

## VI. SIGNIFICANT EVENTS

### (I) Corporate Governance

During the Reporting Period, the Company complied with the Company Law, Securities Law and other relevant laws and regulations as well as Code on Corporate Governance Practices issued by the Hong Kong Stock Exchange. It continues to improve its corporate governance and to regulate its operation in accordance with the spirits of the relevant documents issued by China Securities Regulatory Commission ("CSRC") and meet the requirements under the Listing Rules of the Hong Kong Stock Exchange (including the Code on corporate governance Practices as set out in Appendix 14 of Listing Rules ("CGP Code")) and Shanghai Stock Exchange.

During the Reporting Period, the Company carried out the following works in respect of corporate governance:

In the corporate governance report which was published in the Company's 2005 Annual Report, it was reported that the Company has adopted and strived to comply with the CGP Code save as disclosed therein. The deviations during the Reporting Period are as follows:

- (1) On 12 January 2006, the Company has obtained a three-year conditional waiver from the Hong Kong Stock Exchange from strict compliance with Rule 3.24 of the Listing Rules in relation to the requirement for the appointment of a qualified accountant that the Company could appoint Mr. Wu Liu Lin ("Mr. Wu"), Deputy General Manager of the Company, as its qualified accountant under Rule 3.24 of the Listing Rules and Ms. Wong Wan Lung, being a fellow member of HKICPA, to assist Mr. Wu for fulfillment of his duties as the qualified accountant during the relevant waiver period. Reference is made to the announcement of the Company dated 23 February 2006. This rectifies the deviation from the compliance with Rule 3.24 of the Listing Rules during the Reporting Period.

Please refer to announcement of the Company dated 23 February 2006 which were published on Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard on 24 February 2006.

- (2) The positions of the Chairman and General Manager are held by Mr. Li Anjian and the two roles are not segregated. This is a deviation from the code provision (A.2.1) of CPG Code.
- (3) The previous waiver of continuing connected transaction granted by the Hong Kong Stock Exchange has expired on 31 December 2004. The Company should have complied with the reporting, announcement and independent shareholders' approval requirements under the Listing Rules for all continuing connected transactions conducted by it since 1 January 2005 and during the Reporting Period but failed to do so. This constituted a breach of Rule 14A.35 of the Listing Rules. The Company would soon publish a detailed announcement.
- (4) The Company has carried out self-inspection on capital transactions among connected parties and external guarantees during the Reporting Period. The Company put more efforts in satisfaction of the non-operating funds appropriated by its controlling shareholders and subsidiaries in accordance with the "Notice on Expediting Loan Settlement" (《關於進一步加快推進清欠工作的通知》) (Zheng Jian Gong Si Zi [2006] No. 92) issued by CSRC on 26 May 2006 and the "Notice on Further Improvement of Loan Settlement" (Su Zheng Jian Gong Si Zi [2006] No.40) issued by Securities Regulatory Commission of Jiangsu Province on 6 March 2006. Pursuant to the requirements set out in the "Notice of endorsement of opinions of the China Securities Regulatory Committee on raising the quality of listed companies" (《國務院批轉證監會關於提高上市公司質量意見的通知》) (Guo Fa [2005] No. 34) and the "Settlement plan for non-operating capital appropriation of the controlling shareholder" (《控股股東非經營性資金佔用的清欠方案》) (the "Plan") adopted in principle by the Board, the Company has received repayments from PEGL. Please refer to paragraph (IX) of this part VI of the Interim Report of further details.
- (5) The Board has continued to review the effectiveness of the system of internal control of the Company and its subsidiaries during the Reporting Period. On 2 March 2006, the Company has formally engaged Horwath Risk Advisory Services Limited ("Horwath RA") to conduct an overall examination of internal control. (Please refer to the announcement of the Company dated 21 March 2006 which was published on Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard on 22 March 2006 for details.)

Horwath RA has performed a review on internal control since March 2006 and completed the first review report in June 2006. Such measures shall be seriously and thoroughly implemented by the Group.

Please refer to the announcement of the Company dated 21 March 2006 and published on the Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard on 22 March 2006 for details of appointment of Horwath RA.

- (II) During the Reporting Period, the Company did not make any profit appropriation, transfer of public reserves to increase share capital and plans for new issue which were recommended in the previous period and implemented in the Reporting Period. The Company does not make profit distribution and does not increase its share capital by transfer from public reserve in the Reporting Period.

### (III) Material Litigation and Arbitration

There was no litigation and arbitration which was material to the Company that occurred during the Reporting Period or has already occurred in the previous periods and subsisted during the Reporting Period.



