

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

## BALANCE SHEET

Unit: RMB

Assets	30 June 2006		31 December 2005	
	Consolidated	Holding company	Consolidated	Holding company
<b>Current assets</b>				
Cash and bank balances	361,237,428.45	270,903,843.16	347,456,855.55	243,011,459.58
Short term investment	—	—	—	—
Bills receivable	6,946,137.03	102,200.00	4,247,216.68	79,200.00
Dividends receivable	—	1,811,197.52	—	1,811,197.52
Interest receivable	—	—	—	—
Accounts receivable	128,059,192.83	1,236,552.38	195,674,049.18	71,670,959.03
Other receivables	893,237,818.86	924,522,830.23	964,009,898.11	1,034,435,923.76
Prepayments	85,814,371.10	43,135,290.35	93,180,070.62	47,746,654.27
Subsidies receivable	—	—	—	—
Stocks	237,471,714.84	137,673,094.55	175,154,976.76	56,292,822.96
Deferred expenses	1,156,465.35	29,518.42	25,213.02	—
Long term debt investment due within one year	—	—	—	—
Other current assets	—	—	—	—
<b>Total current assets</b>	<b>1,713,923,128.46</b>	<b>1,379,414,526.61</b>	<b>1,779,748,279.92</b>	<b>1,455,048,217.12</b>
<b>Long term investments</b>				
Long term equity investments	608,466,521.73	782,069,593.63	531,764,214.80	649,252,289.77
Long term debt investments	—	—	—	—
<b>Total long term investments</b>	<b>608,466,521.73</b>	<b>782,069,593.63</b>	<b>531,764,214.80</b>	<b>649,252,289.77</b>
<b>Fixed assets</b>				
Fixed assets, at cost	515,065,726.52	253,852,125.45	516,502,114.88	261,569,209.10
Less: accumulated depreciation	210,312,105.31	90,944,272.72	205,760,014.39	92,355,974.57
Fixed assets, net	304,753,621.21	162,907,852.73	310,742,100.49	169,213,234.53
less: provision for impairment loss	8,077,479.27	7,792,123.11	8,358,972.32	8,073,616.16
Fixed assets, net	296,676,141.94	155,115,729.62	302,383,128.17	161,139,618.37
Construction supplies	—	—	—	—
Construction in progress	109,345,251.26	109,206,300.18	20,448,127.71	20,390,143.11
Clearance of fixed assets	—	—	—	—
<b>Total fixed assets</b>	<b>406,021,393.20</b>	<b>264,322,029.80</b>	<b>322,831,255.88</b>	<b>181,529,761.48</b>
<b>Intangible and other assets</b>				
Intangible assets	2,457,548.77	1,635,014.14	6,458,416.47	5,535,027.48
Long term deferred expenses	42,672.38	—	42,672.38	—
Other long term assets	—	—	—	—
<b>Total intangible and other assets</b>	<b>2,500,221.15</b>	<b>1,635,014.14</b>	<b>6,501,088.85</b>	<b>5,535,027.48</b>
<b>Deferred tax</b>				
Debit balance of deferred tax	—	—	—	—
<b>Total assets</b>	<b>2,730,911,264.54</b>	<b>2,427,441,164.18</b>	<b>2,640,844,839.45</b>	<b>2,291,365,295.85</b>

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

## BALANCE SHEET (CONTINUED)

Unit: RMB

Liabilities and Shareholders' Equity	30 June 2006		31 December 2005	
	Consolidated	Holding company	Consolidated	Holding company
<b>Current liabilities</b>				
Short term loans	915,070,200.00	886,000,000.00	795,070,200.00	766,000,000.00
Bills payable	9,901,926.93	—	44,065,145.76	20,000,000.00
Accounts payable	150,505,994.45	25,816,659.68	171,980,299.87	26,082,647.86
Advances from customers	92,744,908.31	32,361,472.35	86,573,345.38	27,820,432.58
Salaries payable	343,234.71	4,113.92	1,750,137.23	4,113.92
Staff welfare payable	9,675,365.97	5,235,881.05	8,525,950.44	4,274,265.44
Dividends payable	—	—	—	—
Taxes payable	46,550,342.59	49,536,851.20	45,956,270.55	50,307,921.07
Other accruals	6,344,040.32	5,828,924.36	6,421,539.56	5,855,442.45
Other payables	156,376,500.64	122,448,043.61	172,416,750.41	121,310,624.75
Accrued expenses	10,618,585.72	2,832,217.14	10,994,929.57	4,633,994.15
Provisions	—	—	—	—
Long term liabilities due within one year	—	—	—	—
Other current liabilities	—	—	—	—
<b>Total current liabilities</b>	<b>1,398,131,119.64</b>	<b>1,130,064,163.31</b>	<b>1,343,754,568.77</b>	<b>1,026,289,442.22</b>
<b>Long term liabilities</b>				
Long term loans	—	—	—	—
Bonds payables	—	—	—	—
Long term payables	6,375,564.00	—	—	—
Specific payables	—	—	—	—
Other long term liabilities	—	—	—	—
<b>Total long term liabilities</b>	<b>6,375,564.00</b>	<b>—</b>	<b>—</b>	<b>—</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>1,404,518,234.28</b>	<b>1,130,075,713.95</b>	<b>1,343,766,119.41</b>	<b>1,026,300,992.86</b>
<b>Minority interests</b>	<b>37,425,486.24</b>	<b>—</b>	<b>38,841,260.69</b>	<b>—</b>
<b>Shareholders' equity</b>				
Share capital	655,015,000.00	655,015,000.00	655,015,000.00	655,015,000.00
Capital reserve	480,208,784.04	480,208,784.04	480,208,784.04	480,208,784.04
Surplus reserve	188,137,542.53	188,137,542.53	188,137,542.53	188,137,542.53
Unrecognized loss of investment	(6,855,103.10)	—	(6,440,994.67)	—
Undistributed profits	(27,538,679.45)	(25,995,876.34)	(58,682,872.55)	(58,297,023.58)
Including: proposed cash dividend	—	—	—	—
Difference in conversion of foreign exchange	—	—	—	—
<b>Total shareholders' equity</b>	<b>1,288,967,544.02</b>	<b>1,297,365,450.23</b>	<b>1,258,237,459.35</b>	<b>1,265,064,302.99</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,730,911,264.54</b>	<b>2,427,441,164.18</b>	<b>2,640,844,839.45</b>	<b>2,291,365,295.85</b>

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

PROFIT AND LOSS STATEMENT

Unit: RMB

Items	Jan - Jun 2006		Jan - Jun 2005	
	Consolidated	Holding company	Consolidated	Holding company
1. <b>Income from principal operations</b>	<b>355,706,000.15</b>	<b>21,817,204.15</b>	340,026,439.38	49,520,490.05
Less: Costs for principal operations				
Business taxes and surcharges	303,862,474.25	16,224,893.85	293,245,764.58	38,507,717.18
	<u>2,104,166.60</u>	<u>2,514.15</u>	<u>1,430,488.27</u>	<u>27,655.63</u>
2. <b>Profit from principal operations</b>	<b>49,739,359.30</b>	<b>5,589,796.15</b>	45,350,186.53	10,985,117.24
Add: Profit from other operation	4,823,872.98	1,587,991.30	5,296,091.42	2,636,250.79
Less: Sales expenses	12,661,450.16	216,089.52	10,919,538.86	1,391,538.66
Administrative expenses	46,650,811.66	25,400,937.22	61,212,690.46	45,916,213.89
Financial expenses	25,994,408.02	24,665,754.00	30,662,113.79	28,714,370.42
3. <b>Operating Profit</b>	<b>(30,743,437.56)</b>	<b>(43,104,993.29)</b>	(52,148,065.16)	(62,400,754.94)
Add: Profit from investment	66,702,306.93	77,235,029.82	100,754,664.04	107,731,162.16
Subsidy income	771,571.17	—	309,964.16	—
Non-operating income	505,125.33	11,140.00	2,974,328.35	2,784,499.03
Less: Non-operating expenses	1,969,135.53	1,840,029.29	3,650,122.35	3,853,631.69
4. <b>Total profit</b>	<b>35,266,430.34</b>	<b>32,301,147.24</b>	48,240,769.04	44,261,274.56
Less: Profits tax	1,658,534.50	—	963,780.44	—
Minority interests	2,877,811.17	—	3,015,714.04	—
Add: unacknowledged loss in investment	414,108.43	—	—	—
5. <b>Net profit</b>	<b>31,144,193.10</b>	<b>32,301,147.24</b>	44,261,274.56	44,261,274.56
Add: Undistributed profit from the beginning of the year	(58,682,872.55)	(58,297,023.58)	(140,697,582.62)	(140,697,582.62)
Transfer from surplus reserve	—	—	—	—
6. <b>Distributable profit</b>	<b>(27,538,679.45)</b>	<b>(25,995,876.34)</b>	(96,436,308.06)	(96,436,308.06)
Less: Transfer to statutory surplus reserve	—	—	—	—
Transfer to statutory public welfare fund	—	—	—	—
7. <b>Profit distributable to shareholders</b>	<b>(27,538,679.45)</b>	<b>(25,995,876.34)</b>	(96,436,308.06)	(96,436,308.06)
Less: Distributable payable for preference shares	—	—	—	—
Transfer to discretionary surplus reserves	—	—	—	—
Dividends payable for ordinary shares	—	—	—	—
Dividends for ordinary shares transferred to capital	—	—	—	—
8. <b>Transferred to capital Undistributed profit</b>	<b>(27,538,679.45)</b>	<b>(25,995,876.34)</b>	<b>(96,436,308.06)</b>	<b>(96,436,308.06)</b>

Supplementary Information:

Items	Jan - Jun 2006		Jan - Jun 2005	
	Consolidated	Holding company	Consolidated	Holding company
1. Gain from sales of entities held for disposal and invested units	—	—	(17,400.00)	(17,400.00)
2. Loss from natural disasters	—	—	—	—
3. Increase (decrease) in the total profit from changes in accounting policies	—	—	—	—
4. Increase (decrease) in the total profit from changes in accounting estimations	—	—	—	—
5. Loss from debt reorganisation	—	—	—	—
6. Others	—	—	—	—

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

## CASH FLOW STATEMENT

Unit: RMB

Items	Jan - Jun 2006	
	Consolidated	Holding Company
<b>1. Cash flows from operating activities</b>		
Cash received from the sale of goods and services provided	480,295,005.21	101,564,414.29
Return of tax payment	1,940,619.98	—
Other cash received relating to operating activities	960,043,082.54	842,230,506.73
<b>Sub-total of cash inflows</b>	<b>1,442,278,707.73</b>	<b>943,794,921.02</b>
Cash paid on purchase of goods and services	358,602,947.18	66,447,349.31
Cash paid to staff and paid on behalf of staff	58,054,480.79	19,726,350.38
Taxes paid	23,526,162.13	1,879,606.41
Cash paid relating to operating activities	1,018,895,606.15	845,713,692.99
<b>Sub-total of cash outflows</b>	<b>1,459,079,196.25</b>	<b>933,766,999.09</b>
<b>Net cash flows from operating activities</b>	<b>(16,800,488.52)</b>	<b>10,027,921.93</b>
<b>2. Cash flows from investment activities:</b>		
Cash received from investment recovered	—	—
Including: Cash received from disposal of subsidiaries	—	—
Cash received from investment income	—	—
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	747,970.00	46,870.00
Other cash received relating to operating activities	—	—
<b>Sub-total of cash inflows</b>	<b>747,970.00</b>	<b>46,870.00</b>
Cash paid on purchase of fixed assets, intangible assets and other long term assets	13,359,239.30	322,254.00
Cash paid for investment	10,000,000.000	55,582,274.04
Including: cash paid on operation acquisition of subsidiaries	—	—
Cash paid on other investment activities	—	—
<b>Sub-total of cash outflows</b>	<b>23,359,239.30</b>	<b>55,904,528.04</b>
<b>Net cash flows from investment activities</b>	<b>(22,611,269.30)</b>	<b>(55,857,658.04)</b>
<b>3. Cash flows from financing activities:</b>		
Cash received from investment	—	—
Including: cash received by subsidiaries from equity investment of minority shareholders	—	—
Cash received from borrowings	633,500,000.00	624,000,000.00
Cash received from other financing activities	—	—
<b>Sub-total of cash inflows</b>	<b>633,500,000.00</b>	<b>624,000,000.00</b>
Cash paid on repayment of debts	513,500,000.00	504,000,000.00
Cash paid on distribution of dividends or profits, or interest repayment	35,277,855.01	27,331,514.31
Including: cash paid on minority's dividend	—	—
Cash paid on other financing activities	(50,964.15)	—
Including: cash paid on minority shareholders by subsidiaries in capital diminution according to laws	—	—
<b>Sub-total of cash outflows</b>	<b>548,726,890.86</b>	<b>531,331,514.31</b>
<b>Net cash flows from financing activities</b>	<b>84,773,109.14</b>	<b>92,668,485.69</b>
<b>4. Effect on cash due to foreign currency exchange</b>	<b>3,372.89</b>	<b>—</b>
<b>5. Net increase in cash and cash equivalents</b>	<b>45,364,724.21</b>	<b>46,838,749.58</b>

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

## CASHFLOW SUPPLEMENTARY INFORMATION

Unit: RMB

Items	Jan - Jun 2006	
	Consolidated	Holding Company
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>		
Net profit	31,144,193.10	32,301,147.24
Add: Minority interests	2,877,811.17	—
Unrecognized loss from investment	414,108.43	—
Provision for impairment loss on assets	(16,216,139.19)	(12,659,211.90)
Depreciation of fixed assets	13,845,278.15	3,731,638.46
Amortisation of intangible assets	4,000,867.70	3,900,013.34
Amortisation of long term deferred expenses	—	—
Decrease (less: increase) in deferred expenses	(1,131,252.33)	(29,518.42)
Increase (less: decrease) in accruals	(376,343.85)	(1,801,777.01)
Loss (less: income) arising from disposal of fixed assets, intangible assets and other long term assets	1,575,469.75	1,833,029.29
Loss from fixed assets scrapped	—	—
Financial expense	25,994,408.02	24,665,754.00
Loss (less: gain) on investment	(66,702,306.93)	(77,235,029.82)
Deferred tax debt balance (less: credit balance)	—	—
Decrease (less: increase) in inventories	(62,297,643.79)	(81,887,003.69)
Decrease (less: increase) in trade debtors	116,584,158.69	131,371,430.60
Increase (less: decrease) in trade creditors	(66,513,097.44)	(14,162,550.16)
Others	—	—
Net cash flows from operating activities	<u>(16,800,488.52)</u>	<u>10,027,921.93</u>
<b>2. Investment and financial activities not involving cash:</b>		
Debt capitalization	—	—
Convertible bonds due within one year	—	—
Lease of fixed assets by financing	—	—
<b>3. Net increase in cash and cash equivalents:</b>		
Cash balance as at end of the year	361,237,428.45	270,903,843.16
Less: deposits at end of the year	13,363,860.19	1,053,634.00
Less: cash balance as at beginning of the year	347,456,855.55	243,011,459.58
Add: deposits at beginning of the year	44,948,011.50	20,000,000.000
Add: balance of cash equivalents as at the end of the year	—	—
Less: balance of cash equivalents as at the beginning of the year	—	—
Net increase in cash and cash equivalents	<u>45,364,724.21</u>	<u>46,838,749.58</u>

