

**VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS) (UNAUDITED)**

(1) The financial statements for the Reporting Period have not been audited.

(2) Financial statements and notes were attached hereafter.

**BALANCE SHEET**

Assets	Consolidated		Company	
	30 June 2005	31 December 2004	30 June 2005	31 December 2004
	<i>Unit: RMB</i>			
<b>Current assets</b>				
Cash and bank balances	209,319,373.93	102,126,180.24	124,474,098.01	22,724,987.67
Short term investment	—	—	—	—
Bills receivable	71,755,492.99	2,905,696.10	68,270,000.00	550,000.00
Dividends receivable	—	—	2,955,145.62	3,255,145.62
Interest receivable	—	—	—	—
Accounts receivable	156,425,395.98	123,342,962.40	32,289,844.65	8,221,363.20
Other receivables	945,487,727.98	1,219,143,338.91	1,018,661,652.28	1,320,146,227.83
Prepayments	122,942,144.10	82,606,333.27	80,282,083.88	114,137,676.35
Subsidies receivable	—	—	—	—
Stocks	201,083,770.64	147,372,336.66	82,043,629.89	26,674,820.27
Deferred expenses	1,844,484.41	796,540.03	372,211.27	—
Long term debt investment due within one year	—	—	—	—
Other current assets	—	—	—	—
<b>Total current assets</b>	<b>1,708,858,390.03</b>	<b>1,678,293,387.61</b>	<b>1,409,348,665.60</b>	<b>1,495,710,220.94</b>
<b>Long term investments</b>				
Long term equity investments	633,576,290.61	652,877,642.25	730,699,804.01	727,968,641.85
Long term debt investments	—	—	—	—
<b>Total long term investments</b>	<b>633,576,290.61</b>	<b>652,877,642.25</b>	<b>730,699,804.01</b>	<b>727,968,641.85</b>
Including: Difference from consolidation	—	—	—	—
<b>Fixed assets</b>				
Fixed assets, at cost	495,061,130.55	572,885,296.22	272,175,420.33	361,087,136.69
Less: accumulated depreciation	191,574,538.36	217,684,065.13	94,441,143.98	126,053,321.09
Fixed assets, net	303,486,592.19	355,201,231.09	177,734,276.35	235,033,815.60
Less: provision for impairment loss	8,665,354.64	8,671,151.04	8,379,998.48	8,385,794.88
Fixed assets, net book value	294,821,237.55	346,530,080.05	169,354,277.87	226,648,020.72
Construction supplies	—	—	—	—
Construction in progress	16,204,409.77	21,303,360.33	15,846,862.15	20,483,695.01
Clearance of fixed assets	—	—	—	—
<b>Total fixed assets</b>	<b>311,025,647.32</b>	<b>367,833,440.38</b>	<b>185,201,140.02</b>	<b>247,131,715.73</b>
<b>Intangible and other assets</b>				
Intangible assets	14,337,784.17	41,749,495.66	13,313,540.82	40,621,217.95
Long term deferred expenses	954,305.95	1,134,136.24	276,443.75	847,021.25
Other long term assets	—	—	—	—
<b>Total intangible and other assets</b>	<b>15,292,090.12</b>	<b>42,883,631.90</b>	<b>13,589,984.57</b>	<b>41,468,239.20</b>
<b>Deferred tax</b>				
Debit balance of deferred tax	—	—	—	—
<b>Total assets</b>	<b>2,668,752,418.08</b>	<b>2,741,888,102.14</b>	<b>2,338,839,594.20</b>	<b>2,512,278,817.72</b>

The accompanying notes form an integrated part for these financial statements.

**BALANCE SHEET (CONTINUED)**

Unit: RMB

Liabilities and Shareholders' Equity	Consolidated		Company	
	30 June 2005	31 December 2004	30 June 2005	31 December 2004
<b>Current liabilities</b>				
Short term loans	901,276,500.00	933,600,000.00	866,000,000.00	906,000,000.00
Bills payable	37,384,251.26	22,284,102.20	—	—
Accounts payable	125,841,751.98	117,458,794.65	18,084,790.44	19,198,632.01
Advances from customers	98,692,192.55	110,082,244.19	39,395,751.35	86,014,855.48
Salaries payable	355,786.40	675,224.30	919.99	451.49
Staff welfare payable	7,441,114.25	8,411,058.40	2,512,743.32	3,319,762.01
Dividends payable	4,097,796.34	4,862,217.57	—	—
Taxes payable	49,110,814.46	51,737,385.18	55,638,434.39	59,774,587.52
Other accruals	6,377,305.96	6,924,765.65	5,840,765.78	5,950,359.66
Other payables	159,626,716.00	256,609,133.98	122,105,740.03	246,127,407.53
Accrued expenses	11,993,223.94	9,344,024.01	2,990,331.09	3,313,918.77
Provisions	—	—	—	—
Long term liabilities due within one year	—	—	—	—
Other current liabilities	—	—	—	—
<b>Total current liabilities</b>	<b>1,402,197,453.14</b>	<b>1,521,988,950.13</b>	<b>1,112,569,476.39</b>	<b>1,329,699,974.47</b>
<b>Long term liabilities</b>				
Long term loans	—	—	—	—
Bonds payables	—	—	—	—
Long term payables	—	—	—	—
Specific payables	—	570,000.00	—	570,000.00
Other long term liabilities	—	—	—	—
<b>Total long term liabilities</b>	<b>—</b>	<b>570,000.00</b>	<b>—</b>	<b>570,000.00</b>
<b>Deferred tax</b>				
Credit balance of deferred tax	11,550.64	11,550.64	11,550.64	11,550.64
<b>Total liabilities</b>	<b>1,402,209,003.78</b>	<b>1,522,570,500.77</b>	<b>1,112,581,027.03</b>	<b>1,330,281,525.11</b>
<b>Minority Interests</b>				
Minority interests	40,284,847.13	37,320,308.76	—	—
<b>Shareholders' equity</b>				
Share capital	655,015,000.00	655,015,000.00	655,015,000.00	655,015,000.00
Capital reserve	479,542,332.70	479,542,332.70	479,542,332.70	479,542,332.70
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	(96,436,308.06)	(140,697,582.62)	(96,436,308.06)	(140,697,582.62)
<b>Total shareholders' equity</b>	<b>1,226,258,567.17</b>	<b>1,181,997,292.61</b>	<b>1,226,258,567.17</b>	<b>1,181,997,292.61</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,668,752,418.08</b>	<b>2,741,888,102.14</b>	<b>2,338,839,594.20</b>	<b>2,512,278,817.72</b>

The accompanying notes form an integrated part for these financial statements.

PROFIT AND LOSS STATEMENT

Unit: RMB

	Consolidated		Company	
	Jan - Jun 2005	Jan - Jun 2004	Jan - Jun 2005	Jan - Jun 2004
<b>1. Income from principal operations</b>	<b>340,026,439.38</b>	1,230,728,722.68	<b>49,520,490.05</b>	18,472,880.18
Less: Costs for principal operations	<b>293,245,764.58</b>	1,093,331,510.62	<b>38,507,717.18</b>	15,949,520.32
Business taxes and surcharges	<b>1,430,488.27</b>	2,021,393.39	<b>27,655.63</b>	84,194.68
<b>2. Profit from principal operations</b>	<b>45,350,186.53</b>	135,375,818.67	<b>10,985,117.24</b>	2,439,165.18
Add: Profit from other operation	<b>5,296,091.42</b>	7,849,099.41	<b>2,636,250.79</b>	5,566,678.13
Less: Sales expenses	<b>10,919,538.86</b>	36,656,280.83	<b>1,391,538.66</b>	551,589.49
Administrative expenses	<b>61,212,690.46</b>	111,268,233.52	<b>45,916,213.89</b>	56,783,241.02
Financial expenses	<b>30,662,113.79</b>	36,365,055.88	<b>28,714,370.42</b>	8,177,617.18
<b>3. Operating Profit</b>	<b>(52,148,065.16)</b>	(41,064,652.15)	<b>(62,400,754.94)</b>	(57,506,604.38)
Add: Profit from investment	<b>100,754,664.04</b>	106,851,574.74	<b>107,731,162.16</b>	118,842,738.28
Subsidy income	<b>309,964.16</b>	606,228.94	—	—
Non-operating income	<b>2,974,328.35</b>	508,186.42	<b>2,784,499.03</b>	406,740.00
Less: Non-operating expenses	<b>3,650,122.35</b>	538,793.09	<b>3,853,631.69</b>	1,648.05
<b>4. Total profit</b>	<b>48,240,769.04</b>	66,362,544.86	<b>44,261,274.56</b>	61,741,225.85
Less: Income tax	<b>963,780.44</b>	6,325,393.56	—	—
Minority interests	<b>3,015,714.04</b>	2,035,599.73	—	—
Uncharged losses of subsidiaries	—	—	—	—
<b>5. Net profit</b>	<b>44,261,274.56</b>	58,001,551.57	<b>44,261,274.56</b>	61,741,225.85
Add: Undistributed profit from the beginning of the period	<b>(140,697,582.62)</b>	(193,066,201.96)	<b>(140,697,582.62)</b>	(191,133,476.52)
Other Transfer	—	—	—	—
<b>6. Distributable profit</b>	<b>(96,436,308.06)</b>	(135,064,650.39)	<b>(96,436,308.06)</b>	(129,392,250.67)
Less: Transfer to statutory surplus reserves	—	—	—	—
Transfer to statutory public welfare fund	—	—	—	—
Transfer to welfare and incentive fund	—	—	—	—
<b>7. Profit distributable to shareholders</b>	<b>(96,436,308.06)</b>	(135,064,650.39)	<b>(96,436,308.06)</b>	(129,392,250.67)
Less: Dividends payable for preference shares	—	—	—	—
Transfer to discretionary surplus reserves	—	—	—	—
Dividends payable for ordinary shares	—	—	—	—
Dividends for ordinary shares transferred to capital	—	—	—	—
<b>8. Undistributed profit</b>	<b>(96,436,308.06)</b>	(135,064,650.39)	<b>(96,436,308.06)</b>	(129,392,250.67)

The accompanying notes form an integrated part for these financial statements.

