

# PANDA

南京熊猫電子股份有限公司  
Nanjing Panda Electronics Company Limited

## 2007 中期報告

( 股份代號 Stock code : 0553 )

Communication

Electronics

Information-Technology

### Interim Report

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## I. IMPORTANT NOTICE

1. The Board, Supervisory Committee, Directors, Supervisors and senior management of the Company confirm that there are no misleading statements, misrepresentation, or material omissions contained in this announcement and accept joint and several responsibilities for the truthfulness, accuracy and completeness of the contents of this announcement.
2. All Directors attended the Board Meeting held on 14 August 2007.
3. The financial statements of the Company for the six months ended 30 June 2007 were unaudited.
4. Mr. Li Anjian, the Chairman of the Company, Mr. Shen Jianlong, the Chief Accountant, and Ms. Wu Yuzhen, the manager of Finance Department, have declared that they guarantee the truthfulness and completeness of the financial statements in the 2007 Interim Report.

## II. CORPORATE BASIC INFORMATION

### (I) Company profile:

1. Legal Chinese name of the Company : 南京熊猫电子股份有限公司  
 Legal English name of the Company : Nanjing Panda Electronics Company Limited  
 Abbreviation in English name of the Company : NPEC
2. Legal representative of the Company : Li Anjian
3. Secretary to the Board of Directors : Shen Jianlong  
 Securities Representative of the Company : Chen Yebao  
 Correspondence Address : 301 Zhong Shan Road East, Nanjing, the People's Republic of China  
 Telephone : (8625)-84801144  
 Facsimile : (8625)-84820729  
 E-mail : dms@panda.cn
4. Registered address of the Company : Floor 1-2, Block 5, North Wing, Nanjing High  
 and New Technology Development Zone,  
 Nanjing, the People's Republic of China.  
 Office address of the Company : 301 Zhong Shan Road East, Nanjing, the People's Republic of China  
 Postal code : 210002  
 Website of the Company : <http://www.chinapanda.com.cn>
5. Names of newspapers for information dissemination designated by the Company : Shanghai Securities News, China Securities Journal,  
 Hong Kong Ta Kung Pao and The Standard  
 Website for the publication of the Interim Report of the Company designated by China Securities Regulatory Commission : <http://www.sse.com.cn>  
 Place for inspection of the Interim Report of the Company : Secretarial Office of the Board of Directors, 301 Zhong Shan Road East,  
 Nanjing, the People's Republic of China
6. Place of listing : H shares : The Stock Exchange of Hong Kong Limited      A shares : Shanghai Stock Exchange  
 Abbreviation of stock : H shares : Nanjing Panda      A shares : Nanjing Panda  
 Stock Code : H shares : 0553      A shares : 600775

(II) Key financial data and indices

1. Prepared in accordance with the PRC Accounting Standards (unaudited)

	30 June 2007	31 December 2006		Change between the end of this Reporting Period and beginning of the preceding year (%)
		After adjustment	Before adjustment	
Total assets	2,768,150,410.15	2,785,849,177.56	2,766,941,876.32	(0.64)
Shareholders' equity (excluding minority interest)	1,393,847,415.92	1,361,514,730.97	1,347,078,479.95	2.37
Net asset value per share	2.13	2.08	2.06	2.37
	Jan to June 2007	Jan to June 2006		Change between this Reporting Period and the same period last year (%)
		After adjustment	Before adjustment	
Operating profit	55,628,104.61	36,228,579.64	(30,743,437.56)	53.55
Total profit	37,445,249.32	35,536,140.61	35,266,430.34	5.37
Net profit	32,332,684.95	28,740,323.47	31,144,193.10	12.50
Net profit after extraordinary profit and loss	42,925,850.14	15,010,780.68	17,414,650.31	185.97
Earnings per share	0.0494	0.0439	0.0475	12.50
Return on net assets (%)	2.32	2.11	2.42	9.95
Net cash flow from operating activities	(48,763,518.14)	(16,800,488.52)	(16,800,488.52)	(190.25)
Net cash flow per share from operating activities	(0.0744)	(0.0256)	(0.0256)	(190.25)