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

## PROVISION FOR IMPAIRMENT OF ASSETS CONDENSED STATEMENT (CONSOLIDATED)

Unit: RMB

Items	31 December 2005	Increase in the period	Transfer to the period	Transfer out in the period	30 June 2006
<b>1. Total provision for bad debt</b>	184,527,057.38	(145,610.48)	15,351,000.00	5,779,598.98	163,250,847.92
Including: Accounts receivable	27,393,431.82	742,629.63	—	5,779,598.98	22,356,462.47
Other accounts receivable	157,133,625.56	(888,240.11)	15,351,000.00	—	140,894,385.45
<b>2. Total provision for impairment of short term investment</b>	—	—	—	—	—
Including: Share investment	—	—	—	—	—
Bond investment	—	—	—	—	—
<b>3. Total provision for impairment of inventories</b>	36,272,074.03	(1,992,540.62)	—	—	34,279,533.41
Including: Raw materials	14,838,299.12	1,927,801.13	—	—	16,766,100.25
Stored commodities	12,829,510.64	3,543.73	—	—	12,833,054.37
<b>4. Total provision for impairment of long term investment</b>	18,734,950.26	—	—	—	18,734,950.26
Including: Long term share investment	18,734,950.26	—	—	—	18,734,950.26
Long term bond investment	—	—	—	—	—
<b>5. Total provision for impairment of fixed assets</b>	8,358,972.32	—	—	281,493.05	8,077,479.27
Including: Housing, building	285,356.16	—	—	—	285,356.16
and machinery	6,944,208.51	—	—	4,058.76	6,940,149.75
<b>6. Provision for impairment of intangible assets</b>	210,000.00	—	—	—	210,000.00
Including: License	210,000.00	—	—	—	210,000.00
Trademark	—	—	—	—	—
<b>7. Provision for impairment of construction in progress</b>	26,213,948.90	—	—	—	26,213,948.90
<b>8. Provision for impairment of entrusted loans</b>	—	—	—	—	—

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

## PROVISION FOR IMPAIRMENT OF ASSETS CONDENSED STATEMENT (PARENT COMPANY)

Unit: RMB

Items	31 December 2005	Increase in the period	Transfer to the period	Transfer out in the period	30 June 2006
<b>1. Total provision for bad debt</b>	143,881,762.11	2,691,788.10	15,351,000.00	—	131,222,550.21
Including: Accounts receivable	2,702,115.83	(277.81)	—	—	2,701,838.02
Other accounts receivable	141,179,646.28	2,692,065.91	15,351,000.00	—	128,520,712.19
<b>2. Total provision for impairment of short term investment</b>	—	—	—	—	—
Including: Share investment	—	—	—	—	—
Bond investment	—	—	—	—	—
<b>3. Total provision for impairment of inventories</b>	—	—	—	—	—
Including: Raw materials	—	—	—	—	—
Stored commodities	—	—	—	—	—
<b>4. Total provision for impairment of long term investment</b>	14,778,313.39	—	—	—	14,778,313.39
Including: Long term share investment	14,778,313.39	—	—	—	14,778,313.39
Long term bond investment	—	—	—	—	—
<b>5. Total provision for impairment of fixed assets</b>	8,073,616.16	—	—	281,493.05	7,792,123.11
Including: Housing, building and machinery	6,944,208.51	—	—	4,058.76	6,940,149.75
<b>6. Provision for impairment of intangible assets</b>	—	—	—	—	—
Including: License	—	—	—	—	—
Trademark	—	—	—	—	—
<b>7. Provision for impairment of construction in progress</b>	26,213,948.90	—	—	—	26,213,948.90
<b>8. Provision for impairment of entrusted loans</b>	—	—	—	—	—

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

**NOTES TO THE FINANCIAL STATEMENTS**

From 1 January 2006 to 30 June 2006

*(Amounts expressed in Renminbi ("RMB") 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. 34. It turned into Nanjing Panda Electronics Company Limited (Present name) later. by its sole promoter, Panda Electronics Group Company Limited (PEGCL), acquired the Company's 480,000,000 state-owned legal person shares in establishment with a consideration of total net asset value of 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, stationaries 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 PEGCL as well as re-affirming the stateowned 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, 35,000,000 employee's shares, 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 RMB 322,870,000.00 to RMB390,015,000.00. It was diverted into 355,015,000 state-owned legal person shares and 35,000,000 employee's shares. All the above were recorded in accounting books at par and were fully paid and distributed.

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

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

The Company gained approval from the document from Securities Supervision and Management Committee of the State Council on 30 October 1996 of issuing Zheng Gan Fa Zi (1996) No. 304, to issue 23,000,000 ordinary shares in RMB to the public. Selling price is RMB5.10 per share. At 14 November 1996, all fees for allotment was received in full and the stock was listed on Shanghai Securities Exchange at 18 November 1996. The 35,000,000 internal employee's shares including 5,000,000 shares originally planned to be a source of financing was also listed after completion of issuing shares. Another 30,000,000 shares were listed and started circulating in 1999.

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 03967 18 April 1997. Its registered capital was 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, 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 PEGCL and was transferred interests in Nanjing Panda Mechanical Engineering Plant and Shenzhen Jinghua Electronic Co., Ltd. from PEGCL.

On 10 March 2005, the People's Court of Xuan Wu District of Nanjing City issued a civil ruling letter (2005) Xuan Zhi Zi No. 243, which ruled that the Company offset the debt owed to Nanjing Wei Te Investment Management Company Limited by the 51% equity interests held in Nanjing Panda Mobile Communications Equipment Co., Ltd valued at RMB19.9932 million and the 95% equity interests held in Nanjing Panda Communications Development Co., Ltd. valued at RMB100.0242 million, totally RMB120.0174 million. The Company acted according to the ruling of the court and offset the debt owed to Nanjing Wei Te Investment Management Company Limited by the 51% equity interests held in Nanjing Panda Mobile Communications Equipment Co., Ltd and the 95% equity interests held in Nanjing Panda Communications Development Co., Ltd. The above two companies made shareholder modification registration in accordance with the company's modification check and approval notice issued by Enterprise Registration Branch of Nanjing Industrial and Commercial Administration Bureau on 11 March 2005.







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

**1. Accounting System**

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

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

Save as shareholders' equity translated on the market rate as announced by People's Bank of China on the transaction date, other items are translated into 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 one year is included in short term investment, and the loan falling due after one 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%
Exceeding three years	60%

The Company will make provision on bad debts of its associate Beijing SE Putian Mobile Communication Limited after evaluating the possibilities of recovering and determining with clear evidence that the receivable is unrecoverable. Trade debtors include amounts due from related parties and amounts due from unrelated parties. Should there be evidence that it is difficult to recover any amounts due from related parties or unrelated parties, a special provision for bad debts is made. In the event there is clear evidence showing no possibilities to recover any outstanding trade debtors, such trade debtors are stated as loss from bad debts and written off from provision for bad debts.

Nanjing Ericsson Panda Communication Co., Ltd, an associated company of the Company, adopted provision method for impossible bad debts, and individual recognized method to determine provision for bad debts for recoverable and obvious different to other accounts receivable. For other undetermined accounts receivable of provision for bad debts, the provision is determined by aging analysis by the following percentage:

Exceeding credit period	Percentage of provision for bad debts
Within one year	0%
More than one year	100%





#### 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) The Company adopts perpetual inventory method for its inventory system.
- (3) 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.
- (4) Low-value consumables and packaging materials are charged to cost expense on one-time basis upon collection.
- (5) 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).
  - (b) Amortization and period for difference in long term equity investment: Difference in equity investment, which is the initial investment costs of long-term equity investment 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 is amortized on an equal basis over a period of ten years. From 17 March 2003, in accordance with the provisions of Answers to Relevant Issues about Implementing the Business Accounting System and Related Accounting Principles (PartII) (Cai Kuai [2003] Doc No.10) promulgated by the Ministry of Finance, 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) Long term debt investment is stated as the initial cost based on the actual payment upon acquisition. The initial investment cost is the entire and actual payment (including the relevant fees such as taxes, handling fee and so on) less the due and uncollected portion of interest. If the amount of the relevant fees such as taxes, handling fee and so on is less, it will be stated as financial expenses over the current period other than initial investment cost.
  - (b) Recognition of interest income from long term debt investment. Interest income rising from long term debt investment is calculated and recognized based on the par value and the par interest rate over the relevant period. Premiums or discounts of bonds are stated as the initial cost of Long term debt investment less due and uncollected bond interest, undue bond interest, and the relevant tax fees stated into initial cost of bond investment, 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.
  - (c) Disposing of long term debt investment, the difference between the actually gained amount and the carrying account of long term debt investment is treated as investment the profit and loss account for the current period.

## (3) Calculation of provision for impairment of long term debt investment

At the end of each Reporting Period or at the end of the year, the Company made provision for impairment of long term debt investment by the difference between the recoverable value lower than the book value of certain investment, and included into the profit and loss account for the current period. For long term investment with fair value, whether provision for impairment shall be made or not based on the following evidence: 1) its fair value lower than the book value in continual two year; 2) the investment temporarily stopped transaction for one year; 3) material loss incurred in invested unit for the current year; 4) loss incurred in invested unit for continual two years; 5) liquidation or other evidence of unable continually operation in invested unit.

For long term investment without fair value, whether provision for impairment shall be made or not based on the following evidence: 1) political or legal environment change affecting invested unit's operation, such as issue or revision of tax and trading related regulations, may result in great loss incurred in invested unit; 2) market demand changes arising from out-fashion product or change in customer hobby for products or labor provided by invested unit, so that invested unit's financial status materially deteriorated; 3) changes occurred in industrial production technology of invested unit or in numbers of competitors, so that invested unit lost competition and its financial status materially deteriorated; 4) invested unit's financial status and cash flow materially deteriorated, such as liquidation etc..

The value in long term investment with recognised loss is recovered, and is reversed in amount recognised investment loss.

**13. Fixed Assets and Depreciation**

- (1) Recognition of fixed assets: Fixed assets referred to the tangible assets of the following natures: production of products, provision of labor, holding for lease or operating, 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 starting from the next month after they have been restored to the conditions of their intended use. 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:

	Residual rate (%)	Useful life (year)	Annual rate of depreciation (%)
Buildings	5	30	3.17
Machinery and equipment	5	8 - 11	11.875 - 8.636
Transportation vehicle	5	10	9.5
Electronic equipment	5	5 - 7	19 - 13.571
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.
- (a) 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;
  - (b) Fixed assets are obsolete and damaged;
  - (c) 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;
  - (d) 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;
  - (e) There is a significant increase in the market interest rate, posing a potential impact on the discount rate on the expected recoverable amount by the Company, thereby resulting in significant decrease in recoverable amount from fixed assets; and
  - (f) 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.
  - (a) 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;
  - (b) The project constructed has been lagging behind both in terms of functionality or technology, and will generate very uncertain economic benefits for the Company;
  - (c) 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 Borrowing Costs**

Interest, discount or premium amortization, and foreign exchange conversion differences accrued in connection with special borrowings borrowed for the acquisition or construction of fixed assets will be capitalized under all of the following three conditions, and will be included into the costs of such assets. Other interest, discount or premium amortization, and foreign exchange conversion differences as a result of borrowing will be included into the expenses for the current period in which they are accrued. Auxiliary expenses as a result of special borrowings which are accrued before the fixed assets acquired or constructed come into an expected usable state will be capitalized when they are accrued. Auxiliary expenses as a result of special borrowings which are accrued after the fixed assets acquired or constructed come into an expected usable state will be included into expenses for the current period in which they are accrued. Small quantities of such auxiliary expenses will be included into the expenses for the current period in which they are accrued. Auxiliary expenses as a result of other borrowings will be included into the expenses for the current period in which they are accrued.

**(2) During Capitalization of Borrowing Costs**

- (a) **Beginning of Capitalization:** Interest, discount or premium amortization, and foreign exchange conversion differences accrued in connection with special borrowings will be capitalized under all of the following three conditions: 1. capital expenditure has been incurred; 2. borrowing costs have been incurred; 3. acquisition or construction necessary for the assets to come into an expected usable state has been carried out.
- (b) **Suspension of capital :** Acquisition or construction of fixed assets undergo ordinary suspension, and the suspension lasts for more than 3 months consecutively, then the capitalization of suspension borrowing cases will be recognized as current costs, until the acquisition or construction of assets costs, until the acquisition or construction of assets starts again.
- (c) **Stop of Capitalization:** when acquisition or construction of fixed assets come into an expected usable state, then stop the capitalization of borrowing costs.

**(3) Capitalized Amount of Borrowing Costs**

The capitalized interest amount for each accounting period is a product derived by multiplying a weighted average, calculated on the basis of the accumulated expenditure on the assets not yet acquired and constructed at the current period, by a capitalization rate.

**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:
- (a) 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;
  - (b) The market value has fallen substantially in the current period and is not expected to recover in the remaining amortization period;
  - (c) The intangible assets have exceeded the term protected by laws but some of them can still be used; and/or
  - (d) 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 capitalization of borrowing costs, and included into project costs or current financial expenses.