## CONSOLIDATED STATEMENT OF CASHFLOW

Unit: RMB

Items	Jan - Jun 2005	
	Consolidated	Company
<b>1. Cash flows from operating activities:</b>		
Cash received from sale of goods and services provided	393,009,802.85	124,904,466.17
Return of tax payment	893,221.60	10,652.84
Other cash received relating to operating activities	600,507,947.82	464,359,863.78
Sub-total of cash inflows	994,410,972.27	589,274,982.79
Cash paid on purchase of goods and services	296,243,133.57	72,523,824.13
Cash paid to staff and paid on behalf of staff	43,001,333.19	20,127,852.06
Taxes paid	18,519,652.35	5,885,534.40
Cash paid relating to operating activities	588,762,586.92	439,512,104.68
Sub-total of cash outflows	946,526,706.03	538,049,315.27
Net cash flows from operating activities	47,884,266.24	51,225,667.52
<b>2. Cash flows from investment activities:</b>		
Cash received from investment recovered	120,000,000.00	120,000,000.00
Cash received from bond income	—	—
Cash received from investment income	6,539.17	—
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	266,800.00	91,000.00
Other cash received relating to operating activities	—	—
Sub-total of cash inflows	120,273,339.17	120,091,000.00
Cash paid on purchase of fixed assets, intangible assets and other long term assets	16,549,921.10	4,665,013.17
Cash paid for investment	—	15,000,000.00
Cash paid on other investment activities	—	—
Sub-total of cash outflows	16,549,921.10	19,665,013.17
Net cash flows from investment activities	103,723,418.07	100,425,986.83
<b>3. Cash flows from financing activities:</b>		
Cash received from investment	—	—
Cash received from borrowings	677,256,500.00	654,000,000.00
Cash received from other financing activities	19,691,666.65	19,691,666.66
Sub-total of cash inflows	696,948,166.65	673,691,666.66
Cash paid on repayment of debts	709,580,000.00	694,000,000.00
Cash paid on distribution of dividends or profits, or interest repayment	31,782,657.27	29,594,210.67
Cash paid on other financing activities	—	—
Sub-total of cash outflows	741,362,657.27	723,594,210.67
Net cash flows from financing activities	(44,414,490.62)	(49,902,544.01)
<b>4. Effect on cash due to foreign currency exchange</b>	—	—
<b>5. Net increase in cash and cash equivalents</b>	<b>107,193,193.69</b>	<b>101,749,110.34</b>

CASHFLOW SUPPLEMENTARY INFORMATION

Items	Jan - Jun 2005	
	Consolidated	Company
	<i>Unit: RMB</i>	
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>		
Net profit	44,261,274.56	44,261,274.56
Add: Minority interests	1,271,045.58	—
Provision for impairment loss on assets	6,110,962.75	5,892,716.40
Depreciation of fixed assets	10,212,676.40	4,811,919.71
Amortisation of intangible assets	9,811,925.92	7,778,513.34
Amortisation of long term deferred expenses	822,152.92	570,577.50
Decrease (less: increase) in deferred expenses	(1,047,944.38)	(365,544.57)
Increase (less: decrease) in accruals	2,649,199.93	(323,587.68)
Loss (less: income) arising from disposal of fixed assets, intangible assets and other long term assets	3,762,301.37	3,853,631.69
Loss from fixed assets scrapped	—	—
Financial expense	31,964,969.84	29,824,138.25
Loss (less: gain) on investment	(100,754,664.04)	(107,731,162.16)
Deferred tax debt balance (less: credit balance)	—	—
Decrease (less: increase) in inventories	(53,702,297.18)	(55,368,809.62)
Decrease (less: increase) in trade debtors	119,984,422.72	154,828,910.50
Increase (less: decrease) in trade creditors	(27,461,760.15)	(36,806,910.40)
Others	—	—
Net cash flows from operating activities	<u>47,884,266.24</u>	<u>51,225,667.52</u>
<b>2. Investment and financial activities not involving cash:</b>		
Debt capitalization	—	—
Convertible bonds due within one year	—	—
Less: cash balance as at beginning of the period	—	—
<b>3. Net increase in cash and cash equivalents:</b>		
Cash balance as at end of the period	209,319,373.93	124,474,098.01
Less: cash balance as at beginning of the period	102,126,180.24	22,724,987.67
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>107,193,193.69</u>	<u>101,749,110.34</u>

The accompanying notes form an integrated part for these financial statements.

## NOTES TO FINANCIAL STATEMENTS

From 1 January 2005 to 30 June 2005

(Amounts are denominated in Renminbi unless otherwise stated)

### (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. 034. It turned into Nanjing Panda Electronics Company Limited (Present name) later. Its sole promoter, Panda Electronics Group Company Limited ("PEGL"), acquired the Company's 480,000,000 state-owned legal person shares in establishment with a consideration of total net asset value of RMB480,000,000.00. Registered capital for the Company at its establishment was RMB515,000,000.00, comprising 480,000,000 state-owned legal person shares of RMB1 each and 35,000,000 employee's shares of RMB1 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, stationeries equipment, industrial moulds and other equipment.

In the extraordinary general meeting of the Company held on 27 May 1994, except other matters, an exceptional 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 PEGL as well as re-affirming the state-owned legal person shares of the Company. In the same meeting, one exceptional 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 the exceptional 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 RMB322,873,348.00, including registered capital of RMB322,870,000.00, comprising 287,870,000 state-owned legal person shares, with share capital of RMB287,870,000.00; 35,000,000 employee's shares, with share capital of RMB35,000,000.00; and capital reserve of RMB3,348.00.

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 RMB322,870,000.00 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 Jian Fa Zi (1996) No. 304, to issue 23,000,000 ordinary shares in RMB to the public. Selling price is RMB5.10 per share. At 14 November 1996, all fees for allotment were received in full and the stock was listed on Shanghai Stock 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 on 18 April 1997. Its registered capital was RMB655,015,000. 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 audit units to PEGL and was transferred interests in Nanjing Panda Mechanical Engineering Plant and Shenzhen Jinghua Electronic Co., Ltd. from PEGL.

### (2) Principal 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 is in conformity with the "Accounting Standards for Enterprises" promulgated by the Ministry of Finance of the People's Republic of China 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 Valuation

The Company records transaction on an accrual basis. Assets will be valued at historical cost.

**5. 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 capitalisation 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 RMB 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 made based on impairment of each item of short term investment.

**9. 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 together with individual recognised method 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%
Over three years	60%

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, such trade debtors are stated as loss from bad debts and written off from provision for bad debts.

## 11. 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 costs 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) 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 cost 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 labour, holding for lease or operating, assets of useful life exceeding one year or assets not belong to major equipment for production and operation valued at RMB2,000 or more and with useful life exceeding two years.
- (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 of bring 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	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;
  - 6) Other circumstances showing an indication of impairment of fixed assets.

### 14. Verification 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 capitalisation 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 capitalised 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 capitalisation of borrowing costs: if the borrowing costs accrued in connection with the acquisition and construction of fixed assets meet the above conditions for capitalisation 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 capitalised amount of borrowing costs: the capitalised 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 capitalisation rate. The capitalisation 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. Verification 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 capitalisation 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 labour 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 labour services: for labour services which are commenced and completed in the same year, revenue is recognised upon completion of the labour services. If the commencement and completion of a labour service fall in different fiscal years, relevant revenue from the labour service will be recognised on the date of the balance sheet on the basis of the percentage of the completed labour service, provided that the results of the labour 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. Basis for Preparation of Consolidated Financial Statements**

- (1) Principle of determination of consolidation: for enterprises in which the Company's investment amount accounts for more than 50% 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) Taxation**

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 be offset against sales tax. The tax rate is 17%. Of this tax, application can be made for refund of the import duty paid for export of products.

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

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

Details of subsidiaries and joint venture companies of the Company are as follows:

Name	Registered capital (0'000)	Investment (0'000)	Percentage of equity held %	Principal operations	Note
Nanjing Panda Electronic	RMB53.00	RMB50.00	94.34	metallic materials, chemical, electronic	
Shenzhen Panda Electronic Co., Ltd.	RMB650.00	RMB617.50	95.00	home appliance, telecommunication equipment and appliance and apparatus	
Nanjing Panda Technology Equipment Co., Ltd.	RMB500.00	RMB350.00	70.00	production and installation of production line	
Nanjing Panda International Telecommunication System Co., Ltd	USD124.00	RMB765.50	72.00	development, production and sale of telephone and telecommunication system	Note 1
Nanjing Guanghua Electronic	RMB1,149.76	RMB827.11	71.94	PVC and ABS products	
Nanjing Panda Information Industry Co., Ltd.	USD340.00	RMB2,100.00	72.00	development, production and sale of electronic information products	
Nanjing Panda Appliance & Apparatus Co., Ltd.	RMB100.00	RMB70.00	70.00	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	99.00	production and sale of electronic products, telecommunication equipment and appliance and apparatus	
Nanjing Panda Accurate Machinery Co., Ltd.	RMB500.00	RMB362.53	70.00	production of equipment and spare parts for electronic industry; processing of sophisticated machinery	
Nanjing Panda Mechanical Manufacturing Co. Ltd.	RMB500.00	RMB350.00	70.00	metal components and pressing parts	
Nanjing Huage Electric Plastic Industrial Co. Ltd	RMB500.00	RMB300.00	60.00	plastic product & accessories	
Nanjing Panda Machinery Co., Ltd.	RMB300.00	RMB210.00	70.00	processing and manufacturing of mechanical spare parts	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	RMB100.00	RMB51.00	51.00	production and sale of household appliance	Note 1
Nanjing Electronic Calibration Co., Ltd.	RMB100.00	RMB70.00	70.00	accreditation of electronic appliance and apparatus	
Nanjing Panda Network Technology Co., Ltd.	RMB1,000.00	RMB500.00	50.00	digital communication terminal products and network communication products	Note 3
Nanjing Panda System Integration Co., Ltd.	RMB300.00	RMB180.00	60.00	development and sale of computer software	
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	USD80.00	RMB331.08	50.00	development, production and sales of power supply	Note 2
Nanjing Panda Electronics Manufacturing Co. Ltd.	USD750.00	RMB931.11	75.00	development and production of new models of electronic products	
Nanjing Panda Power Sources Technology Co., Ltd.	RMB500.00	RMB275.00	55.00	design, production and sale of power sources and special type power transformer	

**Note 1:** 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 2:** 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 3:** Nanjing Panda Netcom Technology Co. Ltd. which was 70% owned by the Company was closed and written off in 2005. The Company's investment in the subsidiary has been reduced to a book value of zero. A provision for bad debts was made in full for the amounts due from the subsidiary.

