

VIII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES  
GENERALLY ACCEPTED IN HONG KONG) (UNAUDITED)

CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Note	Six months ended	
		30 June 2005 (unaudited) RMB'000	30 June 2004 (unaudited) RMB'000
<b>Turnover</b>			
Continuing operations		338,596	292,161
Discontinued operations		—	936,546
<b>Cost of sales</b>	2	338,596 (293,246)	1,228,707 (1,093,331)
<b>Gross profit</b>		45,350	135,376
<b>Other revenue</b>		6,097	13,824
<b>Distribution costs</b>		(10,920)	(36,656)
<b>Administrative expenses</b>		(60,872)	(112,784)
<b>Loss from operations</b>		(20,345)	(240)
<b>Finance costs</b>		(31,828)	(41,716)
<b>Share of results of associates</b>		112,693	116,036
<b>Gain on disposal of an associate</b>		—	13,352
<b>Profit before taxation</b>		60,520	75,531
Continuing operations		—	11,901
Discontinued operations		60,520	87,432
<b>Income tax expenses</b>		(12,281)	(23,125)
Continuing operations		—	(5,498)
Discontinued operations		(12,281)	(28,623)
<b>Profit before minority interests</b>	4(a)	48,239	58,809
<b>Minority interests</b>		(3,308)	(2,968)
<b>Profit for the period</b>		44,931	55,841
<b>Earnings per share (RMB)</b>	6	0.07	0.09

**CONSOLIDATED BALANCE SHEET**  
**AT 30 JUNE 2005**

	Note	30 June 2005 (unaudited) RMB'000	31 December 2004 (audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Intangible assets		12,310	20,517
Lease premium for land		1,625	1,646
Property, plant and equipment	8	295,503	346,825
Construction in progress		16,205	21,303
Interests in associates	9	648,930	547,560
Investments in unconsolidated subsidiaries	10	—	912,547
Other investments		1,000	—
		<u>975,573</u>	<u>1,850,398</u>
<b>Current assets</b>			
Lease premium for land		42	19,434
Inventories		201,084	147,372
Bills receivable		71,756	2,906
Trade debtors	11	114,499	89,469
Other debtors, deposits and prepayments		827,737	127,456
Amounts due from fellow subsidiaries, associates and related companies		38,564	69,061
Amount due from ultimate holding company		234,227	238,676
Bank balances and cash		209,319	102,126
Taxation		1,746	150
		<u>1,698,974</u>	<u>796,650</u>
<b>Current liabilities</b>			
Borrowings	12	938,661	955,884
Trade creditors	11	96,370	103,394
Other creditors, customers' deposits and accrued charges		323,493	319,289
Amounts due to fellow subsidiaries, associates and related companies		37,259	37,386
		<u>1,395,783</u>	<u>1,415,953</u>
<b>Net current assets/(liabilities)</b>		<u>303,191</u>	<u>(619,303)</u>
<b>Total assets less current liabilities</b>		1,278,764	1,231,095
<b>Non-current liabilities</b>			
Long term borrowings	12	—	(570)
		<u>1,278,764</u>	<u>1,230,525</u>
Capital and reserves			
<b>Share capital</b>	13	655,015	655,015
<b>Share premium and reserves</b>		582,731	537,800
<b>Shareholders' funds</b>		1,237,746	1,192,815
<b>Minority interests</b>		41,018	37,710
		<u>1,278,764</u>	<u>1,230,525</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2005**

	Share capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common funds (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1 January 2004	655,015	389,338	5,110	189,850	37,380	(131,455)	1,145,238
Profit for the period	—	—	—	—	—	55,841	55,841
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—
Balance at 30 June 2004	<u>655,015</u>	<u>389,338</u>	<u>5,110</u>	<u>189,850</u>	<u>37,004</u>	<u>(75,238)</u>	<u>1,201,079</u>