**19. Verification of Estimated Liabilities**

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

**20. Recognition of Revenue**

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

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

**21. Accounting for Income Tax**

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

**22. Principle of determination and Method of consolidating the Financial Statements**

- (1) Consolidated financial statements are compiled in accordance with the requirements of the Tentative Provisions for Consolidated Financial Statements of the Ministry of Finance and other relevant provisions. For invested units in which the Company accounts for more than 50% voting right or below 50% but with significant control, their financial statements will be consolidated. Based on financial statements of the Company and consolidated subsidiaries and other related information, consolidated financial statements offset all investments, flows, purchasing and sales of capital and other material transactions and unrealized profit and losses, consolidate item by item, individually state minority interest and minority losses.
- (2) Share of minority interest is determined on the basis of share of each subsidiary owner's equity of the Company less share of the holding company. Minority loss is determined by the difference between realized profit and losses of each subsidiary for the year and investment profit of the holding company.
- (3) In the event there is an inconsistency of accounting policies and accounting estimates between the subsidiary and the Company, according adjustments to the financial statements of subsidiaries have been made according to the accounting policy and accounting estimate of the Company prior to prepare consolidated financial statements.

**23. Impact of changes in accounting policies and accounting estimates during Reporting Period**

- (1) Change in accounting policy  

In accordance with Circular Cai Qi [2006] No. 67, which reads "From 1 January 2006, enterprises established under Company Law shall carry out profit appropriation in accordance with Article 167 of Company Law. No transfer to public welfare fund shall be made. In order to maintain the consistency of the accounting policies among enterprises, the public welfare fund shall be cancelled from the accounts of both state-owned enterprises and other enterprises. The balance of the public welfare fund as at 31 December 2005 shall be transferred to surplus reserve", the Company made retrospective adjustments to the balance of its public welfare fund as at 31 December 2005 during the reporting period.
- (2) Change of accounting estimates  

No significant changes in accounting estimates for the Company during the reporting period.

**24. Revision and impact of significant accounting error**

The Company did not have any revision of significant accounting error.







(3) Tax

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

1. Enterprise income tax

On 29 August 1995, the Company was certified as a high-tech enterprise by Jiangsu Provincial Science and Technology Committee and is entitled to preferential income tax policy. The Company has been paying taxes at a rate of 15% of the amount of assessable income since 1 January 1995.

The applicable tax rates for income tax of the Company's subsidiaries range from 15% to 33%. The Company's subsidiaries made registration at Jiangning Economic and Technological Development Zone (江寧經濟技術開發區), is entitled to preferential income tax policy of "two exemptions and three half-reduction" from the year of making profit according to the approval of the Administration Committee of Jiangning Economic and Technological Development Zone (江寧經濟技術開發區管理委員會).

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 and 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, construction and installation, etc.

Of this tax, the tax rate of revenue from lease of premises is 5% while the tax rate of revenue from construction and installation is 3%.

4. Urban development tax and education surcharge

The Company's Urban development tax and education surcharge are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 4% respectively.

5. Real property tax

Tax is calculated on the basis of 70% of the original value of the Company's real property. The applicable tax rate is 1.2%.

In addition, if premises are leased, tax is calculated on the basis of the revenue from the lease of such premises. The applicable tax rate is 12%.

## (4) Controlling Subsidiaries and Joint Venture Companies

Particulars of subsidiaries and joint venture companies are as follows:

Name	Registered capital 0,000	Investment 0,000	% of equity held		Principal operations	Consolidated or not	Note
			Direct	Indirect			
Nanjing Panda Electronic Material Co., Ltd.	RMB53.00	RMB50.00	94.34	—	metallic, chemical, electronic	Y	
Shenzhen Panda Electronic Co., Ltd.	RMB650.00	RMB617.50	95.00	—	home appliance telecommunication equipment and appliance and apparatus	Y	
Nanjing Panda Technology Equipment Co., Ltd.	RMB500.00	RMB350.00	70.00	—	production and installation of production line	Y	
Nanjing Panda International Telecommunication System Co., Ltd.	USD124.00	RMB765.50	72.00	—	development, production sale of telephone and telecommunication system	Y	
Nanjing Guanghua Electronic	RMB1,149.76	RMB827.11	71.94	—	PVC, ABS products	Y	
Nanjing Panda Information Industry Co., Ltd.	USD740.00	RMB4,400.00	72.00	—	development, production and sale of electronic information products	Y	
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	Y	
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	Y	
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	Y	
Nanjing Panda Mechanical Manufacturing Co., Ltd.	RMB500.00	RMB350.00	70.00	—	metal components	Y	
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	RMB3,000.00	RMB3,000.00	100.00	—	plastic product & accessories	Y	
Nanjing Panda Machinery Co., Ltd.	RMB300.00	RMB210.00	70.00	—	processing and manufacturing of mechanical parts	Y	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	RMB100.00	RMB51.00	51.00	—	production and sales of household appliance	N	1
Nanjing Electronic Calibration Co., Ltd.	RMB100.00	RMB70.00	70.00	—	accreditation of electromechanical products	Y	
Nanjing Panda System Integration Co., Ltd.	RMB300.00	RMB180.00	51.00	—	development and sales of computer software	Y	
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	USD80.00	RMB331.08	50.00	—	development, production and sales of power supply equipment	N	2
Nanjing Panda Electronics Manufacturing Co., Ltd.	USD1000.00	RMB3724.11	75.00	—	development and production of new models of electronic products	Y	
Nanjing Panda Power Sources Technology Co., Ltd.	RMB1100.00	RMB875.00	79.55	—	design, production and sales of power sources and special type power transformer	Y	

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.



(5) Notes to the Consolidated Financial Statements

1. Cash and bank balances

Item	30 June 06	31 December 2005
Cash	452,977.56	578,920.85
Bank deposit	239,420,590.70	290,716,923.20
Other Cash and bank deposit	121,363,860.19	56,161,011.50
<b>Total</b>	<b>361,237,428.45</b>	<b>347,456,855.55</b>

2. Bills receivable

Type of bills	30 June 2006	31 December 2005
Bank acceptance notes	6,946,137.03	4,247,216.68
Commercial notes	—	—
<b>Total</b>	<b>6,946,137.03</b>	<b>4,247,216.68</b>

- (1) The period-end bills receivables include no amount due from shareholders with 5% or above of shareholding (with voting power) in the Company.
- (2) The period-end bills receivable have no pledge or security.
- (3) The discount business of bank acceptances without the accounting of the item transacted by Nanjing Huage Dian Qi Plastic Industrial Co., Ltd., a subsidiary of the Company for Nanjing Panda Television Co., Ltd. has the bank acceptances balance with discounted and without at term is RMB152,580,000, while the expenditure occurred in this discount business is afforded by Nanjing Panda Television Co., Ltd.

3. Accounts receivable

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

Item	30 June 2005			31 December 2005		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within 1 year	118,675,695.13	78.90	5,450,464.30	183,872,400.78	82.43	5,373,428.07
1 - 2 years	8,925,157.94	5.93	1,162,048.58	15,012,189.61	6.73	1,414,995.71
2 - 3 years	7,109,291.71	4.73	2,319,740.80	3,834,317.19	1.72	1,559,259.56
Over 3 years	15,705,510.52	10.44	13,424,208.79	20,348,573.42	9.12	19,045,748.48
<b>Total</b>	<b>150,415,655.30</b>	<b>100.00</b>	<b>22,356,462.47</b>	<b>223,067,481.00</b>	<b>100.00</b>	<b>27,393,431.82</b>

- (2) The percentage of provision for bad debt is set out on note II. 10.
- (3) The period-end accounts receivable include a loan of RMB2,459,063.49 due from Panda Electronic Group Ltd., which was held by the Company as to 54.20% (with voting power).
- (4) The five largest debtors amounted to RMB52,587,027.72, accounting for 34.96% of the total value of the accounts receivable, including:

Debtors	Outstanding amounts RMB	Time	Nature of debts
Nanjing Sharp Electronic Co., Ltd.	14,022,113.20	Within 1 year	Trade receivables
Nanjing Panda Television Co., Ltd.	11,816,120.76	Within 1 year	Trade receivables
PACIC DIGIT CORP	9,885,083.56	Within 1 year	Trade receivables
Bao De Shi Qin Technology (Suzhou) Co., Ltd.	8,919,078.23	Within 1 year	Trade receivables
Ericsson Lorom Technology (Hongzhou) Company Limited	7,944,631.97	Within 1 year	Trade receivables
<b>Total</b>	<b>52,587,027.72</b>		

- (5) Accounts receivables with full provision or big percentage of provision for bad debts for the current year .

Units name	Amount RMB	Time	Amount provision for bad debt	Percentage of provision for bad debt	Cause of provision for bad debt
Sanjiao Communication Technology Development (Anhui) Company Limited	2,598,262.42	More than 3 years	2,598,262.42	100	Can't be recovered
Wuxi Dayu Home Appliance Manufacture Company Limited	1,417,016.00	More than 3 years	1,417,016.00	100	Can't be recovered
<b>Total</b>	<b><u>4,015,278.42</u></b>		<b><u>4,015,278.42</u></b>		

- (6) The amount at the reporting period decreased by 34.55% from the end of 2005, mainly due to the recovery of account sales of satellite communication products during 2005.

4. Other receivable

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

Item	30 June 2006			31 December 2005		
	Amount RMB	Percentage %	Provision for Bad debts	Amount	percentage %	Provision for Bad debts
Within 1 year	579,521,976.18	56.04	22,395,224.31	946,631,289.87	84.43	24,928,150.35
1 - 2 years	348,179,659.34	33.67	30,957,838.54	28,001,477.23	2.50	25,849,635.47
2 - 3 years	23,710,226.14	2.29	10,972,113.64	59,112,370.37	5.27	21,382,376.08
More than 3 year	82,720,342.65	8.00	76,569,208.96	87,398,386.20	7.80	84,973,463.66
<b>Total</b>	<b><u>1,034,132,204.31</u></b>	<b><u>100.00</u></b>	<b><u>140,894,385.45</u></b>	<b><u>1,121,143,523.67</u></b>	<b><u>100.00</u></b>	<b><u>157,133,625.56</u></b>

- (2) Percentage of bad debt provision can be referred to Note (2)10.
- (3) The period -end other receivables include RMB250,237,083.08 due from shareholders with 54.20% of shareholding (with voting power) in the Company.
- (4) The 5 biggest debtors owing other receivables at the end of the period amounting to the total of RMB880,130,399.10, accounting for 85.11% of the total other receivables for the year. The debtors are:

Debtors	Outstanding amounts	Date of debts	Nature of debts
Jiangsu Provincial Investment Management Co., Ltd.	500,000,000.00	1-2 years	Current
Panda Electronics Group Limited	250,237,083.08	Within 1 year	Borrowings
Land Resources Bureau of Nanjing	80,000,000.00	1-2 years	land requisition compensation
Panda Electronic (Hong Kong) Company Co., Ltd.	27,721,710.80	2-3 years and more than 3 years	Current accounts and investment fund
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd	22,171,605.22	more than 3 years	Current accounts and investment fund
<b>Total</b>	<b><u>880,130,399.10</u></b>		



(5) Other receivables with full provision or big percentage of provision for bad debt for the current year:

Name of invested companies	Amount of debts	Date of debts	Amounts provision for bad debts	Percentage of provision for bad debts (%)	Cause of provision for bad debts
Jiangsu Investment Management Co., Ltd	500,000,000.00	1 - 2 years	22,275,000.00	4.46	Provision based on the ages
Panda Electronics Group Limited	250,237,083.08	Within 1 year	11,271,506.57	4.50	Provision based on the ages
Panda Electronic (Hong Kong) Company Ltd.	27,721,710.80	2-3 years more than 3 years	17,004,419.60	61.34	Partly unrecoverable
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd	22,171,605.22	More than 3 years	22,171,605.22	100.00	Dormant
Nanjing Panda Chenguang Electronics Group Limited	12,986,830.72	More than 3 years	12,986,830.72	100.00	Dormant
Nanjing Panda Network Technology Co., Ltd.	5,936,714.40	2 - 3 years	5,936,714.40	100.00	Dormant
Land Resources Bureau of Nanjing Network Co., Ltd.	80,000,000.00	1 - 2 years	4,800,000.00	6.00	Provision based on the ages
Shanghai Zhongtong Information Network Co., Ltd.	3,420,000.00	More than 3 years	3,420,000.00	100.00	unreachable
Nanjing Panda Digital Technology Development Co., Ltd.	2,000,000.00	More than 3 years	2,000,000.00	100.00	Unrecoverable
Panda Electronic Group Labour Service Company	1,851,271.47	Within 1 - 2 years	1,851,271.47	100.00	Bankrupt and in liquidation
<b>Total</b>	<b>906,325,215.69</b>		<b>103,717,347.98</b>		

5. Prepayment

(1) The ageing analysis of payment is as follow:

Item	30 June 2006		31 December 2005	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	35,838,214.96	41.76	68,252,798.15	73.25
1 - 2 years	34,487,605.12	40.19	24,807,562.47	26.62
2 - 3 years	15,432,991.02	17.98	119,710.00	0.13
More than 3 years	55,560.00	0.07	—	—
<b>Total</b>	<b>85,814,371.10</b>	<b>100.00</b>	<b>93,180,070.62</b>	<b>100.00</b>

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

(3) At the end of the period, the total of the biggest five prepayment was RMB66,719,588.09, accounting for 77.75% of the total prepayment. Including:

Unit	Amount RMB	Nature of Debt
Jiangsu Overseas Group Technical Engineers Co., Ltd.	44,140,464.07	Prepayment for goods
Panda Yuan Tong (Beijing) Technology Co., Ltd.	8,078,819.98	Prepayment for goods
China Qingao World Trade Co., Ltd.	9,362,804.04	Prepayment for goods
China Railway Signal & Comm. Shanghai Engineering Company	2,613,500.00	Prepayment for goods
Beijing University	2,524,000.00	Prepayment for goods
<b>Total</b>	<b>66,719,588.09</b>	

(4) Prepayment more than one year was prepaid equipment payment and was not settled.

## 6 Stocks and provision for diminution

Item	30 June 2006		31 December 2005	
	Net balance RMB	Book value RMB	Net balance	Book value
Raw materials	70,466,774.13	15,036,452.13	48,255,480.28	14,838,299.12
Packing materials	64,792.60	17,056.91	61,010.86	17,056.91
Low value consumables	344,242.18	30,626.17	262,981.76	30,626.17
Stored commodities	32,991,540.74	14,063,450.46	42,096,500.84	12,829,510.64
Sub-contracting material	255,567.71	—	3,870,548.93	24,282.83
Semi finished goods	272,533.83	—	111,185.27	—
Installed collection for the delivery of goods	4,874,453.20	3,199,608.75	24,583,189.37	6,599,959.37
Work in progress	162,481,343.86	1,932,338.99	92,186,153.48	1,932,338.99
<b>Total</b>	<b>271,751,248.25</b>	<b>34,279,533.41</b>	<b>211,427,050.79</b>	<b>36,272,074.03</b>

- (1) 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.
- (2) The increase of 35.58% at the end of this reporting period than that at 2005 year-end was due to the increase of unfinished products produced by order's production period of the Company.

