INDEPENDENT AUDITOR'S REPORT

Horwath Hong Kong CPA Limited

Certified Public Accountants
2001 Central Plaza
18 Harbour Road Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
horwath@horwath.com.hk
www.horwath.com.hk

TO THE SHAREHOLDERS OF NANJING PANDA ELECTRONICS COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Nanjing Panda Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 89, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirement of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

25 April 2007
Chan Kam Wing, Clement
Practising Certificate number P02038

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Renminbi)

	Note	**2006** **RMB'000**	2005 RMB'000
Turnover	4	**880,973**	850,817
Cost of sales		**(744,211)**	(726,720)
Gross profit		**136,762**	124,097
Other revenue	5	**18,272**	13,444
Distribution costs		**(17,904)**	(24,537)
Administrative expenses		**(205,344)**	(226,560)
Loss from operations	6	**(68,214)**	(113,556)
Finance costs	8	**(56,799)**	(58,817)
Gain on disposal of interests in associates		**—**	15,157
Share of results of associates		**230,730**	257,381
Profit before taxation		**105,717**	100,165
Income tax expenses	9	**(4,160)**	(3,176)
Net profit for the year		**101,557**	96,989
Attributable to:			
Equity holders of the Company		**93,110**	92,761
Minority interest		**8,447**	4,228
		101,557	96,989
Dividends	12	**—**	—
Earnings per share (RMB)	13	**0.14**	0.14

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006
(Expressed in Renminbi)

	Note	**2006** **RMB'000**	2005 RMB'000
Assets and liabilities			
Non-current assets			
Intangible assets	15	—	4,103
Property, plant and equipment	16	**484,460**	302,430
Construction in progress	17	**10,022**	20,448
Land use rights	18	**11,279**	1,645
Interests in associates	20	**573,139**	561,720
		1,078,900	890,346
Current assets			
Inventories	21	**236,838**	175,155
Bills receivable		**31,775**	4,247
Trade debtors	22	**120,407**	110,670
Other debtors, deposits and prepayments	23	**614,532**	750,548
Amounts due from fellow subsidiaries, associates and related companies	31(d)	**31,531**	23,898
Amount due from ultimate holding company	31(e)	—	269,431
Bank balances and cash	24	**652,094**	347,457
Taxation		—	87
		1,687,177	1,681,493
Current liabilities			
Borrowings	25	**873,865**	839,135
Trade creditors	22	**140,701**	145,808
Other creditors, customers' deposits and accrued charges		**242,920**	251,112
Amounts due to fellow subsidiaries, associates and related companies	31(d)	**4,113**	9,456
Amount due to ultimate holding company	31(e)	**48,739**	—
Current portion of obligations under finance leases	26	**16,833**	—
Taxation		**783**	—
		1,327,954	1,245,511
Net current assets		**359,223**	435,982
Total assets less current liabilities		**1,438,123**	1,326,328
Total assets less current liabilities		**1,438,123**	1,326,328
Non-current liabilities			
Obligations under finance leases	26	**(18,158)**	—
Net assets		**1,419,965**	1,326,328
Equity			
Share capital	27	**655,015**	655,015
Share premium and reserves		**723,671**	630,561
Attributable to equity holders of the Company		**1,378,686**	1,285,576
Minority interests		**41,279**	40,752
Total equity		**1,419,965**	1,326,328

The financial statements on pages 54 to 89 were approved and authorised for issue by the board of directors on 25 April 2007 and are signed on its behalf by:

LI Anjian
Director

LIU Ailian
Director

BALANCE SHEET

AT 31 DECEMBER 2006
(Expressed in Renminbi)

	Note	**2006** **RMB'000**	2005 RMB'000
Assets and liabilities			
Non-current assets			
Intangible assets	15	**—**	4,103
Property, plant and equipment	16	**279,197**	162,018
Construction in progress	17	**7,633**	20,390
Land use rights	18	**11,279**	1,645
Investments in subsidiaries	19	**143,772**	107,120
Interests in associates	20	**262,145**	252,145
		704,026	547,421
Current assets			
Inventories	21	**130,338**	56,293
Bills receivable		**30,098**	79
Trade debtors	22	**608,764**	2,408
Other debtors, deposits and prepayments		**602,300**	713,034
Dividend receivable		**1,677**	1,811
Amounts due from fellow subsidiaries, associates and related companies	31(d)	**23,177**	3,974
Amounts due from subsidiaries		**41,018**	87,096
Amount due from ultimate holding company	31(e)	**—**	287,569
Bank balances and cash		**540,036**	243,011
		1,383,062	1,395,275
Current liabilities			
Borrowings	25	**826,000**	786,000
Trade creditors	22	**44,172**	13,385
Other creditors, customers' deposits and accrued charges		**88,651**	145,123
Amounts due to fellow subsidiaries, associates and related companies	31(d)	**1,189**	10,037
Amounts due to subsidiaries		**46,700**	4,697
Amount due to ultimate holding company	31(e)	**36,582**	—
		1,043,294	959,242
Net current assets		**339,768**	436,033
Net assets		**1,043,794**	983,454
Equity			
Share capital	27	**655,015**	655,015
Share premium and reserves	28	**388,779**	328,439
Total equity		**1,043,794**	983,454

The financial statements on pages 54 to 89 were approved and authorised for issue by the board of directors on 25 April 2007 and are signed on its behalf by:

LI Anjian
Director

LIU Ailian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Renminbi)

	Equity attributable to equity holders of the Company								
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory common funds *RMB'000*	Asset revaluation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interest *RMB'000*	Total *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 year	—	—	—	—	—	92,761	92,761	4,228	96,989
Dividends paid to minority interests	—	—	—	—	—	—	—	(1,186)	(1,186)
Reserve realised on amortisation of intangible assets	—	—	—	—	(752)	752	—	—	—
Balance at 31 December 2005	655,015	389,338	4,020	189,850	35,876	11,477	1,285,576	40,752	1,326,328
Profit for the year	—	—	—	—	—	93,110	93,110	8,447	101,557
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(6,866)	(6,866)
Dividends paid to minority interests	—	—	—	—	—	—	—	(1,054)	(1,054)
Profit appropriations	—	—	—	3,046	—	(3,046)	—	—	—
Reserve realised on amortisation of intangible assets	—	—	—	—	(188)	188	—	—	—
Balance at 31 December 2006	655,015	389,338	4,020	192,896	35,688	101,729	1,378,686	41,279	1,419,965

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Renminbi Thousands)

	2006 RMB'000	2005 RMB'000
Operating activities		
Profit before taxation	**105,717**	100,165
State special project fund recognised to offset the cost of project	**—**	(570)
Written off of construction in progress	**—**	5,027
Gain on acquisition of additional interest in a subsidiary	**(108)**	—
Share of results of associates	**(230,730)**	(257,381)
Interest income	**(4,296)**	(2,216)
Interest expenses	**52,736**	57,687
Finance lease interests	**1,403**	—
Impairment loss on long term investment	**—**	3,956
Depreciation and amortisation	**37,585**	46,751
Gain on disposal of property, plant and equipment and construction in progress	**1,562**	(2,462)
Impairment loss on construction in progress	**62**	5,722
Gain on disposal of interests in associates	**—**	(15,157)
Operating cash flows before working capital changes	**(36,069)**	(58,478)
Increase in inventories	**(61,683)**	(27,659)
Decrease/(increase) in trade and other receivables, deposits and prepayments and amounts due from related parties	**118,646**	(13,482)
Increase in bills receivable	**(27,528)**	(1,341)
(Decrease)/increase in bills payable	**(6,270)**	21,781
Decrease in trade and other payables, customers' deposits and accrued charges and amounts due to related parties	**(1,503)**	(59,700)
Cash used in operations	**(14,407)**	(138,879)
Interest paid	**(52,736)**	(57,687)
Interest element of finance lease payments	**(1,403)**	—
Income tax paid	**(3,290)**	(3,113)
Net cash used in operating activities	**(71,836)**	(199,679)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Renminbi Thousands)

	2006 RMB'000	2005 RMB'000
Investing activities		
Purchase of property, plant and equipment	**(47,249)**	(36,433)
Expenditure on construction in progress	**(103,781)**	(17,704)
Return on investment in an associate	**—**	5
Acquisition of additional interest in a subsidiary	**(6,758)**	—
Proceeds from disposal of associates	**—**	81,883
Proceeds from disposal of property, plant and equipment	**7,945**	1,145
Acquisition of interest in associates	**(14,124)**	—
Repayment from unconsolidated subsidiaries	**—**	291,530
Release (placement) of pledged bank deposits	**172**	(30,065)
Interest received	**4,296**	2,216
Dividends received from associates	**233,435**	172,796
Net cash generated from investing activities	**73,936**	465,373
Financing activities		
New loans raised	**1,245,570**	1,458,980
Repayment of loans	**(1,204,570)**	(1,477,510)
Advances to ultimate holding company	**—**	(30,755)
Repayments from ultimate holding company	**237,831**	—
Guarantee fund placed by ultimate holding company	**31,600**	—
Capital element of finance lease payments	**(6,668)**	—
Dividends paid to minority shareholders	**(1,054)**	(1,186)
Net cash generated from/(used in) financing activities	**302,709**	(50,471)
Net increase in cash and cash equivalents	**304,809**	215,223
Increase in cash due to consolidation of subsidiaries	**—**	43
Cash and cash equivalents at beginning of year	**302,509**	87,243
Cash and cash equivalents at end of year	**607,318**	302,509
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**652,094**	347,457
Less: Pledged bank balances *(Note 24)*	**(44,776)**	(44,948)
	607,318	302,509

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Thousands)

1. Organisation and operations

The Company was established in the People's Republic of China (the "PRC") on 29 April 1992, as a joint stock limited company by way of private subscription with Panda Electronics Group Company ("PEGC"), a state-owned enterprise, as the sole promoter. The Company was listed on The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange") and the Shanghai Stock Exchange on 2 May 1996 and 18 November 1996 respectively. In July 1999, PEGC was re-organised into a company with limited liability and was renamed as "Panda Electronics Group Company Limited" ("PEGL") and continued to be the Company's ultimate holding company.

The principal activities of the Group are the development, manufacture and sale of electronics manufacturing products, electronic information products, satellite communication system and electromechanical products.

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

The financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment, which are modified by revaluation and financial instruments, which are stated at fair values.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong with the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

In the current year, the Group has adopted all of the new and revised HKFRSs that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12	Service Concession Arrangements	1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

2. Basis of preparation and significant accounting policies *(Continued)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. All significant intercompany transactions, balances and unrealised gains on transaction between group enterprises are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provide evidence of an impairment of the asset transferred.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interest in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interest and the equity shareholders of the company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been revocered.

(c) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss account.

(d) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or an associate recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisitions of associates is included in investments in associates.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is unit pro-rate on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2. Basis of preparation and significant accounting policies *(Continued)*

(d) Goodwill *(Continued)*

On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Subsidiaries

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Details of the Company's subsidiaries as of 31 December 2006 are set out in Note 19 to the financial statements.

(f) Associated companies

An associated company is an enterprise, not being a subsidiary nor an interest in a joint venture, over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less impairment in the value of individual investments. Losses of as associate in excess of the Group's interest in that associate are not recognised. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group enterprise transacts with an associate of the Group, unrealised gains and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

2. Basis of preparation and significant accounting policies *(Continued)*

(g) Property, plant and equipment *(Continued)*

It is the Group's policy to determine the carrying amount of the property, plant and equipment on the historical cost basis. However, in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, property, plant and equipment of the Group were revalued in 1995 in connection with the listing the Company's shares on The Hong Kong Stock Exchange and stated in the financial statements at such valuation.

The Group does not intend to revalue these assets in the future and they will continue to be carried at their 1995 valuation less subsequent depreciation.

The surplus arising on the 1995 revaluation of these assets was credited to the asset revaluation reserve. Any future decrease in value of these assets will be charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to the previous revaluation of the same asset. On the subsequent disposal or retirement of such assets, the attributable revaluation surplus not yet transferred to retained profits in prior years will be transferred to retained profits.

Depreciation is provided to write off the cost of property, plant and equipment over their anticipated useful lives on a straight-line basis at the following annual rates:—

Buildings	15 to 35 years
Plant, machinery and equipment	5 to 11 years
Transportation equipment and motor vehicles	5 to 10 years

(h) Land use rights

Land use rights represent land use rights payments to the PRC's government authorities. Land use rights are carried at cost less impairment loss and are amortised to profit and loss account on a straight-line basis over the respective periods of the rights.

(i) Construction in progress

Construction in progress represents buildings and machinery under construction or installation and is stated at cost less any impairment. Cost comprises direct and indirect costs of acquisition or construction as well as borrowing costs capitalised. Construction in progress is transferred to property, plant and equipment when they are completed. No depreciation is provided on construction in progress.

(j) Trademarks

Trademarks are stated at cost or valuation less accumulated amortisation and provision, if necessary, for any impairment loss.

(k) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of an individual asset, the Group estimates the receivable amount of the cash-generating unit to which the asset belongs.

2. Basis of preparation and significant accounting policies *(Continued)*

(k) Impairment of assets *(Continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Where inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write down of inventories are recognised as an expense in the year the write down or losses occur. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

(m) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate provision for impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The provision recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2. Basis of preparation and significant accounting policies *(Continued)*

(m) Financial instruments *(Continued)*

(ii) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction cost.

At subsequent reporting dates, debts securities that the Group has the expected intention and ability to hold maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit and loss account when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from change in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity in included in profit and loss account for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. In preparing cash flow statement, cash and cash equivalents include bank loans which require immediate repayment on demand.

(iv) Borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy on borrowing costs (note 2(r)).

(v) Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

2. Basis of preparation and significant accounting policies *(Continued)*

(n) Leases

Leases are classified as finance leases whether the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability, Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (note 2(r)).

Rentals payable under operating leases are charged to profit and loss account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(o) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit and loss account because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited to profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. Basis of preparation and significant accounting policies *(Continued)*

(p) Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(q) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are expressed in Renminbi ("RMB"), which is the functional currency of the Company and each group entity, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, foreign currency transactions are translated into RMB being the functional currency at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

(r) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessary take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(s) Employees' benefit

According to the relevant regulation in the PRC, the Group contributes to pension funds based on the standard rates fixed by the PRC Government. The Group remits all pension fund contributions to respective social security offices, which are responsible for the payment and liabilities relating to the pension funds. Payments to retirement benefits scheme are charged to the income statement.

(t) Research and development costs

Expenditure on research and development is charged to profit and loss account in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

(u) Recognition of income

Sales are recognised when goods are delivered to customers. Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable. Dividend income from unlisted investments is recognised when the shareholders' right to receive payment is established.

2. Basis of preparation and significant accounting policies *(Continued)*

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. Critical accounting and other key sources of estimation uncertainty

Judgements

In the process of applying the Group's accounting policies, management has made the judgements in relation to impairment of assets apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may effect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. Critical accounting and other key sources of estimation uncertainty *(Continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are in respect of impairment test of assets.

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. Turnover

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

5. Other revenue

	2006	2005
	RMB'000	*RMB'000*
Technology license income	**4,749**	3,289
Rental income	**4,476**	4,188
Sundry income	**4,334**	3,593
Bank and other interest income	**4,296**	2,216
Net exchange gains	**417**	158
	18,272	13,444

6. Loss from operations

	2006	2005
	RMB'000	*RMB'000*
Loss from operations has been arrived at after charging/(crediting):		
Bad debt written off	**2,122**	5,234
Depreciation	**33,416**	30,294
Amortisation of land use rights	**66**	43
Amortisation of intangible assets	**4,103**	16,414
Provision for bad and doubtful debts (included in administrative expenses)	**42,644**	56,720
Provision for inventories (included in administrative expenses)	**19,244**	3,133
Staff costs (excluding directors' and supervisors' emoluments)		
Salaries, bonus and allowances	**59,940**	39,801
Retirement benefit scheme contributions	**3,079**	5,909
Auditors' remuneration	**1,670**	1,826
Operating lease rentals in respect of land and buildings	**6,143**	4,209
Loss/(gain) on disposal of property, plant and equipment	**1,562**	(2,462)

7. Directors', Supervisors' and senior management's emoluments

(a) Directors' and Supervisors' emoluments

The emoluments paid or payable to each of the fifteen (2005: sixteen) Directors and Supervisors were as follows:

Year ended 31 December 2006

Name	Fees RMB'000	Basic salaries, housing allowances, other allowances and benefits in kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Director:				
Li Anjian	—	240	15	255
Zhang Zuzhong *(Note 1)*	—	—	—	—
	—	240	15	255
Non-Executive Directors:				
Liu Ailian	180	—	—	180
Zhu Lifeng	180	—	—	180
Xu Guofei	240	—	—	240
Shi Qiusheng	180	—	—	180
Lu Qing *(Note 2)*	180	—	—	180
	960	—	—	960
Independent Non-Executive Directors:				
Wan Hui	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	82	—	—	82
	82	—	—	82
Supervisors:				
Zhang Zhengping	—	180	15	195
Zhong Youxiang	—	100	9	109
Tang Min *(Note 3)*	—	100	7	107
	—	380	31	411
Independent Supervisors:				
Wu Shiyuan	—	—	—	—
Sun Suhua	—	—	—	—
	—	—	—	—
Total	1,042	620	46	1,708

Notes:

1. Resigned on 20 April 2006
2. Appointed on 30 June 2006
3. Appointed on 15 March 2006

7. Directors', Supervisors' and senior management's emoluments (continued)

(a) Directors' and Supervisors' emoluments *(Continued)*

Year ended 31 December 2005

Name	Fees *RMB'000*	Basic salaries, housing allowances, other allowances and benefits in kind *RMB'000*	Contributions to pension schemes *RMB'000*	Total *RMB'000*
Executive Director:				
Li Anjian	—	240	10	250
Zhang Zuzhong	—	240	10	250
	—	480	20	500
Non-Executive Directors:				
Liu Ailian	180	—	—	180
Zhu Lifeng	180	—	—	180
Xu Guofel	90	—	—	90
Shi Qiusheng	90	—	—	90
Zhou Zhenyu	90	—	—	90
Tang Hongqing	90	—	—	90
	720	—	—	720
Independent Non-Executive Directors:				
Wan Hui	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	83	—	—	83
	83	—	—	83
Supervisors:				
Zhang Zhengping	—	180	12	192
Chen Ning	—	50	4	54
Zhong Youxiang	—	100	8	108
	—	330	24	354
Independent Supervisors:				
Wu Shiyuan	—	—	—	—
Sun Suhua	—	—	—	—
	—	—	—	—
Total	803	810	44	1,657

No director or supervisor waived any emoluments in the years ended 31 December 2006 and 2005.