- (IV) On 9 March 2005, the Company entered into the assignment of debt agreement (the "Assignment of Debt Agreement") with Nanjing Panda Mobile Communication Equipment Co., Ltd. ("Panda Mobile") and Jiangsu Province Investment Management Company Limited (江蘇省投資管理有限責任公司) ("Jiangsu Investment Management"), pursuant to which the Company agreed to the transfer of the RMB500 million (the "Debt") owed by Panda Mobile as at 9 March 2005 to Jiangsu Investment Management and Jiangsu Investment Management agreed to repay the Debt to the Company.

Ever since the signing of the Assignment of Debt Agreement, the Company has proactively liaised with Jiangsu Investment Management for the repayment of the Debt and entered into a further assignment of debt agreement ("Further Assignment of Debt") on 8 May 2006 with Jiangsu Investment Management and Jiangsu International Trust & Investment Corporation Limited (江蘇省國際信託投資有限責任公司) ("Jiangsu International Trust"), pursuant to which Jiangsu International Trust assumed the Debt owed to the Company and the interest incurred thereon. Also, on 8 May 2006, the Company entered into an equity transfer agreement (the "Equity Transfer Agreement") with Jiangsu International Trust, pursuant to which Jiangsu International Trust would transfer 25% equity interest in Hua Fei Colour Display Systems Company Limited (華飛彩色顯示系統有限公司) (the "JIT Shares"), which was valued at RMB522,487,000, to the Company in satisfaction of the Debt. The consideration of transfer of JIT Shares was the Debt, being the total sum of RMB500,000,000 and interests incurred thereon, totaling RMB522,487,000.

During the Reporting Period, the Company completed the audit and evaluation of JIT Shares and the independent financial advisor has given advice to the independent board committee and independent shareholders of the Company. The assignments of the Debt and the transfer of the JIT Shares were considered and approved at extraordinary general meeting of the Company held on 17 August 2006.

The Board was of the opinion that upon completion of the assignments of Debt and the transfer of the JIT Shares, the Company will be able to recover the Debt previously owed by Panda Mobile. Moreover, the Company can share Hua Fei's desirable business results in the industry, thereby increasing investment income and contributing stable income streams to the Company. Therefore, the assignments of Debt and the transfer of the JIT Shares would be in the interests of the Company and the shareholders as a whole.

The transfer of JIT Shares is subject to approval of the relevant governmental authorities.

For details, please refer to the announcements dated 11 May 2006, 1 June 2006, 16 June 2006 and 17 August 2006 which were published on China Securities Journal, Shanghai Securities News, Hong Kong's Ta Kung Pao and The Standard on 12 May 2006, 17 June 2006 and 18 August 2006, the circular dispatched to holders of H shares on 30 June 2006, and the circular published in the designated website of China Securities Regulatory Commission (<http://www.sse.com.cn>) on 8 July 2006.

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

(VI) **Material connected transactions**

The Company had no material connected transaction or asset reorganization save and except the continuing connected transactions of the Company in the first half of 2006 which were conducted in the normal course of business and on normal commercial terms. As the waiver of continuing connected transactions granted by the Hong Kong Stock Exchange expired in year 2004, the Company failed to comply with the requirement under the Listing Rules of the Hong Kong Stock Exchange during the Reporting Period. The Company has reported to the Hong Kong Stock Exchange about the breach. The Company would soon publish a detailed announcement and seek the approval from independent shareholders regarding the continuing connected transactions.

1. **Connected transactions relating to day-to-day operation**

Unit: RMB'000

Name of related parties	Sale of products and provision of services to related parties		Purchase of materials and receipt of services from related parties	
	Amount of transaction	Percentage of amount of similar transaction %	Amount of transaction	Percentage of amount of similar transaction %
Nanjing Panda Television Co., Ltd.	1,129.50	39.57	55.84	6.27
Panda Electronic Group Ltd.	932.77	32.68	564.74	63.46
Nanjing Ericsson Panda Communications Co., Ltd.	535.32	18.75	—	—
Nanjing Panda Electronics Import / Export Co., Ltd.	187.65	6.57	141.55	15.91
Nanjing Tai Lei Zi Panda Transportation System Company Limited	26.71	0.94	—	—
Nanjing Zhen Hua Sound Equipment Plant	—	—	79.82	8.97
Nanjing Panda Hitachi Technology Co., Ltd.	42.45	1.49	—	—
Nanjing Lianhui Communications Technology Co., Ltd.	—	—	48.00	5.39
Total	2,854.40	100	889.95	100

Of which: During the Reporting Period, the connected transactions relating to sale of products and provision of services to the controlling shareholder and its subsidiaries by the Company amounted to RMB22.4992 million.