	Share capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common funds (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1 January 2005 — as previously stated	655,015	389,338	5,110	189,850	36,628	(83,126 )	1,192,815
— prior year adjustment arising from the change of accounting policy	—	—	(5,110 )	—	—	5,110	—
— as restated	<u>655,015</u>	<u>389,338</u>	<u>—</u>	<u>189,850</u>	<u>36,628</u>	<u>(78,016 )</u>	<u>1,192,815</u>
Profit for the period	—	—	—	—	—	44,931	44,931
Realised on amortisation of intangible assets	—	—	—	—	(376 )	376	—
Balance at 30 June 2005	<u>655,015</u>	<u>389,338</u>	<u>—</u>	<u>189,850</u>	<u>36,252</u>	<u>(32,709 )</u>	<u>1,237,746</u>

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2005**

	Six months ended	
	30 June 2005 (unaudited) RMB'000	30 June 2004 (unaudited) RMB'000
<b>Net cash (used in)/generated from operating activities</b>	<b>(331,368)</b>	536,719
<b>Investing activities</b>		
Purchase of property, plant and equipment	(18,938)	(21,671)
Expenditure on construction in progress	(7,618)	(2,144)
Proceeds from disposal of land, property, plant and equipment	80,335	1,895
Proceeds from disposal of an associate	—	80,339
Proceeds from disposal of short term investments	—	105,870
Return on investment in an associate	5	—
Repayment from unconsolidated subsidiaries	291,530	—
Repayment from a non-related company	—	50,000
Release/(placement) of pledged bank deposits	10,193	(108,230)
Interest received	1,121	5,348
Dividends received from an associate	—	20,000
<b>Net cash generated from investing activities</b>	<b>356,628</b>	131,407
<b>Financing</b>		
New loans raised	672,877	90,877
Increase in other short term loan	120,000	—
Increase in loans to related companies	—	(711,408)
Increase in amount due from ultimate holding company	4,449	(313,291)
Repayment of loans	(705,200)	—
<b>Net cash generated from/(used in) financing activities</b>	<b>92,126</b>	(933,822)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>117,386</b>	(265,696)
<b>Cash and cash equivalents at beginning of the period</b>	<b>87,243</b>	340,118
<b>Cash and cash equivalents at end of the period</b>	<b>204,629</b>	74,422
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	209,319	364,562
Less: Pledged bank balances	(4,690)	(290,140)
	<b>204,629</b>	74,422

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Principal accounting policies

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

The interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are pertinent to its operations, with effect from 1 January 2005.

HKAS 17 Leases  
HKFRS 3 Business Combinations

The major effects on the Group's accounting policies and amounts disclosed in the interim financial statements are summarised as follows:

The adoption of HKAS 17 affect the disclosure of the financial statements. Previously included in property, plant and equipment is the land use right, which is now disclosed as "lease premium for land".

The adoption of HKFRS 3 has resulted in a change in the accounting policy for goodwill. In accordance with the provisions of HKFRS 3,

- the Group ceased the amortisation of goodwill from 1 January 2005;
- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries as at 1 January 2005 has been eliminated with a corresponding decrease in the respective cost of goodwill at that date;
- goodwill is tested annually for impairment, as well as when there are indications of impairment;
- upon impairment of goodwill previously eliminated against consolidated reserves, the impairment loss is not charged to the consolidated profit and loss account; and
- on disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remained unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is not recognised in the consolidated income statement upon disposal.

HKFRS 3 is prospectively applied and there is no material effect on how the results for the current or prior accounting periods are prepared and presented.

2. Turnover

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

3. Depreciation

During the period, depreciation of RMB16,419,000 (six months ended 30 June 2004 : RMB9,149,000) was charged in respect of the Group's property, plant and equipment.

4. Taxation

(a) Taxation charge comprises:

	Six months ended	
	30 June 2005 (unaudited) RMB'000	30 June 2004 (unaudited) RMB'000
PRC income tax		
— Company and its subsidiaries	963	6,325
— Associates	11,318	22,298
	<b>12,281</b>	<b>28,623</b>

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

All subsidiaries of the Company pay income tax at the rates between 15 and 33 per cent.

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

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

## 5. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 June 2004 : Nil).

## 6. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders for the six months ended 30 June 2005 of RMB44,931,000 (six months ended 30 June 2004 : RMB55,841,000) and on 655,015,000 shares in issue throughout the period.

## 7. Segment reporting

### (a) Business segment

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

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

Electronic information products: Development, manufacture and sale of electronic information products.