The aggregate emoluments of each of the directors during the relevant periods were under HK$1,000,000.

7. Directors', Supervisors' and senior management's emoluments (continued)

(b) The five highest paid individuals include:-

	2006 Number of Individuals	2005 Number of Individuals
Five highest paid individuals		
Directors	**—**	—
Supervisors	**—**	—
Employees	**5**	5
	5	5

All of the five individuals with highest emoluments in the Group were employees of the Company each with emoluments during the relevant periods under HK$1,000,000. The aggregate emoluments of the five individuals during the relevant periods were and as follows:-

	2006 ***RMB'000***	2005 *RMB'000*
Salaries and other benefits	**2,090**	1,580
Retirement benefits scheme contributions	**76**	46
	2,166	1,626

8. Finance costs

	2006 ***RMB'000***	2005 *RMB'000*
Interest on bank and other loans wholly repayable within five years	**54,139**	57,687
Bank and other charges	**2,660**	1,130
	56,799	58,817

9. Income tax expenses

	2006 ***RMB'000***	2005 *RMB'000*
Taxation charge comprises:—		
PRC income tax	**4,160**	3,176

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% 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%.

9. Income tax expenses *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2006 *RMB'000*	2005 *RMB'000*
Profit before taxation	**105,717**	100,165
Tax calculated at the statutory PRC tax rate of 33%	**34,887**	33,054
Exemption/reduction of income tax under preferential tax treatment	**(7,542)**	(5,686)
Tax effect of:		
Share of results of associates	**(76,141)**	(84,936)
Income not subject to taxation	**(7,696)**	(700)
Expenses not deductible for taxation purposes	**4,081**	24,872
Deferred tax benefits arising from tax losses not recognised	**56,607**	40,964
Over provision in the prior years	**—**	(311)
Others	**(36)**	(4,081)
Taxation charge	**4,160**	3,176

10. Deferred taxation

The major component of the net deferred tax asset unprovided for at the balance sheet date represents unutilised tax losses computed under the PRC accounting standards. No provision for deferred taxation has been recognised in the financial statements as it is not certain that the benefits of the deferred tax asset will be utilised in the foreseeable future.

11. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of RMB60,340,000 (2005 : profit of RMB119,181,000) which has been dealt with in the financial statements of the Company.

12. Dividends

No interim dividend was paid (2005 : RMBNil) and no final dividend is proposed for the year (2005 : RMBNil).

13. Earnings per share

The calculation of the earnings per share is based on profit attributable to shareholders of RMB93,110,000 (2005 : profit of RMB92,761,000) and 655,015,000 shares in issue throughout 2006 and 2005.

14. Segment reporting

(a) Business segment

For management purposes, the Group is currently organised 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 electromechanical products, equipment and appliances
Satellite telecommunications products:	Development, manufacture and sale of satelline telecommunication products
Electronic Information Products:	Development, manufacture and sale of electronic information products

The following tables provide an analysis of the Group's turnover, results and certain assets liabilities and expenditure information by business segments:-

Year ended 31 December 2006

	Electronic manufacturing products *RMB'000*	Electro-mechanical products *RMB'000*	Satellite telecom-munication products *RMB'000*	Electronic information Products *RMB'000*	Other operations *RMB'000*	Consolidated *RMB'000*
Revenue						
External sales	237,224	219,624	179,562	192,728	51,835	880,973
Result						
Segment result	11,652	3,097	24,881	16,306	2,523	58,459
Unallocated corporate expenses						(133,629)
Interest income						4,296
Interest expenses						54,139
Share of results of associates						230,730
Income tax expenses						(4,160)
Net profit for the year						101,557
Assets						
Segment assets	315,322	174,335	176,464	220,509	39,461	926,091
Interests in associates						573,139
Unallocated corporate assets						1,266,874
Consolidated total assets						2,766,077
Liabilities						
Segment liabilities	(178,829)	(145,255)	(112,163)	(184,833)	(43,183)	(664,263)
Unallocated corporate liabilities						(681,849)
Consolidated total liabilities						(1,346,112)
Other information						
Depreciation	16,701	4,153	—	514	1,504	

14. Segment reporting *(Continued)*

(a) Business segment *(Continued)*

Year ended 31 December 2005

	Electronic manufacturing products *RMB'000*	Electro-mechanical products *RMB'000*	Satellite telecom-munication products *RMB'000*	Electronic information Products *RMB'000*	Other operations *RMB'000*	Consolidated *RMB'000*
Revenue						
External sales	222,806	198,464	176,710	215,281	37,556	850,817
Result						
Segment result	16,636	(612)	26,281	(3,054)	(24,506)	14,745
Unallocated corporate expenses						(131,647)
Interest income						2,216
Interest expenses						(57,687)
Gain on disposal of interests in associates						15,157
Share of results of associates						257,381
Income tax expenses						(3,176)
Net profit for the year						96,989
Assets						
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
Consolidated total assets						2,571,839
Liabilities						
Segment liabilities	(150,617)	(134,042)	(105,418)	(173,837)	(47,759)	(611,673)
Unallocated corporate liabilities						(633,838)
Consolidated total liabilities						(1,245,511)
Other information						
Depreciation	11,176	3,209	—	9,688	1,802	

In 2006, over 90% of the Group's sales are generated from sales in the PRC.

15. Intangible assets

	Trademarks RMB'000
The Group and the Company	
Cost:	
At 1 January 2005, 31 December 2005 and 31 December 2006	90,273
Amortisation:	
At 1 January 2005	69,756
Amortisation for the year	16,414
At 31 December 2005	86,170
Amortisation for the year	4,103
At 31 December 2006	90,273
Net book value:	
At 31 December 2006	—
At 31 December 2005	4,103

The trademark of the Company was acquired from PEGC in 1996 at a consideration of RMB155,140,000. On 30 September 2000 an impairment loss of RMB64,867,000 was made by the board of directors by reference to a valuation report issued by Sallmanns (Far East) Limited ("Sallmanns"), Chartered Surveyors, Property Consultants, Plant and Machinery Valuers and Financial and Intangible Asset Valuers.

16. Property, plant and equipment

The Group	Buildings	Plant, machinery and equipment	Transportation equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:				
At 1 January 2005	335,000	159,238	7,530	501,768
Additions	641	35,014	778	36,433
Transfer from construction in progress	168	7,642	—	7,810
Transfer-in in respect of consolidated subsidiary	907	3,750	40	4,697
Disposals	(98,967)	(5,364)	(943)	(105,274)
At 31 December 2005	237,749	200,280	7,405	445,434
Additions *(Note)*	22,137	88,329	342	110,808
Transfer from construction in progress	107,557	6,650	—	114,207
Disposals	(4,847)	(22,880)	(222)	(27,949)
At 31 December 2006	362,596	272,379	7,525	642,500
Depreciation:				
At 1 January 2005	79,900	71,125	3,918	154,943
Charge for the year	8,846	20,806	642	30,294
Transfer-in in respect of consolidated subsidiary	286	3,426	38	3,750
Written back on disposal	(40,358)	(4,838)	(787)	(45,983)
At 31 December 2005	48,674	90,519	3,811	143,004
Charge for the year	11,596	21,230	590	33,416
Impairment loss	—	62	—	62
Written back on disposal	(2,327)	(15,924)	(191)	(18,442)
At 31 December 2006	57,943	95,887	4,210	158,040
Net book value:				
At 31 December 2006	304,653	176,492	3,315	484,460
At 31 December 2005	189,075	109,761	3,594	302,430

All the Group's buildings are located in the PRC.

Note: Included in additions to property, plant and equipment were certain buildings with valued amounts totaling RMB21,900,000 which were transferred from the Company's controlling shareholder, PEGL for settlement of amount owed by PEGL to the Company.

16. Property, plant and equipment *(Continued)*

The Company	**Buildings** *RMB'000*	**Plant, machinery and equipment** *RMB'000*	**Transportation equipment and motor vehicles** *RMB'000*	**Total** *RMB'000*
Cost or valuation:				
At 1 January 2005	296,369	52,980	876	350,225
Additions	—	420	94	514
Disposals	(98,072)	(1,854)	(106)	(100,032)
At 31 December 2005	198,297	51,546	864	250,707
Additions	21,900	1,677	160	23,737
Transfer from construction in progress	107,557	—	—	—
Disposals	(4,835)	(3,254)	—	(8,089)
At 31 December 2006	322,919	49,969	1,024	373,912
Depreciation:				
At 1 January 2005	72,132	45,081	433	117,646
Charge for the year	8,635	4,294	64	12,993
Written back on disposal	(40,084)	(1,778)	(88)	(41,950)
At 31 December 2005	40,683	47,597	409	88,689
Charge for the year	10,170	1,144	76	11,390
Reclassification	2,702	(2,702)	—	—
Written back on disposal	(2,315)	(3,049)	—	(5,364)
At 31 December 2005	51,240	42,990	485	94,715
Net book value:				
At 31 December 2006	271,679	6,979	539	279,197
At 31 December 2005	157,614	3,949	455	162,018

Note: All the Company's buildings are located in the PRC.

17. Construction in progress

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**20,448**	21,303	**20,390**	20,484
Additions	**103,781**	17,704	**94,800**	10,265
	124,229	39,007	**115,190**	30,749
Transfer to property, plant and equipment	**(114,207)**	(7,810)	**(107,557)**	—
Impairment	**—**	(5,722)	**—**	—
Disposal	**—**	(5,027)	**—**	(10,359)
At 31 December	**10,022**	20,448	**7,633**	20,390

Construction in progress does not include interest capitalised.

18. Land use rights

	The Group and the Company 2006 RMB'000	2005 RMB'000
At 1 January	**1,645**	21,080
Additions *(Note)*	**9,700**	—
Amortisation	**(66)**	(43)
Disposals	**—**	(19,392)
At 31 December	**11,279**	1,645

The Company's land use rights are located in the PRC and have remaining lease terms of approximately 39 years. The cost of the land use rights was RMB11,822,000 (2005: RMB2,122,000).

Note: During the year, PEGL transferred a land use right with valuation of RMB9,700,000 to the Company for settlement of amount owed by PEGL to the Company.

19. Investments in subsidiaries

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	**196,705**	151,632
Impairment loss recognised	**(52,933)**	(44,512)
	143,772	107,120

Particulars of the subsidiaries, all of which are limited liability companies established/registered and operating in the PRC and directly held by the Company, are as follows:-

Name of subsidiary	Date of establishment/ registration	Registered capital	Proportion of nominal value of issued capital/registered capital directly held	Principal activities
Shenzhen Panda Electronics Company	21 December 1992	RMB6,500,000	95%	Trading of electronics products and components
Nanjing Panda Technology Equipment Co., Ltd.	15 October 1999	RMB5,000,000	70%	Manufacture and sale of equipment for production of television sets
Nanjing Panda Information Industry Co. Ltd.	20 July 1998	US$7,400,000	72%	Development, production and sale of electronics information products
Panda International Telecommunication Systems Company Limited, Nanjing ("International Telecommunication")	12 October 1993	US$1,240,000	72%	Sale and distribution of cellular mobile telephones and pagers
Nanjing Guanghua Electronics Plastic Casings Factory *(Note (a))*	20 December 1984	RMB11,497,600	71.94%	Manufacture and sale of plastic and spare parts

(Expressed in Renminbi Thousands)

19. Investments in subsidiaries *(Continued)*

Name of subsidiary	Date of establishment/ registration	Registered capital	Proportion of nominal value of issued capital/registered capital directly held	Principal activities
Nanjing Panda Mechanical Engineering Plant	12 May 1995	RMB45,000,000	99.11%	Manufacture and sale of communication and electronic equipment
Nanjing Panda Accurate Machinery Co., Ltd.	10 February 1999	RMB5,000,000	70%	Manufacture and sale of specialised electronic equipment
Nanjing Panda Appliance & Apparatus Co. Ltd.	29 September 2000	RMB1,000,000	70%	Development and production of electromechanical products and installation of electronics communications systems
Nanjing Panda Mechanical Manufacturing Co. Ltd	28 June 2001	RMB5,000,000	70%	Manufacture of raw materials, components and parts for production
Nanjing Panda Hua Ge Electronic Plastics Co. Ltd	26 December 2001	RMB30,000,000	100%	Manufacture and sale of plastic products and spare parts
Nanjing Panda Mechanical Co., Ltd.	24 January 2002	RMB3,000,000	70%	Manufacture and subcontracting of mechanical parts
Nanjing Electronic Calibration Co., Ltd.	October 2002	RMB1,000,000	70%	Inspection of electromechanical products
Nanjing Panda Network Technology Co., Ltd. ("Panda Network") *(Note (b))*	18 October 2002	RMB10,000,000	50%	Data communication terminal products and network communication products
Nanjing Panda System Integration Co., Ltd.	30 September 2002	RMB3,000,000	51%	Development and sale of computer software
Nanjing Panda Power Supply Technology Co., Ltd.	1 December 2004	RMB11,000,000	79.55%	Design, manufacture and sale of UPS and special power supply systems and converters
Nanjing Panda Electronic Manufacture Co., Ltd.	23 June 2004	US$10,000,000	75%	Development and production of electronic components

Notes

(a) Nanjing Guanghua Electronics Plastic Casings Factory is a subsidiary of the Company. The principal activity of this subsidiary is the manufacture of plastic products and spare parts. Under the joint venture agreement entered into between the Company and joint venture partner in 1987, the joint venture partner has agreed to receive a guaranteed return on an annual basis of RMB350,000 with an annual increase of RMB20,000 up to RMB750,000 in the year of 2007. The Company is entitled to 100% of all profits and will bear 100% of all losses remaining after payment of the annual guaranteed return to the joint venture partner. Upon expiry of the joint venture agreement, the Company and joint venture partners will be entitled to share the net assets, after excluding the retained earnings to which the Company is entitled, in accordance with their respective shareholding.

(b) These subsidiaries have ceased business and are insignificant to the Group. Accordingly, its financial statements are not consolidated in the Group's financial statements.

20. Interests in associates

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investments, at cost	**—**	—	**304,628**	294,628
Impairment loss recognised	**—**	—	**(42,483)**	(42,483)
Share of net assets	**569,696**	558,277	—	—
Goodwill	**3,443**	3,443	—	—
	573,139	561,720	**262,145**	252,145

Particulars of the principal associates of the Group, all of which were established/registered in the PRC, are as follows:-

Name of associates	Date of establishment/ registration	Equity interest attributable to the Group	Principal activities
Nanjing Ericsson Panda Communication Company Limited ("ENC")	15 September 1992	27%	Manufacture and sale of cellular mobile telephone system products and digital switching system products
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	20 November 1998	35%	Production, development and sale of data communication terminal equipment
Nanjing Sharp Electronics Co., Ltd.	29 March 1996	30%	Design, development, manufacture and sale of televisions
Shenzhen Jinghua Electronic Company Limited	9 July 1993	38.03%	Development, manufacture and sale of communication equipment and electronic equipment
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	8 August 1995	20%	Manufacture and sale of mobile communication products
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	29 July 2001	50%	Development, manufacture and sale of power supply machines
Nanjing Panda Hitachi Techno Co., Ltd.	13 November 2001	49%	Manufacture and sale of SMT printer and provision of maintenance services
Nanjing Thales Panda Transportation System Company Limited	9 December 2004	40%	Design, research and development and production of electronic equipment of auto billing system
Nanjing Huaxian High Technology Company Limited	24 April 2006	20%	Not yet commenced business

Note: The financial statements of all the above associates are not audited by Horwath Hong Kong CPA Limited.

20. Interests in associates *(Continued)*

ENC and BMC are the most significant associates of the Group. The details as set out below were extracted from the 2006 financial statements of the companies which were audited by Pricewaterhouse Coopers Zhong Tian CPA Limited Company:-

	2006		2005	
	ENC	**BMC**	ENC	BMC
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Turnover	**11,472,434**	**27,021,044**	10,845,510	22,499,041
Profit before taxation	**459,824**	**718,931**	489,257	840,509
Taxation	**(83,547)**	**(124,798)**	(64,376)	(148,974)
Profit after taxation	**376,277**	**594,133**	424,881	691,535
Profit after taxation attributable to the Group	**101,595**	**118,827**	114,718	138,307
Non-current assets	**488,837**	**285,188**	428,025	147,662
Current assets	**7,155,995**	**4,726,179**	6,400,522	3,701,659
Current liabilities	**(6,665,551)**	**(4,044,778)**	(5,850,340)	(2,885,011)
Net assets	**979,281**	**966,589**	978,207	964,310
Net assets attributable to the Group	**264,406**	**193,318**	264,116	192,862

21. Inventories

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**48,334**	37,308	**22,526**	8,721
Work in progress	**135,432**	89,708	**83,732**	47,527
Finished goods	**52,480**	47,907	**24,080**	13
Spare parts and consumables	**592**	232	**—**	32
	236,838	175,155	**130,338**	56,293

22. Trade debtors and creditors

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

The following is an aged analysis of trade receivables net of allowances for bad and doubtful debts at 31 December 2006:—

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**111,154**	100,050	**6,948**	1,603
1 to 2 years	**4,408**	7,916	**658**	630
2 to 3 years	**2,859**	1,965	**323**	37
Over 3 years	**1,986**	739	**25**	138
	120,407	110,670	**7,954**	2,408

22. Trade debtors and creditors *(Continued)*

The following is an aged analysis of trade creditors at 31 December 2006:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**106,878**	113,832	**31,050**	7,179
1 to 2 years	**13,083**	18,649	**5,496**	5,498
2 to 3 years	**3,112**	6,356	**529**	247
Over 3 years	**17,628**	6,971	**7,097**	461
	140,701	145,808	**44,172**	13,385

23. Other receivables, deposits and prepayments

The balance as at 31 December 2005 included an amount of RMB500,000,000 due from Jiangsu Province Investment Management Co., Ltd. ("Jiangsu Investment"). On 8 May 2006, Jiangsu Investment assigned the debt to Jiangsu International Trust Investment Co. Ltd. ("International Trust Investment") under the consent of the Company. On the same day, International Trust Investment agreed to transfer a 25% equity interest in Hua Fei Color Display Systems Co. Ltd. it held to the Company for settlement of the debts. Details of this transaction are set out in circular of the Company dated 30 June 2006. As of the date of these financial statements, the transfer of the equity interest is still in progress.

24. Bank balances and cash

Bank balances of RMB44,776,000 (2005: RMB44,948,000) as at 31 December 2006 were pledged to banks to secure the banking facilities granted to the Group.