## 7. Deferred expenses

Item	30 June 2006	31 December 2005
Rental	22,779.00	—
Decoration expense	19,048.79	—
Insurance expense	20,580.00	—
Modelling expense	963,567.56	—
Labour safety expense	61,974.00	—
Other	68,516.00	25,213.02
<b>Total</b>	<b>1,156,465.35</b>	<b>25,213.02</b>

## 8. Long term equity investment

- (1) Long term equity investment

Item	30 June 2006		31 December 2005	
	Net balance Investment amount	Book value Provision for impairment	Net balance Investment amount	Book value Provision for impairment
Other equity investment	626,588,142.17	18,734,950.26	549,616,124.97	18,734,950.26
Difference in equity investment	613,329.82	—	883,040.09	—
<b>Total</b>	<b>627,201,471.99</b>	<b>18,734,950.26</b>	<b>550,499,165.06</b>	<b>18,734,950.26</b>
Net equity investment	<b>608,466,521.73</b>		<b>531,764,214.80</b>	



(2) Other equity investment

Name of invested unit	Share of equity holding (%)	Initial investment	Equity adjustment for the period	Accumulated equity adjustment	Other transferred	Closing balance	Closing provision for impairment	Opening provision for impairment	Note
Nanjing Wei Chuang Li Terminal Co., Ltd.	35.00	34,769,364.00	—	(34,769,364.00)	—	—	—	—	
Nanjing Ericsson Panda Communication Company Limited	27.00	60,863,279.60	45,597,674.79	220,856,502.94	—	281,719,782.54	—	—	
Nanjing Lingyuan Information Co., Ltd	30.00	150,000.00	—	(85,087.55)	—	64,912.45	64,912.45	64,912.45	
Shenzhen Jinghua Electronic Co., Ltd.	38.03	69,687,437.75	(90,913.24)	14,120,401.63	—	83,807,839.38	—	—	
Intenna (Nanjing) Co., Ltd.	35.00	1,750,000.00	(643,068.73)	1,380,064.76	—	3,130,064.76	—	—	
MPower Batteries (Nanjing) Ltd.	40.00	4,200,000.00	—	(4,200,000.00)	—	—	—	—	
Nanjing Panda Tamura Communication Equipment Co., Ltd	50.00	3,310,800.00	(1,204,309.40)	(2,549,563.95)	—	761,236.05	—	—	
Nanjing Panda Hitachi Technology Co., Ltd	49.00	6,533,170.00	(444,816.53)	(2,452,280.38)	—	4,080,889.62	—	—	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	51.00	510,000.00	—	—	—	510,000.00	510,000.00	510,000.00	
Nanjing Panda Communication Development Company Limited	5.00	1,000,000.00	—	—	—	1,000,000.00	1,000,000.00	1,000,000.00	
Beijing SE Putian Mobile Communication Limited	20.00	83,967,206.77	23,757,450.31	132,652,143.94	—	216,619,350.71	—	—	
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd	33.33	1,000,000.00	—	(124,024.81)	—	875,975.19	—	—	
Shanghai Zhongtong Information Network Co., Ltd	45.00	450,000.00	—	(450,000.00)	—	—	—	—	
Nanjing Electronics (Kunshan) Co., Ltd	40.00	1,757,905.88	—	772,323.13	—	2,530,229.01	—	—	
Nanjing Panda Medical Electronics Co., Ltd	50.00	500,000.00	—	(289,888.13)	—	200,111.87	200,111.87	200,111.87	
Tai Lei Zi Panda Transportation System Company Limited	40.00	4,507,040.00	—	(179,215.35)	—	4,327,824.65	—	—	
Korea Chen Xi Panda Joint Venture Comany Limited	50.00	3,494,075.00	—	(737,550.00)	—	2,756,525.00	2,756,525.00	2,756,525.00	
Nanjing Huaxian High Technology Company Limited	20.00	10,000,000.00	—	—	—	10,000,000.00	—	—	b
Other investment reflected at equity		17,528,567.85	—	(7,088,632.27)	—	10,439,935.58	10,439,935.58	10,439,935.58	
Other investment reflected at cost		3,763,465.36	—	—	—	3,763,465.36	3,763,465.36	3,763,465.36	
<b>Total</b>		<b>309,742,312.21</b>	<b>66,972,017.20</b>	<b>316,845,829.96</b>	<b>—</b>	<b>626,588,142.17</b>	<b>18,734,950.26</b>	<b>18,734,950.26</b>	

(a) There are no material limitations to realization and remittance of gains arising from the aforesaid investments.

(b) The joint venture is established by the Company and Nanjing High-Tech Industrial Development Zone, Northeast University, Wang Bao Ping and Nanjing Electronics Shadow Mask Technology Company Limited. The registered capital of the joint venture is RMB50 million, to which the Company contributed RMB10 million in cash, representing 20% of the registered capital.

## (3) Difference in equity investment

Name of invested parties	Initial amount	Reason	Amortisation period	Amortisation during the period	Balance of amortisation
Beijing SE Putian Mobile Communication Limited	2,697,102.71	Difference in equity acquisition price	5 years	269,710.27	667,178.04
Panda Electronics(Kunshan) Co., Ltd	(97,905.88)	Difference in equity acquisition price	10 years	—	(53,848.22)
<b>Total</b>				<u>269,710.27</u>	<u>613,329.82</u>

## 9. Fixed Assets at cost, accumulated depreciation and provision for impairment

## Fixed assets at cost and accumulated depreciation

Items	Building and Premises	Machinery and Equipment	Transportation	Electronic equipment	Other equipment	Total
<b>Fixed assets, at cost</b>						
1 January 2006	260,605,184.45	224,137,203.89	7,405,042.42	14,197,592.49	10,157,091.63	516,502,114.88
<b>Increase in the period</b>	47,140.89	10,519,828.17	178,014.00	262,483.77	384,067.00	11,391,533.83
Transfer to construction in progress	—	—	—	—	—	—
<b>Decrease in the period</b>	4,834,700.00	7,269,993.99	171,954.73	—	551,273.47	12,827,922.19
Including decrease in government recovery	—	—	—	—	—	—
<b>30 June 2006</b>	<u>255,817,625.34</u>	<u>227,387,038.07</u>	<u>7,411,101.69</u>	<u>14,460,076.26</u>	<u>9,989,885.16</u>	<u>515,065,726.52</u>
Finance Lease of fixed assets	—	8,547,806.80	—	—	—	8,547,806.80
<b>Fixed assets, at cost</b>						
1 January 2006	71,326,104.36	116,849,265.84	3,811,783.89	4,869,367.32	8,903,492.98	205,760,014.39
<b>Increase in the period</b>	4,181,627.74	8,309,149.15	334,742.43	509,974.86	509,783.96	13,845,278.14
<b>Decrease in the period</b>	2,314,694.04	6,356,550.81	143,435.25	—	478,507.12	9,293,187.22
Including decrease in government recovery	—	—	—	—	—	—
<b>30 June 2006</b>	<u>73,193,038.06</u>	<u>118,801,864.18</u>	<u>4,003,091.07</u>	<u>5,379,342.18</u>	<u>8,934,769.82</u>	<u>210,312,105.31</u>
Finance Lease of fixed assets	—	384,651.31	—	—	—	384,651.31
<b>Fixed assets, book value</b>						
1 January 2006	<u>189,279,080.09</u>	<u>107,287,938.05</u>	<u>3,593,258.53</u>	<u>9,328,225.17</u>	<u>1,253,598.65</u>	<u>310,742,100.49</u>
<b>30 June 2006</b>	<u>182,624,587.28</u>	<u>108,585,173.89</u>	<u>3,408,010.62</u>	<u>9,080,734.08</u>	<u>1,055,115.34</u>	<u>304,753,621.21</u>
Finance Lease of fixed assets	—	8,163,155.49	—	—	—	8,163,155.49

(1) Closing balance of fixed assets included original amount RMB193,082,652.14 of building used for pledge, its detail was set out in note 5(13).

(2) Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, leased equipment amounting to US\$998,000.00 from Siemens Finance and Leasing Ltd. with a term of 24 months. Pursuant to the agreement entered into between the parties, Nanjing Panda Electronic Manufacturing Company Limited shall pay RMB1,062,594.00 each quarter to Siemens Finance and Leasing Ltd. immediately following the date of leasing. As of 30 June 2006, Nanjing Panda Electronic Manufacturing Company Limited paid RMB2,125,188.00 of leasing expense in total for two instalments.

## Provision of impairment of fixed assets

Type	1 January 2006	Increase in the period	Decrease in the period	30 June 2006
Buildings	285,356.16	—	—	285,356.16
Machinery and equipment	6,944,208.51	—	231,914.27	6,712,294.24
Other equipment	1,129,407.65	—	49,578.78	1,079,828.87
<b>Total</b>	<u>8,358,972.32</u>	<u>—</u>	<u>281,493.05</u>	<u>8,077,479.27</u>





(1) 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.

(2) 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.

10. Construction in progress

(1) Construction in Progress

Name of Construction Project	1 January 2006	Increase in the year	Transfer to fixed assets in the period	Decrease in the period	30 June 2006	Including: loan expensed capitalized	Source of fund
Jiangning base	18,153,728.45	—	—	—	18,153,728.45	—	Share proceeds and other sources
SMT installation engineering	20,390,143.11	2,685,369.07	—	—	23,075,512.18	—	Government bond capital
Expanding project of building 103	6,118,448.97	—	—	—	6,118,448.97	—	Internal capital
Xingang project	—	86,130,788.00	—	—	86,130,788.00	—	Internal capital
Other	1,999,756.08	80,966.48	—	—	2,080,722.56	—	Internal capital
<b>Total</b>	<b>46,662,076.61</b>	<b>88,897,123.55</b>	<b>—</b>	<b>—</b>	<b>135,559,200.16</b>	<b>—</b>	
Including: loan expensed capitalized	—	—	—	—	—	—	

(2) Provision for impairment of construction in progress

Name of Construction Project	1 January 2006	Increase in the period	Decrease in the period	30 June 2006	Reasons of Provision
Jiangning base	18,153,728.45	—	—	18,153,728.45	Dormant
Expanding project of building 103	6,118,448.97	—	—	6,118,448.97	to be demolished and relocated
Other	1,941,771.48	—	—	1,941,771.48	
<b>Total</b>	<b>26,213,948.90</b>	<b>—</b>	<b>—</b>	<b>26,213,948.90</b>	

11. Intangible assets

Type	Acquisition method	Original amount	1 January 2006	Increase in the period	transfer to this period	Amortization for the period	Accumulated amortisation	30 June 2006	Remaining period for amortisation
Land use right	purchase	2,097,551.00	1,656,527.48	—	—	21,513.34	462,536.86	1,635,014.14	38 years
Trademark use right	purchase	157,440,000.00	5,008,479.61	—	—	3,978,502.00	156,410,022.39	1,029,977.61	
Other	purchase	6,900.00	3,409.38	—	—	852.36	4,342.98	2,557.02	
<b>Total</b>		<b>159,544,451.00</b>	<b>6,668,416.47</b>	<b>—</b>	<b>—</b>	<b>4,000,867.70</b>	<b>156,876,902.23</b>	<b>2,667,548.77</b>	

Provision for impairment of intangible assets

Items	1 January 2006	Increase in the period	Decrease in the period	30 June 2006	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>	

## 12. Long term deferred expenses

Item	Original amount	1 January 2006	Increase in the period	Amortization for the period	Accumulated amortisation	30 June 2006
Other	784,342.78	42,672.38	—	—	741,670.40	42,672.38
<b>Total</b>	<b>784,342.78</b>	<b>42,672.38</b>	<b>—</b>	<b>—</b>	<b>741,670.40</b>	<b>42,672.38</b>

## 13. Short term loans

Type of loan	30 June 2006	31 December 2005	Note
Charged loans	210,000,000.00	210,000,000.00	(2)
Guaranteed loans	705,070,200.00	585,070,200.00	(3), (4), (5)
<b>Total</b>	<b>915,070,200.00</b>	<b>795,070,200.00</b>	

- (1) No loans mentioned above were not unsettled beyond due date.
- (2) The Company pledged properties located at 301 Zhong Shan Dong Lu, Xuan Wu District, Nanjing with certificates of title to the property (Xuan Bian Zi No.102156) with assessed value of RMB306,100,000.00 for a loan of RMB70,000,000.00, RMB100,000,000.00 and RMB40,000,000.00 respectively from Nanjing Han Fu Branch of Industrial and Commercial Bank of China with a term from 9 December 2005 to 7 December 2006, from 23 September 2005 to 22 September 2006 and from 30 June 2006 to 29 June 2007 respectively.
- (3) Panda Electronics Group Company, the parent company of the Company, pledged properties located at 301 Zhong Shan Dong Lu, Xuan Wu District, Nanjing with certificates of title to the property (Xuan Bian Zi No. 241064, Xuan Bian Zi No. 241065, Xuan Bian Zi No. 031481, Xuan Bian Zi No. 031482, Xuan Bian Zi No. 031483, Xuan Bian Zi No. 031484 ) with assessed value of RMB386,680,000.00 and guaranteed a bank loan of RMB80,000,000.00 for the Company from Nanjing Han Fu Branch of Industrial and Commercial Bank of China with a term from 30 August 2005 to 29 August 2006.
- (4) Panda Electronics Group Company, the parent company of the Company, guaranteed a bank loan of RMB70,000,000.00 on behalf of the Company from Nanjing Han Fu Branch of Industrial and Commercial Bank of China with a guaranteed term from 30 May 2006 to 30 May 2007; guaranteed a bank loan of RMB80,000,000.00 on behalf of the Company for RMB100,000,000.00 guaranteed amount from Nanjing Branch of Citic Industrial Bank with a guaranteed term from 14 June 2005 to 14 June 2007; guaranteed a bank loan of RMB120,000,000.00 on behalf of the Company for RMB120,000,000.00 guaranteed amount from Nanjing Branch of China Merchants Bank; guaranteed a bank loan of RMB128,000,000.00 on behalf of the Company from Nanjing Branch of Bank of Communication Co., Ltd. with a guaranteed term from 19 April 2006 to 28 November 2006; guaranteed a bank loan of RMB78,000,000.00 on behalf of the Company for RMB78,000,000.00 guaranteed amount from Nanjing Commercial Bank Chengdong Branch; guaranteed a bank loan of RMB50,000,000.00 on behalf of the Company for RMB70,000,000.00 guaranteed amount from Nanjing Branch of Hua Xia Bank Co., Limited with a guaranteed term from 28 February 2006 to 27 February 2007; guaranteed a bank loan of RMB20,000,000.00 on behalf of the Company from China Everbright Bank with a guaranteed term from 29 September 2005 to 28 September 2006; guaranteed a bank loan of RMB50,000,000.00 on behalf of the Company for RMB50,000,000.00 guaranteed amount from Guangdong Development Bank, Nanjing Branch with a guaranteed term from 30 March 2006 to 29 March 2007.
- (5) The remaining guarantee loans of RMB29,070,200.00 were granted to the Company's subsidiaries under the guarantees provided by the Company.