Period ended 30 June 2005

	Discontinued operations	Continuing operations				Consolidated (unaudited) RMB'000
	Mobile telecommunication products (unaudited) RMB'000	Electro-mechanical products (unaudited) RMB'000	Satellite telecommunication products (unaudited) RMB'000	Electronic information products (unaudited) RMB'000	Other operations (unaudited) RMB'000	
<b>Revenue</b>						
External sales	—	91,669	33,027	130,240	83,660	338,596
<b>Results</b>						
Segment results	—	2,230	5,749	5,175	(31,593)	(18,439)
Unallocated corporate expenses						(8,207)
Operating loss						(26,646)
Other revenue						4,331
Interest expenses						(30,979)
Interest income						1,121
Share of results of associates	107,445				5,248	112,693
Income tax expenses						(12,281)
Profit before minority interest						48,239
Minority interest						(3,308)
Net profit						44,931

As at 30 June 2005

	Discontinued operations	Continuing operations				Consolidated (unaudited) RMB'000
	Mobile telecommunication products (unaudited) RMB'000	Electro-mechanical products (unaudited) RMB'000	Satellite telecommunication products (unaudited) RMB'000	Electronic information products (unaudited) RMB'000	Other operations (unaudited) RMB'000	
<b>Assets</b>						
Segment assets	—	151,299	124,863	242,675	152,916	671,753
Investments in associates under equity accounting	466,894				182,036	648,930
Unallocated corporate assets						1,353,864
						2,674,547
<b>Liabilities</b>						
Segment liabilities	—	76,087	78,912	165,449	209,335	529,783
Unallocated corporate liabilities						866,000
						1,395,783
<b>Other information</b>						
Depreciation	—	1,703	—	1,898	12,818	

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Period ended 30 June 2004

	Discontinued operations		Continuing operations			Consolidated (unaudited) RMB'000
	Mobile telecommunication products (unaudited) RMB'000	Electro-mechanical products (unaudited) RMB'000	Satellite telecommunication products (unaudited) RMB'000	Electronic information products (unaudited) RMB'000	Other operations (unaudited) RMB'000	
<b>Revenue</b>						
External sales	943,587	85,614	—	133,891	65,615	1,228,707
<b>Results</b>						
Segment results	27,758	5,113	(165)	(105)	(30,937)	1,664
Unallocated corporate expenses						(8,207)
Operating loss						(6,543)
Other revenue						250
Interest expenses						(41,011)
Interest income						5,348
Share of results of associates	106,204				9,832	116,036
Gain on disposal of an associate						13,352
Income tax expenses						(28,623)
Profit before minority interest						58,809
Minority interest						(2,968)
Net profit						55,841

As at 31 December 2004

	Discontinued operations		Continuing operations			Consolidated (unaudited) RMB'000
	Mobile telecommunication products (unaudited) RMB'000	Electro-mechanical products (unaudited) RMB'000	Satellite telecommunication products (unaudited) RMB'000	Electronic information products (unaudited) RMB'000	Other operations (unaudited) RMB'000	
<b>Assets</b>						
Segment assets	16,707	154,241	55,200	188,364	278,660	693,172
Investments in unconsolidated subsidiaries						912,547
Investments in associates under equity accounting	370,452				177,108	547,560
Unallocated corporate assets						493,769
						2,647,048
<b>Liabilities</b>						
Segment liabilities	18,176	113,986	9,626	184,195	227,756	553,739
Unallocated corporate liabilities						862,784
						1,416,523
<b>Other information</b>						
Depreciation	971	1,717	—	263	6,198	

(b) Geographical segment

For the six months ended 30 June 2005 and 2004, over 90% of sales of the Group is generated from sales in the PRC.

**8. Additions to property, plant and equipment**

During the period, the Group spent approximately RMB18,938,000 (six months ended 30 June 2004 : RMB21,671,000) on acquisition of property, plant and equipment.