25. Borrowings

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings				
— Short term loans				
— unsecured	**626,070**	585,070	**596,000**	556,000
— secured	**210,000**	210,000	**210,000**	210,000
— Bills payable	**37,795**	44,065	**20,000**	20,000
	873,865	839,135	**826,000**	786,000

The above bank borrowings are secured by the Group's land and buildings with a net book value of approximately RMB144,458,448 (2005 : RMB150,575,307) as at the balance sheet date.

Bills payable were issued with a term of 6 months and are secured by pledges over the Group's bank balances of RMB28,897,000 (2005: RMB35,513,000).

As of the balance sheet date, the average interest rate of bank borrowings was 6.49%.

26. Obligations under finance leases

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Within one year	**19,271**	—
In the second year	**13,345**	—
In the third year	**6,273**	—
	38,889	—
Future finance charges on finance leases	**(3,898)**	—
Present value of finance lease obligations	**34,991**	—
The present value of finance lease obligations is as follows:		
Within one year	**16,833**	—
In the second year	**12,231**	—
In the third year	**5,927**	—
	34,991	—

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The lease term is 2 to 3 years. For the year ended 31 December 2006, the average effective borrowing rate was 8.73% per annum. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in RMB.

The fair value of the Group lease obligations approximates their carrying amount.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

27. Share capital

Registered, issued and paid up capital of RMB1.00 each:

	State-owned legal person shares	**A shares (held by PRC public investors)**	**H share**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005 and 31 December 2005	355,015	58,000	242,000	655,015
Restructure of shares *(Note)*	(20,300)	20,300	—	—
At 31 December 2006	334,715	78,300	242,000	655,015

Note: Pursuant to a Share Restructure Proposal approved by holders of A shares at a meeting held on 28 July 2006, the sole holder of non-publicly trading shares of the Company, PEGL would transfer shares it holds to all holders of A shares at the rate of 3.5 non-publicly trading shares for every 10 A shares held by holders of A shares in exchange for the public trading right of all the remaining state-owned legal person shares. The proposal was fully implemented on 7 September 2006 ("Effective Date") and 20,300,000 state-owned legal person shares became A shares.

Pursuant to the proposal, PEGL agreed not to publicly trade or sell its shares publicly within 24 months from the Effective Date.

27. Share capital *(Continued)*

As at 31 December 2006, PEGL, the controlling shareholder which is holding 334,715,000 Stated-owned legal person shares of the Company, representing 51.10% of its total share capital, had a total of 92,815,000 shares, representing 14.17% of total share capital of the Company being judicially frozen owing to contractual disputes between the Company and certain bankers. PEGL had also pledged 72,500,000 shares, representing 11.07% of total share capital to banks and another 100,000,000 shares have been pledged and judicially frozen, representing 15.26% of the total share capital.

28. Share premium and reserves

The Company	Sharep remium *RMB'000*	Capital reserve *RMB'000*	Statutory common funds *RMB'000*	Assetre valuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2005	389,338	3	181,468	27,321	(388,872)	209,258
Profit for the year	—	—	—	—	119,181	119,181
Reserve realised on amortisation of intangible assets	—	—	—	(752)	752	—
Balance at 31 December 2005	389,338	3	181,468	26,569	(268,939)	328,439
Profit for the year	—	—	—	—	60,340	60,340
Reserve realised on amortisation of intangible assets	—	—	—	(188)	188	—
Balance at 31 December 2006	389,338	3	181,468	26,381	(208,411)	388,779

Statutory common funds are part of shareholders' equity and comprise:

(a) The statutory common reserve fund which represents the appropriation of 10% of profit after taxation calculated in accordance with PRC accounting standards and the Company's Articles of Association. Appropriation will no longer be required if the balance of the statutory common reserve fund has reached 50% of the Company's registered capital. According to the Company's Articles of Association, statutory common reserve fund can be used to offset prior year losses, to expand production and operation facilities of the company or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(b) In prior years, the Company would transfer 5% to 10% of profit after taxation calculated in accordance with PRC accounting standards to statutory public welfare fund . The fund could only be utilised for capital expenditure on employees' collective welfare facilities. Such employee welfare facilities were owned by the Company. According to the amendment on relevant financial regulations in the PRC, the Company and its subsidiaries are no longer required by law to appropriate their annual statutory net profit to the statutory public welfare fund with effect from 1 January 2006. The balance as at 31 December 2005 was transferred to statutory surplus reserve fund.

In accordance with the Company's Articles of Association, the profit available for distribution is the lesser of the profit determined in accordance with PRC accounting standards and profit determined in accordance with accounting principles generally accepted in Hong Kong. There was no distributable reserve available for distribution as at 31 December 2005 and 2006.

29. Non-cash transactions

i) Additions to machinery and equipment during the year amounting to RMB41,659,000 were financed by new finance leases.

ii) During the year, PEGL transferred certain of its land use right and buildings with value of RMB9,700,000 and RMB21,900,000 to the Group for partial settlement of amounts owed to the Group.

30. Financial risk management

(a) Financial risk factors

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk, liquidity risk and interest rate risk. Generally, the Group adopts conservative strategies on its risk management. The Group has not used any derivatives and other instruments for hedging purposes nor does it hold or issue derivative financial instruments for trading purposes.

(i) Credit risk

The carrying amounts of trade receivables, other receivables, amounts due from fellow subsidiaries, associates and related companies and amount due from ultimate holding company represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk with any single counterparty except for the amount due from ultimate holding company.

(ii) Foreign exchange risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency other than RMB.

(iii) Liquidity risk

The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

(iv) Interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates.

As at balance sheet date, all borrowings of the Group were short term borrowings. The interest rates of the bank borrowings are set out in note 25 to the consolidated financial statements.

(b) Fair values estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006.

31. Related party transactions

(a) During the year, the Group entered into the following transactions with related parties:

	Fellow subsidiaries		Associates		Ultimate holding company	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Sale of components and parts *(Note 1)*	**8,379**	8,019	**18,866**	102,459	**7,326**	9,194
Purchase of components and parts *(Note 1)*	**13,611**	9,475	**4,612**	34,879	**1,050**	3,025
Fees paid for welfare, support and sub-contracting services *(Note 2)*	**9,591**	13,636	**—**	7,545	**4,604**	3,678
Income for welfare, support, and sub-contracting services *(Note 2)*	**16,214**	14,470	**467**	16,272	**5,750**	13,738
Rental income *(Note 1)*	**139**	230	**—**	—	**99**	—
Rental expenses *(Note 1)*	**1,755**	71	**—**	2,339	**2,075**	—
Trademark income *(Note 2)*	**483**	—	**—**	—	**—**	—

Note 1 The above transactions were carried out at market price.

Note 2 The transactions were carried out at cost plus a percentage profit mark-up.

(b) As at balance sheet date, the Company had acceptance of guarantees provided by the ultimate holding company and its fellow subsidiary in the amount of RMB526,000,000 (2005: RMB556,000,000).

(c) The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries and other short term benefits	**4,542**	4,243
Retirement benefit scheme contributions	**245**	246
	4,787	4,489

(d) The amounts due from/(to) fellow subsidiaries, associates and related companies are unsecured, interest free and have no fixed repayment terms.

(e) The amount due from/(to) ultimate holding company is unsecured and interest free

32. Contingent liabilities

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

	The Company	
	2006	2005
	RMB'000	*RMB'000*
Guarantees given in respect of banking facilities made available to subsidiaries	**38,968**	29,070

The directors of the Company considered the fair value of the above guarantees was not material to the Company.

33. Commitments

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted but not provided for				
— property, plant and equipment	**3,000**	5,372	**3,000**	5,372
— investments in subsidiaries	**—**	—	**—**	24,833
	3,000	5,372	**3,000**	30,205
Approved but not contracted for				
— investments in subsidiaries	**—**	—	**74,171**	—

34. Post balance sheet date events

On 9 April 2007, Jiangsu Guoxin Assets Management Group Co. Ltd. ("Jiangsu Guoxin"), Nanjing State-owned Assets Supervision and Administration Commission ("NSASAC") and China Electronics Information Industry Co. Ltd. ("CEC") entered in an agreement to establish a company named Nanjing Electronics Information Industry Co. Ltd ("NEC"). Pursuant to the agreement Jiangsu Guoxin and NSASAC will inject the equity interests in PEGL they hold to NEC and CEC, Jiangsu Guoxin and NSASAC will hold 70%, 15% and 15% equity interest of NEC respectively. The proposed transaction is still subject to the approval of Nanjing Municipal Government and Jiangsu Municipal Government. Upon completion of the transaction, NEC will hold 47.98% equity interest in PEGL and become the largest shareholder of PEGL and controlling party of the Company.

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

The 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

	2006	2005
	RMB'000	*RMB'000*
Profit attributable to shareholders per financial statements prepared under accounting principles generally accepted in Hong Kong	**93,110**	92,761
Amortisation of revaluation surplus on trademarks	**225**	899
Amortisation of unrecognised intangible assets	**(200)**	(200)
Amortisation of other assets previously written off	**—**	(847)
Share of results of associates	**(5,232)**	(6,481)
Minority interests	**2,136**	2,088
Others	**(892)**	1,481
Profit attributable to shareholders per financial statements prepared under PRC accounting standards	**89,147**	89,701

35. Differences between accounting principles generally accepted in Hong Kong and PRC accounting standards as applicable to the Group *(Continued)*

Impact on the consolidated balance sheet as at 31 December

	2006 **RMB'000**	2005 RMB'000
Net assets per financial statements prepared under accounting principles generally accepted in Hong Kong	**1,378,686**	1,285,576
Revaluation surplus on trademark	**—**	(225)
Unrecognised intangible assets	**720**	920
Goodwill	**(3,090)**	(2,560)
Share of reserves of associates	**(32,098)**	(27,396)
Minority interests	**2,850**	1,911
Others	**10**	11
Net assets per financial statements prepared under PRC accounting standards	**1,347,078**	1,258,237

REPORT OF THE AUDITORS

Yu Zhong Shen Zi (2007) No. 396

To All Shareholders of Nanjing Panda Electronics Company Limited:

We have audited the attached Nanjing Panda Electronics Company Limited ("Nanjing Panda") financial statements, among other things, the Balance Sheet and Consolidated Balance Sheet as of 31 December 2006 and the Profit and Loss Statement and Consolidated Profit and Loss Statement, the Cash Flow Statement and Consolidated Cash Flow Statement in 2006 and the notes to the financial statements.

1. Management's responsibility for the financial statements

The responsibility for preparing these statements in accordance with "Accounting Standards for Business Enterprises" and the "Accounting Regulations for Business Enterprises" lies with Nanjing Panda. These responsibility include: (1) design, implementation and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted out audit in accordance with PRC standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. Opinion

In our opinion, Nanjing Panda's financial statements as set out from page 2 to page 46 are prepared in conformity with the "Accounting Standards for Business Enterprises", and the "Accounting Regulations for Business Enterprises" and in all material respects, present fairly the financial positions of the Nanjing Panda as at 31 December 2006 and the results of its operations and cash flow for the year then ended.

Yu Hua Certified Public Accountant
Registered Certified Public Accountant
Registered Certified Public Accountant

Beijing, the PRC
24 April 2007

Balance Sheet

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Unit: RMB

Assets	Note 5	31 December 2006 Consolidated	31 December 2006 Holding company	31 December 2005 Consolidated	31 December 2005 Holding company
Current assets					
Cash and bank balances	1	**652,094,029.71**	**540,035,813.29**	347,456,855.55	243,011,459.58
Short term investment		—	—	—	—
Bills receivable	2	**31,775,270.00**	**30,098,000.00**	4,247,216.68	79,200.00
Dividends receivable		**0.00**	**1,677,294.39**	—	1,811,197.52
Interest receivable		—	—	—	—
Accounts receivable	3	**163,415,609.64**	**61,746,509.94**	195,674,049.18	71,670,959.03
Other receivables	4	**555,531,779.05**	**599,967,169.42**	964,009,898.11	1,034,435,923.76
Prepayments	5	**76,380,467.07**	**43,743,400.62**	93,180,070.62	47,746,654.27
Subsidies receivable		—	—	—	—
Stocks	6	**236,837,950.71**	**130,338,506.15**	175,154,976.76	56,292,822.96
Deferred expenses		—	—	25,213.02	—
Long term debt investment due within one year		—	—	—	—
Other current assets		—	—	—	—
Total current assets		**1,716,035,106.18**	**1,407,606,693.81**	1,779,748,279.92	1,455,048,217.12
Long term investments:					
Long term equity investments	7	**537,950,860.01**	**715,822,912.17**	531,764,214.80	649,252,289.77
Long term debt investments		—	—	—	—
Total long term investments		**537,950,860.01**	**715,822,912.17**	531,764,214.80	649,252,289.77
Fixed assets					
Fixed assets	8	**712,755,744.96**	**384,773,935.43**	516,502,114.88	261,569,209.10
Less: accumulated depreciation	8	**220,880,822.43**	**97,722,353.32**	205,760,014.39	92,355,974.57
Fixed assets	8	**491,874,922.53**	**287,051,582.11**	310,742,100.49	169,213,234.53
less:provision for impairment loss	8	**8,139,541.27**	**7,854,185.11**	8,358,972.32	8,073,616.16
Fixed assets	8	**483,735,381.26**	**279,197,397.00**	302,383,128.17	161,139,618.37
Construction supplies		—	—	—	—
Construction in progress	9	**16,486,338.80**	**14,096,558.60**	20,448,127.71	20,390,143.11
Clearance of fixed assets		—	—	—	—
Total fixed assets		**500,221,720.06**	**293,293,955.60**	322,831,255.88	181,529,761.48
Intangible and other assets					
Intangible assets	10	**12,734,190.07**	**12,012,509.80**	6,458,416.47	5,535,027.48
Long term deferred expenses	11	—	—	42,672.38	—
Other long term assets		—	—	—	—
Total intangible and other assets		**12,734,190.07**	**12,012,509.80**	6,501,088.85	5,535,027.48
Deferred tax					
Debit balance of deferred tax		—	—	—	—
Total assets		**2,766,941,876.32**	**2,428,736,071.38**	2,640,844,839.45	2,291,365,295.85

The Company's legal representative: Person in charge of accounting function: Person in charge of accounting department:

Notes to the accompanying financial statements are part of the Financial Statements

Balance Sheet

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Unit: RMB

Liabilities and Shareholders' Equity	*Note 5*	31 December 2006 Consolidated	31 December 2006 Holding company	31 December 2005 Consolidated	31 December 2005 Holding company
Current liabilities					
Short term loans	12	**836,070,200.00**	**806,000,000.00**	795,070,200.00	766,000,000.00
Bills payable	13	**37,794,637.80**	**20,000,000.00**	44,065,145.76	20,000,000.000
Accounts payable	14	**148,551,080.80**	**45,421,192.14**	171,980,299.87	26,082,647.86
Advances from customers	14	**53,792,028.89**	**4,786,379.41**	86,573,345.38	27,820,432.58
Salaries payable	15	**1,420,415.22**	**4,113.92**	1,750,137.23	4,113.92
Staff welfare payable		**10,163,377.81**	**6,329,349.70**	8,525,950.44	4,274,265.44
Dividends payable		**—**	**—**	—	—
Taxes payable	16	**42,202,243.13**	**42,008,952.30**	45,956,270.55	50,307,921.07
Other accruals	17	**6,023,083.87**	**5,500,643.73**	6,421,539.56	5,855,442.45
Other payables	18	**203,139,694.50**	**141,268,250.80**	172,416,750.41	121,310,624.75
Accrued expenses	19	**7,274,922.20**	**2,971,177.31**	10,994,929.57	4,633,994.15
Provisions		**—**	**—**	—	—
Long term liabilities due within one year		**—**	**—**	—	—
Other current liabilities		**—**	**—**	—	—
Total current liabilities		**1,346,431,684.22**	**1,074,290,059.31**	1,343,754,568.77	1,026,289,442.22
Long term liabilities					
Long term loans		**—**	**—**	—	—
Bonds payables		**—**	**—**	—	—
Long term payables	20	**34,990,818.63**	**—**	—	—
Specifice payables		**—**	**—**	—	—
Other long term liabilities		**—**	**—**	—	—
Total long term liabilities		**34,990,818.63**	**—**	—	—
Deferred tax:					
Credit balance of deferred tax	21	**11,550.64**	**11,550.64**	11,550.64	11,550.64
Total liabilities		**1,381,434,053.49**	**1,074,301,609.95**	1,343,766,119.41	1,026,300,992.86
Minority interests		**38,429,342.88**	**—**	38,841,260.69	—
Shareholders' equity					
Share capital	22	**655,015,000.00**	**655,015,000.00**	655,015,000.00	655,015,000.00
Capital reserve	23	**480,404,773.85**	**480,404,773.85**	480,208,784.04	480,208,784.04
Surplus reserve	24	**191,184,000.53**	**191,184,000.53**	188,137,542.53	188,137,542.53
unrecognized loss of investment		**(6,943,417.57)**	**—**	(6,440,994.67)	—
Undistributed profits	25	**27,418,123.14**	**27,830,687.05**	(58,682,872.55)	(58,297,023.58)
Including: proposed distribution		**—**	**—**	—	—
Difference in conversion of foreign exchange		**—**	**—**	—	—
Total shareholders' equity		**1,347,078,479.95**	**1,354,434,461.43**	1,258,237,459.35	1,265,064,302.99
Total liabilities and shareholders' equity		**2,766,941,876.32**	**2,428,736,071.38**	2,640,844,839.45	2,291,365,295.85

The Company's legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Notes to the accompanying financial statements are part of the Financial Statements