## 14. Bills payable

Types of Bills	30 June 2006	31 December 2005
Bank bills	9,901,926.93	44,065,145.76
<b>Total</b>	<b>9,901,926.93</b>	<b>44,065,145.76</b>

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





15. Accounts payable and receipts in advance

Item	30 June 2006	31 December 2005
Accounts payable	150,505,994.45	171,980,299.87
Receipts in advance	92,744,908.31	86,573,345.38
<b>Total</b>	<b>243,250,902.76</b>	<b>258,553,645.25</b>

- (1) Closing balance of accounts payable included RMB3,828,801.06 of payables due from shareholder Panda Electronic Group Ltd. with 54.20% of shareholding (with voting power) of the Company.
- (2) The total of the biggest five accounts payable was RMB28,479,062.47, accounting for 18.92% of the total accounts payable for the period. Including:

Name of units	Outstanding amounts	Age	Nature of debt
Pacific Digital Corp	12,040,311.73	Within 1 year	payments for goods
Nanjing Panda Digital Technology Development Co., Ltd.	4,989,511.92	1-2 years	payments for goods
Nanjing Panda Television Co., Ltd.	4,061,861.37	Within 1 year	payments for goods
Panda Electronic Group Ltd.	3,828,801.37	Within 1 year	payments for goods
Nanjing Panda Electronic Import/Export Company	3,558,576.08	Within 1 year	payments for goods
<b>Total</b>	<b>28,479,062.47</b>		

- (3) Closing balance of receipts in advance included RMB6,485,519.40 of receipts in advance from shareholder Panda Electronic Group Ltd. with 54.20% of shareholding (with voting power) of the Company.
- (4) Closing balance of receipts in advance included RMB55,390,811.67 of payments for goods from Nanjing Metro Co., Ltd. (南京地下鐵道有限公司), accounting for 59.72% of the total receipts in advance.

16. Salaries payable

Closing balance of salaries payable was RMB343,234.71. There were no salaries payable which were overdue.

17. Taxes payable

Type	Tax rate	30 June 2006	31 December 2005
Value added tax (VAT)*	17%	25,603,412.30	23,518,138.27
Sales tax	5%	1,163,394.09	1,517,138.78
City maintenance tax*	7% . 5%	18,565,673.63	18,646,045.27
Enterprise income tax	15% - 33%	(1,610,923.17)	(87,117.82)
Personal income tax	Under the Individual Income Tax Law	787,488.23	(499,517.00)
Property tax	1.2% of the 70% property value (at cost), or 12% of the rental income	1,498,937.34	2,292,901.80
Land use tax		541,947.92	565,468.32
Stamp duty		412.25	3,212.93
<b>Total</b>		<b>46,550,342.59</b>	<b>45,956,270.55</b>

- (1) \*This item is the outstanding tax accumulated from the previous years.
- (2) The negative income tax is mainly for actually paid tax larger than taxes payable.

18. Other charges

Item	30 June 2006	31 December 2005	Rate
Education surcharge*	5,160,822.89	5,203,567.77	4% of current tax
Housing surplus reserve	—	938,152.06	
Local funds	1,183,217.43	279,819.73	
<b>Total</b>	<b>6,344,040.32</b>	<b>6,421,539.56</b>	

\* Accrued education expenses surcharges overdue of previous year.

19. Other payables

- (1) The period end balance of other payables was RMB156,376,500.64 of which RMB60,726,891.33 was due from Panda Electronic Group Co., Ltd. holding 54.20% shareholdings (with voting power) of the Company.
- (2) Details of the period end balance of other payables in large amount are as follows:

Name of units	Outstanding amounts	Age	Nature of debt
Panda Electronics Group Company	60,726,891.33	Within 1 year or more than 3 years	Current
Kawasho Electronics System (Shanghai) Corporation	3,379,155.00	Within 1 year	Due equipment payment
<b>Total</b>	<b>64,106,046.33</b>		

20. Accrued expenses

Item	30 June 2006	31 December 2005	Reason of closing balance
Interest	1,542,223.33	1,586,519.38	Outstanding
Water and electricity fee	710,399.79	843,835.31	Outstanding
Insurance expenses	19,471.11	19,471.11	Outstanding
Processing fee	1,245,347.94	2,918,403.75	Outstanding
Rent	2,271,287.47	1,672,700.67	Outstanding
Repair expenses	166,429.40	192,429.40	Outstanding
Auditing expenses	103,519.88	2,286,368.41	Outstanding
Other	4,559,906.8	1,475,201.54	Outstanding
<b>Total</b>	<b>10,618,585.72</b>	<b>10,994,929.57</b>	

21. Long term payables

Company name	30 June 2006	31 December 2005
Siemens Financial Leasing Company Limited	6,375,564.00	—
<b>Total</b>	<b>6,375,564.00</b>	<b>—</b>

It represented the amount payable by Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, for its leased equipment.

22. Deferred tax

Company name	30 June 2006	31 December 2005
Income tax payable arising from receipt of non-cash assets	11,550.64	11,550.64
<b>Total</b>	<b>11,550.64</b>	<b>11,550.64</b>





23. Share capital

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

Items	1 January 2006	Increase/decrease for the period				30 June 2006
		Bonus New issue	Allotment	Share issue	transfer	
<b>1. 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	—	—	—	—	—	—
Other	—	—	—	—	—	—
2. Legal person shares	—	—	—	—	—	—
3. Employee shares	—	—	—	—	—	—
4. Preference shares or others	—	—	—	—	—	—
Sub-total of non-circulating shares	355,015,000.00	—	—	—	—	355,015,000.00
<b>2. 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. Other	—	—	—	—	—	—
Total for circulating share	300,000,000.00	—	—	—	—	300,000,000.00
<b>3. Total number of shares</b>	<b>655,015,000.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>655,015,000.00</b>

(2) Names of shareholders, natures of shares, shareholding and changes are as follows (unit: share):

Name of shareholders or class of shares	Nature of shares	30 June 2006	31 December 2005
Panda Electronics Group Limited	Promoter's shares	355,015,000.00	355,015,000.00
Domestic listed RMB ordinary shares	Circulating A shares	58,000,000.00	58,000,000.00
Overseas listed foreign shares	Circulating H Shares	242,000,000.00	242,000,000.00
<b>Total</b>		<b>655,015,000.00</b>	<b>655,015,000.00</b>

24. Capital reserve

Items	1 January 2006	Increase in the period	Decrease in the period	30 June 2006
Share premium	478,386,846.10	—	—	478,386,846.10
Provision for acceptance of non-cash asset donation	34,034.50	—	—	34,034.50
Provision for equity investment	46,608.13	—	—	46,608.13
Other capital reserve	1,741,295.31	—	—	1,741,295.31
<b>Total</b>	<b>480,208,784.04</b>	<b>—</b>	<b>—</b>	<b>480,208,784.04</b>

25. Surplus reserve

Items	1 January 2006	Increase in the period	Decrease in the period	30 June 2006
Statutory surplus reserve	117,760,901.20	—	—	117,760,901.20
Discretionary surplus reserve	70,376,641.33	—	—	70,376,641.33
<b>Total</b>	<b>188,137,542.53</b>	<b>—</b>	<b>—</b>	<b>188,137,542.53</b>

In accordance with Circular Cai Qi [2006] No. 67, which reads "From 1 January 2006, enterprises established under Company Law shall carry out profit appropriation in accordance with Article 167 of Company Law. No transfer to public welfare fund shall be made. In order to maintain the consistency of the accounting policies among enterprises, the public welfare fund shall be cancelled from the accounts of both state-owned enterprises and other enterprises. The balance of the public welfare fund as at 31 December 2005 shall be transferred to surplus reserve", the Company made retrospective adjustments to the balance of its public welfare fund as at 31 December 2005 during the reporting period.

## 26. Undistributed profit

Items	30 June 2006	31 December 2005
Opening undistributed profit	(58,682,872.55)	(140,697,582.62)
Add: opening undistributed profit adjustment	—	(7,685,811.90)
Adjusted opening undistributed profit	(58,682,872.55)	(148,383,394.52)
Add: net profit for the period/year	31,144,193.10	89,700,521.97
Less: transfer to statutory surplus reserve	—	—
transfer to discretionary surplus reserve	—	—
distributed dividends for ordinary shares	—	—
capitalization of dividends for ordinary shares	—	—
Closing undistributed profit	<u>(27,538,679.45)</u>	<u>(58,682,872.55)</u>

## 27. Income and cost of principal activities

(1) Segmented by products

Principal activities	Income from principal activities		Cost of principal activities	
	Jan-Jun 2006	Jan-Jun 2005	Jan-Jun 2006	Jan-Jun 2005
Electronic Manufacture products	104,826,843.71	91,549,471.12	86,153,875.22	77,335,025.88
Electronic information products	123,080,259.50	101,494,313.38	111,897,604.62	92,896,285.42
Electrometrical products	106,584,277.78	88,381,221.56	91,182,624.50	78,944,820.89
Satellite telecommunication products	17,100,000.00	34,720,660.00	10,640,341.69	22,581,187.44
Other	4,114,619.16	23,880,773.32	3,988,028.22	21,488,444.95
<b>Total</b>	<u>355,706,000.15</u>	<u>340,026,439.38</u>	<u>303,862,474.25</u>	<u>293,245,764.58</u>

(2) Sales revenue from the largest five customers totaled RMB112,686,996.34, accounting for 31.68% of total sales revenue for the year. Including:

Name of customers	Sales volume	Percentage (%)
TOPFIELD.CO.LTD	34,511,745.52	9.70
Nanjing Sharp Electronics Co., Ltd.	27,289,851.12	7.67
Kubota Agricultural Machinery (Suzhou) Co., Ltd.	19,699,312.30	5.54
China Electronic Technology Group Ltd.	17,100,000.00	4.81
Ericsson Lorom Technology (Hongzhou) Company Limited	14,086,087.40	3.96
<b>Total</b>	<u>112,686,996.34</u>	

## 28. Tax on principal activities and surtaxes

Items	Calculation basis	Rate	Jan-Jun 2006	Jan-Jun 2005
Sales tax	Rentals and labor, etc.	5% , 3%	845,825.33	504,946.12
City maintenance and construction tax	circulating tax	7% , 5%	762,030.09	562,826.34
Education surcharges	circulating tax	4%	496,311.18	362,715.81
<b>Total</b>			<u>2,104,166.60</u>	<u>1,430,488.27</u>



## 29. Profit from other operation

Items	Jan-Jun 2006			Jan-Jun 2005		
	Income	Expense	Profit	Income	Expense	Profit
Rents	3,030,075.60	1,733,278.34	1,296,797.26	7,416,646.43	3,395,632.07	4,021,014.36
Electronic and water expenses	41,764.71	41,764.71	—	415,742.33	1,731,540.49	(1,315,798.16)
Sales of raw material	730,868.98	421,054.19	309,814.79	1,299,791.86	773,262.05	526,529.81
Technological services fees	3,729,344.90	1,435,393.61	2,293,951.29	703,690.94	38,368.09	665,322.85
Service income	988,571.99	408,076.09	580,495.90	40,316.71	5,235.69	35,081.02
Other income	701,028.70	358,214.96	342,813.74	4,550,984.46	3,187,042.92	1,363,941.54
<b>Total</b>	<b>9,221,654.88</b>	<b>4,397,781.90</b>	<b>4,823,872.98</b>	<b>14,427,172.73</b>	<b>9,131,081.31</b>	<b>5,296,091.42</b>

## 30. Financial expenses

Items	Jan-Jun 2006	Jan-Jun 2005
Interest expenses	26,416,482.10	30,978,824.19
Less: Interest income	(1,834,954.91)	(1,120,543.48)
Add: Exchange loss	52,340.00	—
Less: Exchange gain	(80,101.86)	(46,910.13)
Add: Other expenses	1,440,642.69	850,743.21
<b>Total</b>	<b>25,994,408.02</b>	<b>30,662,113.79</b>

## 31. Investment income

(1) Details of investment income are as follows:

Items	Jan-Jun 2006	Jan-Jun 2005
Share of net profit from invested companies after adjustment by equity method at year end	66,972,017.20	101,375,590.21
Equity investment difference in amortisation	(269,710.27)	(598,630.94)
Provision for diminution in value on long term investment	—	—
Other	—	(22,295.23)
<b>Total</b>	<b>66,702,306.93</b>	<b>100,754,664.04</b>

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

Name of invested companies	Jan-Jun 2006	Jan-Jun 2005
Nanjing Ericsson Panda Communication Co., Ltd.	45,597,674.79	35,894,123.11
Nanjing Sharp Electronic Co., Ltd.	—	3,528,815.43
Shenzhen Jianghua Electronic Co., Ltd.	(90,913.24)	2,128,743.86
Intenna (Nanjing) Co., Ltd.	(643,068.73)	305,988.60
Nanjing Panda Tamura Communication Equipment Co., Ltd.	(1,204,309.40)	(1,137,580.78)
Nanjing Panda Hitachi Technology Co., Ltd.	(444,816.53)	106,771.56
Beijing SE Putian Mobile Communication Limited	23,757,450.31	60,548,728.43
<b>Total</b>	<b>66,972,017.20</b>	<b>101,375,590.21</b>

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

The year-on-year decrease in investment income was primarily due to the reduced net profit of Beijing SE Putian Mobile Communication Limited (the Company held its 20% shares carrying voting rights) for the period resulting from exchange loss.