## 2. Transactions relating to creditor's rights and debt

Unit: RMB 0'000

Name of related parties	Provision of funds to related parties		Provision of funds to the Company by related parties	
	Amount of transaction	Balance	Amount of transaction	Balance
Panda Electronic Group Ltd.	415.86	25,346.78	10,719.92	7,234.23
Nanjing Panda Television Co Ltd.	484.99	1,778.54	—	619.33
Nanjing Ericsson Panda Communications Co., Ltd.	—	1.50	459.21	254.86
Nanjing Panda Electronics Import / Export Co Ltd.	—	50.38	181.35	416.66
Nanjing Wei Chuang Li Terminal Co Ltd.	0.98	—	—	—
Panda Electronic (Hong Kong) Company Ltd.	54.77	2,772.17	—	4.11
Nanjing Panda Chenguang Electronic Co Ltd.	—	1,298.68	—	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	—	2,269.76	—	—
Intenna (Nanjing) Co., Ltd.	9.59	109.59	—	—
Panda Electronics (Kun Shan) Co., Ltd.	—	322.45	2.94	—
Nanjing Panda Hitachi Technology Co., Ltd.	—	19.57	15.39	—
Nanjing Panda Tamura Communications Equipment Co., Ltd.	—	12.57	23.36	—
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	—	195.00	36.83	—
Nanjing Zhen Hua Sound Equipment Plant	49.56	—	320.00	57.95
MPower Batteries (Nanjing) Ltd.	—	—	—	146.07
Nanjing Panda Technology Industrial Co., Ltd.	77.02	—	1,400.00	—
Nanjing Lianhui Communications Technology Co., Ltd.	—	—	48.00	48.00
Total	1,092.77	34,176.99	13,207.00	8,781.21

Of which: During the Reporting Period, the Company provided capital of RMB10.82 million to the controlling shareholder and its subsidiaries and the balance amounted to RMB299.48 million.

## (VII) Material contracts

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

## 2. Significant guarantees

As at 30 June 2006, the Company provided guarantees to its subsidiaries to secure the following: a bank loan of RMB5,000,000 for Nanjing Panda Mechanical Manufacturing Co., Ltd, a bank loan of RMB8,070,200 (equivalent to US\$1 million) for Nanjing Panda Information Industrial Co., Ltd.; a financing lease of RMB6,375,500 for Nanjing Panda Electronic Manufacturing Co., Ltd. ("Electronic Manufacturing"); a bank loan of RMB16,000,000 for Nanjing Huage Appliance and Plastic Industrial Co., Ltd. ("Nanjing Huage").

The guarantees above were granted to its controlling subsidiaries, totaling RMB35,445,700 and representing 2.75% of net asset value of the Company. The gearing ratio of the guaranteed parties above, except Nanjing Huage and Electronic Manufacturing were over 70%.

The Company does not grant any guarantee to independent third parties other than the controlling subsidiary, nor does it provide any guarantee to the controlling shareholder, the de facto controlling person and its connected parties during the Reporting Period.

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



(VIII) During the Reporting Period or in the previous period, and subsisting in the Reporting Period, the Company and its shareholders holding 5% or more of the issued share capital of the Company had no matters of undertaking that might affect the Company's operating results and financial position.

(IX) **Repayment of Capital by PEGL**

Pursuant to the requirements set out in the "Notice of endorsement of opinions from the China Securities Regulatory Committee on raising the quality of listed companies" (《國務院批轉證監會關於提高上市公司質量意見的通知》)(Guo Fa [2005] No. 34) and the "Settlement plan for non-operating capital appropriation of the controlling shareholder" (《控股股東非經營性資金佔用的清欠方案》) (the "Plan") adopted in principle by the Board, the Company has received repayments from PEGL.

PEGL undertook not to increase the appropriation of Company's non-operating fund under the Share Segregation Reform. It further undertook to settle the problem relating to the appropriation of the Company's capital by PEGL by way of cash settlement and satisfaction of debts by assets by the end of 2006 in line with the Plan. The Company will expedite PEGL for repayment of non-operating funds appropriated by PEGL for non-operating purpose in accordance with the Plan.