Profit and Loss Statement

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Unit: RMB

Items	Note	2006 Holding Consolidated	2006 company	2005 Holding Consolidated	2005 company
1. Income from principal operations	26	**885,049,684.59**	**243,819,588.09**	854,407,081.20	204,350,368.19
Less: Costs for principal operations	26	**744,210,948.06**	**190,101,256.71**	726,720,018.28	161,728,738.07
Business taxes and surcharges	27	**4,077,133.92**	**26,902.07**	3,589,920.21	27,655.63
2. **Profit from principal operations (losses are represented by "-")**		**136,761,602.61**	**53,691,429.31**	124,097,142.71	42,593,974.49
Add: Profit from other operation (losses are represented by "-")	28	**12,466,152.56**	**6,526,197.06**	11,069,985.29	5,541,913.44
Less: Sales expenses		**17,904,483.05**	**1,470,339.17**	24,536,543.52	5,361,601.74
Administrative expenses		**207,897,850.21**	**165,246,668.26**	226,320,298.40	170,310,577.49
Financial expenses	29	**52,086,513.44**	**48,516,529.49**	56,443,294.27	52,126,240.25
3. Operating Profit (losses are represented by "-")		**(128,661,091.53)**	**(155,015,910.55)**	(172,133,008.19)	(179,662,531.55)
Add: Profit from investment (losses are represented by "-")	30	**224,684,760.89**	**246,349,848.53**	262,860,116.60	271,096,710.64
Subsidy income	31	**2,115,640.81**	—	771,697.74	—
Non-operating income	32	**2,077,963.38**	**42,321.94**	5,815,963.71	5,322,911.61
Less: Non-operating expenses	33	**3,102,549.78**	**2,202,091.29**	7,086,927.13	6,670,719.76
4. **Total profit (losses are represented by "-")**		**97,114,723.77**	**89,174,168.63**	90,227,842.73	90,086,370.94
Less: Profits tax		**4,160,249.89**	—	3,175,922.05	—
Minority interests		**6,311,328.82**	—	2,140,460.88	—
Add: unacknowledged loss in investment		**2,504,308.63**	—	4,789,062.17	—
5. **Net profit (losses are represented by "-")**		**89,147,453.69**	**89,174,168.63**	89,700,521.97	90,086,370.94
Add: Undistributed profit from the beginning of the year		**(58,682,872.55)**	**(58,297,023.58)**	(148,383,394.52)	(148,383,394.52)
Transfer from surplus reserve		—	—	—	—
6. **Distributable profit**		**30,464,581.14**	**30,877,145.05**	(58,682,872.55)	(58,297,023.58)
Less: Transfer to statutory surplus reserve		**3,046,458.00**	**3,046,458.00**	—	—
Transfer to statutory public welfare fund		—	—	—	—
7. **Profit distributable to shareholders**		**27,418,123.14**	**27,830,687.05**	(58,682,872.55)	(58,297,023.58)
Less: Distributable payble for preference shares		—	—	—	—
Transfer to discretionary surplus reserves		—	—	—	—
Dividends payable for ordinary shares		—	—	—	—
Dividends for ordinary shares		—	—	—	—
8. transferred to capital Undistributed profit		**27,418,123.14**	**27,830,687.05**	(58,682,872.55)	(58,297,023.58)

Supplementary Information:

Items	2006 Holding Consolidated	2006 company	2005 Holding Consolidated	2005 company
1. Gain from sales of entities held for disposal and invested units	—	—	15,140,041.03	15,140,041.13
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 Company's legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Notes to the accompanying financial statements are part of the Financial Statements

Cash flow statement

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Unit: RMB

			2006	
Items		*Note 5*	**Consolidated**	**Holding Company**
1.	**Cash flows from operating activities**			
	Cash received from the sale of goods and services provided		1,002,963,727.96	259,744,558.11
	Retun of tax payment		6,776,191.33	—
	Other cash received relating to operating activities	34	1,843,336,190.86	1,839,931,144.65
	Sub-total of cash inflows		2,853,076,110.15	2,099,675,702.76
	Cash paid on purchase of goods and services		855,905,189.87	243,107,111.87
	Cash paid to staff and paid on behalf of staff		157,448,656.40	77,831,419.41
	Taxes paid		55,968,455.86	11,291,474.98
	Cash paid relating to operating activities	35	1,534,505,221.70	1,565,252,315.95
	Sub-total of cash outflows		2,603,827,523.83	1,897,482,322.21
	Net cash flows from operating activities		249,248,586.32	202,193,380.55
2.	**Cash flows from investment activities:**			
	Cash received from investment recovered		—	—
	Including: Cash received from disposal of subsidiaries			
	Cash received from investment income		233,582,332.16	240,927,660.86
	Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		2,917,910.00	16,410.00
	Other cash received relating to operating activities		—	—
	Cash paid on other investment activities			
	Sub-total of cash outflows		236,500,242.16	240,944,070.86
	Cash paid on purchase of fixed assets, intangible assets and other long term assets		125,093,434.52	101,692,193.47
	Cash paid for investment		14,124,400.00	33,000,000.00
	Including: cash paid on operation acquisition of subsidiaries		—	—
	Cash paid on other investment activities		—	—
	Sub-total of cash outflows		139,217,834.52	134,692,193.47
	Net cash flows from investment activities		97,282,407.64	106,251,877.39

Cash flow statement

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Unit: RMB

Items	*Note 5*	2006 Consolidated	2006 Holding Company
3. Cash flows from financing activities:			
Cash received from investment		—	—
Including: cash received by subsidaries from equity investment of minority shareholders		—	—
Cash received from borrowings		1,245,570,200.00	1,212,000,000.000
Cash received from oher financing activities	36	641,890,992.00	—
Sub-total of cash inflows		1,887,461,192.00	1,212,000,000.00
Cash paid on repayment of debts		1,204,570,200.00	1,172,000,000.00
Cash paid on distribution of dividends or profits, or interest repayment		58,563,756.39	52,474,538.23
Including: cash paid on minority's dividend		975,443.09	—
Cash paid on other financing activities	37	666,347,073.63	—
Including: cash paid on minority shareholders by subsidaries in capital diminution according to laws		—	—
Sub-total of cash outflows		1,929,481,030.02	1,224,474,538.23
Net cash flows from financing activities		(42,019,838.02)	(12,474,538.23)
4. Effect on cash due to foreign currency exchange		298,095.23	—
5. Net increase in cash and cash equivalents		304,809,251.17	295,970,719.71

The Company's legal representative: Person in charge of accounting function: Person in charge of accounting department:

Notes to the accompanying lfinancial statements are part of the Financial Statements

Cash flow statement

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Cashflow Supplementary Information

Unit:RMB

Items	*Note 5*	2006 Consolidated	2006 Holding Company
1. Reconciliation of net profit to net cash flows from operating activities:			
Net profit		89,147,453.69	89,174,168.63
Add: Minority interests		6,311,328.82	—
Unrecognized loss from investment		(2,504,308.63)	—
Provision for impairment loss on assets		17,447,574.64	32,630,486.96
Depreciation of fixed assets		33,281,023.14	10,496,434.79
Amortisation of intangible assets		4,199,226.40	3,997,517.68
Amortisation of long term deferred expenses		42,672.38	—
Decrease (less: increase)in deferred expenses		25,213.02	0.00
Increase (less: decrease) in accruals		(3,720,007.37)	(1,662,816.84)
Loss (less: income) arising from disposal of fixed assets, intangible assets and other long term assets		1,562,435.04	1,817,119.29
Loss from fixed assets scrapped		0.00	—
Financial expense		57,588,313.30	52,474,538.23
Loss (less:gain) on investment		(224,684,760.89)	(246,349,848.53)
Deferred tax debt balance (less: credit balance)		0.00	11,550.64
Decrease (less: increase) in inventories		(44,655,137.83)	(74,045,683.19)
Decrease (less: increase) in trade debtors		272,771,773.18	323,986,478.96
Increase (less: decrease) in trade creditors		42,435,787.43	9,663,433.93
Others		—	—
Net cash flows from operating activities		249,248,586.32	202,193,380.55
2. Investment and financial activities not involving cash			
Debt capitalization		—	—
Convertible bonds due within one year		—	—
Less: cash balance as at beginning of the year		—	—
3. Net increase in cash and cash equivalents:			
Cash balance as at end of the year		652,094,029.71	540,035,813.29
Less: deposits at end of the year		44,775,934.49	21,053,634.00
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	20,000,000.00
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		304,809,251.17	295,970,719.71

The Company's legal representative: Person in charge of accounting function: Person in charge of accounting department:

Notes to the accompanying lfinancial statements are part of the Financial Statements

Provision for impairment of assets condensed statement (Consolidated)

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Unit: RMB

Items	2005.12.31	Increase in the period	Transfer to the period	Transfer out in the period	2006.12.31
1. Total provision for bad debt	184,527,057.38	79,734,659.79	47,316,526.51	166,256.69	216,778,933.97
Including: Accounts receivable	27,393,431.82	6,158,034.28	4,557,521.32	160,605.44	28,833,339.34
Other accounts receivable	157,133,625.56	73,576,625.51	42,759,005.19	5,651.25	187,945,594.63
2. Total provision for impairment of short term investment	—	—	—	—	—
Including: Share investment	—	—	—	—	—
Bond investment	—	—	—	—	—
3. Total provision for impairment of inventories	36,272,074.03	2,121,069.11	18,029,664.94	1,119,240.29	19,244,237.91
Including: Raw materials	14,838,299.12	805,525.07	9,574,165.52	—	6,069,658.67
Stored commodities	12,829,510.64	630,594.20	4,840,200.90	1,119,240.29	7,500,663.65
4. Total provision for impairment of long term investment	18,734,950.26	875,975.19	—	—	19,610,925.45
Including: Long term share investment	18,734,950.26	875,975.19	—	—	19,610,925.45
Long term bond investment	—	—	—	—	—
5. Total provision for impairment of fixed assets	8,358,972.32	62,062.00	—	281,493.05	8,139,541.27
Including: Housing, building	285,356.16	—	—	—	285,356.16
and machinery	6,944,208.51	—			6,890,570.97
6. Provision for impairment of intangible assets	210,000.00	—	—	—	210,000.00
Including: License	210,000.00	—	—	—	210,000.00
Trademark	—	—	—	—	—
7. Provision for impairment of construction in progress	26,213,948.90	—	—	—	26,213,948.90
8. Provision for impairment of entrusted loans	—	—	—	—	—

The Company's legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Notes to the accompanying lfinancial statements are part of the Financial Statements

Provision for impairment of assets condensed statement (Parent)

(prepared in accordance with the PRC Accounting Standards)
(For the year ended 31 December 2006)

Unit: RMB

Items	2005.12.31	Increase in the period	Transfer to the period	Transfer out in the period	2006.12.31
1. Total provision for bad debt	143,881,762.11	73,792,459.45	41,224,034.49	—	176,450,187.07
Including: Accounts receivable	2,702,115.83	586,178.24	—	—	3,288,294.07
Other accounts receivable	141,179,646.28	73,206,281.21	41,224,034.49	—	173,161,893.00
2. Total provision for impairment of investment	—	—	—	—	—
Including: Share investment	—	—	—	—	—
Bond investment	—	—	—	—	—
3. Total provision for impairment of inventories	—	—	—	—	—
Including: Raw materials	—	—	—	—	—
Stored commodities	—	—	—	—	—
4. Total provision for impairment of long term investment	14,778,313.39	—	—	—	14,778,313.39
Including: Long term share investment	14,778,313.39	—	—	—	14,778,313.39
long term investment	—	—	—	—	—
5. Total provision for impairment of fixed assets	8,073,616.16	62,062.00	—	281,493.05	7,854,185.11
Including: Housing, building	—	—	—	—	—
and machinery	6,944,208.51	—			6,890,570.97
6. Provision for impairment of intangible assets	—	—	—	—	—
Including: License	—	—	—	—	—
Trademark	—	—	—	—	—
7. Provision for impairment of construction in progress	26,213,948.90	—	—	—	26,213,948.90
8. Provision for impairment of entrusted loans	—	—	—	—	—

The Company's legal representative: Person in charge of accounting function: Person in charge of accounting department:

Notes to the accompanying lfinancial statements are part of the Financial Statements

(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 RMB 480,000,000.00. Registered capital for the Company at its establishment was RMB 515,000,000.00, comprising 480,000,000 state-owned legal person shares of RMB1 each and 35,000,000 employee's shares of RMB 1 each.

The Company was registered as an enterprise legal person on 29 April 1992, with its business registration number of13488315-2. 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 PEGC 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 RMB 322,873,348.00, including registered capital of RMB 322,870,000.00, comprising 287,870,000 state-owned legal person shares, 35,000,000 employee's shares, and capital reserve of RMB 3,348.00.

According to 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 RMB 5.10 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 350,000,000 internal employee's shares including 5,000,000 shares originally planned to be a source of financing was also listed after completion of issuing shares. Another 30,000,000 shares were listed and started circulating in 1999.

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 03967 18 April 1997. Its registered capital was RMB 655,015,000. 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.

(1) Introduction to the Company *(Continued)*

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 RMB19,99.32 million and the 95% equity interests held in Nanjing Panda 10,002.42 Communications Development Co. Ltd. valued at RMB100.0242 million, totally RMB120,01.74 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 company 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 RMB as its currency for recordingtransactions.

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 benchmark 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.

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

8. Short Term Investment

(1) Calculation of short term investment: Short term investment is stated as investment costs upon acquisition. Short term investment by way of cash is stated as investment costs, which are arrived at the total and actual investment costs after deduction of uncollected cash dividends or interest of bonds. Short term investment injected by investors represents investment costs as confirmed by investment parties.

(2) Recognition of short term investment: Any gains (dividends and interest) arising from short term investment during the holding period are not recognized as investment income, but recognized as deduction from investment costs. Any amount received as a result of disposal of short term investment is stated as income gain or loss and charged to the profit (loss) statement for the year after deduction of the book value of such short term investment and the balance of uncollected and recognized dividends and interest payable.

(3) Recognition principles of provision for impairment and provision methods for short term investment: Short term investment as at the end of the period is stated as the lower of costs and market prices of short term investment. Whenever investment costs are higher than market prices at any period, provision is made for impairment of short term investment. Provision is made based on impairment of each item of short term investment.

9. Entrusted loans

(1) Loans provided through entrusted financial institutions are recorded at its actual amounts. Of which, the loan falling due within 1 year is included in short term investment, and the loan falling due after 1 year is included in long term investment.

(2) Interests related to entrusted loans are accrued periodically and taken to the profit and loss account. Where the interests ceased to be collectible at due dates, all previously accrued amount will be reversed.

(3) At year end, based on the lower of the principal and collectible amount of entrusted loan, should the collectible amount is lower than the principal amount, provision is made for the difference.

10. Calculation of loss from Bad Debts

(1) The following trade debtors are classified as bad debts: if (A) the defaulting party is unable to repay outstanding debts in the foreseeable future as a result of liquidation, bankruptcy, assets outweighed by debts, significantly insufficient cash flow, and cease of production arising from serious natural disasters; if (B) the defaulting party fails to repay outstanding loans more than three years; and if (C) no or remote possibilities to recover any outstanding loans.

(2) Calculation of loss from bad debts: Bad debts are accrued on a provision method. Receivables (including accounts receivables and other receivables) 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%

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

10. Calculation of loss from Bad Debts *(Continued)*

The Company will make provision on bad debts of its associate Beijing Sony Ericsson Pu Tian 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 periodaa and p	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.

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

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.

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

12. Calculation of Long Term Investment *(Continued)*

(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 temporally 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.

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

13. Fixed Assets and Depreciation *(Continued)*

(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.

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

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

15. Accounting for Borrowing Costs *(Continued)*

(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 : facquisition or construction of fixed assets undergo ordinery suspension, and the suspension lest for more than 3 months consecutively, then the capitalization of suspension borrowing cases will be recognized as current costs, until the acquisition or contruction of assets costs, until the acquisition or contruction of assets stare again.

(c) Stop of Capitilization: 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 *(Continued)*

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.

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

16. Pricing and Amortization of Intangible Assets *(Continued)*

(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.

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

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.

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

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 inconsistence 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) Changes in accounting policy

During the year, the Company did not have any significant change in accounting policy.

(2) Changes in accounting estimates

During the year, the Company did not have any significant change in accounting estimates.

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

The Consolidated Financial Statements of subsidiaries and joint venture companies are as Follows:

Name	Registered capital 0,000	Investment 0,000	% of equity held Direct	Indirect	Principal operations	Consolidated or not	Note
Nanjing Panda Electronic	RMB53.00	RMB50.00	94.34	—	metallic, chemical, electronic	N	1
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 Mechnical 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 andspare 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 Dian Qi Plastic Industrial Co. Ltd	RMB3,00.00	RMB3,000.00	100.00	—	plastic product & accessories	Y	
Nanjing Panda Mobile Communication Equipment Co., Ltd.	RMB12,000.00	RMB6,120.00	51.00	—	sales of communication equipment	N	2
Nanjing Panda Communications Development Co., Ltd.	RMB2,000.00	RMB2,000.00	95.00	5.00	development, production andsales of mobile communication and digital communication	N	2
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	3

(4) Controlling Subsidiaries and Joint Venture Companies *(Continued)*

Name	Registered capital 0,000	Investment 0,000	% of equity held Direct	Indirect	Principal operations	Consolidated or not	Note
Nanjing Electronic Calibration Co., Ltd.	RMB100.00	RMB70.00	70.00	—	checking accreditation and maintenance of electromechanical products	Y	
Nanjing Panda Network Technology Co., Ltd.	RMB1,000.00	RMB500.00	100.00	—	digital communication terminal products and network communication products	N	4
Nanjing Panda System Integration Co., Ltd.	RMB300.00	RMB153.00	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	5
Nanjing Panda Electronics Manufacturing Co. Ltd.	USD1,000.00	RMB3724.11	75.00	—	Development and production of new models of electronic products	Y	
Nanjing Panda Power Sources Technology Co. Ltd.	RMB1,100.00	RMB875.00	79.55	—	Design, production and sales of power sources and special type power transformer	Y	

Note 1: This company has terminated its operation and was cancelled in August 2006. As such, its account of the year was not consolidated.

Note 2: Nanjing Panda Communication Development Co. Ltd. was established in August 2002, with a registered capital of RMB20 million. The Company holds 95% of equity interests. Nanjing Panda Information Industrial Co. Ltd. (南京熊猫信息產業有限公司), the subsidiary of the Company, holds 5% of its equity interests. Nanjing Panda Mobile Communications Equipment Co. Ltd. was established in February 2002, with a registered capital of RMB120 million. The Company holds 51% of its equity interests. As set out in note 11, according to the result of ruling No. 243 Xuan Zhi Zi (2005) made by the People's Court of Xuan Wu District on 10 March 2005, Nanjing, 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, totalling RMB120.0174 million, and completed the registration of changes of shareholders pursuant to the notice approving the corporate change issued by the Enterprise Registration Branch of the Administration of Industry and Commerce of Nanjing City in March 2005. Due to the aforesaid, the above two companies are not the subsidiaries of the Company; accordingly, their financial statements were not consolidated.

Note 3: 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 4: Pursuant to the equity transfer and debt repayment contract signed with 香港天行聯合科技有限公司 on 19 April 2005, the Company transferred 50% of its equity interests in this company to 香港天行聯合科技有限公司 at the price of RMB1. The Company does not hold equity interests in this company, thus the statements of this company will not be combined.