<b>32. Subsidy income</b>		
<b>Items</b>	<b>Jan - Jun 2006</b>	<b>Jan - Jun 2005</b>
Refund of value-added tax for software products	405,951.17	247,464.16
Other	365,620.00	62,500.00
<b>Total</b>	<b>771,571.17</b>	<b>309,964.16</b>
<b>33. Non-operating income</b>		
<b>Items</b>	<b>Jan - Jun 2006</b>	<b>Jan - Jun 2005</b>
Net gain from disposal of fixed assets	311,735.80	176,897.86
Net gain from fine payments	170,353.59	—
Other	23,035.94	2,797,430.49
<b>Total</b>	<b>505,125.33</b>	<b>2,974,328.35</b>
<b>34. Non-operating expenses</b>		
<b>Items</b>	<b>Jan - Jun 2006</b>	<b>Jan - Jun 2005</b>
Net loss from disposal of fixed asset	1,887,205.57	—
Provision for impairment of fixed assets	—	153,758.91
Local fund	—	(462,836.21)
Net fine payment expenses	4,935.92	2,048.29
Donation	8,500.00	—
Non-recurring Loss	15,867.15	3,500.00
Other	52,626.89	3,953,651.36
<b>Total</b>	<b>1,969,135.53</b>	<b>3,650,122.35</b>
<b>35. Extraordinary items</b>		
<b>Items</b>		<b>Jan - Jun 2006</b>
Interests from disposal of Long term equity investments, fixed assets, Construction in progress, intangible assets and other long term assets		(1,575,469.77)
Various government subsidies		365,620.00
Other non-operating income and expenses less provision for impairment of assets according to Enterprise Accounting Principle		111,459.57
Reversal of provision for bad accounts during previous years		15,351,000.00
Affect of above items to Income tax		(483,205.19)
Affect of above items to Minority interests		(39,861.82)
<b>Total Extraordinary</b>		<b>13,729,542.79</b>





(6) Notes to the accounting statements of the holding company

1. Accounts receivable

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

Items	30 June 2006			31 December 2005		
	Amount	Percentage %	Provision for Bad debts	Amount	Percentage %	Provision for Bad debts
Within 1 year	2,136,966.31	54.26	2,130,579.67	72,056,093.46	96.88	2,234,160.06
1 - 2 years	1,199,571.58	30.46	151,514.63	1,771,628.89	2.38	106,297.74
2 - 3 years	102,350.00	2.60	98,850.00	56,124.25	0.08	18,787.27
More than 3 years	499,502.51	12.68	320,893.72	489,228.26	0.66	342,870.76
<b>Total</b>	<b>3,938,390.40</b>	<b>100.00</b>	<b>2,701,838.02</b>	<b>74,373,074.86</b>	<b>100.00</b>	<b>2,702,115.83</b>

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

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

(4) The five largest debtors amounted to RMB2,413,441.27, accounting for 61.28% of the total value of the accounts receivable, including:

Debtors	Amount	Ageing analysis	Outstanding Amounts Nature of Debts
Nanjing Panda Television Co., Ltd.	748,114.18	within 1 years	payment for goods
Second Middle School of Huozhou in Shanxi Province	602,200.00	1-2 years	payment for goods
Wuxi Huguang Xingyuan Photoelectricity Technology Co., Ltd.	517,684.00	1-2 years	payment for goods
Nanjing Sharp Electronics Co., Ltd	283,720.00	within 1 year	payment for goods
Nanjing LG Zongchuang Colour Display System Co., Ltd	261,723.09	within 1 year	payment for goods
<b>Total</b>	<b>2,413,441.27</b>		

(5) The amount at the end of the reporting period decreased by 98.27% from the end of 2005, mainly due to the recovery of account sales of satellite and communication products in 2005.

2. Other receivables

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

Items	30 June 2006			31 December 2005		
	Amount	Percentage %	Provision for Bad debts	Amount	Percentage %	Provision for Bad debts
Within 1 year	575,804,858.01	54.68	20,081,220.47	929,509,106.12	79.07	21,531,078.39
1-2 years	355,226,200.09	33.73	29,588,055.09	62,444,662.44	5.31	23,905,022.91
2-3 years	34,333,154.01	3.26	9,954,222.49	63,475,222.67	5.40	20,800,738.07
More than 3 years	87,679,330.31	8.33	68,897,214.14	120,186,578.81	10.22	74,942,806.91
<b>Total</b>	<b>1,053,043,542.42</b>	<b>100.00</b>	<b>128,520,712.19</b>	<b>1,175,615,570.04</b>	<b>100.00</b>	<b>141,179,646.28</b>

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

(3) The period-end accounts receivable include a loan of RMB249,434,761.65 due from Panda Electronic Group Ltd., which was held by the Company as to 52.40% (with voting power).

- (4) The five largest debtors amounted to RMB876,415,326.66, accounting for 83.23% of the total value of the accounts receivable, including:

Debtors	Amount	Ageing analysis	Outstanding Amounts Nature of Debts
Jiangsu Investment Management Co., Ltd.	500,000,000.00	1-2 years	Current accounts
Panda Electronics Group Ltd.	249,434,761.65	Within 1 year	Loan
Land Resources Bureau of Nanjing City	80,000,000.00	1-2 years	Land requisition compensation
Panda Electronic	27,721,710.80	1-2 years	Current accounts and investment fund
Hong Kong Company Ltd.		more than 3 years	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	19,258,854.21	Within 1 year more than 3 years	Current accounts
<b>Total</b>	<b>876,415,326.66</b>		

3. Long-term equity investment

- (1) Long-term equity investment

Items	30 June 2006		31 December 2005	
	Investment amount	Provision for amount Impairment	Investment amount	Provision for amount Impairment
Other equity investment	795,221,285.29	14,778,313.39	663,093,714.85	14,778,313.39
Difference in equity investment	1,626,621.73	—	936,888.31	—
<b>Total</b>	<b>796,847,907.02</b>	<b>14,778,313.39</b>	<b>664,030,603.16</b>	<b>14,778,313.39</b>
<b>Net equity investment</b>	<b>782,069,593.63</b>		<b>649,252,289.77</b>	

- (2) Other equity investment

Name of invested companies	Share of equity holding(%)	Initial amount	Equity adjustment for the period	Accumulated equity adjustment	Other transfer-out	Closing balance	Closing provision for impairment	Opening provision for impairment	Note
Nanjing Wei Chuang Li Terminal Co., Ltd.	35.00	34,769,364.00	—	(34,769,364.00)	—	—	—	—	
Nanjing Guanghua Electronics Co., Ltd	71.94	8,271,095.45	(439,514.60)	4,587,164.40	—	12,858,259.85	—	—	
Shenzhen Panda Electronics Co., Ltd.	95.00	6,175,000.00	(4,637.21)	(2,290,193.82)	—	3,884,806.18	—	—	
Nanjing Panda International Communication System Co., Ltd.	72.00	7,655,000.00	—	(7,655,000.00)	—	—	—	—	
Nanjing Ericsson Panda Communication Co., Ltd	27.00	60,863,279.60	45,597,674.79	220,856,502.94	—	281,719,782.54	—	—	
Nanjing Panda Electronic Material Co., Ltd	94.34	500,000.00	—	(500,000.00)	—	—	—	—	
Nanjing Panda Technology Equipment Co., Ltd.	70.00	3,500,000.00	—	(3,500,000.00)	—	—	—	—	
Nanjing Panda Information Industry Co., Ltd.	72.00	44,000,000.00	1,004,514.19	(16,680,684.71)	—	27,119,315.29	—	—	
Nanjing lingyu Information Co., Ltd	30.00	150,000.00	—	(85,987.55)	—	64,912.45	64,912.45	64,912.45	
Nanjing Panda Appliance & Apparatus Co., Ltd.	70.00	700,000.00	644,121.46	2,395,404.41	—	3,095,404.41	—	—	
Shenzhen Jinghua Electronic Co., Ltd.	38.03	69,887,437.75	(90,913.24)	14,120,401.63	—	83,807,839.38	—	—	
Nanjing Panda Mechanical Engineering Plant Intenna (Nanjing) Co., Ltd.	99.00	30,042,016.46	832,036.97	(2,153,428.03)	—	27,888,588.43	—	—	
Nanjing Panda Accurate Machinery Co., Ltd.	35.00	1,750,000.00	(643,068.73)	1,380,064.76	—	3,130,064.76	—	—	
MPOWER Batteries (Nanjing) Ltd	70.00	3,625,300.00	504,743.88	1,396,277.28	—	5,021,577.28	—	—	
Nanjing Panda Mechanical Manufacturing Co., Ltd.	40.00	4,200,000.00	—	(4,200,000.00)	—	—	—	—	
Nanjing Panda Tamura Communications Co., Ltd.	70.00	3,500,000.00	2,147,069.69	3,838,826.18	—	7,338,826.18	—	—	
Nanjing Panda Hitachi Technology Co., Ltd	50.00	3,310,800.00	(1,204,309.40)	(2,549,563.95)	—	761,236.05	—	—	
Nanjing Panda Machinery Co., Ltd	49.00	6,533,170.00	(444,816.53)	(2,452,280.38)	—	4,088,889.62	—	—	
Nanjing Panda Machinery Co., Ltd	70.00	2,100,000.00	56,361.14	(284,952.66)	—	1,815,047.34	—	—	
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	100.00	30,320,731.87	2,669,676.45	2,669,676.45	—	32,990,408.32	—	—	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	51.00	510,000.00	—	—	—	510,000.00	510,000.00	510,000.00	
Nanjing Panda System Integration Co.Ltd	51.00	1,800,000.00	419,906.44	740,542.19	—	2,540,542.19	—	—	
Nanjing Electronic Calibration Co., Ltd.	70.00	700,000.00	75,317.65	602,769.38	—	1,302,769.38	—	—	
Beijing SE Putian Mobile Communication Co.Ltd	20.00	83,967,206.77	23,757,450.31	132,652,143.94	—	216,619,350.71	—	—	
Nanjing Panda Electronics Manufacturing Co.,Ltd	75.00	37,241,175.00	3,394,905.60	9,068,640.72	—	46,299,815.72	—	—	
Nanjing Panda Power Sources Technology Co., Ltd.	79.55	8,750,000.00	(771,778.77)	(581,551.73)	—	8,168,448.27	—	—	
Nanjing Huaxian High Technology Company Limited	20.00	10,000,000.00	—	—	—	10,000,000.00	—	—	
Other investment reflected at interest law		17,528,567.85	—	(7,088,632.27)	—	10,439,935.58	10,439,935.58	10,439,935.58	
Other investment reflected at cost		3,763,465.36	—	—	—	3,763,465.36	3,763,465.36	3,763,465.36	
<b>Total</b>		<b>485,813,610.11</b>	<b>77,504,740.09</b>	<b>309,307,675.18</b>	<b>—</b>	<b>795,221,285.29</b>	<b>14,778,313.39</b>	<b>14,778,313.39</b>	

There are no material limitations to realization 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
Beijing SE Putian Mobile Communication Limited	2,697,102.71	Difference in equity acquisition price	5 years	269,710.27	667,178.04
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	959,443.69	Difference in equity acquisition price	10 years	—	959,443.69
<b>Total</b>				<u>269,710.27</u>	<u>1,626,621.73</u>

4. Income and cost of principal activities

(1) Segmented by income

Principal activities	Income from principal activities		Cost of principal activities	
	Jan - June 2006	Jan - June 2005	Jan - June 2006	Jan - June 2005
Electronic manufacturing products	—	—	—	—
Electronic information products	<u>768,408.54</u>	—	<u>387,173.29</u>	—
Electromechanical products	<u>3,948,795.61</u>	2,484,149.59	<u>5,197,378.87</u>	4,970,577.53
Satellite telecommunication products	<u>17,100,000.00</u>	34,720,660.00	<u>10,640,341.69</u>	22,581,187.44
Others	—	12,315,680.46	—	10,955,952.21
<b>Total</b>	<u>21,817,204.15</u>	<u>49,520,490.05</u>	<u>16,224,893.85</u>	<u>38,507,717.18</u>

(2) Sales revenue from the largest five customers totaled RMB20,129,377.76, accounting for 92.26% of total sales revenue for the period. among the total:

Name of customers	Sales	proportion (%)
China Electronic Technical Group, Co., Ltd.	17,100,000.00	78.38
Nanjing Sharp Electronics Co., Ltd.	1,494,871.80	6.85
Jiangsu Kaifan Electric Co., Ltd.	678,632.47	3.11
Kesi Technology (Chuzhou) Co., Ltd.	508,010.22	2.33
Nanjing LG Zongchuang Colour Display System Co., Ltd.	347,863.27	1.59
<b>Total</b>	<u>20,129,377.76</u>	

The year-on-year decreases in income and cost of principal activities for the reporting period are mainly due to the sales decrease of the Company's satellite telecommunication products.

5. Investment income

(1) Details of investment income are as follows:

Items	Jan - Jun 2006	Jan - Jun 2005
Share of net profit from invested companies after adjustment by equity method at year end	<u>77,504,740.09</u>	107,731,162.16
Equity investment difference in amortisation	<u>(269,710.27)</u>	(598,630.94)
Gain on equity transfer	—	—
Provision for diminution in value on long term investment	—	—
Others	—	598,630.94
<b>Total</b>	<u>77,235,029.82</u>	<u>107,731,162.16</u>

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

Name of invested companies	Jan - Jun 2006	Jan - Jun 2005
Nanjing Guanghua Electronic Plastic Installing Plant	(439,514.60)	(681,503.71)
Shenzhen Panda Electronic Co., Ltd.	(4,637.21)	54,828.72
Nanjing Ericsson Panda Communication Company Limited	45,597,674.79	35,894,123.11
Nanjing Sharp Electronics Co., Ltd.	—	3,528,815.43
Panda Electronic Material Co., Ltd.	—	(202,865.70)
Nanjing Panda Technology Equipment Co., Ltd.	—	284,088.65
Nanjing Panda Information Industry Co., Ltd.	1,004,514.19	878,048.24
Nanjing Panda Appliance & Apparatus Co., Ltd.	644,121.46	817,316.14
Shenzhen Jinghua Electronic Co., Ltd.	(90,913.24)	2,128,743.86
Nanjing Panda Mechanical Engineering Plant	832,036.97	315,237.74
Intenna (Nanjing) Co., Ltd.	(643,068.73)	305,988.60
Nanjing Panda Accurate Machinery Co., Ltd.	504,743.88	749,967.26
Panda Mechanical Manufacturing Co., Ltd.	2,147,069.69	776,101.21
Nanjing Panda Tamura Communications Equipment Co., Ltd.	(1,204,309.40)	(1,137,580.78)
Nanjing Panda Hitachi Technology Co., Ltd.	(444,816.53)	106,771.56
Nanjing Panda Machinery Co., Ltd.	56,361.14	115,978.59
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	2,669,676.45	815,201.21
Nanjing Panda System Integration Co., Ltd.	419,906.44	375,052.13
Nanjing Electronic Calibration Co., Ltd.	75,317.65	75,677.60
Beijing SE Putian Mobile Communication Ltd.	23,757,450.31	60,548,728.43
Nanjing Panda Electronics Manufacturing Co., Ltd.	3,394,905.60	2,481,161.37
Nanjing Panda Power Sources Technology Co., Ltd.	(771,778.77)	122,208.72
Nanjing Panda International Telecommunication System Co., Ltd.	—	—
Others.	—	(620,926.22)
<b>Total</b>	<b>77,504,740.09</b>	<b>107,731,162.16</b>

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

The year-on-year decrease in investment income was primarily due to the reduced net profit of Beijing SE Putian Mobile Communication Limited (the Company held its 20% shares carrying voting rights) for the period resulting from exchange loss.