The balance of non-operating capital appropriated by PEGL and its subsidiaries at the beginning of the Reporting Period was RMB275.31 million and at the end of the Reporting Period was RMB223.39 million. The Company has received a repayment of RMB107.24 million in cash from PEGL by now. The details of the repayments and the progress were as follows:

Time of proposed repayment	Repayment method	Proposed repayment amount (RMB'000)	Actual repayment amount (RMB'000)
By end of April 2006	Cash	1,500	1,500
By end of May 2006	Cash	1,792	1,792
By end of June 2006	Cash	0	1,900
By end of July 2006	Cash	5,383	5,300
By end of August 2006	Cash	0	232
By end of September 2006	Cash and assets	5,000	0
By end of October 2006	Cash	2,772	0
By end of November 2006	Cash	6,500	0
By end of December 2006	Cash	4,584	0
<b>Total</b>		<b>27,531</b>	<b>10,724</b>

\* For details, please refer to the announcements published in the Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao, The Standard and on the website of Shanghai Stock Exchange [www.sse.com.cn](http://www.sse.com.cn) on 1 June, 30 June, 5 July and 8 August 2006.

(X) **Progress of the Share Segregation Reform of the Company**

Reference is made to the announcements dated 26 June 2006, 30 June 2006, 7 July 2006, 25 July 2006 and 28 July 2006 which were published in the Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard on 26 June, 2006 29 June 2006, 6 July 2006, 24 July 2006 and 28 July 2006. The capitalized terms therein are adopted in this section unless otherwise required.

Pursuant to the revised Share Segregation Reform Proposal, PEGL, the sole holder of non-circulating shares of the Company agreed to offer a total of 20,300,000 shares as a consideration to holders of circulating A shares of the Company, whose names appear on the register of members at the close of business on the Reform Implementation and Shareholding Record Date in exchange for the granting of listing status to all non-circulating shares. (i.e. 3.5 Non-circulating Shares are offered to each A Shareholder for every 10 A Shares held by A Shareholders.)

The revised Share Segregation Reform Proposal has been approved by State-owned Assets Supervision and Administration Commission of Jiangsu Province. The revised Proposal was approved at the Relevant A Shareholders' Meeting by way of poll on 28 July 2006. The poll results was published on 31 July 2006 in the Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao, The Standard and on the website <http://www.sse.com.cn> designated by China Securities Regulatory Commission.

According to the requirements of the Notice of Relevant Issues Concerning Share Segregation Reform of Listed Companies involving Administration of Foreign Parties issued by Ministry of Commerce and China Securities Regulatory Commission (《商務部、證監會關於上市公司股權分置改革涉及外資管理有關問題的通知》)(Shang Zi Fa [2005] trading of the No. 565), the revised Proposal of the Company is under the review by Ministry of Commerce at the date of this announcement. The trading of the Company's A Shares remains suspended since 18 July 2006 until the date of resumption of trading to be set out in the Implementation Announcement.

(XI) It was resolved at the Annual General Meeting held on 30 June 2006 that Yue Hua Certified Public Accountant Co., Ltd. and Horwath Hong Kong CPA Limited were re-appointed as domestic and international auditors of the Company for 2006 respectively.

(XII) During the Reporting Period, the Company, the Board and the directors were not subject to any inspection, penalty or criticism of CSRC and other administrative departments, or open condemnation by stock exchanges. No party related to the Company's Directors or senior management was subject to legal actions.

(XIII) The Audit Committee comprising three non-executive Directors and the senior management of the Company have reviewed the Interim Report, the accounting principles and accounting standards and methods adopted by the Company, studied the matters relating to internal control and reviewed the interim results for the Reporting Period. The Audit Committee is of the opinion that the relevant unaudited financial statements comply with the applicable accounting standards and legal requirements and that adequate disclosure has been made.

**(XIV) Other Matters:****1. Income tax**

The Company is registered in Nanjing High Technology Industry Development Zone which is approved by the State Council as a national grade high technology industry development zone. The Company has been approved by Jiangsu Provincial Technological Commission as a high technology enterprise, which is entitled to a preferential income tax rate of 15% as per existing policy. Until now, the Company is still entitled to the preferential policy.

**2. Purchase, sale and redemption of listed securities of the Company or its subsidiaries**

During the Reporting Period, there was no purchase, sale or redemption by the Company or its subsidiaries of its listed securities.

**3. Pre-emptive right**

In accordance with the laws of the PRC and the memorandum and articles of association of the Company, there are no provisions for the preemptive rights for the Company.

**4. Compliance with the Code of Corporate Governance Practices**

The Company has adopted and strived to comply with the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") during the Reporting Period. Save and except the deviations are set out in Item (1) Corporate Governance of Section VI "Significant Events" of the Interim Report.

**5. Compliance with Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")**

During the Reporting Period, the Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Directors and supervisors are responsible for monitoring securities transactions. The Company has made specific enquiry with all Directors and its supervisors who confirmed that they have complied with the Model Code during the Reporting Period.