Note 5: 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	2006-12-31	2005-12-31
Cash	**657,314.99**	578,920.85
Bank deposit	**253,195,108.33**	290,716,923.20
Other Cash and bank deposit	**398,241,606.39**	56,161,011.50
Total	**652,094,029.71**	347,456,855.55

(1) The Company placed time deposits of RMB254,400,000.00 with the bank, details of which are set out as follows:

Bank	Amount *(RMB)*	Period *(month)*	Dates	Interest
Nanjing Commercial Bank Chengdong Branch 01570121500024536	82,000,000.00	6	28 December 2006 to 28 June 2007	2.25
Nanjing Commercial Bank Chengdong Branch 01570121500024544	49,900,000.00	6	28 December 2006 to 28 June 2007	2.25
Nanjing Commercial Bank Chengdong Branch 01570121500024552	71,500,000.00	6	29 December 2006 to 29 June 2007	2.25
Nanjing Commercial Bank Chengdong Branch 01570121500024569	51,000,000.00	6	29 December 2006 to 29 June 2007	2.25

(2) The balance of bank deposits at the end of the Reporting Period includes the notice deposits of RMB99,065,671.90.

(3) The balance of other cash and bank deposits at the end of the Reporting Period includes the marginal deposit for security of RMB44,031,969.05 which may not be drawn at any time. .

(4) The amount at the end of 2006 increased 87.68% over that of 2005, mainly due to the current account recovered from Nanjing Panda Group Limited, the controlling shareholder.

(5) Notes to the Consolidated Financial Statements *(Continued)*

2. Bills receivable

Type of bills	2006-12-31	2005-12-31
Bank acceptance notes	**31,775,270.00**	4,247,216.68
Commercial notes	—	—
Total	**31,775,270.00**	4,247,216.68

(1) The year-end bills receivables include no amount due from shareholders with 5% or above of shareholding (with voting power) in the Company.

(2) The year-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., the subsidiary of the controlling shareholder of the Company has the discounted but outstanding bank acceptances balance at the end of the period at RMB231,800,000.00, out of which the deposit placed by Nanjing Panda Television Co. Ltd., was RMB171,800,000.00, while the expenditure occurred in this discount business is afforded by Nanjing Panda Television Co. Ltd..

(4) The amount at the end of 2006 increased 648.14% over that of 2005, mainly due to the increased bill settlement during the year.

3. Accounts receivable

(1) The ageing of Accounts receivable is as follows:

Item	2006-12-31 Amount	2006-12-31 Percentage%	2006-12-31 Provision for bad debts	2005-12-31 Amount	2005-12-31 Percentage%	2005-12-31 Provision for bad debts
Within 1 year	**162,406,805.80**	**84.48**	**7,883,704.26**	183,872,400.78	82.43	5,373,428.07
1-2 year	**6,661,950.10**	**3.47**	**2,338,070.88**	15,012,189.61	6.73	1,414,995.71
2-3 year	**5,131,993.41**	**2.67**	**2,190,629.71**	3,834,317.19	1.72	1,559,259.56
Over 3 years	**18,048,199.67**	**9.38**	**16,420,934.49**	20,348,573.42	9.12	19,045,748.48
Total	**192,248,948.98**	**100.00**	**28,833,339.34**	223,067,481.00	100.00	27,393,431.82

(2) The percentage of provision for bad debt refers to note (2) 10.

(3) The year-end accounts receivable include a loan of RMB34,277,547.27 due from Panda Electronic Group Ltd., which was held by the Company as to 51.10% (with voting power).

(5) Notes to the Consolidated Financial Statements *(Continued)*

3. Accounts receivable *(Continued)*

(4) The five largest debtors amounted to RMB102,680,799.36, accounting for 53.41% of the total value of the accounts receivable, including:

Debtors	Outstanding amounts RMB	Time	Nature of debts
Panda Electronic Group Limited	34,277,547.27	1Within 1 year	Trade receivables
Nanjing Guangdian Network Technology Co., Ltd.	28,962,135.61	Within 1 year	Trade receivables
Baodeqiang Technology Co., Ltd.	16,756,481.04	Within 1 year	Trade receivables
Nanjing Panda Television Co. Ltd.	13,242,236.04	Within 1 year, 1 to 2 years	Trade receivables
Ericsson Larong Technology (Hangzhou) Co., Ltd.	9,442,399.40	Within 1 year	Trade receivables
Total	102,680,799.36		

4. Other Receivable

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

	2006-12-31			2005-12-31		
Item	Amount RMB	Percentage %	Provision for Bad debts	Amount	percentage%	Provision for Bad debts
Within 1 year	**24,278,197.66**	**3.27**	**2,459,740.91**	704,131,289.87	62.80	24,928,150.35
1 - 2 year	**387,196,982.95**	**52.08**	**26,293,018.23**	270,501,477.23	24.13	25,849,635.47
2 - 3 year	**245,141,541.48**	**32.97**	**75,545,126.22**	59,112,370.37	5.27	21,382,376.08
More than 3 year	**86,860,651.59**	**11.68**	**83,647,709.27**	87,398,386.20	7.80	84,973,463.66
Total	**743,477,373.68**	**100.00**	**187,945,594.63**	1,121,143,523.67	100.00	157,133,625.56

(2) Percentage of bad debt provision refers to Note (2)10.

(3) The year-end other receivables include RMB862,810.44 due from shareholders with 51.10% 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 RMB661,426,489.69, accounting for 88.96% of the total other receivables for the year. The debtors are:

Debtors	Outstanding amounts	Date of debts	Nature of debts
Jiangsu Provincial International Trust Investment Co., Ltd.	500,000,000.00	Within 1 year, 2 to 3 years	Current
Land Resources Bureau of Nanjing	80,000,000.00	1 to 2 years	Land acquisition compensation
Fund raising project for building	45,153,340.74	Within 1 year, 1 to 2 years	Advances
Nanjing Panda Ju Neng Small Home Appliances Co. Ltd.	23,286,318.23	Within 1 year, more than 3 years	Current
Nanjing Panda Chen Guang Electronics Co. Ltd.	12,986,830.72	More than 3 years	Current
Total	661,426,489.69		

(5) Notes to the Consolidated Financial Statements *(Continued)*

4. Other Receivable *(Continued)*

(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 provide for bad debts	Percentage of provision for bad debts(%)	Cause of provision for bad debts
Jiangsu Provincial Investment International Trust Co., Ltd	500,000,000.00	1 - 2 years, 2 to 3 years	88,200,000.00	17.64	Provision based on the ages
Nanjing Panda Ju Neng Small Home Appliance o., Ltd	23,286,318.23	Within 1 year, more than 3 years	23,286,318.23	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	Within 1 - 2 year, more than 3 years	5,936,714.40	100.00	dormant
Land Resources Bureau of Nanjing	80,000,000.00	1 - 2 years	4,800,000.00	6.00	Provision based
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
total	627,629,863.35		140,629,863.35		

Amount due from Jiangsu Provincial International Trust Investment Co., Ltd. refers to Note 2.

(6) The decrease of 33.69% in 2006 year-end than that in 2005 year-end was due to recovery of payment of Nanjing Panda Electronics Group Limited, the controlling shareholder, for the year.

5. Prepayment

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

Item	**2006-12-31** Amount *RMB*	**2006-12-31** Percentage %	2005-12-31 Amount *RMB*	2005-12-31 Percentage %
Within 1 year	**65,304,816.70**	**85.50**	68,252,798.15	73.25
1 –2 years	**10,579,333.65**	**13.85**	24,807,562.47	26.62
2 –3 years	**479,416.72**	**0.63**	119,710.00	0.13
More than 3 years	**16,900.00**	**0.02**	—	—
total	**76,380,467.07**	**100.00**	93,180,070.62	100.00

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

(5) Notes to the Consolidated Financial Statements *(Continued)*

5. Prepayment *(Continued)*

(3) At the end of the period, the total of the biggest five prepayment was RMB38,237,125.01, accounting for 50.06% of the total prepayment. Including:

Unit	RMB	Time	Nature of Debt
China Qing An International Tranding Co., Ltd.	22,265,051.83	Within 1 year	material payment
China Heping Electric Co., Ltd.	7,474,453.18	Within 1 year	material payment
Nanjing Shenye Intelligent System Engineering Co., Ltd.	3,123,120.00	Within 1 year	Construction payment
China Railway Signal & Comm. Shanghai Engineering Company	2,850,500.00	1 to 2 years	Construction payment
Peking University	2,524,000.00	Within 1 year, 1 to 2 years	Research and manufacture payment
Total	38,237,125.01		

(4) Prepayment more than 1 year was prepaid equipment payment and was not settled.

6 Stocks and provision for diminution

Item	**2006-12-31** Net balance *RMB*	Book value *RMB*	2005-12-31 Net balance *RMB*	Book value *RMB*
Raw materials	**53,540,430.52**	**6,069,658.67**	48,255,480.28	14,838,299.12
Packing materials	**60,843.19**	**—**	61,010.86	17,056.91
Low value consumables	**592,082.96**	**—**	262,981.76	30,626.17
Stored commodities	**42,539,374.33**	**7,500,663.65**	42,096,500.84	12,829,510.64
Sub-contracting material	**802,640.55**	**—**	3,870,548.93	24,282.83
Semi finished goods	**209,534.36**	**—**	111,185.27	—
Installed collection for the delivery of goods	**21,880,770.27**	**4,439,572.99**	24,583,189.37	6,599,959.37
Work in progress	**136,456,512.44**	**1,234,342.60**	92,186,153.48	1,932,338.99
Total	**256,082,188.62**	**19,244,237.91**	211,427,050.79	36,272,074.03

(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 21.12% in 2006 year-end than that in 2004 year-end was due to the increase of unfinished products produced by order's production period of the Company.

Provision for impairment in value of inventories at the end of 2006 decreased 46.94% over that of 2005, mainly due to the overstock of inventories and inventory commodities, which was eliminated as the provision for impairment.

(5) Notes to the Consolidated Financial Statements *(Continued)*

7. Long term equity investment

(1) Long term equity investment

Item	2006-12-31 Net balance Investment amount	2006-12-31 Book value Provision for impairment	2005-12-31 Net balance Investment amount	2005-12-31 Book value Provision for impairment
Other equity investment	**557,208,375.34**	**19,610,925.45**	549,616,124.97	18,734,950.26
Difference in equity investment	**353,410.12**		883,040.09	
Total	**557,561,785.46**	**19,610,925.45**	550,499,165.06	18,734,950.26
Net equity investment	**537,950,860.01**		531,764,214.80	

(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	Early 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	105,865,016.04	179,819,034.19	–	240,682,313.79	–	–	
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	8,509,316.10	14,843,108.83	–	84,530,546.58	–	–	
Intenna (Nanjing) Co. Ltd.	35.00	1,750,000.00	(1,055,307.97)	967,825.52	–	2,717,825.52	–	–	
MPower Batteries (Nanjing) Ltd.	40.00	4,200,000.00	–	(4,200,000.00)	–	–	–	–	
Nanjing Ericsson Mobile Terminal Co. Ltd	50.00	3,310,800.00	(1,965,545.45)	(3,310,800.00)	–	–	–	–	
Nanjing Panda Hitachi Technology Co. Ltd	49.00	6,533,170.00	(141,001.35)	(2,148,465.20)	–	4,384,704.80	–	–	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	51.00	510,000.00	–	–	–	510,000.00	510,000.00	510,000.00	b
Nanjing Panda Network Technology Co., Ltd.	50.00	5,000,000.00	–	(5,000,000.00)	–	–	–	–	c
Beijing Ericsson Pu Tian Mobile Communication Limited	20.00	47,664,270.97	116,143,136.39	136,940,765.82	–	184,605,036.79	–	–	
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd	33.33	1,000,000.00	–	(124,024.81)	–	875,975.19	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	(121,140.91)	651,182.29	–	2,409,088.17	–	–	
Nanjing Panda Medical Electronics Co. Ltd	50.00	500,000.00	–	(299,888.13)	–	200,111.87	200,111.87	200,111.87	
Nanjing Tai Lei Zi Panda Transportation System Company Limited	40.00	8,626,600.00	(184,290.41)	(358,665.76)	–	8,267,934.24	–	–	
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	
南京華顯高科有限責任公司	20.00	10,000,000.00	–	–	–	10,000,000.00	–	–	d
南京熊猫電子物資有限公司		500,000.00	–	(500,000.00)	–	–	–	–	e
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		4,763,465.36	–	–	–	4,763,465.36	4,763,465.36	4,763,465.36	
Total		283,058,936.41	227,050,182.44	274,149,438.93	–	557,208,375.34	19,610,925.45	18,734,950.26	

(5) Notes to the Consolidated Financial Statements *(Continued)*

7. Long term equity investment *(Continued)*

(2) Other equity investment *(Continued)*

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

b. This company was closed for reform.

c. The company was transferred and the relevant commercial registration was completed.

d. The Company increased investment in Nanjing Huaxian High Technology Company Limited by RMB10,000,000 in the year, representing 20% of its registered capital, which is still in stage of development.

e. The company was de-registered this year.

(3) Difference in equity investment

Name of invested parties	Initial amount	Reason	Amortisation period	Amortisation during the year	Balance of amortisation
Beijing Sony Ericsson Putian Mobile Communication Limited	2,697,102.71	Difference in equity acquisition price	5 years	539,420.54	397,467.77
Panda Electronics(Kunshan) Co. Ltd.	(97,905.88)	Difference in equity acquisition price	10 years	(9,790.59)	(44,057.65)
Total				529,629.95	353,410.12

(5) Notes to the Consolidated Financial Statements *(Continued)*

8. 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
Fixed assets, at cost						
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
Increase in the period	129,657,632.92	82,012,989.42	341,814.00	1,878,148.90	10,312,173.51	224,202,758.75
Transfer to construction in progress	107,731,715.06	6,241,655.00	—	—	233,913.70	114,207,283.76
Decrease in the period	4,847,385.90	18,761,084.48	221,954.73	1,704,485.49	2,414,218.07	27,949,128.67
31 December 2006	385,415,431.47	287,389,108.83	7,524,901.69	14,371,255.90	18,055,047.07	712,755,744.96
Accumulated depreciation of Fixed assets						
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
Increase in the period	11,477,019.16	16,167,242.60	589,736.94	906,862.14	4,140,162.30	33,281,023.14
Decrease in the period	2,326,745.64	12,247,406.45	190,935.25	1,407,631.13	1,987,496.63	18,160,215.10
31 December 2006	80,476,377.88	120,769,101.99	4,210,585.58	4,368,598.33	11,056,158.65	220,880,822.43
Fixed assets, book value						
1 January 2006	189,279,080.09	107,287,938.05	3,593,258.53	9,328,225.17	1,253,598.65	310,742,100.49
31 December 2006	304,939,053.59	166,620,006.84	3,314,316.11	10,002,657.57	6,998,888.42	491,874,922.53
Finance Lease of fixed assets	—	50,977,086.02	—	—	—	50,977,086.02

(1) Of the closing balance of fixed assets at the end of the period, the Company secured a loan of RMB210,000,000.00 from Nanjing Han Fu Branch of Industrial and Commercial Bank of China by pledging fixed assets including RMB193,082,652.14 of building and premises at cost, RMB48,624,203.69 of accumulated depreciation and RMB144,458,448.45. The term of pledge will expire on 4 December 2007. Except for the fixed assets above, no other fixed assets were pledged.

(2) An agreement of using assets to discharge a debt was entered into by Panda Electronics Group Company and the Company this year, pursuant to which Panda Electronics Group Company settled the debts owed to the Company by pledging its two property buildings valued at RMB 21,900,000.00. Please refer to the subsection 1 under section 11 for details.

(3) Of fixed assets under finance lease by the Company this year, the original cost of the machinery and equipment was RMB52,571,233.30 and RMB1,594,147.28 of amortization was realized in this period. The closing balance of machinery and equipment was RMB50,977,086.02.

(4) Closing balance of fixed assets at the end of 2006 increased by 30% over that as at the end of 2005, mainly because the Xingang Plant and SMT installation engineering Project of the Company was transferred to fixed assets after completion and machinery and equipment of finance lease increased in year 2006.

(5) Notes to the Consolidated Financial Statements *(Continued)*

8. Fixed Assets at cost, Accumulated Depreciation and provision for impairment *(Continued)*

Provision of impairment of fixed assets

Type	1 January 2006	Increase in the period	Decrease in the period	31 December 2006
Buildings	**285,356.16**	—	—	**285,356.16**
Machinery and equipment	**6,944,208.51**	—	53,637.54	**6,890,570.97**
Other equipment	**1,129,407.65**	62,062.00	227,855.51	**963,614.14**
Total	**8,358,972.32**	62,062.00	281,493.05	**8,139,541.27**

(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.

9. Construction in Progress

Construction in Progress

Name of Construction Project	1 January 2006	Increase in the year	Transfer to fixed assets in the year	Decrease in the year	31 December 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	3,109,006.13	16,358,831.22	—	7,140,318.02	—	Proceeds from government bonds
Expansion project of building 103	6,118,448.97	—	—	—	6,118,448.97	—	Internal capital
Xingang project	—	97,662,534.34	91,198,593.76	—	6,463,940.58	—	Internal capital
Project of digitalizing financial information	—	492,300.00	—	—	492,300.00	—	Internal capital
Other	1,999,756.08	8,981,654.38	6,649,858.78	—	4,331,551.68	—	Internal capital
Total	46,662,076.61	110,245,494.85	114,207,283.76	—	42,700,287.70	—	
Including: loan expensed capitalized	—	—	—	—	—		

(5) Notes to the Consolidated Financial Statements *(Continued)*

9. Construction in Progress *(Continued)*

Provision for impairment of construction in progress

Name of Construction project	1 January 2006	Increase in the period	Decrease in the period	31 December 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	
Total	26,213,948.90	—	—	26,213,948.90	

10. Intangible Assets

Intangible Assets

Type	Acquisition method	Original amount	1 January 2006	Increase in the period	transfer to this year	Amortization for the year	Accumulated amortisation	31 December 2006	Remaining period for amortisation
Land use right1	purchase	2,097,551.00	1,656,527.48	–	–	43,026.68	484,050.20	1,613,500.80	37.5 years
Land use right 2	settle debts by assets	9,700,000.00	–	9,700,000.00	–	24,311.00	24,311.00	9,675,689.00	33¶~2≠"§Î
Trademark use right	purchase	157,440,000.00	5,008,479.61	–	–	4,078,504.00	156,510,024.39	929,975.61	–
Other	purchase	798,580.00	3,409.38	775,000.00	–	53,384.72	73,555.34	725,024.66	–
Total		170,036,131.00	6,668,416.47	10,475,000.00	–	4,199,226.40	157,091,940.93	12,944,190.07	–

Closing balance at the end of 2006 increased by 94.11% over that as at the end of 2005, mainly because Panda Electronics Group Company used the land use rights of a land located at No. 118 Haifuxiang with a total site area of 14,129.1sq. meter valued at RMB9,700,000.00 to settle its debts owed to the Company.