(7) Relationship and transactions with related parties

(1) Related parties

1. Related parties with controlling relationship.

Name of company	Place of registration	Principal activities	Relationship with the Company	Legal nature	Legal representative
Panda Electronic Group Ltd.	Nanjing	Wireless telecommunication equipment	Holding company	State-owned	Li Anjian
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	Nanjing	Production and sales of home appliance	subsidiary	Limited liability	Liu Kun

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

Name of the related party	1 January 2006	Increase in the period	Decrease in the period	30 June 2006
Panda Electronic Group Ltd.	1,266,060,000.00	—	—	1,266,060,000.00
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	1,000,000.00	—	—	1,000,000.00

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

Name of the related party	Value of shareholding		Percentage of shareholding	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
Panda Electronic Group Ltd.	355,015,000.00	355,015,000.00	54.20%	54.20%
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	510,000.00	510,000.00	51%	51%



4. Related parties with non-controlling relationship

(1) Under the same holding company as the Company

Name of the related party	Shares held by the holding company	Principal activities	Related transaction with the Company
Nanjing Panda Electronic Import/Export Company	70%	Agency of its own products and import and export products	Agency of import products and purchase
Nanjing Panda Television Co., Ltd.	100%	Televisions and related products	Sales, purchase and provision of labor
Nanjing Zhen Hua Sound Equipment plant	51%	Loudspeaker, package, paper cases	Sales, purchase and provision of labor
Panda Electronic (Hong Kong) Co., Ltd.	100%	Electronic products	Capital flow
Nanjing Panda Power Sources Equipment Co., Ltd.	100%	UPS, transformer	Sales
Nanjing Panda Technology Co., Ltd.	99%	Industrial operations	Capital flow and labor services
Nanjing Panda Neo-industry Trading Company Limited	100%	Agency and retail of electronic products	Purchase
Nanjing Lianhui Communication Technology Company Limited	80%	Network digital communication software	Purchase

(2) Joint venture and associated companies of the Company

Name of the related party	Shares held by the company	Principal activities	Related transaction with the Company	Notes
Nanjing Ericsson Panda Communication Company Limited	27%	Production and sales of exchange and Base Station	Purchase and Sales	
Beijing SE Putian Mobile Communication Limited	20%	Production and sales of Song Ericsson mobile terminal (handset)	Sales	
Nanjing Wei Chuang Li Terminal Co., Ltd.	35%	Development, manufacturing production, sales of digital communication terminal equipment	Purchase	
Nanjing Panda Tamura Communications Equipment Co., Ltd.	50%	Development, manufacture and production of power supply	Purchase	
Panda Electronics (Kunshan) Co., Ltd	40%	SMT processing	Nil	
Nanjing Panda Hitachi Technology Co., Ltd	49%	SMT processing	Sales	
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	33.33%	Coatings, paintings, glass wall, etc.	Entrusted processing	
Shenzhen Jinghua Electronic Co., Ltd	38.03%	Communication Equipment. Electronic products	Nil	
MPower Batteries (Nanjing) Ltd.	40%	Handset cells etc.	Rentals, management fee, etc.	
Nanjing Tai Lei Zi Panda Transportation System Company Limited	40%	Design, research, production and sales of electronic devices for automatic ticketing system and related products	Sales	

## (2) Related transactions

## 1. Sales of products

Name of related parties	30 June 2006 Amount	31 December 2005 Amount
Nanjing Panda Television Co., Ltd.	2,911,726.30	9,792,782.88
Panda Electronic Group Ltd.	9,327,705.16	—
Nanjing Ericsson Panda Communication Co., Ltd.	5,152,662.99	8,117,589.32
Nanjing Panda Hitachi Technology Co., Ltd.	424,463.26	—
Nanjing Panda Electronics Import/Export Co., Ltd.	1,876,527.20	4,259,612.13
Nanjing Tai Lei Zi Panda Transportation System Company Limited	267,146.16	—
<b>Total</b>	<b><u>19,960,231.07</u></b>	<b><u>22,169,984.33</u></b>

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

## 2. Purchase of materials

Name of related parties	Jan - Jun 2006 Amount	Jan - Jun 2005 Amount
Panda Electronics Group Co., Ltd.	865,053.69	—
Nanjing Zhen Hua Sound Equipment Plant	798,248.88	949,889.96
Nanjing Panda Electronics Import/Export Co., Ltd.	1,415,525.64	1,603,471.51
Nanjing Panda Television Co., Ltd.	558,405.89	—
Nanjing Panda Hitachi Technology Co., Ltd.	3,965.41	—
Nanjing Panda Neo-industry Trading Company Limited	—	3,107,967.75
Nanjing Lianhui Communication Technology Company Limited	480,000.00	—
<b>Total</b>	<b><u>4,121,199.51</u></b>	<b><u>5,661,329.22</u></b>

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

## 3. Provision of services

Name of related parties	Jan - Jun 2006 Amount	Jan - Jun 2005 Amount
Nanjing Wei Chuang Li Panda Mobile Terminal Co., Ltd.	—	240,884.25
Nanjing Ericsson Panda Communications Co., Ltd.	200,517.50	25,630.00
Panda Electronic Group Ltd.	—	1,145,990.62
Nanjing Panda Television Co., Ltd.	8,383,258.67	150,570.00
Nanjing Sharp Electronics Co., Ltd.	—	1,571,225.51
<b>Total</b>	<b><u>8,583,776.17</u></b>	<b><u>3,134,300.38</u></b>

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





4.	Receipt of services		
	<b>Name of related parties</b>	<b>Jan- Jun 2006 Amount</b>	<b>Jan - Jun 2005 Amount</b>
	Panda Electronic Group Ltd.	4,782,370.54	38,407.34
	Nanjing Panda Television Co., Ltd.	—	3,085,659.26
	<b>Total</b>	<b>4,782,370.54</b>	<b>3,124,066.60</b>
	Pricing policy for receipt of labour from all related parties: Fair market price.		
5.	Lease of assets		
	<b>Name of related parties</b>	<b>Jan- Jun 2006 Amount</b>	<b>Jan - Jun 2005 Amount</b>
	Nanjing Wei Chuang Li Panda Mobile Terminal Co., Ltd.	—	1,044,252.72
	Panda Electronic Group Ltd.	593,274.21	98,197.86
	Nanjing Panda Tamura Communications Equipment Co., Ltd.	44,050.00	—
	<b>Total</b>	<b>637,324.21</b>	<b>1,142,450.58</b>
	Pricing policy for leasing assets to all related parties: Fair market price.		
6.	Acceptance of guarantee		
	<b>Name of related parties</b>	<b>Jan- Jun 2006 Amount</b>	<b>Jan - Jun 2005 Amount</b>
	Panda Electronic Group Ltd.	676,000,000.00	656,000,000.00
	<b>Total</b>	<b>676,000,000.00</b>	<b>656,000,000.00</b>

(3) Balance of accounts with related parties

Name of related parties	Item	30 June 2006	31 December 2005
Panda Electronic Group Ltd.	Accounts receivables	3,230,700.37	68,043,028.57
	Other receivables	250,237,083.08	292,624,022.27
	Account payables	5,129,902.02	6,653,117.47
	Advances from customers	6,485,519.40	3,066,229.39
	Other payables	60,726,891.33	66,781,613.65
Nanjing Panda Television Co., Ltd.	Accounts receivables	11,816,120.76	11,453,749.79
	Other receivables	5,969,282.73	5,957,559.33
	Account payables	4,061,861.37	8,537,688.46
	Other payables	2,131,437.55	2,131,437.55
Nanjing Ericsson Panda Communications Co., Ltd.	Accounts receivables	15,022.41	4,607,127.66
	Account payables	2,548,591.15	2,548,591.15
Nanjing Panda Electronics Import/Export Co., Ltd.	Accounts receivables	503,842.80	1,581,438.83
	Other receivables	—	723,231.53
Nanjing Wei Chuang Li Panda Mobile Terminal Co., Ltd.	Account payables	4,166,581.12	4,153,881.70
	Account payables	—	9,805.31
Panda Electronic (Hong Kong) Company Ltd.	Other receivables	27,721,710.80	27,721,710.80
	Other payables	41,096.40	588,788.80
Nanjing Panda Chen Guang Electronics Co., Ltd.	Other receivables	12,986,830.72	12,986,830.72
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	Accounts receivables	526,032.62	526,032.61
	Other receivables	22,171,605.22	22,171,605.22
Intenna (Nanjing) Co., Ltd.	Other receivables	1,095,868.74	1,000,000.00
Panda Electronic (Kun Shan) Co., Ltd.	Accounts receivables	805,326.51	802,726.51
	Other receivables	2,419,220.94	2,451,220.94
Nanjing Panda Hitachi Technology Co., Ltd.	Accounts receivables	195,716.40	349,632.80
Nanjing Panda Tamura Communications Equipment Co., Ltd.	Accounts receivables	125,684.00	359,323.19
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	Other receivables	1,950,000.00	2,318,319.08
	Other receivables	—	3,200,000.00
Nanjing Zhen Hua Sound Equipment Plant	Account payables	579,483.59	1,075,065.97
	Other payables	1,460,722.60	1,460,722.60
MPOWER Batteries (Nanjing) Ltd.	Other receivables	—	14,000,000.00
Nanjing Panda Technology Industrial Co., Ltd.	Account payables	—	770,243.51
	Prepayment	480,000.00	—
Nanjing Lianhui Communication Technology Company Limited			

(8) **Contingent Liabilities**

As at 30 June 2006, the Company provided guarantees to the following parties:

Name of parties guaranteed	Gearing ratio of the guaranteed party	Guaranteed item	Guaranteed amount	Used amount (RMB'0,000)	Term of guarantee	Note
Nanjing Panda Mechanical Manufacturing Co., Ltd.	76%	Loans	—	500.00	2005.08.22 - 2006.08.22	
Nanjing Panda Information Industrial Co., Ltd.	77%	Loans	—	807.02	2005.10.24 - 2006.10.26	1
Nanjing Panda Electronic Manufacturing Company Limited	27%	Financing lease	—	637.55	2006.02.01 - 2007.12.31	
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	65%	Loan	—	1,600.00	2005.04.08 - 2006.10.08	
Total				<u>3,544.57</u>		

Note 1: The Company provided the loan of US\$1,000,000 as the guarantee to Nanjing Panda Information Industrial Co., Ltd., a subsidiary of the Company.

As of 30 June 2006, the total guarantee amount of the Company represented 2.75% of the net asset of the Company.

As at 30 June 2006, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

(9) **Commitments**1. **Expenses for contracted material external investment**

As of 30 June 2006, the expenses for contracted material external investment with payment not made are as follows:

Items of investment	Investment amount of contract	Paid investment amount	Unpaid investment amount
Nanjing Panda Electronic Manufacturing Co., Ltd.	\$7,500,000.00	\$4,500,000.00	\$3,000,000.00

2. **Expenses for contracted major subcontracting contract**

As of 30 June 2006, the Company signed the contract but did not pay the expenses for the contracted major subcontracting contract, details of which are set out as follows:

Items	Amount of contract	Paid Amount	Unpaid Amount	Estimated Payment Period
Surface assembly and linking items	25,762,133.54	22,752,637.48	3,009,496.06	Year 2006
Xingang Project	120,000,000.00	86,130,788.00	33,869,212.00	Year 2006

3. **Save as the above commitments, as of 30 June 2006, the Company did not have any other material commitments.**



**(10) Subsequent Events**

As of 30 June 2006, the Company had no matters required to be disclosed subsequent to the balance sheet date.

**(11) Other Significant Events**

- On 9 March 2005, the Company entered into a debt assignment agreement with Panda Mobile and Jiangsu Provincial Investment Management Co., Ltd. ("Jiangsu Investment Management"), whereby it was agreed the assignment of debt owed by Panda Mobile to the Company in the amount of RMB500 million to Jiangsu Investment Management which will answer for the repayment. This agreement took effect from 9 March 2005. On 8 May 2006, the Company, Jiangsu Investment Management and Jiangsu International Trust & Investment Corporation Limited ("Jiangsu International Trust") entered into the Agreement on Assignment of Debt. Pursuant to the agreement, Jiangsu International Trust will undertake the Debt owed by Jiangsu Investment Management to the Company in the amount of RMB500 million. Further, pursuant to the Equity Transfer Agreement entered into by Jiangsu International Trust and the Company dated 8 May 2006, Jiangsu International Trust shall transfer 25% equity interest held by it in Hua Fei Colour Display Systems Company Limited in satisfaction of the Debt. As at the balance sheet day, the relevant shareholding transfer procedures are in progress.
- As authorized by Panda Electronic Group Limited, the sole holder of non-circulating shares in the Company, the Company intends to pay a total of 20,300,000 shares as consideration to the holders of circulating A shares in the Company whose names appear in the register of members on the registration date for the Share Segregation Reform Proposal, representing 3.5 consideration shares paid by the holder of non-circulating shares in the Company to the holders of circulating A shares in the Company for each 10 circulating shares. The Share Segregation Reform Proposal has been approved by the State-owned Assets Supervision and Administration Commission of Jiangsu Province and passed at the relevant A shareholder meeting of the Company. Currently, the proposal is in progress of approval by the Ministry of Commerce of the PRC.
- As at 30 June 2006, in the State-owned legal person share in the Company held by Panda Electronic Group Limited, the controlling shareholder of the Company, (which holds 355,015,000 State-owned legal person shares in the Company, accounting for 54.20% of the total shares in the Company), 282,515,000 shares were frozen due to the disputes of contract, which account for 43.13% of the total shares in the Company, and account for 79.58% of the total shares it holds in the Company; 172,500,000 shares were pledged to the bank, which account for 26.34% of the total shares in the Company, and account for 48.59% of the total shares it holds in the Company.