**PS:** As the Company was not able to repay the overdue debt of RMB120,000,000 borrowed from Nanjing Wei Te Investment Management Company Limited on 5 February 2005, the People's Court of Xuan Wu Qu of Nanjing City issued a civil ruling (2005) Xuan Zhi Zi No. 243 on 10 March 2005, pursuant to which the 51% equity interests in Panda Mobile Communication Equipment Co., Ltd. and the 95% of equity interests in Nanjing Panda Communication Development Co. Ltd. held by the Company was forcefully executed for repayment of the debt owed to Nanjing Wei Te Investment Management Company Limited. In accordance with the notice of change in corporate registration issued by the enterprise registration bureau of Nanjing Administration of Industry and Commerce on 11 March 2005, the shareholder changes in the said two companies were registered.

(5) Notes to the Consolidated Financial Statements

1. Cash and Bank Balances

Item	30 June 2005	31 December 2004
Cash on hand	639,388.45	491,846.57
Cash in bank	173,262,173.75	86,683,582.81
Other monetary fund	35,417,811.73	14,950,750.86
<b>Total</b>	<b>209,319,373.93</b>	<b>102,126,180.24</b>

2. Short Term Investment

Item	30 June 2005		31 December 2004	
	Investment amount	Provision for diminution	Investment amount	Provision for diminution
Bond investment	—	—	—	—
Including: Treasury bill investment	—	—	—	—
Other bond investment	—	—	—	—
Loan on trust	—	—	—	—
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

3. Bills Receivable

Type of notes	30 June 2005	31 December 2004
Bank acceptance notes	3,860,601.92	2,705,696.10
Commercial notes	67,894,891.07	200,000.00
<b>Total</b>	<b>71,755,492.99</b>	<b>2,905,696.10</b>

4. Dividends Receivable

Name of invested unit	30 June 2005	31 December 2004
Shenzhen Jinghua Electronic Co., Ltd.	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

5. Interest Receivable

Item	30 June 2005	31 December 2004
Interest on treasure bills	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

6. Accounts Receivable

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

Item	30 June 2005			31 December 2004		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	134,974,981.54	79.31	2,980,446.16	109,758,112.16	79.88	3,623,748.90
1-2 years	20,614,766.22	12.11	2,477,296.53	15,239,384.15	11.09	2,313,998.01
2-3 years	5,800,154.38	3.41	1,804,498.68	4,914,184.55	3.57	2,267,029.70
More than 3 years	8,815,039.11	5.17	6,517,303.90	7,498,477.13	5.46	5,862,418.98
<b>Total</b>	<b>170,204,941.25</b>	<b>100.00</b>	<b>13,779,545.27</b>	<b>137,410,157.99</b>	<b>100.00</b>	<b>14,067,195.59</b>

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

- (2) The period-end accounts receivable include a loan of RMB4,753,036.23 due from PEGL which held 54.20% interest with voting power in the Company.
- (3) The five largest debtors amounted to RMB71,093,803.98, accounting for 41.77% of the total value of the accounts receivable, including:

Debtors	Outstanding amounts	Nature of debts
Communication Department under Headquarters of the General Staff of China Liberation Army	22,751,460.00	Payment of goods
Nanjing Sharp Electronics Co. Ltd.	15,887,568.62	Payment of goods
Nanjing Panda Television Co., Ltd.	14,666,193.97	Payment of goods
Nanjing Chongsheng Science and Technology Co. Ltd.	9,028,454.00	Payment of goods
TOPFIELD	8,760,127.39	Payment of goods
<b>Total</b>	<b>71,093,803.98</b>	

#### 7. Other Receivables

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

Item	30 June 2005			31 December 2004		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	788,546,747.87	74.47	38,792,467.10	470,790,857.62	35.49	21,795,432.62
1-2 years	23,574,219.90	2.23	6,696,017.80	523,443,564.73	39.45	25,099,340.98
2-3 years	124,660,221.30	11.77	37,350,767.77	203,918,062.54	15.37	854,094.83
More than 3 years	122,127,298.57	11.53	30,581,506.99	128,551,041.90	9.69	59,811,319.45
<b>Total</b>	<b>1,058,908,487.64</b>	<b>100.00</b>	<b>113,420,759.66</b>	<b>1,326,703,526.79</b>	<b>100.00</b>	<b>107,560,187.88</b>

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

- (2) The period-end other receivables include RMB280,159,995.43 due from PEGL which held 54.20% interest 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 RMB939,051,706.23, accounting for 88.68% of the total other receivables for the year. The debtors are:

Debtors	Outstanding amounts	Nature of debts
Jiangsu Province Investment Management Company Limited	500,000,000.00	Current
PEGL	280,159,995.43	Current
Nanjing State Land Bureau	80,000,000.00	Current
China Liberation Army Plant 714 representative Room	51,170,000.00	Current
Panda Electronic Hong Kong Company Ltd.	27,721,710.80	Current
<b>Total</b>	<b>939,051,706.23</b>	

#### 8. Prepayment

Item	30 June 2005		31 December 2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	103,185,535.48	83.93	81,546,042.08	98.72
1-2 years	16,459,970.94	13.39	898,301.48	1.09
2-3 years	265,633.74	0.22	96,421.77	0.11
More than 3 years	3,031,003.94	2.46	65,567.94	0.08
<b>Total</b>	<b>122,942,144.10</b>	<b>100.00</b>	<b>82,606,333.27</b>	<b>100.00</b>

- (1) Period-end prepayment does not include any amount due from holders with 5% or above shareholding (with voting power) in the Company.
- (2) Period-end prepayments ageing more than 1 year mainly include outstanding odd amounts.

9. Stocks and Provision for Diminution

Item	30 June 2005		31 December 2004	
	Amount	Provision for diminution	Amount	Provision for diminution
Semi finished goods	407,553.60	—	121,375.80	—
Raw materials	75,279,067.02	11,943,576.14	46,797,442.10	7,545,315.29
Packing materials	103,689.62	—	146,367.78	—
Low value consumables	457,144.45	—	507,901.91	—
Stored commodities	58,634,029.83	1,018,497.34	51,540,045.27	9,342,317.08
Sub-contracting material	530,491.98	—	18,592,769.09	—
Commodity in delivery	24,049,460.02	4,502,056.32	11,270,017.86	464,194.54
Work in progress	60,459,345.96	1,372,882.24	37,242,565.69	1,494,321.93
<b>Total</b>	<b>219,920,782.68</b>	<b>18,837,012.04</b>	<b>166,218,485.50</b>	<b>18,846,148.84</b>

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 2005	31 December 2004	The reason for closing balance
Rent	23,999.46	—	Amortisation of 2005 rent
Maintenance and repair expense	493,728.13	265,100.00	Amortisation of 2005 maintenance and repair expenses
Moulding expenses	535,218.01	—	
Renovation expenses	—	456,500.00	
Other	791,538.81	74,940.03	
<b>Total</b>	<b>1,844,484.41</b>	<b>796,540.03</b>	

11. Long term equity investment

(1) Long term equity investment

Item	30 June 2005		31 December 2004	
	Investment amount	Provision for impairment	Investment amount	Provision for impairment
Other equity investment	636,436,260.94	4,338,377.81	744,079,286.49	93,278,682.66
Difference in equity investment	1,478,407.48	—	2,077,038.42	—
<b>Total</b>	<b>637,914,668.42</b>	<b>4,338,377.81</b>	<b>746,156,324.91</b>	<b>93,278,682.66</b>
Net equity investment	<b>633,576,290.61</b>		<b>652,877,642.25</b>	