Provision for Impairment of intangible assets

Items	1 January 2006	Increase in the period	Decrease in the period	31 December 2006	Reasons for charging
Trademark use right	210,000.00	—	—	210,000.00	The trademark has no use value
Total	210,000.00	—	—	210,000.00	

11. Long Term Deferred Expenses

Item	Original amount	1 January 2006	Increase in the period	Amortization for the year	Accumulated amortisation	31 December 2006
Other	357,564.10	42,672.38	—	42,672.38	357,564.10	—
Total	357,564.10	42,672.38	—	42,672.38	357,564.10	—

(5) Notes to the Consolidated Financial Statements *(Continued)*

12. Short Term Loans

Type of loan	31 December 2006	31 December 2005	Note
Charged loans	210,000,000.00	210,000,000.00	(2)
Guaranteed loans	626,070,200.00	585,070,200.00	(3), (4), (5)
Total	836,070,200.00	795,070,200.00	

(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 RMB307,050,000.00 for a loan of RMB40,000,000.00, RMB75,000,000.00, RMB25,000,000 and RMB70,000,000.00 respectively from Nanjing Han Fu Branch of Industrial and Commercial Bank of China with a term from 30 June 2006 to 6 June 2007, 29 September 2006 to 28 September 2007, 27 October 2006 to 24 October 2007, and 5 December 2006 to 4 December 2007.

(3) Panda Electronics Group Company, the controlling shareholder of the Company, guaranteed a bank loan of RMB80,000,000.00 on behalf of the Company for a guaranteed amount of RMB 150,000,000 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 a guaranteed amount of RMB 120,000,000.00 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 26 October 2006 to 26 March 2007; guaranteed a bank loan of RMB58,000,000.00 on behalf of the Company from Nanjing Commercial Bank Chengdong Branch with a guaranteed term from 23 May 2006 to 24 May 2007; guaranteed another bank loan of RMB20,000,000.00 on behalf of the Company from Nanjing Commercial Bank Chengdong Branch with a guaranteed term from 15 November 2006 to 15 November 2007; guaranteed a bank loan of RMB50,000,000.00 on behalf of the Company for RMB 80,000,000.00 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 Nanjing Branch of China Everbright Bank with a guaranteed term from 20 October 2006 to 20 October 2007; guaranteed a bank loan of RMB50,000,000.00 on behalf of the Company from Guangdong Development Bank, Nanjing Branch with a guaranteed term from 30 March 2006 to 29 March 2007.

(4) Panda Electronics Group Company, the controlling shareholder of the Company, and its subsidiary, Nanjing Panda Electronic Import/Export Company, provided a joint guarantee for a loan of RMB40,000,000 for the Company from Nanjing Han Fu Branch of Industrial and Commercial Bank of China, with a guaranteed term from 30 May 2006 to 16 May 2007; Panda Electronics Group Company, the controlling shareholder of the Company, and its subsidiary, Nanjing Panda Electronics Manufacturing Co.Ltd, provided a joint guarantee for a loan of RMB30,000,000 for the Company from Nanjing Han Fu Branch of Industrial and Commercial Bank of China, with a guaranteed term from 31 May 2006 to 16 May 2007;

(5) The remaining guarantee loans of RMB30,070,200.00 were granted to the Company's subsidiaries under the guarantees provided by the Company.

(5) Notes to the Consolidated Financial Statements *(Continued)*

13. Bills Payable

Types of Bills	**31 December 2006**	31 December 2005
Bank bills	**37,794,637.80**	44,065,145.76
Total	**37,794,637.80**	44,065,145.76

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

14. Accounts Payable and Receipts in Advance

Item	**31 December 2006**	31 December 2005
Accounts Payable	**148,551,080.80**	171,980,299.87
Receipts in Advance	**53,792,028.89**	86,573,345.38
Total	**202,343,109.69**	258,553,645.25

(1) Closing balance of accounts payable included RMB3,469,112.24 of payables due from the controlling shareholder Panda Electronic Group Ltd. with 51.10% of shareholding (with voting power) of the Company.

(2) The total of the biggest five accounts payable was RMB21,281,397.86, accounting for 14.33% of the total accounts payable for the year. Including:

Name of units	**Outstanding amounts**	**Age**	**Nature of debt**
Nanjing Panda Digital Technology Development Co., Ltd.	4,989,511.92	1-2 years	payments for goods
Shanghai Jinfa Technology Development Co,, Ltd.	4,917,799.47	1 Within 1 year	payments for goods
Nanjing Shenye Intelligent System Engineering Co., Ltd.	4,182,192.00	1-2 years	payments for goods
Library of Nanjing Municipal	3,722,782.23	1-2 years	payments for goods
Panda Electronic Group Ltd.	3,469,112.24	1 Within 1 year	payments for goods
Total	21,281,397.86		

(3) Closing balance of receipts in advance included RMB22,422.50 of receipts in advance from the controlling shareholder Panda Electronic Group Ltd. with 51.10% of shareholding (with voting power) of the Company.

(4) Closing balance of receipts in advance included RMB18,268,813.81 of payments for goods from Nanjing Metro Co., Ltd. (南京地下鐵道有限責任公司), accounting for 33.96% of the total receipts in advance.

The receipts in advance has not yet carried forward mainly because the receipt of advance is more than the unsettled payment subject to the construction progress.

(5) Notes to the Consolidated Financial Statements *(Continued)*

15. Salaries Payable

Closing balance of salaries payable was RMB1,420,415.22. There were no salaries payable which were overdue.

16. Taxes Payable

Type	Tax rate	2006-12-31	2005-12-31
Value added tax (VAT)*	17%	**21,310,947.42**	23,518,138.27
Sales tax	5%	**692,539.69**	1,517,138.78
City maintenance tax*	7% and 5%	**18,128,100.82**	18,646,045.27
Enterprise income tax	15%-33%	**782,851.61**	(87,117.82)
Personal income tax	Under the Individual Income Tax Law	**875,294.99**	(499,517.00)
Property tax	1.2% of the 70% property value (at cost), or 12% of the rental income	**412,106.66**	2,292,901.80
Land use tax		**—**	565,468.32
Stamp duty		**401.94**	3,212.93
Total		**42,202,243.13**	45,956,270.55

* This item is mainly the outstanding tax accumulated from the previous years.

17. Other charges

Item	2006-12-31	2005-12-31	Rate
Education surcharge*	**5,187,024.33**	5,203,567.77	4% of current tax
Housing surplus reserve	**583,222.62**	938,152.06	
Local funds	**252,836.92**	279,819.73	
Total	**6,023,083.87**	6,421,539.56	

* The item is mainly the Accrued education expenses surcharges overdue of previous year.

(5) Notes to the Consolidated Financial Statements *(Continued)*

18. Other payables

(1) The year end balance of other payables was RMB203,139,694.50 of which RMB77,149,426.62 was due from Panda Electronic Group Co. Ltd, the controlling shareholder, Holding 51.10% shareholdings (with voting power) of the Company.

(2) Details of the year end balance of other payables in large amount are as follows:

Name of units	Outstanding amounts	Age	Nature of debt
Panda Electronics Group Company	77,149,426.62	Within 1 year or more than 3 years	Current
Wong's Kong King (Shanghai) Ltd.	16,538,826.60	Within 1 year	Due Development payment
Jiangsu Financial Leasing Co., Ltd.	13,459,377.25	Within 1 year	Financial leasing payment
Nanjiang Jiangning District Economic Technology Development Zone Management Committee	3,773,413.50	1-2 years	Special provision
Nanjing Pengda Labour Consulting Services Co., Ltd.	1,640,610.04	Within 1 year	Labour payment
Total	112,561,654.01		

The amount at the end of the year 2006 increased 17.82% over that of 2005, mainly because of the increase in amount due to Nanjing Panda Group Limited and WKK China (Shanghai) Co., Ltd. for the year.

19. Accrued Expenses

Item	31 December 2006	31 December 2005	Reason of closing balance
Interest	**1,303,000.00**	1,586,519.38	Outstanding
Water and electricity fee	**616,118.74**	843,835.31	Outstanding
Processing fee	**1,556,137.56**	2,918,403.75	Outstanding
Rent	**1,307,785.70**	1,672,700.67	Outstanding
Repair expenses	**43,917.00**	192,429.40	Outstanding
Auditing expenses	—	2,286,368.41	Outstanding
Other	**2,447,963.20**	1,494,672.65	Outstanding
Total	**7,274,922.20**	10,994,929.57	

(5) Notes to the Consolidated Financial Statements *(Continued)*

20. Long-term accounts payable

Item	Period	Initial amount	Interest	Interest paid	31 December 2006
Fixed assets of financial leasing	February 2006 to December 2009	56,666,896.00	5,192,478.00	1,295,962.23	34,990,818.63
Total		56,666,896.00	5,192,478.00	1,295,962.23	34,990,818.63

(1) The financial leasing payable by the Company in 2007, 2008 and 2009 are RMB19,271,088.00, RMB13,342,758.00 and RMB6,273,488.40, respectively, totaling RMB38,887,334.40.

(2) As at 31 December 2006, the unrecognized balance of financing expenses was RMB3,896,515.77.

(3) The unrecognized financing expenses of the Company is amortized on the actual interest.

21. Deferred tax

Item Bills	31 December 2006	31 December 2005
Income tax payable arising from receipt of non-cash assets	**11,550.64**	11,550.64
Total	**11,550.64**	11,550.64

22. 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					31 December 2006
		New issue	Bonus Allotment	Share issue	transfer	Sub-total	
1. Non-circulating shares							
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
2. Circulating shares:							
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
3. Total number of shares	655,015,000.00	—	—	—	—	—	655,015,000.00

(5) Notes to the Consolidated Financial Statements *(Continued)*

22. Share Capital *(Continued)*

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

On 28 July 2006, the Company convened a Relevant Shareholders' Meeting to consider and approve the Share Segregation Reform Proposal of the Company, that Panda Electronics Group Limited, being the sole holder of Non-circulating Shares of the Company, proposes to offer a consideration to holders of A Shares whose names appear on the register of members on the Reform Implementation and Shareholding Record Date by Panda Electronics Group Limited, without changing the total share capital of the Company, for a total of 20,300,000 shares, pursuant to which, each holder of A Shares of the Company will be offered 3.5 Non-circulating Shares for every ten A Shares held by such holder. The Proposal was approved by State-Owned Assets Supervision and Administration Commission of Jiangsu Province on 24 July 2006 and Ministry of Commerce on 25 August 2006. The Reform Implementation and Shareholding Record Date of A Shares under the Share Segregation Reform Proposal was 7 September 2006 and the shares was delisted on 11 September 2006.

(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	31 December 2006	31 December 2005
Panda Electronics Group Limited	Promoter's shares	**334,715,000.00**	355,015,000.00
Domestic listed RMB ordinary shares	Circulating A shares	**78,300,000.00**	58,000,000.00
Overseas listed foreign shares	Circulating H Shares	**242,000,000.00**	242,000,000.00
Total		**655,015,000.00**	655,015,000.00

(5) Notes to the Consolidated Financial Statements *(Continued)*

23. Capital Reserve

Items	1 January 2006	Increase in the period	Decrease in the period	31 December 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	195,989.81	—	1,937,285.12
Total	480,208,784.04	195,989.81	—	480,404,773.85

The increase of capital reserves in the year was due to the transferred capital reserves of outstanding payment of Nanjing Huage Dian Qi Plastic Industrial Co., Ltd., a subsidiary of the Company and the increased capital reserves due to the debt restructuring of Technology Development Centre, an internal audit unit of the Company.

24. Surplus Reserve

Items	1 January 2005	Increase in the period	Decrease in the period	31 December 2005
Statutory surplus reserve	117,760,901.20	3,046,458.00	—	120,807,359.20
Discretionary surplus reserve	70,376,641.33	—	—	70,376,641.33
Total	188,137,542.53	3,046,458.00	—	191,184,000.53

According to the requirement stated in the document Cai Qi [2006] No.67 of the Ministry of Finance that "From 1 January 2006, companies established under the Company Law would appropriate profits in accordance with Article 167 to the Company Law and no welfare fund would be withdrawn. In addition, in order to maintain the consistency of the accounting policies of companies, state-owned companies and other companies would stop the implementation of welfare fund system together. The Company would transfer the balance of welfare fund as at 31 December 2005 to as surplus welfare fund management, and the Company demanded and adjusted the balance of welfare fund as of 31 December 2006 during the year.

25. Undistributed Profit

Items	**31 December 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 year	**89,147,453.69**	89,700,521.97
Less: transfer to statutory surplus reserve	**3,046,458.00**	—
transfer to discretionary surplus reserve	**—**	—
transfer to statutory public welfare fund	**—**	—
distributed dividends for ordinary shares	**—**	—
capitalization of dividends for ordinary shares	**—**	—
Closing undistributed profit	**(58,682,872.55)**	(148,383,394.52)

(5) Notes to the Consolidated Financial Statements *(Continued)*

26 Income and Cost of Principal Activities

(1) Segmented by products

Principal activities	Income from principal activities		Cost of principal activities	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Electronic Manufacture products	**238,797,012.01**	224,378,827.75	**192,301,236.33**	188,047,100.65
Electronic information products	**193,744,729.63**	216,044,751.10	**172,969,681.95**	195,452,811.84
Electrometrical products	**221,079,738.77**	199,446,276.69	**181,467,937.02**	178,800,350.93
Satellite telecommunication products	**179,562,460.53**	176,709,660.00	**131,313,785.99**	126,155,304.47
Other	**51,865,743.65**	37,827,565.66	**66,158,306.77**	38,264,450.39
Total	**885,049,684.59**	854,407,081.20	**744,210,948.06**	726,720,018.28

(2) Sales revenue from the largest five customers totaled RMB343,404,124.66, accounting for 38.80% of total sales revenue for the year.

Including:

Name of customers	Sales volume	Percentage(%)
China Electronic Technology Group Ltd.	180,170,990.00	20.36
China Electronics Technical Group, Co., Ltd.	50,408,793.42	5.70
Nanjing Guangdian Network Technology Co., Ltd.	45,376,964.81	5.13
Nanjing Sharp Electronics Co. Ltd.	35,503,887.21	4.01
Kubota Agri-machinery (Jiangsu) Co., Ltd.	31,943,489.22	3.60
LGENT	20,308,551.68	2.38
Total	343,404,124.66	38.80

27. Tax on principal activities and surtaxes

Items	Calculation basis	Rate	31 December 2006	31 December 2005
Sales tax	Rentals and labor, etc.	5% - 3%	**1,539,071.14**	1,246,518.30
City maintenance and construction tax	circulating tax	7% - 5%	**1,545,529.09**	1,444,141.25
Education surcharges	circulating tax	4%	**992,533.69**	899,260.66
Total			**4,077,133.92**	3,589,920.21

(5) Notes to the Consolidated Financial Statements *(Continued)*

28. Profit from other operation

Items	31 December 2006 Income	Expense	Profit	31 December 2005 Income	Expense	Profit
Rents	**8,508,708.39**	**4,032,213.48**	**4,476,494.91**	8,491,053.04	4,303,024.24	4,188,028.80
Trademark and land use fees	**1,037,840.00**	**55,500.00**	**982,340.00**	—	—	—
Sales of raw material	**2,777,894.10**	**1,896,125.64**	**881,768.46**	4,550,594.24	3,481,403.84	1,069,190.40
Technological services fees	**5,205,212.81**	**455,809.96**	**4,749,402.85**	3,480,687.06	191,457.21	3,289,229.85
Processing fee	**1,133,238.60**	**666,093.53**	**467,145.07**	1,809,007.16	1,095,377.88	713,629.28
Service income	**956,986.43**	**405,318.56**	**551,667.87**	1,796,146.83	1,030,363.43	765,783.40
Other income	**6,497,293.21**	**6,139,959.81**	**357,333.40**	1,919,039.04	874,915.48	1,044,123.56
Total	**26,117,173.54**	**13,651,020.98**	**12,466,152.56**	22,046,527.37	10,976,542.08	11,069,985.29

29. Financial Expenses

Items	2006	2005
Interest expenses	**54,139,345.29**	57,686,851.91
Less: Interest income	**4,296,335.83**	2,215,653.04
Add: Exchange loss	**868,792.96**	204,106.12
Less: Exchange gain	**1,285,566.73**	362,223.95
Add: Other expenses	**2,660,277.75**	1,130,213.23
Total	**52,086,513.44**	56,443,294.27

30. Investment Income

(1) Details of investment income are as follows:

Items	2006	2005
Share of net profit from invested companies after adjustment by equity method at year end	**227,049,494.90**	251,979,204.90
Equity investment difference in amortisation	**(529,629.95)**	(1,182,575.97)
Gain on equity transfer	**—**	15,140,041.03
Provision for diminution in value on long term investment	**(875,975.19)**	(3,956,636.87)
Other	**(959,128.87)**	880,083.51
Total	**224,684,760.89**	262,860,116.60

(5) Notes to the Consolidated Financial Statements *(Continued)*

30. Investment Income *(Continued)*

(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	2006	2005	Note
Nanjing Ericsson Communication Co. Ltd.	**105,865,016.04**	108,998,102.30	a
Nanjing Sharp Electronic Co. Ltd.	**—**	(2,661,071.37)	c
Shenzhen Jianghua Electronic Co. Ltd.	**8,508,628.56**	7,544,698.55	
Intenna (Nanjing) Co., Ltd.	**(1,055,307.97)**	951,674.04	
Nanjing Panda Tamura Communication Equipment Co., Ltd.	**(1,965,545.45)**	(1,986,792.91)	
Nanjing Panda Hitachi Technology Co. Ltd.	**(141,001.35)**	783,531.37	
Beijing Ericsson Pu Tian Mobile Communication Limited	**116,143,136.39**	138,312,122.06	b
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd	**—**	15,805.10	d
Nanjing Electronics (Kunshan) Co. Ltd	**(121,140.91)**	213,169.20	
Nanjing Panda Medical Electronics Co. Ltd	**—**	(17,658.09)	d
Nanjing Tai Lei Zi Panda Transportation System Company Limited	**(184,290.41)**	(174,375.35)	
Total	**227,049,494.90**	251,979,204.90	

a. The financial statement of Nanjing Ericsson Panda Communication Co. Ltd in 2006, an associated company of the Company, was audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and a standard unqualified audited report No. 20791 (2007) Pu Hua Yong Dao Zhong Tian Shen Zi was given.

b. The financial statement of Beijing Sony Ericsson Mobile Communication Co. Ltd. in 2005, an associated company of the Company, was audited by PricewaterhouseCoopers Zhong Tian Accountants Limited Company and a standard unqualified audited report No. 013 (2007) Pu Hua Yong Dao Zhong Tian Beijing Shen Zi was given.

c. The Company has transferred of equity interests of this company in 2005.

d. Full provision of impairment in value of long-term equity investment was made by the Company to those companies in 2006.

