

## VI. SIGNIFICANT EVENTS

### (1) General Corporate Governance

The Company continues to improve its corporate governance and to regulate its operation in accordance with the spirit of the relevant documents issued by China Securities Regulatory Commission ("CSRC") and requirements under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). In accordance with the requirements of CSRC to further perfect structure of corporate governance and enhance the security of shareholders' interests, the Company amended part of its articles of association, rules of procedures for the general meetings of the shareholders, rules of procedures for the general meetings of the board of directors and rules of procedures for the meetings of the supervisory committee in the first half of the year. Resolutions in relation to the amendments were passed at the annual general meeting held on 29 June 2005. The Board of the Company include three independent non-executive directors. One-third of the members of the Board of Directors are independent directors, among which one is a certified accountant.

(2) During the Reporting Period, the Company did not make any profit appropriation, transferral of public reserves to increase share capital and plans for new issue which were recommended in the previous period and implemented in the Reporting Period. The Company will not make profit distribution, nor will it increase its share capital by transferral from public reserve in the interim period of 2005.

### (3) Material arbitration and litigation

As at 10 March 2005, the People's Court of Xuan Wu Qu of Nanjing City ruled that 51% of equity interests in Panda Mobile held by the Company, valued at RMB19.9932 million and 95% of equity interests in Nanjing Panda Communication Development Co. Ltd ("Panda Communication") held by the Company, valued at RMB100.0242 million had been under taken judicial forceful execution for the repayment of an amount of RMB120 million of debt and interests accrued thereon owed by the Company to Nanjing Wei Te Investment Company Limited. After judicial forceful execution, Panda Mobile and Panda Communication were no longer subsidiaries of the Company.

Apart from the above, there was no other litigation and arbitration which was material to the Company that occurred during the Reporting Period or occurred in the previous period and subsisting during the Reporting Period.

### (4) Explanation for analysis of other significant events and their impacts and solutions.

As at 9 March 2005, the Company entered into an agreement (the "Agreement") regarding debt transfer with Panda Mobile and Jiangsu Province Investment Management Company Limited ("Jiangsu Investment Management"). The main contents of the Agreement are as follows: as of 9 March 2005, Panda Mobile owed the Company a debt of RMB500 million. The Company agreed to transfer such debt of RMB500 million to Jiangsu Investment Management. Jiangsu Investment Management would be responsible for repayment of RMB500 million to the Company. The debt repayment proposal will be further discussed. Upon the execution of this agreement, the debt relations between Panda Mobile and the Company would be changed to debt relations between Jinagsu Investment Management and the Company. The Agreement would come into effect upon approval of the Board of Directors or Shareholders' meeting of the Company.

(The holding announcement in relation to paragraphs VI.(3), (4) was published on "Shanghai Securities Journal", "China Securities Journal" on 14 March 2005 and "Ta Kung Pao" and "The Standard" on 21 March 2005.)

(5) There was no acquisition, disposal of assets or asset reorganization which were material to the Company that occurred during the Reporting Period or occurred in the previous period and subsisting during the Reporting Period.

### (6) Material connected transactions

1. During the Reporting Period, saved as disclosed in aforesaid paragraph V.(4), there were no other material connected transactions of the Company.

2. Debt relations with connected parties

During the Reporting Period, the Company provided capital of RMB147.2230 million to the controlling shareholder, Panda Electronics Group Ltd., and its subsidiaries. At the end of the Reporting Period, the balance amounted to RMB257.8789 million.

### (7) Material contracts

1. During the Reporting Period, the Company did not hold any trust, contract and lease of assets of other companies or other companies hold any first, contract and lease of assets of the Company in the previous period and subsisting during the Reporting Period.

2. Significant Guarantees

As of 30 June 2005, the Company provided guarantees to banks for banking facilities granted to its controlling subsidiaries-bank loans and acceptance bills for Nanjing Panda Information Industry Co., Ltd., totaled RMB31.20 million, the bank loans of RMB17 million for Nanjing Huage Dian Qi Plastic Industrial Co. Ltd., the bank loans of RMB5 million for Nanjing Panda Accurate Machinery Co., Ltd. and the bank loans of RMB5 million for Nanjing Panda Mechanical Manufacturing Co., Ltd. The above guarantees totaled RMB58.2 million, representing 4.75% of the net asset of the Company.

As the gearing ratio of the above guaranteed units exceeded 70%, the above guarantees were not in compliance with the requirement of ZhengJianFa [2003] No.56 "Notice Regarding the Regulation of Capital Flow Between Listed Company and Connected Parties and Certain Issues in Relation to External Guarantee of Listed Company" issued by China Securities Regulatory Commission. They were guarantees not in compliance with regulations.

3. During the Reporting Period, the Company did not materially entrust others to manage cash capital in the previous period and subsisting during the Reporting Period.

- (8) During the Reporting Period or in the previous period, and subsisting in the Reporting Period, the Company and its shareholders holding 5% or more of the issued share capital of the Company had no matters of undertaking that might affect the Company's operating results and financial position.
- (9) It was resolved at the Annual General Meeting held on 29 June 2005 that Shine Wing Certified Public Accountants and Horwath Hong Kong CPA Limited were reappointed as domestic and international auditors of the Company for 2005 respectively.
- (10) During the Reporting Period, the Company, the Board of Directors and the Directors were not subject to any inspection, penalty or criticism of CSRC and other administrative departments, or open condemnation by stock exchanges. No party related to the Company's Directors or senior management was subject to legal actions.
- (11) The Board of the Company has set up an Audit Committee in accordance with Rule 3.21 of the Listing Rules. The Audit Committee which comprises three non-executive Directors, together with the senior management, has reviewed the accounting principles and accounting standards and methods adopted by the Company, evaluated the matters relating to internal controls and reviewed the unaudited financial statements for the Reporting Period and the Report. The Audit Committee is of the opinion that the Report comply with the applicable accounting standards and legal requirements and that adequate disclosures have been made.
- (12) **Other matters**
- 1 Income tax**
- The Company was registered in Nanjing High Technology Industry Development Zone which was approved by the State Council as a national grade high technology industry development zone. The Company has been approved by Jiangsu Provincial Technological Commission as a high technology enterprise, which is entitled to a preferential income tax rate of 15% as per existing policy. To date, the Company is still entitled to the preferential policy.
- 2 Purchase, sale and redemption of securities of the Company**
- During the Reporting Period, there was no purchase, sale or redemption by the Company or its subsidiaries of its securities.
- 3 Pre-emptive right**
- In accordance with the laws of the PRC and the articles of association of the Company, there are no provisions for the pre-emptive rights for the Company.
- 4 The Code of Corporate Governance Practices and Model Code for Securities Transactions by Directors of Listed Issuers**
- In the opinion of the Board of Directors, the Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the Reporting Period, except that the roles of chairman and chief executive officer have been performed by the same individual.
- The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all Directors and supervisors that during the Reporting Period, all Directors and supervisors of the Company have complied with the Model Code and the required standard regarding directors' securities transactions set out in the Model Code.
- (13) **Suspension and Resumption of Trading**
- Trading of H shares of the Company has been suspended since 11 March 2005 until the Company has properly addressed the concerns of the Stock Exchange of Hong Kong Ltd. as referred to in the announcement of the Company dated 18 March 2005. Shareholders and potential investors should exercise extreme caution when dealing in the shares.