(2) Other equity investment

Name of invested companies	Shareholding (%)	Initial investment	Equity Adjustment for the period	Accumulated equity adjustment	Closing balance	Closing provision for impairment
Nanjing Ericsson Panda Communication Company Limited	27	60,863,279.60	35,894,123.11	195,458,023.70	256,321,303.30	—
Nanjing Wei Chuang Li Terminal Co. Ltd.	35	34,769,364.00	—	(34,769,364.00)	—	—
Shenzhen Jinghua Electronic Co. Ltd.	38.03	69,687,437.75	2,128,743.86	15,359,961.98	85,047,399.73	—
Beijing Ericsson Putian Mobile Communication Limited	20	83,967,206.77	60,548,728.43	108,731,300.00	192,698,506.77	—
Jiangsu Software Industrial Co. Ltd	35	69,300,000.00	—	(69,300,000.00)	—	—
Intenna (Nanjing) Co. Ltd.	35	1,750,000.00	305,988.60	1,377,448.05	3,127,448.05	—
Nanjing Sharp Electronics Co. Ltd	30	61,425,420.00	3,528,815.43	14,490,319.77	75,915,739.77	—
Nanjing Lingyuan Information Co. Ltd	30	150,000.00	—	(85,087.55)	64,912.45	64,912.45
MPower Batteries (Nanjing) Ltd.	40	4,200,000.00	—	(4,200,000.00)	—	—
Nanjing Ericsson Mobile Terminal Co. Ltd	50	3,310,800.00	(1,137,580.78)	(496,042.42)	2,814,757.58	—
Nanjing Panda Hitachi Technology Co. Ltd	49	6,533,170.00	106,771.56	(2,684,223.66)	3,848,946.34	—
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd	33.33	1,000,000.00	60,442.99	(139,829.91)	860,170.09	—
Shanghai Zhongtong Information Network Co. Ltd	45	450,000.00	—	(450,000.00)	—	—
Nanjing Electronics (Kunshan) Co. Ltd	40	1,757,905.88	142,317.83	491,660.66	2,249,566.54	—
Nanjing Panda Medical Electronics Co. Ltd	50	500,000.00	(18,704.11)	(282,230.04)	217,769.96	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	51	510,000.00	—	—	510,000.00	510,000.00
Tai Lei Zi Panda Transportation System Company Limited	40	4,507,040.00	(4,840.00)	(4,840.00)	4,502,200.00	—
Korea Chen Xi Panda Joint Venture Company Limited	50	3,494,075.00	—	—	3,494,075.00	—
Other investment stated at cost		4,763,465.36	—	—	4,763,465.36	3,763,465.36
<b>Total</b>		<b>412,939,164.36</b>	<b>101,554,806.92</b>	<b>223,497,096.58</b>	<b>636,436,260.94</b>	<b>4,338,377.81</b>

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

## (3) Difference in equity investment

Name of invested parties	Initial amount	Reason	Amortisation period	Amortisation during the period	Balance of amortisation
Nanjing Panda Mechanical Engineering Plant	511,756.61	Difference in equity acquisition price	5 years	51,175.66	51,175.67
Shenzhen Jinghua Electronic Co. Ltd	2,826,403.07	Difference in equity acquisition price	5 years	282,640.31	282,640.27
Beijing Sony Ericsson Putian Mobile Communication Limited	2,697,102.71	Difference in equity acquisition price	5 years	269,710.27	1,206,598.58
Panda Electronics (Kunshan) Co. Ltd	(97,905.88)	Difference in equity acquisition price	10 years	(4,895.30)	(62,007.04)
<b>Total</b>	<b>5,937,356.51</b>			<b>598,630.94</b>	<b>1,478,407.48</b>

## 12. Fixed Assets at cost, Accumulated Depreciation and provision for impairment

Items	Building and Premises	Machinery and Equipment	Transportation	Electronic equipment	Other equipment	Total
<b>Fixed assets, at cost</b>						
<b>31 December 2004</b>	357,905,307.93	184,409,765.95	7,529,959.58	13,423,675.90	9,616,586.86	572,885,296.22
<b>Increase in the period</b>	—	21,444,037.65	158,600	231,961.98	486,969.00	22,321,568.63
Including: Transfer to construction in progress	—	—	—	—	—	—
Increase in displacement	—	—	—	—	—	—
<b>Decrease in the period</b>	98,072,275.76	1,278,049.93	489,914.60	160,854.01	144,640.00	100,145,734.30
Including: Decrease in disposal	—	4,949.01	—	—	9,016.00	13,965.01
Decrease in displacement	—	—	—	—	—	—
<b>30 June 2005</b>	<b>259,833,032.17</b>	<b>204,575,753.67</b>	<b>7,198,644.98</b>	<b>13,494,783.87</b>	<b>9,958,915.86</b>	<b>495,061,130.55</b>
Including: Operating lease-out of fixed assets	—	—	—	—	—	—
Financing lease-in of fixed assets	—	—	—	—	—	—
<b>Accumulated depreciation of fixed assets</b>						
<b>31 December 2004</b>	102,845,984.78	98,836,599.41	3,917,810.01	3,899,626.11	8,184,044.82	217,684,065.13
<b>Increase in the period</b>	4,153,033.41	9,946,870.48	282,809.05	513,919.15	696,594.95	15,593,227.04
<b>Decrease in the period</b>	40,083,540.90	1,140,337.29	293,131.08	151,392.53	34,352.01	41,702,753.81
<b>30 June 2005</b>	<b>66,915,477.29</b>	<b>107,643,132.60</b>	<b>3,907,487.98</b>	<b>4,262,152.73</b>	<b>8,846,287.76</b>	<b>191,574,538.36</b>
Including: Operating lease-out of fixed assets	—	—	—	—	—	—
Financing lease-in of fixed assets	—	—	—	—	—	—
<b>Fixed assets, book value</b>						
<b>31 December 2004</b>	<b>255,059,323.15</b>	<b>85,573,166.54</b>	<b>3,612,149.57</b>	<b>9,524,049.79</b>	<b>1,432,542.04</b>	<b>355,201,231.09</b>
<b>30 June 2005</b>	<b>192,917,554.88</b>	<b>96,932,621.07</b>	<b>3,291,157.00</b>	<b>9,232,631.14</b>	<b>1,112,628.10</b>	<b>303,486,592.19</b>
Including: Operating lease-out of fixed assets	—	—	—	—	—	—
Financing lease-in of fixed assets	—	—	—	—	—	—
<b>Provision for impairment of fixed assets</b>						
<b>31 December 2004</b>	285,356.16	6,983,198.19	—	—	1,402,596.69	8,671,151.04
<b>Increase in the period</b>	—	—	—	—	—	—
<b>Decrease in the period</b>	—	5,796.40	—	—	—	5,796.40
<b>30 June 2005</b>	<b>285,356.16</b>	<b>6,977,401.79</b>	<b>—</b>	<b>—</b>	<b>1,402,596.69</b>	<b>8,665,354.64</b>

According to the need for the adjustment in city planning and public interest, on 21 January 2005, Nanjing State Land Resources Bureau issued Ning Guo Tu Zi [2005] No. 70 "Notice in relation to the recovery of the land use right of the plot of land in No. 301 Zhong Shan Road East Xuan Wu District" and took back the Company's land use right in the plot of land located at No. 301, Zhong Shan Road East, Xuan Wu District, Nanjing City (excluding office tower No. 54) (Registered No. of the plots of land: 02-005-019-008-1, Land use certificate No.: Ning Xuan Guo Yong [2001] Zi No.11343, with total site area of 73,446.9 square metres, of which the land area attributable to tower No.54 was 5,880.1 square metres). The State Land Resources Bureau of Nanjing made a one-off compensation amounting to RMB80,000,000 to the Company due to the recall of land use right. As of 31 December 2004, the Company's net book value of land recalled amounted to RMB19,529,163.79. The net book value of buildings erected thereon amounted to RMB57,988,734.86. The total amount was RMB77,517,898.65. Accordingly, RMB19,529,163.79 was transferred out from the Company's intangible assets. As of the date of issue of the financial report, the above land and property use right certificates of the Company have been taken back and other procedures were under progress.

Reason for provision of 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 of impairment of fixed assets: In order to improve the liquidity of assets, the Company disposed the dormant fixed assets.



### 13. Construction in Progress

#### (1) Construction in Progress

Name of Construction Project	1 January 2005	Increase during the period	Transfer to fixed assets in the year	Decrease in the year	30 June 2005	Including: loan expensed capitalized	Source of fund
Jiangning base	18,153,728.45	—	—	—	18,153,728.45	—	Share proceeds and other sources
SMT construction and installation	12,946,739.57	1,111,332.58	—	—	14,058,072.15	—	internal capital
Expansion of Building 103	3,574,672.38	2,543,776.59	—	6,118,448.97	—	—	internal capital
Change of elevator 54#	1,788,790.00	—	—	—	1,788,790.00	—	internal capital
Electricity consumption in staff quarter zone	—	—	—	—	—	—	—
Quarter electric meter renovation	2,173,493.06	—	—	2,173,493.06	—	—	internal capital
Others	3,157,785.03	3,962,678.50	4,424,796.20	396,348.23	2,299,319.10	—	—
<b>Total</b>	<b>41,795,208.49</b>	<b>7,617,787.67</b>	<b>4,424,796.20</b>	<b>8,688,290.26</b>	<b>36,299,909.70</b>	<b>—</b>	<b>—</b>

#### (2) Provision for impairment of construction in progress

Name of Construction Project	1 January 2005	Increase in the year	Decrease in the year	30 June 2005	Reasons of Provision
Jiangning base	18,153,728.45	—	—	18,153,728.45	Dormant
Others	2,338,119.71	—	396,348.23	1,941,771.48	—
<b>Total</b>	<b>20,491,848.16</b>	<b>—</b>	<b>396,348.23</b>	<b>20,095,499.93</b>	<b>—</b>

### 14. Intangible Assets

#### (1) Intangible Assets

Type	Acquisition method	Original amount	1 January 2005	Increase in the year	Transfer to this year	Amortization for the year	Accumulated amortisation	30 June 2005	Remaining period for amortisation
Land use right	purchase	26,200,000.00	21,228,717.95	—	19,529,163.79	21,513.34	24,521,959.18	1,678,040.82	39 years
Trademark use right	purchase	157,440,000.00	20,722,483.61	—	—	7,857,854.36	144,575,370.75	12,864,629.25	—
Others	purchase	159,730.00	8,294.10	—	—	3,180.00	154,615.90	5,114.10	—
<b>Total</b>		<b>183,799,730.00</b>	<b>41,959,495.66</b>	<b>—</b>	<b>19,529,163.79</b>	<b>7,882,547.70</b>	<b>169,251,945.83</b>	<b>14,547,784.17</b>	<b>—</b>

#### (2) Impairment of intangible assets

Items	1 January 2005	Increase in the period	Decrease in the period	30 June 2005	Reasons for charging
Trademark use right	210,000.00	—	—	210,000.00	The trademark has no use value
<b>Total</b>	<b>210,000.00</b>	<b>—</b>	<b>—</b>	<b>210,000.00</b>	<b>—</b>

The trademark use right acquired by Nanjing Panda Machinery Co. Ltd. ceased to be used and a provision for impairment was made in full.