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

31. Subsidy income

Items	2006	2005
Refund of value-added tax for software products	**1,030,020.81**	709,197.74
Government subsidies	**1,085,620.00**	62,500.00
Total	**2,115,640.81**	771,697.74

(5) Notes to the Consolidated Financial Statements *(Continued)*

32. Non-operating income

Items	2006	2005
Net gain from disposal of fixed assets	**913,291.54**	2,887,373.31
Income from wasters	**92,289.20**	39,174.00
Compensation from insures	—	35,000.00
Net gain from fine payments	**155,444.26**	13,169.24
Other	**916,938.38**	2,841,247.16
Total	**2,077,963.38**	5,815,963.71

33. Non-operating Expenses

Items	2006	2005
Calculation of fixed assets	—	268,892.26
Net loss from disposal of intangible asset	**2,475,726.58**	425,177.60
Provision for impairment of fixed assets	—	—
Provision for impairment of fixed assets	**62,062.00**	—
Provision for impairment of construction in progress	—	6,118,448.97
Local fund	**189,747.04**	(258,332.56)
Net fine payment expenses	**59,931.03**	376,366.86
Donation expenses	**10,500.00**	55,000.00
Extraordinary loss	—	55.51
Other	**304,583.13**	101,318.49
Total	**3,102,549.78**	7,086,927.13

34. Cash received for other operating activities

Items	2006	Nature
Capital flows with Panda Electronics Group	**1,567,143,711.49**	Capital flows
Capital flows with Nanjing Panda Electronics Import/Export Co., Ltd.	**39,684,827.28**	Capital flows
Capital flows with Nanjing Panda Television Co., Ltd.	**48,957,559.33**	Capital flows
Amount for acquisition of fixed assets by a leasing company	**44,997,420.00**	Capital flows
Capital flow with military representative office	**51,170,000.00**	Capital flows
Deposit	**44,9498,011.50**	Capital flows
Others	**43,748,787.40**	Capital flows
Total	**1,843,336,190.86**	

(5) Notes to the Consolidated Financial Statements *(Continued)*

35. Cash paid for other operating activities

Items	2006	Nature
Capital flows with Panda Electronics Group	**1,264,501,441.03**	Capital flows
Capital flows with Nanjing Panda Electronics Import/Export Co., Ltd.	**39,000,000.00**	Capital flows
Capital flows with Nanjing Panda Television Co., Ltd.	**44,037,484.00**	Capital flows
Deposit	**44,775,934.49**	Deposit
Amount for acquisition of fixed assets by a leasing company	**31,218,737.85**	Capital flows
Technological development fee	**31,910,932.95**	Expenses
Operating fee	**26,603,051.42**	Expenses
Other	**70,457,283.96**	Other Capital and expenses
Total	**1,534,505,221.70**	

36. Cash received for other financing activities

Items	2006	Nature
Discounted bill amount of Nanjing Panda Television Co., Ltd.	**634,590,000.00**	Discounted bill
Others	**7,300,992.00**	
Total	**641,890,992.00**	

37. Cash paid for other financing activities

Items	2006	Nature
Discounted bill amount of Nanjing Panda Television Co., Ltd.	**634,590,000.00**	Discounted bill
Others	**31,757,073.63**	
Total	**666,347,073.63**	

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

1. Accounts Receivable

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

	31 December 2006			31 December 2005		
Items	**Amount**	**Provision for percentage%**	**Bad debts**	Amount	Provision for percentage %	Bad debts
Within 1 year	**62,995,344.69**	**96.86**	**1,904,614.35**	72,056,093.46	96.88	2,234,160.06
1-2 years	**1,468,790.22**	**2.26**	**837,693.01**	1,771,628.89	2.38	106,297.74
2-3 years	**92,986.78**	**0.14**	**92,994.09**	56,124.25	0.08	18,787.27
More than 3 years	**477,682.32**	**0.74**	**452,992.62**	489,228.26	0.66	342,870.76
Total	**65,034,804.01**	**100.00**	**3,288,294.07**	74,373,074.86	100.00	2,702,115.83

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

(3) The year-end accounts receivable include a loan of RMB31,950,091.99 due from Panda Electronic Group Ltd., the controlling shareholder, with 51.10% of shareholding (with voting power of the Company).

(4) The five largest debtors amounted to RMB62,731,600.78, accounting for 96.46% of the total value of the accounts receivable, including:

Debtors	**Amount**	**Ageing analysis**	**Nature of Debts**
Panda Electronics Group Co. Ltd.	31,950,091.99	within 1 year	payment for goods
Nanjing Guangdian Network Technology Co. Ltd.	28,962,135.61	within 1 year	payment for goods
Nanjing Panda Television Co. Ltd.	698,114.18	within 1 year	payment for goods
Nanjing Electronics Co.	603,575.00	within 1 year	payment for goods
Wuxi Huguang Xingyuan Photoelectricity Technology Co. Ltd.	517,684.00	1-2 years	payment for goods
Total	62,731,600.78		

2. Other Receivables

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

Items	31 December 2006			31 December 2005		
	Amount	**Provision for percentage%**	**Bad debts**	Amount	Provision for percentage %	Bad debts
Within 1 year	**43,976,591.40**	**5.69**	**1,585,012.06**	687,009,106.12	58.44	21,531,078.39
1-2 years	**393,954,464.51**	**50.96**	**23,297,898.36**	304,944,662.44	25.94	23,905,022.91
2-3 years	**246,987,214.40**	**31.95**	**74,794,960.22**	63,475,222.67	5.40	20,800,738.07
3More than 3years	**88,210,792.11**	**11.40**	**73,484,022.36**	120,186,578.81	10.22	74,942,806.91
Total	**773,129,062.42**	**100.00**	**173,161,893.00**	1,175,615,570.04	100.00	141,179,646.28

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

2. Other Receivables *(Continued)*

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

(3) The year-end other receivables include a loan of RMB 331,085.44 due from Panda Electronic Group Ltd., the controlling shareholder of the Company, with 51.10% of shareholding (with voting power of the Company).

(4) The five largest debtors amounted to RMB657,355,247.24, accounting for 85.03% of the total value of the accounts receivable, including:

Debtors	Amount	Ageing analysis	Outstanding Amounts Nature of Debts
Jiangsu Provincial International Trust Investment Co., Ltd.	500,000,000.00	Within 1 year, 1 to 2 years	Current
Land Resources Bureau of Nanjing	80,000,000.00	1 to 2 years	Land acquisition compensation
Fund raising project for building	45,153,340.74	Within 1 year, 1 to 2 years	Advances
Nanjing Panda Ju Neng Small Home Appliances Co. Ltd.	19,215,075.78	Within 1 year, more than 3 years	Current
Nanjing Panda Chen Guang Electronics Co. Ltd.	12,986,830.72	More than 3 years	Current
Total	657,357,247.24		

(5) The amount at the end of 2006 decrease 34.24% over that of 2005, mainly due to the amount recovered from Nanjing Panda Group Limited, the controlling shareholder.

3. Long- term equity investment

(1) Long- term equity investment

Items	**31 December 2006** Investment amount	Provision for Impairment	31 December 2005 Investment amount	Provision for Impairment
Other equity investment	**730,203,757.79**	**14,778,313.39**	663,093,714.85	14,778,313.39
Difference in equity investment	**397,467.77**	**—**	936,888.31	—
Total	**730,601,225.56**	**14,778,313.39**	664,030,603.16	14,778,313.39
Net equity investment	**715,822,912.17**		649,252,289.77	

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

3. Long- term equity investment *(Continued)*

(2) Other equity investment

Name of invested companies	Share of equity holding(%)	Initial amount	Equity adjustment for the period	Accumulated equity adjustment	Other transfor-out	Closing balance	Closing provision for impairment	Early 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	(4,530,610.09)	496,068.91	—	8,767,164.36	—	—	
Shenzhen Panda Electronics Co.Ltd.	95.00	6,175,000.00	(27,239.83)	(2,312,796.44)	—	3,862,203.56	—	—	
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	105,865,016.04	179,819,034.19	—	240,682,313.79	—	—	
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	2,700,565.14	(15,084,633.76)	—	28,915,366.24	—	—	
Nanjing Lingyun Information Co.Ltd	30.00	150,000.00	—	(85,087.55)	—	64,912.45	64,912.45	64,912.45	
Nanjing Panda Appliance & Apparatus Co., Ltd.	70.00	700,000.00	1,214,183.80	1,739,183.80	—	2,439,183.80	—	—	
Shenzhen Jinghua Electronic Co. Ltd.	38.03	69,687,437.75	8,509,316.10	14,843,108.83	—	84,530,546.58	—	—	
Nanjing Panda Mechanical Engineering Plant	99.00	30,042,016.46	(317,732.30)	(3,303,197.30)	—	26,738,819.16	—	—	
Intenna (Nanjing) Co. Ltd.	35.00	1,750,000.00	(1,055,307.97)	967,825.52	—	2,717,825.52	—	—	
Nanjing Panda Accurate Machinery Co.Ltd.	70.00	3,625,300.00	1,434,218.39	2,325,751.79	—	5,951,051.79	—	—	
MPower Batteries (Nanjing) Ltd	40.00	4,200,000.00	—	(4,200,000.00)	—	—	—	—	
Nanjing Panda Mechanical Manufacturing Co. Ltd.	70.00	3,500,000.00	2,472,039.63	4,163,796.12	—	7,663,796.12	—	—	
Nanjing Ericsson Mobile Terminal Co. Ltd	50.00	3,310,800.00	(1,965,545.45)	(3,310,800.00)	—	—	—	—	
Nanjing Panda Hitachi Technology Co.ltd	49.00	6,533,170.00	(141,001.35)	(2,148,465.20)	—	4,384,704.80	—	—	
Nanjing Panda Machinery Co.Ltd	70.00	2,100,000.00	(19,499.42)	(360,813.22)	—	1,739,186.78	—	—	
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd	100.00	30,959,443.69	5,631,431.23	5,952,163.10	—	36,911,606.79	—	—	
Nanjing Panda Mobile Communication Equipment Co.Ltd	51.00	1,800,000.00	528,110.48	447,872.38	—	2,247,872.38	—	—	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	70.00	700,000.00	98,393.47	284,842.95	—	984,842.95	—	—	
Nanjing Panda Communication Development Co.Ltd	50.00	5,000,000.00	—	(5,000,000.00)	—	—	—	—	b
Nanjing Panda System Integration Co.Ltd	20.00	47,664,270.97	116,143,136.39	136,940,765.82	—	184,605,036.79	—	—	
Nanjing Electronic Calibration Co., Ltd.	75.00	37,241,175.00	11,018,286.56	16,682,021.68	—	53,923,196.68	—	—	
Nanjing Panda Network Technology Co.Ltd	79.55	8,750,000.00	(579,500.71)	(389,273.69)	—	8,360,726.31	—	—	
Beijing Ericsson Putian Mobile Communication Co.Ltd	20.00	10,000,000.00	—	—	—	10,000,000.00	—	—	c
Nanjing Panda Electronics Manufacturing Co.Ltd	51.00	510,000.00	—	—	—	510,000.00	510,000.00	510,000.00	d
Nanjing Panda Power Sources Technology Co. Ltd.		500,000.00	—	(500,000.00)	—	—	— -	—	e
Nanjing Huaxian Hi-tech Co., Ltd.		17,528,567.85	—	(7,088,632.27)	—	10,439,935.58	10,439,935.58	10,439,935.58	
Nanjing Panda Ju Neng Small Home Appliances Co., Ltd.		3,763,465.36	—	—	—	3,763,465.36	3,763,465.36	3,763,465.36	
Panda Electronic Material Co. Ltd.									
Other investment reflected at interest law									
Other investment reflected at cost									
Total		455,249,386.13	246,978,260.11	274,954,371.66	—	730,203,757.79	14,778,313.39	14,778,313.39	

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

b. This company was transferred and the change of registration with the administration of industry and commerce were completed.

c. Additional investment in Nanjing Huaxian Hi-tech Co., Ltd. was RMB10,000,000.00, representing 20% of its registered capital. This company started operation in 2006.

d. This company was closed for reform.

e. This company was cancelled during the year.

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

3. Long- term equity investment *(Continued)*

(3) Difference in equity investment

Name of invested parties	Initial amount	Reason	Amortisation period	Amortisation during the year	Balance of amortisation
Beijing Sony Ericsson Putian Mobile Communication Limited	2,697,102.71	Difference in equity acquisition price	5 years	539,420.54	397,467.77
Total				539,420.54	397,467.77

4. Income and Cost of Principal Activities

(1) Segmented by income

Principal activities	Income from principal activities 2006	2005	Cost of principal activities 2006	2005
Mobile telecommunication products	**—**	—	—	—
Electronic information products	**51,053,825.99**	—	**47,625,640.10**	—
Electromechical products	**12,763,879.57**	10,074,390.21	**11,161,830.62**	8,670,581.12
Satellite telecommunication products	**179,562,460.53**	173,350,438.50	**131,313,785.99**	126,155,304.47
Others	**439,422.00**	20,925,539.48	**—**	26,902,852.48
Total	**243,819,588.09**	204,350,368.19	**190,101,256.71**	161,728,738.07

(2) Sales revenue from the largest five customers totaled RMB240,140,608.20, accounting for 98.49% of total sales revenue for the year. among the total:

Name of customers	Sales	proportion (%)
China Electronic Technical Group, Co., Ltd.	180,170,990.00	73.90
Nanjing Guangdian Network Technology Co. Ltd.	50,408,793.42	20.67
China Media Group Co., Ltd.	5,968,000.00	2.45
Nanjing Sharp Electronics Co. Ltd.	2,560,346.15	1.05
Xinyuan Plastic Electrical Appliances Co. Ltd.	1,032,478.63	0.42
Total	240,140,608.20	98.49

(3) Sales revenue of 2006 increased by 28.26% over 2005 mainly for the sales increase of the digital top-set boxes for the years .

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

5. Investment Income

(1) Details of investment income are as follows:

Items	2006	2005
Share of net profit from invested companies after adjustment by equity method at year end	**247,848,397.94**	257,163,722.06
Equity investment difference in amortisation	**(539,420.54)**	(1,207,052.45)
Gain on equity transfer	**—**	15,140,041.03
Provision for diminution in value on long term investment	**—**	—
Others	**(959,128.87)**	—
Total	**246,349,848.53**	271,096,710.64

(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	2006	2005	
Nanjing Guanghua Electronic Plastic Installing Plant	(4,530,610.09)	(1,797,054.27)	
Shenzhen Panda Electronic Co., Ltd.	(27,239.83)	(3,189.56)	
Nanjing Ericsson Communication Company Limited	105,865,016.04	108,998,102.30	
Nanjing Sharp Electronics Co. Ltd.	—	(2,661,071.37)	a
Nanjing Panda Electronic Material Co. Ltd.	—	1,460,441.76	b
Nanjing Panda Technology Equipment Co. Ltd.	—	(3,106,901.21)	c
Nanjing Panda Information Industry Co. Ltd.	2,800,250.39	(952,561.02)	
Nanjing Panda Appliance & Apparatus Co., Ltd.	1,214,183.80	1,401,282.95	
Shenzhen Jinghua Electronic Co. Ltd.	8,508,628.56	7,544,698.55	
Nanjing Panda Mechanical Engineering Plant	(317,732.30)	(2,133,010.18)	
Intenna (Nanjing) Co. Ltd.	(1,055,307.97)	951,674.04	
Nanjing Panda Accurate Machinery Co. Ltd.	1,434,218.39	(1,056,309.98)	
Panda Mechanical Manufacturing Co. Ltd.	2,472,039.63	1,305,339.48	
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	(1,965,545.45)	(1,986,792.91)	
Nanjing Panda Hitachi Technology Co. Ltd.	(141,001.35)	783,531.37	
Nanjing Panda Machinery Co., Ltd.	(19,499.42)	177,553.11	
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd.	6,406,664.31	2,894,893.51	
Nanjing Panda System Integration Co., Ltd.	524,017.59	467,953.14	
Nanjing Electronic Calibration Co., Ltd.	98,393.47	194,141.38	
Beijing Ericsson Mobile Communication Ltd.	116,143,136.39	138,312,122.06	
Nanjing Panda Electronics Manufacturing Co. Ltd.	11,018,286.56	6,113,886.73	
Nanjing Panda Power Sources Technology Co. Ltd.	(579,500.78)	254,992.18	
Total	247,848,397.94	257,163,722.06	

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

5. Investment Income *(Continued)*

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

a. This company was transferred in 2005.

b. This company was closed for reform and was cancelled.

c. The owner's equity of this company is in negative amount and the Company has no long-term equity investment in it.