**(12) Supplementary Information**

In accordance with the China Securities Regulatory Commission's requirements of No. 9 of the Provisions 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 the period from January to June 2006 are as follows:

Profit during Reporting Period	Rate of return on net assets		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	3.8589	3.9048	0.0759	0.0759
Operating profit	(2.3851)	(2.4135)	(0.0469)	(0.0469)
Net profit	2.4162	2.4450	0.0475	0.0475
Net profit after extraordinary items	1.3511	1.3671	0.0266	0.0266

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 2006

	Note	Six months ended	
		30 June 2006 (unaudited) RMB'000	30 June 2005 (unaudited) RMB'000
Turnover	2	353,602	338,596
Cost of sales		(303,862)	(293,246)
Gross profit		49,740	45,350
Other revenue		7,965	6,097
Distribution costs		(12,661)	(10,920)
Administrative expenses		(46,282)	(60,872)
Loss from operations		(1,238)	(20,345)
Finance costs		(27,857)	(31,828)
Share of results of associates		66,972	101,375
Profit before taxation		37,877	49,202
Income tax expenses	4(a)	(1,659)	(963)
Profit for the period		<u>36,218</u>	<u>48,239</u>
Attributable to:			
Equity holders of the Company		32,994	44,931
Minority interests		3,224	3,308
		<u>36,218</u>	<u>48,239</u>
Dividends	5	—	—
Earnings per share (RMB)	6	<u>0.05</u>	<u>0.07</u>



## CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	Note	30 June 2006 (unaudited) RMB '000	31 December 2005 (audited) RMB '000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	296,722	302,430
Land use right		1,624	1,645
Construction in progress		109,345	20,448
Intangible assets		—	4,103
Goodwill		959	—
Interests in associates	9	638,692	561,720
		<u>1,047,342</u>	<u>890,346</u>
<b>Current assets</b>			
Inventories		237,472	175,155
Bills receivable		6,946	4,247
Trade receivables	10	112,733	110,670
Other receivables, deposits and prepayments		726,829	750,548
Amounts due from fellow subsidiaries, associates and related companies		12,718	23,898
Amount due from ultimate holding company		165,015	269,431
Bank balances and cash		361,237	347,457
Taxation		1,611	87
		<u>1,624,561</u>	<u>1,681,493</u>
<b>Current liabilities</b>			
Borrowings	11	924,972	839,135
Trade payables	10	130,533	145,808
Other payables, customers' deposits and accrued charges		242,886	251,112
Obligations under finance leases		4,250	—
Amounts due to fellow subsidiaries, associates and related companies		10,390	9,456
		<u>1,313,031</u>	<u>1,245,511</u>
<b>Net current assets</b>		<u>311,530</u>	<u>435,982</u>
<b>Total assets less current liabilities</b>		<u>1,358,872</u>	<u>1,326,328</u>
<b>Non-current liabilities</b>			
Obligations under finance leases		(2,125)	—
<b>Net assets</b>		<u>1,356,747</u>	<u>1,326,328</u>
Equity			
<b>Share capital</b>	12	655,015	655,015
<b>Share premium and reserves</b>		663,555	630,561
<b>Attributable to equity holders of the Company</b>		1,318,570	1,285,576
<b>Minority interests</b>		38,177	40,752
<b>Total equity</b>		<u>1,356,747</u>	<u>1,326,328</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	Share capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Statutory common fund (Unaudited) RMB'000	Asset revaluation reserve (Unaudited) RMB'000	(Accumulated loss) (Unaudited) RMB'000	Attributable to equity holders of the Company (Unaudited) RMB'000	Minority interest (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
Balance at 1 January 2005	655,015	389,338	4,020	189,850	36,628	(82,036)	1,192,815	37,710	1,230,525
Profit for the period	—	—	—	—	—	44,931	44,931	3,308	48,239
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—	—	—
Balance at 30 June 2005	<u>655,015</u>	<u>389,338</u>	<u>4,020</u>	<u>189,850</u>	<u>36,252</u>	<u>(36,729)</u>	<u>1,237,746</u>	<u>41,018</u>	<u>1,278,764</u>

	Share capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Statutory common fund (Unaudited) RMB'000	Asset revaluation reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Attributable to equity holders of the Company (Unaudited) RMB'000	Minority interest (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
Balance at 1 January 2006	655,015	389,338	4,020	189,850	35,876	11,477	1,285,576	40,752	1,326,328
Profit for the period	—	—	—	—	—	32,994	32,994	3,224	36,218
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(5,799)	(5,799)
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—	—	—
Balance at 30 June 2006	<u>655,015</u>	<u>389,338</u>	<u>4,020</u>	<u>189,850</u>	<u>35,500</u>	<u>44,847</u>	<u>1,318,570</u>	<u>38,177</u>	<u>1,356,747</u>



**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	Six months ended	
	30 June 2006 (unaudited) RMB '000	30 June 2005 (unaudited) RMB '000
<b>Net cash used in from operating activities</b>	(102,611)	(331,368)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(2,891)	(18,938)
Expenditure on construction in progress	(88,834)	(7,618)
Proceeds from disposal of land, property, plant and equipment	748	80,335
Acquisition of additional interest in a subsidiary	(6,758)	—
Investment in an associate	(10,000)	—
Return on investment in an associate	—	5
Repayment from unconsolidated subsidiaries	—	291,530
Release of pledged bank deposits	31,584	10,193
Interest received	1,835	1,121
<b>Net cash (used in) / generated from investing activities</b>	(74,316)	356,628
<b>Financing</b>		
New loans raised	633,500	672,877
Increase in other short term loan	—	120,000
Decrease in amount due from ultimate holding company	104,416	4,449
Repayment of loans	(513,500)	(705,200)
Repayment of finance lease obligation	(2,125)	—
<b>Net cash generated from financing activities</b>	222,291	92,126
<b>Increase in cash and cash equivalents</b>	45,364	117,386
<b>Cash and cash equivalents at beginning of the period</b>	302,509	87,243
<b>Cash and cash equivalents at end of the period</b>	<u>347,873</u>	<u>204,629</u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	361,237	209,319
Less: Pledged bank balances	(13,364)	(4,690)
	<u>347,873</u>	<u>204,629</u>

## 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 ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These unaudited financial statements should be read in conjunction with the 2005 annual report.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, HKICPA issued the following standards and interpretations, which is applicable to the Group's operation and effective for accounting periods beginning on or after 1 January 2006. The adoption of the standards and interpretations did not result in substantial changes to the Group's accounting policies.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HKFRIC 4	Determining Whether an Arrangement Contains a Lease

At the date of this report, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

**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 RMB13,846,000 (six months ended 30 June 2005 : RMB16,419,000) was charged in respect of the Group's property, plant and equipment.

**4. Taxation**

(a) Taxation charge comprises:-

	Six months ended	
	30 June 2006 (unaudited) RMB'000	30 June 2005 (unaudited) RMB'000
PRC income tax	<u>1,659</u>	<u>963</u>

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.

(b) The major component of the net deferred tax asset unprovided for at the balance sheet date represents unutilized tax losses computed under the PRC accounting standards. No provision for deferred taxation has 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 2005: 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 2006 of RMB32,994,000 (six months ended 30 June 2005: RMB44,931,000) and on 655,015,000 shares in issue throughout the period.

7. Segment reporting

(a) Business segment

For management purposes, the Group is currently organized into four operating businesses. The principal activities of the businesses are as follows:

Electronic manufacturing products: Development, production and sale of electronic manufacturing products.

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 2006

	Electronic manufacturing products (Unaudited) RMB'000	Electro- mechanical products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic information products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<b>Revenue</b>						
External sales	103,865	106,025	17,100	122,638	3,974	353,602
<b>Results</b>						
Segment results	7,925	6,422	5,169	2,808	(15,102)	7,222
Unallocated corporate expenses						(16,560)
Operating loss						(9,338)
Other revenue						4,824
Interest expenses						(26,416)
Interest income						1,835
Share of results of associates						66,972
Income tax expenses						(1,659)
Profit for the period						36,218

As at 30 June 2006

	Electronic manufacturing products (Unaudited) RMB'000	Electro- mechanical products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic information products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<b>Assets</b>						
Segment assets	232,543	135,586	162,376	190,972	65,750	787,227
Interests in associates						638,692
Unallocated corporate assets						1,245,984
<b>Consolidated total assets</b>						2,671,903
<b>Liabilities</b>						
Segment liabilities	106,458	129,723	120,426	160,891	40,933	558,431
Unallocated corporate liabilities						756,725
<b>Consolidated total liabilities</b>						1,315,156
<b>Other information</b>						
Depreciation	7,045	1,532	—	1,060	4,208	

Period ended 30 June 2005

	Electronic manufacturing products (Unaudited) RMB'000	Electro- mechanical products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic information products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<b>Revenue</b>						
External sales	95,137	91,669	33,027	96,931	21,832	338,596
<b>Results</b>						
Segment results	5,389	2,230	5,749	1,611	(33,418)	(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						101,375
Income tax expenses						(963)
Profit for the period						48,239

As at 31 December 2005

	Electronic manufacturing products (Unaudited) RMB'000	Electro- mechanical products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic information products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<b>Assets</b>						
Segment assets	255,262	134,656	161,913	177,980	76,096	805,907
Interests in associates						561,720
Unallocated corporate assets						1,204,212
<b>Consolidated total assets</b>						<b>2,571,839</b>
<b>Liabilities</b>						
Segment liabilities	150,617	134,042	105,418	173,837	47,759	611,673
Unallocated corporate liabilities						633,838
<b>Consolidated total liabilities</b>						<b>1,245,511</b>
<b>Other information</b>						
Depreciation	5,382	1,703	—	431	8,903	

## (b) Geographical segment

For the six months ended 30 June 2006 and 2005, 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 RMB11,391,000 and RMB88,834,000 (six months ended 30 June 2005: RMB18,938,000 and RMB7,618,000) on acquisition of property, plant and equipment and construction in progress respectively.

**9. Interests in associates**

	<b>30 June 2006 (unaudited) RMB'000</b>	31 December 2005 (audited) RMB'000
Share of net assets	635,249	558,277
Premium on acquisition	3,443	3,443
	<b><u>638,692</u></b>	<b><u>561,720</u></b>

**10. 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 2006:-

	<b>30 June 2006 (unaudited) RMB'000</b>	31 December 2005 (audited) RMB'000
Within 1 year	98,783	100,050
1 to 2 years	8,433	7,916
2 to 3 years	3,369	1,965
Over 3 years	2,148	739
	<b><u>112,733</u></b>	<b><u>110,670</u></b>

The following is an aged analysis of trade creditors at 30 June 2006:-

	<b>30 June 2006 (unaudited) RMB'000</b>	31 December 2005 (audited) RMB'000
Within 1 year	104,052	113,788
1 to 2 years	12,044	20,095
2 to 3 years	1,801	3,807
Over 3 years	12,636	8,118
	<b><u>130,533</u></b>	<b><u>145,808</u></b>

**11. Borrowings**

	<b>30 June 2006 (unaudited) RMB'000</b>	31 December 2005 (audited) RMB'000
Bank borrowings		
Short term loans		
– unsecured	705,070	585,070
– secured	210,000	210,000
Bills payable	9,902	44,065
Amount due within 1 year shown under current liabilities	<b><u>924,972</u></b>	<b><u>839,135</u></b>

**12. Share capital**

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

## 13. Related party transactions

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

	Fellow subsidiaries, associates and related companies		Ultimate holding company	
	Six months ended		Six months ended	
	30 June 2006 (unaudited) RMB'000	30 June 2005 (unaudited) RMB'000	30 June 2006 (unaudited) RMB'000	30 June 2005 (unaudited) RMB'000
Sales of components and parts	10,632	71,540	9,328	—
Purchases of components and parts	3,256	10,808	865	—
Fees paid for welfare, support and sub-contracting services	—	3,086	4,782	38
Income for welfare, support and sub-contracting services provided	8,584	2,734	—	918
Rental income	44	1,044	593	98
	<u>44</u>	<u>1,044</u>	<u>593</u>	<u>98</u>

## 14. Contingent liabilities

At the balance sheet date, the Group did not have any significant contingent liabilities.

## 15. Capital commitments

At the balance sheet date, the Group had the following capital commitments in respect of:

	30 June 2006 (unaudited) RMB'000	31 December 2005 (audited) RMB'000
Contracted but not provided for - acquisition of property, plant and equipment	<u>36,879</u>	<u>5,372</u>

## 16. 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 2006 (unaudited) RMB'000	30 June 2005 (audited) RMB'000
Profit attributable to shareholders as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	32,994	44,931
Income and expenditure taken directly to reserves	(2)	—
Minority interest	346	292
Amortisation of revaluation surplus on trademarks	225	450
Amortisation of unrecognised intangible assets	(100)	(100)
Other assets previously written off	—	(571)
Goodwill amortisation of purchased associates	(270)	(552)
Others	(2,049)	(189)
Profit attributable to shareholders as per interim financial statements prepared under PRC accounting standards	<u>31,144</u>	<u>44,261</u>

## Impact on the consolidated balance sheets

	30 June 2006 (unaudited) RMB '000	31 December 2005 (audited) RMB '000
Net assets as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	1,318,570	1,285,576
Revaluation surplus on trademark	—	(225)
Unrecognised intangible assets	820	920
Goodwill	(2,830)	(2,560)
Share of reserve of associates	(27,395)	(27,396)
Minority interests	733	1,911
Others	(930)	11
Net assets as per interim financial statements prepared under PRC accounting standards	<u>1,288,968</u>	<u>1,258,237</u>

**IX. DOCUMENTS AVAILABLE FOR INSPECTION**

1. The Interim Report signed by the Chairman;
2. The financial statements signed and sealed by the legal representative, officer in charge of accounting work and officer in charge of accounting department of the Company;
3. The announcements published in Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard during the Reporting Period;
4. The memorandum and articles of association of the Company;
5. The Interim Report published in Hong Kong and Shanghai securities market.

The Board of Directors of  
Nanjing Panda Electronics Company Limited  
**Li Anjian**  
Chairman

25 August 2006