### 15. Long Term Deferred Expenses

Item	Original amount	1 January 2005	Increase for the period	Amortisation for the period	Accumulated amortisation	30 June 2005	Remaining period for amortisation
Utility expansion expenses	11,411,550.00	847,021.25	—	570,577.50	11,135,106.25	276,443.75	0.2 year
Other	1,383,993.03	287,114.99	691,382.45	300,635.24	706,130.83	677,862.20	—
<b>Total</b>	<b>12,795,543.03</b>	<b>1,134,136.24</b>	<b>691,382.45</b>	<b>871,212.74</b>	<b>11,841,237.08</b>	<b>954,305.95</b>	<b>—</b>

**16. Short Term Loans**

Type of loan	30 June 2005	31 December 2004	Note
Credit loans	—	17,600,000.00	
Charged loans	<b>210,000,000.00</b>	290,000,000.00	(2)
Guaranteed loans	<b>691,276,500.00</b>	626,000,000.00	(3)
<b>Total</b>	<b><u>901,276,500.00</u></b>	<b><u>933,600,000.00</u></b>	

- (1) No loans mentioned above were not unsettled beyond due date.
- (2) The Company pledged the property located at 301 Zhong Shan Road East, Xuan Wu District, Nanjing with certificate of title to the property (Xuan Bian Zi No. 102156) valued at RMB306,100,000.00 for a loan of RMB210,000,000.00 from the Industrial and Commercial Bank of China (Jiangsu Branch) with a term from 21 June 2004 to 9 December 2005.
- (3) PEGL, the parent company of the Company, guaranteed short term bank loans of RMB656,000,000.00 for the Company, including a loan of RMB80,000,000.00 guaranteed by PEGL with its property (certificate of title to the property is Xuan Bian Zi No.241065) as security. The remaining guaranteed loans were granted to the Company's subsidiaries under the guarantees provided by the Company.

**17. Bills Payable**

Type of Bills	30 June 2005	31 December 2004
Bank acceptance bills	<b>37,384,251.26</b>	22,284,102.20
Commercial acceptance bills	—	—
<b>Total</b>	<b><u>37,384,251.26</u></b>	<b><u>22,284,102.20</u></b>

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 2005	31 December 2004
Accounts payable	<b>125,841,751.98</b>	117,458,794.65
Receipts in advance	<b>98,692,192.55</b>	110,082,244.19
<b>Total</b>	<b><u>224,533,944.53</u></b>	<b><u>227,541,038.84</u></b>

- (1) Closing balance of accounts payable included the amount of RMB2,133,010.51 due to PEGL which holds 54.20% shareholding (with voting power) of the Company.
- (2) Closing balance of receipts in advance included the amount of RMB3,769,540.09 due from PEGL which holds 54.20% shareholding (with voting power) of the Company.

**19. Salaries Payable**

Closing balance of salaries payable was RMB355,786.40. There were no salaries payable which were overdue.

**20. Taxes Payable**

Item	30 June 2005	31 December 2004	Tax rate
Value added tax	<b>28,758,887.40</b>	27,121,909.28	17%
Sales tax	<b>1,190,598.61</b>	3,787,627.31	5%
City maintenance tax (Note 1)	<b>18,618,857.39</b>	18,783,545.90	7%
Enterprise income tax	<b>(1,745,639.29)</b>	(150,373.42)	15%-33%
Personal income tax	<b>183,718.81</b>	(661,258.41)	Under individual income tax regulations
Property tax	<b>1,562,443.22</b>	2,290,465.80	1.2% of the 70% property value (at cost), or 12% of the rental income
Land use tax	<b>541,948.32</b>	565,468.72	
Transportation tax	—	—	
Stamp duty	—	—	
<b>Total</b>	<b><u>49,110,814.46</u></b>	<b><u>51,737,385.18</u></b>	

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

**21. Other Charges**

Item	30 June 2005	31 December 2004	Rate
Educational surcharge	5,112,288.54	5,241,996.30	4% of current tax
Housing surplus reserve	922,965.00	946,624.38	
Flood prevention security fund	151,692.10	234,606.80	
Price adjustment fund	18,620.92	243,306.80	
Other	171,739.40	258,231.37	
<b>Total</b>	<b>6,377,305.96</b>	<b>6,924,765.65</b>	

**22. Other Payables**

Closing balance of other payables was RMB159,626,716.00, of which RMB32,138,603.41 was due to PEG L which holds 54.20% shareholding (with voting power) of the Company.

**23. Accrued Expenses**

Item	30 June 2005	31 December 2004	Reasons for closing balance
Intermediaries fee	1,945,251.91	1,630,174.15	Outstanding intermediaries fee payable
interest	1,535,951.92	1,801,342.61	Outstanding loan interest payable
Rent	319,539.78	69,941.03	Outstanding rent payable
Processing fee	1,322,660.96	2,397,390.49	Outstanding processing fee
Water and electricity fee	756,897.35	731,541.07	Outstanding water and electricity fee payable
Testing fee	—	640.32	
Transportation fee	1,340,302.07	—	
Advertisement promotion fee	—	207,161.73	Accrued product promotion fee
Engineering project expenses	422,282.32	305,133.99	Maintenance fee for Shenzhen Project
Repair fee	152,429.40	152,429.40	Accrued repair fee
Other	4,197,908.23	2,048,269.22	
<b>Total</b>	<b>11,993,223.94</b>	<b>9,344,024.01</b>	

**24. Special Payables**

Item	30 June 2005	31 December 2004
PEGL - the state's key technological renovation project special fund	—	570,000.00

**25. Credit Balance of Deferred Tax**

Item	30 June 2005	31 December 2004
Income tax payable arising from receipt of non-cash assets	11,550.64	11,550.64

**26. Share Capital**

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

Item	1 January 2005	Increase or decrease for the period (+, -)				Sub-total	30 June 2005
		New issue	Bonus allotment	Share issue	Transfer		
<b>I. Non-circulating shares</b>							
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	—	—	—	—	—	—	—
<b>Sub-total of non-circulating shares</b>	<b>355,015,000.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>355,015,000.00</b>
<b>II. Circulating shares</b>							
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	—	—	—	—	—	—	—
<b>Sub-total of circulating shares</b>	<b>300,000,000.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>300,000,000.00</b>
<b>III. Total number of shares</b>	<b>655,015,000.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>655,015,000.00</b>

(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 2005	30 June 2005
PEGL	Promoter's shares	355,015,000.00	<b>355,015,000.00</b>
Domestic listed RMB ordinary shares	Circulating A shares	58,000,000.00	<b>58,000,000.00</b>
Domestic listed foreign shares		—	—
Overseas listed foreign shares	Circulating H shares	242,000,000.00	<b>242,000,000.00</b>
<b>Total</b>		<b>655,015,000.00</b>	<b>655,015,000.00</b>

**27. Capital Reserve**

Item	1 January 2005	Increase for the period	Decrease for the period	30 June 2005
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	33,051.97	—	—	33,051.97
Fund transfer	—	—	—	—
Difference in translation of foreign capital	—	—	—	—
Other capital reserve*	1,088,400.13	—	—	1,088,400.13
<b>Total</b>	<b>479,542,332.70</b>	<b>—</b>	<b>—</b>	<b>479,542,332.70</b>

**28. Surplus Reserve**

Item	1 January 2005	Increase for the period	Decrease for the period	30 June 2005
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
<b>Total</b>	<b>188,137,542.53</b>	<b>—</b>	<b>—</b>	<b>188,137,542.53</b>

**29. Undistributed Profit**

Item	30 June 2005	31 December 2004
<b>Opening undistributed profit</b>	<b>(140,697,582.62)</b>	(193,066,201.96)
Add: opening undistributed profit adjustment	—	—
<b>Adjusted opening undistributed profit</b>	<b>(140,697,582.62)</b>	(193,066,201.96)
Add: net profit for the year	44,261,274.56	52,368,619.34
Less: transfer to statutory surplus reserve	—	—
transfer to discretionary surplus reserve	—	—
transfer to statutory public welfare fund	—	—
distributed dividends for ordinary shares	—	—
capitalisation of dividends for ordinary shares	—	—
<b>Closing undistributed profit</b>	<b>(96,436,308.06)</b>	(140,697,582.62)

**30. Income and Cost of Principal Operations**

(1) Segmented by industries

Principal Operations	Income from principal operations		Cost of principal operations	
	Jan-Jun 2005	Jan-Jun 2004	Jan-Jun 2005	Jan-Jun 2004
Satellite telecommunication products	30,939,120.24	4,244,386.29	21,998,460.24	3,198,233.07
Electromechanical products	155,666,483.01	101,226,943.86	136,763,690.07	85,982,488.5
Electronic information products	110,506,706.91	125,282,836.44	98,665,103.75	120,531,777.36
Mobile telecommunication products	10,134,216.92	944,375,463.70	9,740,803.76	837,397,138.28
Other	32,779,912.30	55,599,092.39	26,077,706.76	46,221,873.41
<b>Total</b>	<b>340,026,439.38</b>	<b>1,230,728,722.68</b>	<b>293,245,764.58</b>	<b>1,093,331,510.62</b>

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

(2) Segmented by geographical areas

Regions	Income from principal operations		Cost of principal operations	
	Jan-Jun 2005	Jan-Jun 2004	Jan-Jun 2005	Jan-Jun 2004
Domestic	243,710,252.37	1,230,728,722.68	204,328,460.00	1,093,331,510.62
Overseas	96,316,187.01	—	88,917,304.58	—
<b>Total</b>	<b>340,026,439.38</b>	<b>1,230,728,722.68</b>	<b>293,245,764.58</b>	<b>1,093,331,510.62</b>

(3) Sales revenue from the largest five customers totalled RMB117,706,763.03, accounting for 34.62 % of total sales revenue for the period.

