

Report of the Supervisory Committee



To all shareholders,

During the Reporting Period, all the members of the Supervisory Committee of the Company have, in accordance with the provision of the of the Company Law, Securities Law, the Articles of Association of the Company, other state laws and rules of domestic and international securities regulatory bodies, based on the principles of acting in good faith, performed faithfully their duties prescribed in laws and regulations concerned and in the Articles of Association to protect the interests of the Company and its shareholders.

During the Reporting Period, the Supervisory Committee held two meetings for several resolutions. The details are as follows:

- (1) On 20 April 2006, the fifth Supervisory Committee held its fifth meeting at the Company's Conference Room during which the Company passed the 2005 Report of the Supervisory Committee, the 2005 audited financial statements and 2005 annual report and its summary. The Supervisory Committee also passed the summary of work for 2006. The Supervisory Committee are in the view that the explanations made by the Board of Directors of the Company on events to the qualified opinion in the 2005 auditors' report issued by the auditors are reasonable and in accordance with the practical condition of the Company. The Supervisory Committee shall proactively supervise the Board of Directors to materialize the repayment of RMB500 million of Jiangsu Province Investment Management Company Limited as soon as possible.
- (2) On 24 August 2006, the fifth Supervisory Committee held its Sixth meeting at the Company's Conference Room during which the Company reviewed the 2006 interim report and its summary.

During the Reporting Period, all supervisors attended all board meetings, and provided effective supervision to ensure that all decisions were made by the Board of Directors according to laws and regulations and the Company's Article of Association, were in line with the Company's development and prospects and were in accordance with shareholders' interests. The Supervisory Committee actively participated in issues such as production operation, technological renovation and investment projects, and provided many good proposals.

In the opinion of the Supervisory Committee, the directors and senior management of the Company had performed their duties as provided in the Company's Articles of Association and as required by the relevant laws and regulations. During the year, none of the directors, managers and other senior management violated any laws and regulations of the State or the Articles of Association of the Company, they neither abused their office nor act illegally to harm the interests of the Company or its shareholders and staff.

During the Reporting Period, the Company had appointed Horwath Risk Advisory Services Limited to conduct a overall examination of the internal control system of the Company and an "Internal Control Review Report" was completed, and certain opinions on improvement were made. The Company will adopt necessary measures according to the report and the advice and perfect a series of regulations and provisions to strengthen the internal control mechanism of the Company.

During the Reporting Period, the Company did not utilize any proceeds raised in the Reporting Period or proceeds raised in the previous period.

During the Reporting Period, the Company implemented and completed a Share Segregation Reform. During the process of the Share Segregation Reform, the Board of the Company and the controlling shareholder, Panda Electronics Group Limited ("PEGL") complied with the requirements of relevant laws, regulations and rules. In addition to the performance of statutory commitments and obligations, PEGL also made certain special undertakings. As at the end of the Reporting Period, PEGL had fulfilled various undertakings.



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During the Reporting Period, the Board of the Company, in accordance with the requirements of relevant documents of the China Securities Regulatory Commission, actively tried to settle the appropriation of the non-operating fund of the Company by the controlling shareholder and its subsidiaries in strict compliance with the undertakings made by PEG L associated with the Share Segregation Reform and settlement plan of PEG L. As at the end of the Reporting Period, the settlement of the appropriation of the non-operating fund had been fully completed. During the process of the settlement, the Company entered into the agreement of using assets to discharge a debt (以資抵債協議) with PEG L. PEG L used its appraised real estates which was legally in possession and are more relevant to the Company's production operation to offset part of its appropriated non-operating fund. Such transaction constituted a connected transaction. The transaction price was determined based on the market rate and negotiation on the basis of appraised asset value, and was fair and reasonable and in the overall interest of the Company. The agreement was approved at the Extraordinary General Meeting.

Connected transactions of the Company were made on a fair and reasonable basis and were confirmed by Independent Non-executive Directors of the Company. No acts detrimental to the interests of the Company were found.

Since the waiver on continuing connected transactions granted by the Stock Exchange had expired in 2004, the continuing connected transactions of the Company in 2006 did not comply with the requirements of Rule 14A.35 of the Listing Rules for reporting, announcement and obtaining the approval of shareholders. The Company breached the relevant requirement out of the negligence but not inadvertent omission of the management. The Company complied with the requirements of reporting, announcement and independent shareholders' approval for the continuing connected transaction from 2007 to 2009. The continuing connected transactions were also considered and obtained shareholders' approval in the Extraordinary General Meeting held on 3 April 2007.

The financial statements as of 31 December 2006 were audited by Horwath Hong Kong CPA Limited and Yue Hua Certified Public Accountants Co., Ltd., in accordance with international and domestic accounting standards respectively. Yue Hua Certified Public Accountants Co. Ltd. and Horwath Hong Kong CPA Limited issued unqualified Auditors' Report of the Company.

The Supervisory Committee wishes to reinforce the management of guarantee to outside parties provided by subsidiaries and to perfect the internal control mechanism, especially for capital utilization and guarantee to outside parties, as so to effectively control the risk of guarantee.

The Supervisory Committee is satisfied with the performance of the Board of Directors for the year and have great confidence in the future development of the Company.

By Order of the Supervisory Committee
Zhang Zhengping
Chairman

Nanjing, the PRC
25 April 2007