**9. Interests in associates**

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Share of net assets	645,487	544,117
Premium on acquisition	3,443	3,443
	<u>648,930</u>	<u>547,560</u>

**10. Investment in unconsolidated subsidiaries**

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Unlisted shares, at cost	—	205,051
Impairment loss	—	(84,034)
	—	121,017
Amounts due from unconsolidated subsidiaries	—	857,913
Amounts due to unconsolidated subsidiaries	—	(66,383)
	<u>—</u>	<u>912,547</u>

In February 2005, the Company obtained a short term loan of approximately RMB120,000,000 from an independent third party (the "Lender"). As the loan was not repaid by the due date, the Lender commenced legal proceedings against the Company through the People's court of Nanjing City. On 10 March 2005, a judicial forceful execution order was issued ordering the Company to settle the loan by surrendering its 51% and 95% equity interests in Nanjing Panda Mobile Communication Equipment Co., Ltd. ("Panda Mobile") and Nanjing Panda Communications Development Co., Ltd. ("Panda Communications") respectively with a total carrying amount of RMB120,017,000 to the Lender. On 11 March 2005, the transfer was completed.

The balances were reclassified as other receivable as at 30 June 2005.

**11. Trade debtors and creditors**

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

The following is an aged analysis of trade debtors net of allowances for bad and doubtful debts at 30 June 2005:-

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Within 1 year	94,492	76,054
1 to 2 years	14,912	10,206
2 to 3 years	3,726	1,552
Over 3 years	1,369	1,657
	<u>114,499</u>	<u>89,469</u>

The following is an aged analysis of trade creditors at 30 June 2005:-

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Within 1 year	76,759	87,649
1 to 2 years	8,508	2,576
2 to 3 years	1,930	3,520
Over 3 years	9,173	9,649
	<u>96,370</u>	<u>103,394</u>



**12. Borrowings**

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Bank borrowings		
Short term loans		
— unsecured	611,277	643,600
— secured	290,000	290,000
Bills payable	37,384	22,284
Other loan, unsecured	—	570
	<u>938,661</u>	<u>956,454</u>
Less : Amount due within 1 year shown under current liabilities	<u>(938,661)</u>	<u>(955,884)</u>
Borrowings repayable in the 2nd to 5th year	<u>—</u>	<u>570</u>

**13. Share capital**

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

**14. Related party transactions**

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

	<b>Fellow subsidiaries, associates and related companies Six months ended</b>		<b>Ultimate holding company Six months ended</b>	
	<b>30 June 2005 (unaudited) RMB'000</b>	30 June 2004 (unaudited) RMB'000	<b>30 June 2005 (unaudited) RMB'000</b>	30 June 2004 (unaudited) RMB'000
Sales of components and parts	71,540	516,358	—	—
Purchases of components and parts	10,808	16,429	—	—
Fees paid for welfare, support and sub- contracting services	3,086	1,099	38	295
Income for welfare, support and sub- contracting services provided	2,734	809	918	—
Fees paid for import services	—	482	—	—
Rental income	1,044	3,985	98	—

**15. Contingent liabilities**

At the balance sheet date, the Group had the following outstanding contingent liabilities not provided for in the interim financial statements in respect of:-

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Guarantees given in respect of banking facilities made available to unconsolidated subsidiaries	<u>—</u>	<u>71,514</u>

**16. Capital commitments**

At the balance sheet date, the Group did not have any significant capital commitments.

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

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

Impact on the consolidated income statement

	Six months ended	
	30 June 2005 (unaudited) RMB'000	30 June 2004 (unaudited) RMB'000
Profit attributable to shareholders as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	44,931	55,841
Income and expenditure taken directly to reserves	—	(19)
Minority interest	292	932
Amortisation of revaluation surplus on trademarks	450	450
Amortisation of unrecognised intangible assets	(100)	(108)
Other assets previously written off	(571)	(571)
Share of profits of associates	—	1,517
Goodwill amortisation of purchased associates	(552)	—
Others	(189)	(40)
	<u>44,261</u>	<u>58,002</u>
Profit attributable to shareholders as per interim financial statements prepared under PRC accounting standards		

Impact on the consolidated balance sheets

	30 June 2005 (unaudited) RMB'000	31 December 2004 (audited) RMB'000
Net assets as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	1,237,746	1,192,815
Revaluation surplus on trademark	(674)	(1,124)
Unrecognised intangible assets	1,020	1,120
Other assets written off	277	847
Goodwill	(2,021)	(1,468)
Share of reserve of associates	(10,833)	(10,831)
Minority interests	733	389
Others	11	249
	<u>1,226,259</u>	<u>1,181,997</u>
Net assets as per interim financial statements prepared under PRC accounting standards		