### 31. Profit from Other Operations

Item	Jan-Jun 2005			Jan-Jun 2004		
	Income	Expense	Profit	Income	Expense	Profit
Rents	7,416,646.43	3,395,632.07	4,021,014.36	10,574,675.90	5,682,192.28	4,892,483.62
Water and electricity fee	415,742.33	1,731,540.49	(1,315,798.16)	—	—	—
Sales of raw material	1,299,791.86	773,262.05	526,529.81	18,440,633.84	15,717,783.97	2,722,849.87
Technological service income	703,690.94	38,368.09	665,322.85	—	—	—
Service income	40,316.71	5,235.69	35,081.02	443,472.70	402,337.98	41,134.72
Other income	4,550,984.46	3,187,042.92	1,363,941.54	192,631.20	—	192,631.20
<b>Total</b>	<b>14,427,172.73</b>	<b>9,131,081.31</b>	<b>5,296,091.42</b>	<b>29,651,413.64</b>	<b>21,802,314.23</b>	<b>7,849,099.41</b>

### 32. Financial Expenses

Item	Jan-Jun 2005	Jan-Jun 2004
Interest expenses	30,978,824.19	41,011,199.04
Less: interest income	(1,120,543.48)	(5,347,931.22)
Add: exchange loss	—	40,848.54
Less: exchange gain	(46,910.13)	(2,569.73)
Add: other expenses	850,743.21	663,509.25
<b>Total</b>	<b>30,662,113.79</b>	<b>36,365,055.88</b>

### 33. Investment Income

(1) Details of investment income are as follows:

Item	Jan-Jun 2005	Jan-Jun 2004
Income from equity investment	—	—
Income from debenture investment	—	—
Including: income from debenture	—	—
income 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	107,731,162.16	93,848,292.53
Equity investment different in amortisation	(598,630.94)	(598,630.94)
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	—	—
Other	(6,377,867.18)	249,949.15
<b>Total</b>	<b>100,754,664.04</b>	<b>106,851,574.74</b>

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

### 34. Non-operating Income

Item	Jan-Jun 2005	Jan-Jun 2004
Net gain from disposal of fixes assets	176,897.86	416,410.75
Gain from non-monetary transactions	—	—
Compensation from insurers	—	—
Net gain from fine payments	—	50.00
Income from wasters	—	71,330.82
Other	2,797,430.49	20,394.85
<b>Total</b>	<b>2,974,328.35</b>	<b>508,186.42</b>

### 35. Non-operating Expenses

Item	Jan-Jun 2005	Jan-Jun 2004
State irrigation works fund	—	—
Net loss from disposal of fixes assets	153,758.91	2,449.45
Local fund	(462,836.21)	337,496.16
Fine payments	2,048.29	2,042.18
Donation expenses	3,500.00	—
Non-recurring loss	—	8,371.85
Overdue fine	—	71,418.78
Other	3,953,651.36	117,014.67
<b>Total</b>	<b>3,650,122.35</b>	<b>538,793.09</b>

## (6) Notes to the Financial Statements Of the Holding Company

### 1. Accounts Receivable

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

Item	30 June 2005			31 December 2004		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	29,974,314.85	90.75	228,733.89	8,061,938.49	87.88	335,889.51
1-2 years	2,564,946.76	7.77	188,846.65	44,761.04	0.49	2,640.00
2-3 years	(6,500.00)	(0.02)	—	350,945.88	3.83	104,428.73
More than 3 years	495,150.75	1.50	320,487.17	715,532.87	7.80	508,856.84
<b>Total</b>	<b>33,027,912.36</b>	<b>100</b>	<b>738,067.71</b>	<b>9,173,178.28</b>	<b>100.00</b>	<b>951,815.08</b>

Percentage of provisions for bad debts is set out in Note (2)10.

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

(3) The top 5 account receivables totalled RMB26,674,991.31, accounting for 80.76% of the total account receivables for the period.

Debtor	Outstanding amount	Nature of debt
Communication Department under Headquarters of the General Staff of China Liberation Army	22,751,460.00	Payments for goods
Changzhou Yanling Rural Telephone Services Company Limited	1,339,800.02	Payments for goods
Nanjing Panda Television Co. Ltd.	1,236,293.98	Payments for goods
Nanjing Panda Television Technology Development Co., Ltd.	736,487.31	Payments for goods
Huai'an Lanying Rural Telephone Services Company Limited	610,950.00	Payments for goods
<b>Total</b>	<b>26,674,991.31</b>	

## 2. Other Receivables

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

Item	30 June 2005			31 December 2004		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	876,660,147.86	77.85	37,237,418.60	594,354,713.34	41.80	20,370,248.17
1-2 years	11,636,374.50	1.04	6,305,524.83	518,549,564.00	36.47	24,946,993.27
2-3 years	122,723,898.98	10.90	36,815,369.70	186,319,201.71	13.10	357,184.77
More than 3 years	115,013,518.80	10.21	27,013,974.73	122,652,711.21	8.63	56,055,536.22
<b>Total</b>	<b>1,126,033,940.14</b>	<b>100.00</b>	<b>107,372,287.86</b>	<b>1,421,876,190.26</b>	<b>100.00</b>	<b>101,729,962.43</b>

Percentage of provisions for bad debts is set out in Note (2)10.

(2) The top 5 other receivables totalled RMB940,774,337.10, accounting for 83.55% of the total other receivables for the period. Including:

Debtor	Amount	Nature of debt
Jiangsu Investment Management Company Limited	500,000,000.00	Current
PEGL	280,159,995.43	Current
Nanjing State Land Resources Bureau	80,000,000.00	Current
China Liberation Army Plant 714 Representative Room	51,170,000.00	Current
Nanjing Huage Electric Plastic Industrial Co., Ltd.	29,444,341.67	Current
<b>Total</b>	<b>940,774,337.10</b>	

## 3. Long term equity investment

(1) Long term equity investment

Item	30 June 2005		31 December 2004	
	Investment amount	Provision for impairment	Investment amount	Provision for impairment
Share investment	—	—	—	—
Other equity investment	733,497,767.30	4,338,377.81	819,103,383.75	93,278,682.66
Difference in equity investment	1,540,414.52	—	2,143,940.76	—
<b>Total</b>	<b>735,038,181.82</b>	<b>4,338,377.81</b>	<b>821,247,324.51</b>	<b>93,278,682.66</b>
<b>Net equity investment</b>	<b>730,699,804.01</b>		<b>727,968,641.85</b>	

## (2) Other equity investment

Name of invested companies	Shareholding (%)	Initial investment amount	Equity adjustment for the period	Accumulated equity adjustment	Closing balance as at 30 June 2005	Closing provision for impairment as at 30 June 2005
Nanjing Panda Mechanical Engineering Plant	99.00%	30,042,016.46	315,237.74	(537,217.08)	29,504,799.38	—
Nanjing Panda Appliance & Apparatus Co. Ltd.	70.00%	700,000.00	817,316.14	2,644,146.96	3,344,146.96	—
Nanjing Panda Electronic Material Co. Ltd.	94.34%	500,000.00	(202,865.70)	(2,163,307.46)	(1,663,307.46)	—
Shenzhen Panda Electronic Co., Ltd.	95.00%	6,175,000.00	54,828.72	(2,227,538.33)	3,947,461.67	—
Nanjing Panda International Telecommunication System Co., Ltd.	72.00%	7,655,000.00	—	(7,655,000.00)	—	—
Nanjing Guanghua Electronic Plastic Installing Plant	71.94%	8,271,095.45	(681,503.71)	6,142,229.56	14,413,325.01	—
Nanjing Panda Technology Equipment Co., Ltd.	70.00%	3,500,000.00	284,088.65	(739,343.39)	2,760,656.61	—
Nanjing Panda Information Industry Co., Ltd.	72.00%	21,000,000.00	878,048.24	(16,054,589.64)	4,945,410.36	—
Nanjing Panda Accurate Machinery Co. Ltd.	70.00%	3,625,300.00	749,967.26	2,697,810.64	6,323,110.64	—
Nanjing Panda Network Technology Co. Ltd.	70.00%	3,500,000.00	—	(3,500,000.00)	—	—
Nanjing Panda Mechanical Manufacturing Co. Ltd.	70.00%	3,500,000.00	776,101.21	1,329,700.91	4,829,700.91	—
Nanjing Huage Electric Plastic Industrial Co. Ltd.	60.00%	3,000,000.00	815,201.21	3,595,647.29	6,595,647.29	—
Nanjing Panda Machinery Co., Ltd.	70.00%	2,100,000.00	115,978.59	(402,888.32)	1,697,111.68	—
Nanjing Electronic Calibration Co., Ltd.	70.00%	700,000.00	75,677.60	408,987.95	1,108,987.95	—
Nanjing Panda Network Technology Co., Ltd.	50.00%	5,000,000.00	—	(5,000,000.00)	—	—
Nanjing Panda System Integration Co., Ltd.	60.00%	1,800,000.00	375,052.13	628,608.59	2,428,608.59	—
Nanjing Panda Electronic Manufacturing Co., Ltd.	75.00%	24,311,175.00	2,481,161.37	2,031,009.76	26,342,184.76	—
Nanjing Panda Power Sources Technology Co., Ltd.	55.00%	2,750,000.00	122,208.72	57,443.58	2,807,443.58	—
Nanjing Ericsson Panda Communication Co., Ltd.	27.00%	60,863,279.60	35,894,123.11	195,458,023.70	256,321,303.30	—
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	35.00%	34,769,364.00	—	(34,769,364.00)	—	—
Shenzhen Jinghua Electronic Company, Shenzhen	38.03%	69,687,437.75	2,128,743.86	15,359,961.98	85,047,399.73	—
Beijing Ericsson Putian Mobile Communications Limited	20.00%	83,967,206.77	60,548,728.43	108,731,300.01	192,698,506.78	—
Intenna (Nanjing) Co., Ltd.	35.00%	1,750,000.00	305,988.60	1,377,448.06	3,127,448.06	—
Nanjing Sharp Electronic Co., Ltd.	30.00%	61,425,420.00	3,528,815.43	14,490,319.77	75,915,739.77	—
Nanjing Lingyun Information Co., Ltd.	30.00%	150,000.00	—	(85,087.55)	64,912.45	64,912.45
Mpower Batteries (Nanjing) Co., Ltd.	40.00%	4,200,000.00	—	(4,200,000.00)	—	—
Nanjing Panda Tamura Communication Equipment Co., Ltd.	50.00%	3,310,800.00	(1,137,580.78)	(496,042.42)	2,814,757.58	—
Nanjing Panda Hitachi Technology Co., Ltd.	49.00%	6,533,170.00	106,771.56	(2,684,223.66)	3,848,946.34	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	51.00%	510,000.00	—	—	510,000.00	510,000.00
Other investment reflected at cost		3,763,465.36	—	—	3,763,465.36	3,763,465.36
<b>Total</b>		<b>459,059,730.39</b>	<b>108,352,088.38</b>	<b>274,438,036.91</b>	<b>733,497,767.30</b>	<b>4,338,377.81</b>