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

(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 lisility	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	31 December 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	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Panda Electronic Group Ltd.	**334,715,000.00**	355,015,000.00	**51.10**	54.20
Nanjing Panda Ju Neng Small Home Electronic Appliance Co. Ltd.	**510,000.00**	510,000.00	**51.00**	51.00

(7) Relationship and transactions with related parties *(Continued)*

(1) Related parties *(Continued)*

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	100.00	Agency of its own products and import and export products	Agency of import products and purchase
Nanjing Panda Television Co. Ltd.	100.00	Televisions and related products	Sales. purchase and provision of labor
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	70.00	Stand for production, tools for metro, etc.	purchase
Nanjing Zhen Hua Sound Equipment plant	51.00	Loudspeaker. package, paper cases	Sales. purchase and provision of labor
Panda Electronic (Hong Kong) Co. Ltd.	100.00	Electronic products	Capital flow
Nanjing Panda Power Sources Equipment Co. Ltd.	100.00	UPS, transformer	Sales
Nanjing Panda Technology Industrial Co., Ltd.	99.00	Industrial operations	Capital flow and labor services

(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
Nanjing Ericsson Panda Communication Company Limited	27.00	Production and sales of exchange and Base Station	Purchase and Sales
Beijing Sony Ericsson Putian Mobile Communication Limited	20.00	Production and sales of Song Ericsson mobile terminal (handset)	Sales
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	50.00	Development, manufacture and production of power supply	purchase
Panda Electronics (Kunshan) Co. Ltd	40.00	SMT processing	Nil
Nanjing Panda Hitachi Technology Co. Ltd	49.00	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
Nanjing Tai Lei Zi Panda Transportation System Company Limited	40.00	Design, research, production and sales of electronic devices for automatic ticketing system and related products	Sales

(7) Relationship and transactions with related parties *(Continued)*

(2) Related transactions

1. Sales of products

Name of related parties	**2006 Amount**	2005 Amount
Nanjing Panda Television Co. Ltd.	**16,214,410.28**	10,430,218.67
Panda Electronic Group Ltd.	**13,218,415.87**	21,711,800.49
Nanjing Ericsson Panda Communication Co., Ltd	**13,153,257.89**	178,925.39
Beijing Ericsson Pu Tian Mobile Communication Limited	**—**	6,103,851.28
Nanjing Panda Electronics Import/Export Co. Ltd.	**2,832,360.01**	8,019,709.49
Panda Electronics (Kunshan) Co., Ltd.	**251,412.72**	—
Nanjing Panda Hitachi Technology Co., Ltd.	**1,380,225.83**	—
Nanjing Tai Lei Zi Panda Transportation System Company Limited	**3,904,464.21**	6,459,980.47
Nanjing Panda Electronmechanical Instruments Technology Co., Ltd.	**4,723,428.76**	—
Total	**55,677,975.57**	52,904,485.79

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

2. Purchase of materials

Name of related parties	**2006 Amount**	2005 Amount
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	**4,567,512.26**	7,544,920.27
Panda Electronics Group Co. Ltd.	**4,642,887.50**	3,024,571.72
Nanjing Zhen Hua Sound Equipment Plant	**2,225,729.25**	1,862,870.73
Nanjing Panda Electronics Import/Export Co. Ltd.	**6,536,530.78**	1,749,310.03
Nanjing Panda Television Co. Ltd.	**4,022,098.44**	4,155,308.94
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**739,759.07**	10,268,115.82
Nanjing Panda Hitachi Technology Co. Ltd.	**23,417.94**	570,598.29
Panda Electronic Hong Kong Company Ltd.	**—**	1,707,513.40
Nanjing Panda Technology Industrial Co., Ltd.	**2,526,876.57**	—
Total	**25,284,811.81**	30,883,209.20

Pricing policy for labour provided to all related parties: market price.

(7) Relationship and transactions with related parties *(Continued)*

(2) Related transactions *(Continued)*

3. Provision of services

Name of related parties	2006 Amount	2005 Amount
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	**352,331.50**	403,324.82
Nanjing Ericsson Panda Communications Co. Ltd.	**—**	15,868,796.35
Panda Electronic Group Ltd.	**—**	289,721.35
Nanjing Panda Television Co. Ltd.	**—**	4,040,138.44
Nanjing Panda Hitachi Technology Co. Ltd.	**115,102.36**	—
Nanjing Panda Technology Industrial Co. Ltd.	**—**	929,545.42
Total	**467,433.86**	21,531,526.38

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

4. Receipt of services

Name of related parties	2006 Amount	2005 Amount
Panda Electronic Group Ltd.	**2,626,534.44**	3,677,672.21
Nanjing Panda Television Co. Ltd.	**—**	2,108,179.34
Nanjing Panda Technology Industrical Co., Ltd.	**3,332,982.45**	—
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**—**	1,180,449.72
Total	**5,959,516.89**	6,966,301.27

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

5. Lease of assets

Name of related parties	2006 Amount	2005 Amount
Panda Electronic Group Ltd.	**98,837.52**	—
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**138,996.00**	229,638.00
Total	**237,833.52**	229,638.00

Pricing policy for leasing assets to all related parties: market price.

(7) Relationship and transactions with related parties *(Continued)*

(2) Related transactions *(Continued)*

6. Acceptance of guarantee

Name of related parties	2006 Amount	2005 Amount	
Panda Electronic Group Ltd.	**526,000,000.00**	556,000,000.00	
Nanjing Panda Electronics Manufacture Co. Ltd.	**30,000,000.00**	—	a
Nanjing Panda Electronics Import/Export Co. Ltd.	**40,000,000.00**	—	b
Total	**596,000,000.00**	556,000,000.00	

a. Nanjing Panda Group Limited and Nanjing Panda Electronics Manufacture Co., Ltd. provided joint guarantee to the Company to secure the borrowing of RMB 30,000,000.00 granted by Industrial and Commence Bank of China, Hanfu Branch, Nanjing.

b. Nanjing Panda Group Limited and Nanjing Panda Import/Export Co., Ltd. provided joint guarantee to the Company to secure the borrowing of RMB 40,000,000.00 granted by Industrial and Commence Bank of China, Hanfu Branch, Nanjing.

7. Remuneration of directors and senior management

Name of related parties	2006 Amount	2005 Amount
Remuneration of directors and senior management	**4,541,600.00**	4,248,000.00
Retirement plan contribution	**245,222.00**	244,504.00
Total	**4,786,822.00**	4,492,504.00

8. Trademark licensing

Name of related parties	2006 Amount	2005 Amount
Nanjing Panda Television Co., Ltd.	**482,786.00**	555,054.00
Total	**482,786.00**	555,054.00

Pricing policy of trademark licensing granted to the related party: The related party will be offered a trademark license fee of RMB2 to 5 for each unit of Panda colour television or CD player sold. Given to the higher cost or more resources is required for entering overseas market, the above license fee for each unit will be reduced 50% if the products manufactured and sold are for export use.

(7) Relationship and transactions with related parties *(Continued)*

(3) Balance of accounts with related parties

Name of related parties	Item	31 December 2006	31 December 2005
Panda Electronic Group Ltd.	Accounts receivables	**34,277,547.27**	68,043,028.57
	Other receivables	**862,810.44**	292,624,022.27
	Account payables	**3,469,112.24**	6,653,117.47
	Advances from customers	**22,422.50**	3,066,229.39
	Other payables	**77,149,426.62**	66,781,613.65
Nanjing Panda Television Co. Ltd.	Accounts receivables	**13,242,236.04**	11,453,749.79
	Other receivables	**1,037,840.00**	5,957,559.33
	Account payables	**438,498.27**	8,537,688.46
	Other payables	**1,359,000.00**	2,131,437.55
Nanjing Ericsson Panda Communications Co. Ltd.	Accounts receivables	**1,775,611.20**	4,607,127.66
	Account payables	—	2,548,591.15
Nanjing Panda Electronics Import/Export Co. Ltd.	Accounts receivables	**488,509.04**	1,581,438.83
	Other receivables	**—**	723,231.53
	Account payables	**1,848,022.16**	4,153,881.70
Panda Electronic Hong Kong Company Ltd.	Other receivables	**—**	27,721,710.80
	Other payables	**—**	588,788.80
	Advances from customers	**380,155.64**	—
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	**526,032.61**	526,032.61
	Other receivables	**23,286,318.23**	22,171,605.22
Intenna (Nanjing) Co. Ltd.	Other receivables	**1,000,000.00**	1,000,000.00
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	Accounts receivables	**408,595.20**	1,169,216.43
	Account payables	**468,202.31**	—
	Other payables	**140,000.00**	—
Panda Electronic (Kun Shan) Co. Ltd.	Accounts receivables	**799,875.14**	802,726.51
	Other receivables	**2,052,220.94**	2,451,220.94
	Other payables	**300,000.00**	—
Nanjing Panda Hitachi Technology Co. Ltd.	Accounts receivables	**442,165.45**	349,632.80
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	Accounts receivables	**218,214.00**	359,323.19
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	Other receivables	**2,391,398.42**	2,318,319.08
	Account payables	**268,289.64**	—
Nanjing Zhen Hua Sound Equipment Plant	Other receivables	—	3,200,000.00
	Account payables	**769,351.97**	1,075,065.97
Nanjing Tai Lei Zi Panda Transportation Sytem Company Limited	Advances from customers	**945,418.13**	—
	Account payables	**216,410.00**	—

(8) Contingent Liabilities

As at 31 December 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
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd.	68.15	Loans	2,000	1,700.00	2006.2.28-2007.12.31
Nanjing Panda Mechanical Manufacturing Co. Ltd.	68.15	Loans	—	500.00	2006.8.24-2007.8.24
Nanjing Panda Information Industrial Co. Ltd.	68.15	Loans	—	807.02	2006.11.16-2007.11.16
Nanjing Panda Information Industrial Co. Ltd.	68.15	Bill	1,750	889.73	2006.5.30-2007.5.18
Total				3,896.75	

As of 31 December 2006, the total guarantee amount of the Company represented 2.89% of the net asset of the Company.

As at 31 December 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 31 December 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. As approved by the provisional board meeting of the Company, the Company is decided to invest and establish a wholly-owned subsidiary known as "Jiaheng Xingye Company Limited" in Hong Kong with its registered capital of US$9.5 million. Its scope of operation is the studying and development of joint venture projects including communications products, investment electronics information and electronmechanical industry.

(9) Commitments *(Continued)*

3. Save as the above commitments, as of 31 December 2006, the Company did not have any other material commitments.

1. According to the share transfer agreement entered into between the Company and Hitachi Plant Technologies, Ltd. on 15 March 2007 and the resolution made on the 2007 extraordinary board meeting of the Company, the Company will transfer 49% share equity in Nanjing Panda Hitachi Technology Co. Ltd. to Hitachi Plant Technologies, Ltd. for a consideration of 98 million Japanese yen.

2. On 9 March 2005, the Company entered into a debt assignment agreement with Panda Mobile and Jiangsu Provincial Investment Management Co. Ltd., whereby the agreement agreed the assignment of debt owed by Panda Mobile to the Company in the amount of RMB500 million to Jiangsu Provincial Investment Management Co. Ltd. which will answer for the repayment. This agreement took effect from 9 March 2005. On 8 May 2006, the Company entered into The Assignment of Debt Agreement with Jiangsu Province Investment Management Company Limited ("Jiangsu Investment Management") and Jiangsu International Trust & Investment Corporation Limited ("Jiangsu International Trust"), pursuant to which Jiangsu International Trust will assume the debt of RMB 500 million owed to the Company transferred by Jiangsu Investment Management. The Company also entered into an Equity Transfer Agreement with Jiangsu International Trust on 8 May 2006, pursuant to which Jiangsu International Trust is required to transfer 25% equity interest in Hua Fei Colour Display Systems Company, Limited to the Company in satisfaction of the Debt. The above agreements were considered and approved at the 2006 extraordinary board meeting. In the "Approval of the equity transfer of Hua Fei Colour Display Systems Company, Limited" (Su Guo Xing Fa [2006] No. 148) issued by the Jianhsu Provincial Guo Xing Group (江蘇省國信集團), the valuation report was approved and agreed to file to Jianhsu Provincial Guo Xing Group and to transfer and trade at the Jiangsu Property Stock Exchange. On 30 January 2007, the "Confirmation of the transfer of 25% equity interest in Hua Fei Colour Display Systems Company, Limited" (Su Cai Jiao [2007] No.004) confirmed the related equity transfer. As at the approved issued date of these financial statements, the procedure of equity transfer is in progress.

3. On 9 April 2007, the Company received the notice issued by Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC") that Nanjing SASAC signed an agreement with China Electronics Company Limited ("CEC") and Jianhsu Provincial State-owned Information Asset Management Group Company Limited (江蘇省國信資產管理集團有限公司) ("Provincial State-owned Information") to jointly establish Nanjing Electronics Information Industrial Corporation (南京電子信息產業集團公司) ("NEIDC") with their respective equity interests in Panda Electronics Group Limited. The registered capital of NEIDC is RMB1 billion, of which CEC accounts for 70%, Provincial State-owned Information accounts for 15% and Nanjing SASAC accounts for 15%. The effective of the agreement is subject to the reporting to and approval of Jiangsu Provincial People's Government and Nanjing Municipal People's Government. If it is approved and become effective, NEIDC will hold 47.98% equity interests in Panda Electronics Group Limited and become the largest shareholder of Panda Electronics Group Limited and the ultimate controlling shareholder of the Company.

(9) Commitments *(Continued)*

3. Save as the above commitments, as of 31 December 2006, the Company did not have any other material commitments. *(Continued)*

4. From 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises ("New Accounting Standards") issued by the Ministry of Finance in 2006. At present, the Company is assessing the impact on its financial position, business results and cash flow as a result of the adoption of new accounting standards. Potential impact on financial position and business results of the Company arising from change in accounting policies and accounting estimates after the adoption of new accounting standards for business enterprises:

   (1) In accordance with the new "Accounting Standards for Business Enterprises No. 2 - Long-term Investment" and "No. 38 - First Time Adoption of Accounting Standards", the Company's subsidiaries, which are accounted for using the equity method under the existing accounting standards, are accounted for using the cost method. This change will decrease the investment profit of the parent company but will not affect the Company's consolidated financial statements. The long-term equity debit balance between the initial investment cost and the owner's equity of the investee enjoyed while investing under the existing accounting standards is directly recognized as investment cost and is not amortized. The change in the policy will increase the net profit of the Company.

   (2) Under the existing standards, all the research and development expenditures are charged into the profit and loss account for the current period. In accordance with the new "Accounting Standards for Business Enterprises No. 6 - Intangible Assets", development expenditures which meet certain conditions can be capitalised, which will decrease the expenditures of the Company and increase the net profit and shareholders' equity.

   (3) In accordance with the new "Accounting Standards for Business Enterprises No. 8 - Government subsidy", government subsidy which are included into profit and loss account for the current period under the existing accounting standards will be classified as those related to assets which are included in deferred income to be credited in profit and loss account over relevant periods, and those related to income which are directly credited to profit and loss account for the current period, which will decrease the net profit and shareholders' equity of the Company.

   (4) In accordance with the new "Accounting Standards for Business Enterprises No. 18 - Income Tax", income tax which was previously accounted for using the tax payable method is accounted for using liabilities method through balance sheet, which will affect the income tax for the current period of the Company, and thus affect the net profit and shareholders' equity.

   (5) Under the existing accounting standards, the welfare provision made in a proportion, and the provisions for the Labour's Union expenditures, education expenditures, basic pension insurance, unemployment insurance, work injury insurance, birth insurance and the supplementary pension insurance, housing reserve funds, and housing subsidiary for new employees paid by enterprises made based on total salary are presented as the current expenditures. In accordance with the new "Accounting Standards for Business Enterprises No. 9 - Salary", all the expenditures will be allocated according to the beneficiary; the welfare will be presented at actual payment, resulting in decrease in expenditures for the period and increase in operating cost and stock cost.

(9) Commitments *(Continued)*

3. Save as the above commitments, as of 31 December 2006, the Company did not have any other material commitments. *(Continued)*

4. From 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises ("New Accounting Standards") issued by the Ministry of Finance in 2006. At present, the Company is assessing the impact on its financial position, business results and cash flow as a result of the adoption of new accounting standards. Potential impact on financial position and business results of the Company arising from change in accounting policies and accounting estimates after the adoption of new accounting standards for business enterprises: *(Continued)*

   (6) In accordance with the new "Accounting Standards for Business Enterprises No. 33 - Consolidated financial statements", minority interests are presented as an item of shareholders' equity instead of presented in liabilities and shareholders' equity. The profit or loss from minority interests in the consolidated income statement are presented under net profit as the item of "profit or loss from minority interests" instead of presented as the deduction from total profit, which will increase the net profit and shareholders' equity in the consolidated financial statement of the Company.

5. The above-mentioned differences and impact may be subject to adjustment with further interpretation for the new accounting standards by the Ministry of Finance.

(10) Subsequent Events

As of 31 December 2006, the Company had no matters required to be disclosed subsequent to the balance sheet date.

(11) Other Significant Events

1. In order to settle the outstanding debt to the Company, Nanjing Panda Group Limited entered into the Agreement to use the Assets for discharge of the Debt, pursuant to which Nanjing Panda Group Limited settled the outstanding debt of RMB31,600,000 with the property located in 118 Haifuxiang and the property of Blocks 05 and 06 in High Tech Development Zone, Pukou District. The Company considered and approved the agreement at the extraordinary board meeting held on 8 November 2006 and the second extraordinary general meeting in 2006.

2. On 28 July 2006, the Company convened a Relevant Shareholders' Meeting to consider and approve the Share Segregation Reform Proposal of the Company, that Panda Electronics Group Limited, being the sole holder of Non-circulating Shares of the Company, proposes to offer a consideration to holders of A Shares whose names appear on the register of members on the Reform Implementation and Shareholding Record Date by Panda Electronics Group Limited, without changing the total share capital of the Company, for a total of 20,300,000 shares, pursuant to which, each holder of A Shares of the Company will be offered 3.5 Non-circulating Shares for every ten A Shares held by such holder. The Proposal was approved by State-Owned Assets Supervision and Administration Commission of Jiangsu Province on 24 July 2006 and Ministry of Commerce on 25 August 2006. The Reform Implementation and Shareholding Record Date of A Shares under the Share Segregation Reform Proposal was 7 September 2006 and the shares was delisted on 11 September 2006. The first trading day immediately after the Share Segregation Reform, the non-circulating shares held by the holder of non-circulating shares was granted listing status of A Shares. In order to safeguard the interests of holders of A Shares, Nanjing Panda Group Limited, the holder of non-circulating shares undertook that all original non-circulating shares held by it will not be traded or transferred in 24 months from the date of granting listing status.

(11) Other Significant Events *(Continued)*

3. As at 31 December 2006, in the State-owned legal person share of the Company held by Panda Electronic Group Ltd., the controlling shareholder of the Company, 92,815,000 shares were frozen due to the disputes of contract, which account for 14.17% of the total shares in the Company, and account for 27.73% 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 51.54% of the total shares it holds in the Company.

(12) Supplementary Information

1. Extraordinary profit and loss items

Item	2006
Profit and loss from disposal of long-term equity investment, fixed assets, construction in progress, intangible asset,other long-term assets	**(1,562,435.04)**
Government subsidies	**1,085,620.00**
Capital appropriation fee against non-financial corporations included in the profit and loss of the period	**12,864.58**
Other non-operating income and expensesafter the provision for impairment deducted by the Company in accordance with corporate accounting system in its usual business	**599,910.64**
Reversal of prior years' provision for impairment	**65,346,191.45**
Effect of the above items on the amount of income tax	**8,798,866.64**
Effect of the above items on the profit andloss of minority interests	**4,664,307.85**
Total	**52,018,977.14**

2. 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 in 2006 are as follows:

	Rate of return on net asset (%)		Earnings per share	
Profit during Reporting Period	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	10.15	10.50	0.21	0.21
Operating profit	(9.55)	(9.88)	(0.20)	(0.20)
Net profit	6.62	6.84	0.14	0.14
Net profit after extraordinary items	2.76	2.85	0.06	0.06