, details of the Company's discounted commercials acceptance bills were as follows:

Discount Issued by	Amount	Date of issue	Due date	Discount date
Nanjing Panda Mobile Communication Equipment Co., Ltd.	27,000,000.00	2004.02.26	2004.08.26	
Jiangsu Tianchuang Communication Industrial Co., Ltd.	50,000,000.00	2004.02.25	2004.08.25	
Jiangsu Tianchuang Communication Industrial Co., Ltd.	50,000,000.00	2004.02.25	2004.08.18	
Jiangsu Tianchuang Communication Industrial Co., Ltd.	20,000,000.00	2004.04.21	2004.10.10	
Beijing Songlian Communication Equipment Co., Ltd.	30,000,000.00	2004.02.10	2004.08.10	
Beijing Songlian Communication Equipment Co., Ltd.	30,000,000.00	2004.06.14	2004.12.14	
Guangzhou Tianzhi Communication Equipment Co., Ltd.	20,000,000.00	2004.02.26	2004.08.26	
Total	<u>227,000,000.00</u>			

2. Contingent liabilities from pending litigation or arbitration

As at 30 June 2004, the Company did not have any contingent liabilities created as a result of pending litigation or arbitration.

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

As at 30 June 2004, the Company provided guarantees to the following parties:

Name of parties guaranteed	Guaranteed item	Amount	Term	Liabilities to Assets Ratio
Guarantees provided by the Company to external parties (including companies in consolidated statements)				
Nanjing Zhongda Mode (Group) Co., Ltd.	Bank loan	50,000,000.00	2003.10-2004.10	55.98%
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	Acceptance bill	1,615,480.00		97.02%
Nanjing Panda Information Industry Co., Ltd.	Acceptance bill	23,389,527.50		90.54%
	Bank loan	8,276,700.00		
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd.	Bank loan	18,100,000.00	2004.01-2004.12	91.44%
Nanjing Panda Mobile Communication Equipment Co., Ltd.	Bank loan	20,000,000.00	2004.03-2005.03	90.15%
	Acceptance bill	145,000,000.00	2004.04-2004.09	
Nanjing Panda Communications Development Co., Ltd.	Bank loan	88,000,000.00	2004.02-2005.02	91.72%
	Acceptance bill	21,440,000.00	2004.05-2004.11	
Guarantees provided by companies in consolidated statements to external parties				
Jiangsu Tianchuang Communication Industrial Co., Ltd.	Bank loan	200,000,000.00	2003.09-2006.09	
	Acceptance bill	115,300,000.00	2004.03-2004.09	
	Bank loan	110,000,000.00	2003.09-2005.02	
Total		<u>801,121,707.50</u>		

4. As at 30 June 2004, the Company did not have any material contingent issues other than the aforesaid.

X. COMMITMENTS

1. Contractual liabilities of major foreign investments

As at 30 June 2004, the Company still had expenses totaling RMB59,795,000 on contractual major foreign investments for which contracts had been signed but payments had not been made. Details are as follows:

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	
Total	<u>66,545,000.00</u>	<u>6,750,000.00</u>	<u>59,795,000.00</u>	

2. As at 30 June 2004, the Company did not have any material commitments other than the aforesaid.

XI. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Company does not have any discloseable material events occurring after the balance sheet date.

XII. TABLE OF DIFFERENCE ADJUSTMENT FOR FINANCIAL STATEMENTS PREPARED ACCORDING TO THE DOMESTIC AND INTERNATIONAL ACCOUNTING STANDARDS (UNIT: RMB'000)

Since the Company has H-share issuance, while preparing financial statements according to the Accounting System of the People's Republic of China for Enterprises, the Company has also prepared financial statements according to the International Accounting Standard. The Company has appointed Horwath Hong Kong CPA as its overseas accountants firm. The following shows the differences in net assets and net profit prepared according to domestic and international accounting standards:

	30 June 2004 Net assets	31 December 2003 Net assets
Based on International Accounting Standard	1,201,079	1,145,238
Add: Difference in evaluation of trademarks	(1,574)	(2,023)
Unrecognized intangible assets	1,220	1,328
Other assets written off	1,418	1,988
Goodwill	(2,913)	(4,425)
Others	1,265	1,313
Reserve attributable to associated company	(14,346)	(14,349)
Minority interests	827	(96)
Based on Accounting System of the People's Republic of China for Enterprises	<u>1,186,976</u>	<u>1,128,974</u>

	Jan-Jun 2004 Net profit	Jan-Jun 2003 Net profit
Based on International Accounting Standard	55,841	32,866
Add: Unrecognized intangible assets		
Amortization of evaluation premium of trademarks	450	450
Amortization of unrecognized intangible assets	(108)	(672)
Other assets previously written-off	(571)	(2,757)
Earnings attributable to associated company	1,517	3,110
Minority interests	932	80
Others	(40)	(50)
Income/expense directly credited/charged to reserve	(19)	(174)
Based on Accounting System of the People's Republic of China for Enterprises	58,002	32,853

XIII. SUPPLEMENTARY INFORMATION

1. Explanation on changes in the consolidated financial statement

- (1) The increase in the total assets was mainly attributable to the corresponding increases in amounts due from related parties and inventories of raw materials.
- (2) Closing balance for currency capital decreased by 53.77% from opening balance, mainly due to the increased amounts due from related parties.
- (3) Closing balance for short term investments dropped by 100% from opening balance at the beginning of the period, due to recovery of short-term investments by the Company.
- (4) Closing balance for other receivables increased by 318.29% from opening balance, mainly attributable to the increased amounts due from related parties.
- (5) Closing balance for inventories increased by 114.63% from opening balance, mainly attributable to a considerable increase in inventories of raw materials for production expansion of mobile communication products in the second half year.
- (6) Closing balance for deferred expenses increased by 115.96% from opening balance, mainly due to the amortisation of non-recycled expenses ("NRE") for mobile communication products
- (7) Closing balance for bills payable increased by 52.77% from opening balance, mainly attributable to an increased percentage of purchase settled by bills.
- (8) Closing balance for accounts payable increased by 226.49% from opening balance, mainly attributable to the increased trade payable within the contract term.
- (9) Closing balance for total liabilities increased by 44.86% from opening balance, mainly due to the increased trade payable within the contract term as a result of a considerable increase in inventories for production expansion in the second half of the year.
- (10) Income from principal operations for the period dropped by 19% from the previous period, mainly attributable to intensified competition in the mobile phone market.
- (11) Gross profit margin for the period was 11%, up 1% from 10% for the previous period. This was mainly due to a decrease in the sales of products with low gross profit margin.
- (12) Administration expenses for the period increased by 34.1% from the previous period, mainly attributable to the increased provision for impairment of assets.

- 2 In accordance with the China Securities Regulatory Commission's requirements of No. 9 of the Provision 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 earning per share as at 30 June 2004 are as follows:

Profit during the report period	Return on net assets		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	11.41%	11.69%	0.2067	0.2067
Operating profit	(3.46%)	(3.55%)	(0.0627)	(0.0627)
Net profit	4.89%	5.01%	0.0885	0.0885
Net profit after extraordinary items	3.71%	3.81%	0.0673	0.0673