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

## (3) Difference in equity investment

Name of invested companies	Initial amount	Reason	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	51,175.67
Shenzhen Jinghua Electronics Company	2,826,403.07	Difference in equity investment	5 years	282,640.31	282,640.27
Beijing Ericsson Putian Mobile Communications Limited	2,697,102.71	Difference in equity investment	5 years	269,710.27	1,206,598.58
<b>Total</b>	<b>6,035,262.39</b>			<b>603,526.24</b>	<b>1,540,414.52</b>

## 4. Income and Cost of Principal Operations

## (1) Segmented by income

Item of principal operations	Income from principal Operations		Cost of principal Operations	
	Jan-Jun 2005	Jan-Jun 2004	Jan-Jun 2005	Jan-Jun 2004
Mobile telecommunication products	10,134,216.92	7,041,749.72	9,740,803.76	6,289,849.18
Satellite telecommunication products	31,577,037.44	4,244,386.29	22,636,377.44	3,198,233.07
Other	7,809,235.69	7,186,744.17	6,130,535.98	6,461,438.07
<b>Total</b>	<b>49,520,490.05</b>	<b>18,472,880.18</b>	<b>38,507,717.18</b>	<b>15,949,520.32</b>

## (2) Sales revenue from the largest five clients for the period totalled RMB40,940,037.40, accounting for 82.67 % of the total income from principal operations for the period.



5. Investment Income

(1) Details of investment income are as follows:

Item	Jan-Jun 2005	Jan-Jun 2004
Income from equity investment	—	—
Income from debenture investment	—	—
Including: income from debenture	—	—
income entrusted loans	—	—
income from other debenture investment	—	—
Profit from joint venture and associated companies	—	—
Share of net profit form invested companies after adjustment by equity method at period end	107,731,162.16	106,094,300.52
Equity investment different in amortisation	(598,630.94)	(603,526.24)
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	598,630.94	—
<b>Total</b>	<b>107,731,162.16</b>	<b>118,842,738.28</b>

(2) Details of share of net profit form invested companies after adjustment by equity method at period end are as follows:

Name of invested companies	Jan-Jun 2005	Jan-Jun 2004
Nanjing Ericsson Panda Communication Co., Ltd.	35,894,123.11	52,062,184.99
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	—	—
Shenzhen Jinghua Electronics Company, Shenzhen	2,128,743.86	5,140,169.97
Beijing Ericsson Putian Mobile Communications Limited	60,548,728.43	32,532,349.62
Jiangsu Provincial Software Industry Company Limited	—	—
Nanjing Sharp Electronic Co., Ltd.	3,528,815.43	3,132,499.94
Mpower Batteries (Nanjing) Co., Ltd.	—	—
Nanjing Panda Hitachi Technology Co., Ltd.	106,771.56	393,398.51
Nanjing Panda Tamura Communication Equipment Co., Ltd.	(1,137,580.78)	204,876.80
Shenzhen Panda Electronics Co., Ltd.	54,828.72	(10,207.72)
Intenna (Nanjing) Co., Ltd.	305,988.60	516,274.68
Nanjing Panda Power Sources Technology Co., Ltd.	122,208.72	—
Nanjing Panda Electronic Manufacturing Co., Ltd.	2,481,161.37	—
Nanjing Panda Calibration Co., Ltd.	75,677.60	108,659.74
Nanjing Panda Machinery Co., Ltd.	115,978.59	118,022.12
Nanjing Panda Mechanical Engineering Plant	315,237.74	265,071.78
Nanjing Panda Appliance & Apparatus Co., Ltd.	817,316.14	669,582.62
Nanjing Panda Electronic Material Co., Ltd.	(202,865.70)	(248,118.59)
Nanjing Panda International Telecommunication System Co., Ltd.	—	(123,624.45)
Nanjing Guanghua Electronic Plastic Installing Plant	(681,503.71)	(1,118,797.77)
Nanjing Panda Technology Equipment Co., Ltd.	284,088.65	175,072.67
Nanjing Panda Information Industry Co., Ltd.	878,048.24	413,434.42
Nanjing Panda Accurate Machinery Co., Ltd.	749,967.26	1,446,106.25
Nanjing Panda Network Technology Co., Ltd.	—	—
Nanjing Panda Mechanical Manufacturing Co., Ltd.	776,101.21	849,187.11
Nanjing Huage Electric Plastic Industrial Co., Ltd.	815,201.21	858,124.87
Nanjing Panda System Integration Co., Ltd.	375,052.13	409,653.96
Nanjing Panda Network Technology Co., Ltd.	—	(1,027,136.00)
Others	(620,926.22)	22,075,952.76
<b>Total</b>	<b>107,731,162.16</b>	<b>118,842,738.28</b>

(7) **Influence on the consolidated financial statement from the inconsistency of accounting policies of the holding company and the subsidiaries**

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

(8) **Relationship and transactions with related parties**

(1) **Related parties**

1. Related parties with controlling relationship

Name of company	Place of registration	Principal Operations	Relationship with the Company	Legal nature	Legal representative
PEGL	Nanjing	Wireless telecommunication equipment	Holding company	State-owned	Li Anjian
Nanjing Panda Chenguang Electronic Co., Ltd.	Nanjing	Production and sale of display	Subsidiary	Limited liability company	Li Anjian
Nanjing Panda Network Technology Co., Ltd.	Nanjing	Data communication terminal products and network communication products	Subsidiary	Limited liability company	Li Anjian
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	Nanjing	Production and sale of home electrical appliance	Subsidiary	Limited liability company	Liu Kun

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

Name of related parties	31 December 2004	Increase for the period	Decrease for the period	30 June 2005
PEGL	1,266,060,000.00	—	—	1,266,060,000.00
Nanjing Panda Chenguang Electronic Co., Ltd.	15,000,000.00	—	—	15,000,000.00
Nanjing Panda Network Technology Co., Ltd.	10,000,000.00	—	—	10,000,000.00
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	1,000,000.00	—	—	1,000,000.00

Name of related parties	Value of shareholding		Percentage of shareholding	
	31 December 2004	30 June 2005	31 December 2004	30 June 2005
PEGL	355,015,000.00	355,015,000.00	54.1995%	54.1995%
Nanjing Panda Chenguang Electronic Co., Ltd.	7,600,000.00	7,600,000.00	51%	51%
Nanjing Panda Network Technology Co., Ltd.	5,000,000.00	5,000,000.00	50%	50%
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	510,000.00	510,000.00	51%	51%

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

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 operations	Related transactions with the Company
Nanjing Panda Import/Export Company	70%	Agency of its own products and import and export products	Agency of import products
Nanjing Panda Television Co., Ltd.	100%	Televisions and related products	Sale
Nanjing Panda Group (Company) Duantong Company	100%	Wireless telecommunication	Sale and provision of services
Nanjing 21st Century Electronic Technology Plaza Co., Ltd.	99%	Information, communication and trading of communication products	Supply of funds
Nanjing Le Jin Panda Electrical Appliance Co., Ltd.	30%	Washing machine and home appliance	Sale
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	70%	Bracket for production use, appliance used in subway	Purchase
Nanjing Zhen Hua Sound Equipment Plant	51%	Loudspeaker, package, paper cases	Sale and purchase
Nanjing Panda Electronic Hong Kong Co., Ltd.	100%	Electronic products	Provision of funds
Nanjing panda Power Sources Equipment Co. Ltd.	100%	UPS and transformer, etc.	Sale

(2) Joint venture and associated companies of the Company

Name of related parties	Shares held by the Company	Principal operations	Related transactions with the Company
Nanjing Ericsson Panda Communication Co., Ltd.	27%	Production and sale of exchange and base station	Purchase and sale
Beijing Ericsson Putian Mobile Communications Limited	20%	Production and sale of Ericsson mobile terminal (handset)	Sale
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	35%	Development, manufacture, production and sale 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
Nanjing Sharp Electronic Co., Ltd.	30%	Televisions, LCDs and sound instruments	Processing
Panda Electronics (Kun Shan) Co., Ltd.	40%	Processing of SMT	N/A
Nanjing Panda Hitachi Technology Co., Ltd.	49%	Processing of SMT	Sale
Nanjing Panda Tamura Communication Equipment Co., Ltd.	50%	Development, manufacture and sale of power supply	Sale
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	33.33%	Paint, spraying, screen wall, etc	Entrusted processing
Shenzhen Jinghua Electronics Company, Shenzhen	38.03%	Communication equipment and electronics products	N/A
Mpower Batteries (Nanjing) Co. Ltd.	40%	Batteries for mobile phone	Lease and management fees

(2) Related Transactions

1. Sale of Products

Name of related parties	Jan-Jun 2005	Jan-Dec 2004
Nanjing Panda Television Co., Ltd.	9,792,782.88	18,457,333.22
Nanjing Ericsson Panda Communication Co., Ltd.	8,117,589.32	6,611,421.22
Nanjing Sharp Electronic Co., Ltd.	39,566,702.86	29,462,876.87
Nanjing Le Jin Panda Electrical Appliance Co., Ltd.	6,309,882.77	20,127,855.24
Beijing Ericsson Putian Mobile Communications Limited	3,493,082.05	6,199,124.87
Nanjing Panda Import/Export Company	4,259,612.13	8,707,940.38
<b>Total</b>	<b>71,539,652.01</b>	<b>89,566,551.80</b>

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

2. Purchase of Materials

Name of related parties	Jan-Jun 2005	Jan-Dec 2004
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	5,146,784.11	10,560,779.39
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	—	5,560,445.56
Nanjing Ericsson Panda Communication Co., Ltd.	—	4,083,168.34
PEGL	—	2,738,791.94
Nanjing Zhen Hua Sound Equipment Plant	949,889.96	1,473,810.14
Nanjing Panda Import/Export Company	1,603,471.51	1,152,876.92
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	—	—
Nanjing Panda Neo-industry Trading Company Limited	3,107,967.75	—
<b>Total</b>	<b>10,808,113.33</b>	<b>25,569,872.29</b>

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

3. Provision of Services

Name of related parties	Jan-Jun 2005	Jan-Dec 2004
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	240,884.25	3,078,723.56
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	—	7,448,751.74
Nanjing Ericsson Panda Communication Co., Ltd.	25,630.00	10,718,125.39
PEGL	918,454.80	8,271,785.68
Nanjing Panda Television Co., Ltd.	150,570.00	7,058,689.49
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	518,123.83	4,550,146.17
Nanjing Sharp Electronic Co., Ltd.	1,571,225.51	2,258,848.07
Nanjing Panda Hitachi Technology Co., Ltd.	—	1,467,852.35
Nanjing Panda Group (Company) Duantong Company	227,535.82	—
<b>Total</b>	<b>3,652,424.21</b>	<b>44,852,922.45</b>

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

4.	Receipt of Services		
	<b>Name of related parties</b>	<b>Jan-Jun 2005</b>	<b>Jan-Dec 2004</b>
	PEGL	<b>38,407.34</b>	2,544,628.72
	Nanjing Panda Television Co., Ltd.	<b>3,085,659.26</b>	2,604,111.30
	<b>Total</b>	<b><u>3,124,066.60</u></b>	<b><u>5,148,740.02</u></b>

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

5.	Lease of Assets			
	<b>Name of related parties</b>	<b>Jan-Jun 2005</b>	<b>Jan-Dec 2004</b>	<b>Note</b>
	Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	<b>1,044,252.72</b>	—	Houses
	Intenna (Nanjing) Co., Ltd.	—	—	
	PEGL	<b>98,197.86</b>	800,000.00	
	<b>Total</b>	<b><u>1,142,450.58</u></b>	<b><u>800,000.00</u></b>	

Pricing policy for lease of assets to all related parties: Fair market price

6.	Acceptance of Guarantee		
	<b>Name of related parties</b>	<b>Jan-Jun 2005</b>	<b>Jan-Dec 2004</b>
	PEGL	<b>656,000,000.00</b>	596,000,000.00
	Nanjing Panda Television Co., Ltd.	—	20,000,000.00
	<b>Total</b>	<b><u>656,000,000.00</u></b>	<b><u>616,000,000.00</u></b>

7.	Trademark Licensed Usage		
	<b>Name of related parties</b>	<b>Jan-Jun 2005</b>	<b>Jan-Dec 2004</b>
	Nanjing Panda Television Co., Ltd.	—	853,000.00

Pricing policy for trademark licensed usage to all related parties: RMB2 to 5 per set of television or video CD player sold (subject to the relevant model) by the related party under the brand name of "Panda".

(3) Balance of Accounts with Related Parties

Name of related party	Item	30 June 2005	31 December 2004
PEGL	Accounts receivable	4,753,036.23	2,078,112.99
	Other receivables	280,159,995.43	280,323,182.65
	Other payables	32,138,603.41	28,606,709.58
	Special payables	—	570,000.00
	Accounts payable	2,133,010.51	2,133,010.51
	Receipts in advance	3,769,540.09	3,982,465.63
	Dividend payable	3,642,582.93	3,613,657.69
	Other receivables	—	6,089,960.00
	Accounts receivable	14,666,193.97	8,902,961.50
	Other receivables	93,292.80	7,519,044.18
Nanjing Panda Network Technology Co., Ltd.	Accounts payable	2,325,283.42	2,191,811.08
	Other payables	1,671,290.81	—
	Accounts receivable	3,924,962.73	3,271,546.26
	Accounts receivable	1,786,504.47	811,152.45
Nanjing Panda Import/Export Company	Accounts payable	2,005,278.31	2,370,281.22
	Other receivables	588,968.49	414,926.37
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	Accounts receivable	3,879.76	121,903.70
	Accounts payable	—	2,548,591.15
	Other receivables	27,721,710.80	27,721,710.80
Nanjing Panda Electronic Hong Kong Co., Ltd.	Other receivables	12,986,830.72	12,986,830.72
Nanjing Panda Chenguang Electronic Co., Ltd.			
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	Other receivables	19,068,192.67	19,068,192.67
	Accounts receivable	741,032.62	741,032.62
	Other receivables	1,000,000.00	1,000,000.00
Intenna (Nanjing) Co., Ltd.	Accounts receivable	—	—
	Accounts payable	—	—
Nanjing Sharp Electronic Co., Ltd.	Accounts receivable	15,887,568.62	9,191,041.43
	Other payables	14,923,768.72	14,923,768.72
Nanjing Le Jin Panda Electrical Appliance Co., Ltd.	Accounts receivable	2,960,221.46	4,468,377.90
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	Accounts receivable	2,194,928.75	1,541,065.81
	Accounts receivable	711,334.05	999,479.39
Panda Electronics (Kun Shan) Co., Ltd.	Other receivables	1,365,000.00	1,125,400.10
	Accounts receivable	881,477.14	881,477.14
Nanjing Panda Medical Electronics Co., Ltd.	Accounts receivable	748,789.56	427,349.01
Nanjing Panda Hitachi Technology Co., Ltd.	Accounts receivable	357,898.00	112,530.00
Nanjing Panda Tamura Communication Equipment Co., Ltd.	Accounts receivable	1,951,152.45	2,242,478.05
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	Other receivables	2,700,000.00	1,212,020.00
	Accounts payable	809,479.87	908,752.89
Nanjing Zhen Hua Sound Equipment Plant	Other receivables	20,000.00	1,017,000.00
Nanjing Panda Power Supply Equipment Co., Ltd.	Other payables	3,435,398.20	3,435,398.20
Shenzhen Jinghua Electronics Company, Shenzhen	Other payables	1,461,688.38	1,461,688.38
Mpower Batteries (Nanjing) Co. Ltd.	Other payables		

(9) Contingent Liabilities

As at 30 June 2005, the Company provided guarantees for the following parties:

Name of parties guaranteed	Liabilities to assets ratio of the parties guaranteed	Guaranteed item	Amount (RMB0'000)	Term
Nanjing Panda Information Industry Co., Ltd.	96.74%	Loans	828	2005.4.25-2005.10.25
		Letter of credit	564	2004.3.20-2006.3.20
		Bank acceptance bills	1,728	2005.5.27-2006.5.27
		<b>Sub-total</b>	3,120	
Nanjing Panda Mechanical Manufacturing Co., Ltd.	80.98%	Loans	500	2004.2.20-2005.2.20
Nanjing Panda Accurate Machinery Co., Ltd.	81.48%	Loans	500	2004.8.20-2005.8.20
Nanjing Huage Electric Plastic Industrial Co. Ltd.	89.60%	Loans	1,700	2004.2.20-2005.12.31
		<b>Total</b>	5,820	

As at 30 June 2005, the Company's total external guarantee accounted for 4.75% of its net assets.

As at 30 June 2005, the Company did not have any material contingent issues other than aforesaid.

(10) **Commitments**

1. Expenditures for contracted material external investment

As at 30 June 2005, the expenditures for contracted material external investment with payment not made were as follows:

Name of investment project	Contracted investment amount	Paid investment amount	Unpaid investment amount
Nanjing Panda Electronic Manufacturing Co., Ltd.	US\$7,500,000.00	RMB24,311,175.00	RMB37,762,575.00

2. Save as the above commitments, the Company did not have any material commitments as of 30 June 2005.

(11) **Subsequent Events**

Save as the above matters, the Company did not have other matters required to be disclosed subsequent to the balance sheet date.

(12) **Supplementary Information**

1. Explanation on changes of main items in the consolidated financial statement

As there were changes in the scope of consolidation in the year, there were significant changes in the contents of the main items in the consolidated financial statement as compared with that of included in the previous period. The basis of comparison and analysis was not consistent. Therefore, there were no explanations for the changes in the main items of the consolidated accounting statement.

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 earnings per share for year 2005 are as follows:

Profit for the period	Return on net assets (%)		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Income from principal operations	3.70	3.77	0.07	0.07
Operating profit	(4.25)	(4.33)	(0.08)	(0.08)
Net profit	3.61	3.68	0.07	0.07
Net profit after extraordinary items	3.61	3.67	0.07	0.07