(Unit: RMB)

**Extraordinary items**

**Amount**

Gains and losses from disposal of long-term equity investment, fixed assets, construction in progress, intangible assets and other long-term assets	1,942,950.63
Government subsidy of all forms	526,418.49
Other non-operating income and expenses after provision for diminution in value of assets of the Company determined according to Accounting Systems for Business Enterprises	(18,714,459.21)
Reversion of provision for bad debts in prior years	5,938,791.38
The above items' income tax effect	(203,226.64)
The above items' effect on minority interests	(83,639.84)
Total	(10,593,165.19)

2. Key accounting and financial indices prepared in accordance with accounting standards generally accepted in Hong Kong are set out on page 55 to page 63 of the Financial report.

3. Differences between accounting principles generally accepted in Hong Kong and PRC accounting standards as applicable to the Company are set in Notes 17 to the Financial Report on page 63.



### III. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

#### (I) Changes in share capital

As at 30 June 2007, there was no change in total number of shares and shareholding structure of the Company.

#### (II) Information of shareholders

- As at 30 June 2007, the total number of shareholders of the Company was 25,112, among which 25,080 were holders of A shares and 32 were holders of H shares.
- Shareholdings of the top ten shareholders as at 30 June 2007

Unit: Share

Name of shareholders	Type of shareholders	Percentage of shareholding (%)	Number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Panda Electronic Group Limited	State-owned shareholder	51.10	334,715,000	334,715,000	67,350,000 shares were pledged, 92,815,000 shares were both judicially frozen and 100,000,000 shares were both pledged and judicially frozen
HKSCC (Nominees) Limited	Foreign shareholder	36.85	241,389,899	0	Unknown
Gong Fei	Public shareholder	0.083	543,722	0	Unknown
Xu Hong	Public shareholder	0.053	350,000	0	Unknown
Guo Mingbo	Public shareholder	0.053	350,000	0	Unknown
Cheng Huiying	Public shareholder	0.048	313,100	0	Unknown
Chengdu Tianfeng Advertising Company Ltd	Public shareholder	0.038	250,154	0	Unknown
Guo Jixian	Public shareholder	0.038	249,600	0	Unknown
Song Yunxiang	Public shareholder	0.033	212,982	0	Unknown
KAY AND COMPANY LTD	Foreign shareholder	0.031	200,000	0	Unknown

- Shareholdings of the top ten holders of shares not subject to trading moratorium as at 30 June 2007

Name of Shareholders	Number of circulating shares held	Class of shares
HKSCC (Nominees) Limited	241,389,899	H
Gong Fei	543,722	A
Xu Hong	350,000	A
Guo Mingbo	350,000	A
Cheng Huiying	313,100	A
Chengdu Tianfeng Advertising Company Ltd	250,154	A
Guo Jixian	249,600	A
Song Yunxiang	212,982	A
KAY AND COMPANY LTD	200,000	H
Huang Liping	200,000	A

**Note:** There is no connected relationship or party acting in concert between the controlling shareholders of the Company and the top ten holders of shares not subject to trading moratorium. The Company is also not aware that there is connected relationship or party acting in concert among the top ten holders of shares not subject to trading moratorium.

**Notes:**

- Among the shareholders named above, Panda Electronics Group Limited ("PEGL") held 334,715,000 shares on behalf of the state, representing 51.10% of the issued share capital of the Company, which were circulating shares subject to trading moratorium. Among them, 67,350,000 shares were already pledged while 92,815,000 shares were judicially frozen, and 100,000,000 shares were both pledged and judicially frozen.
- HKSCC (Nominees) Ltd. held 241,389,899 H Shares, representing 36.85% of the issued share capital of the Company, on behalf of a number of clients. The Company is not aware of any individual client holding more than 5% of share capital issued by the Company.
- There is no connected relationship or party acting in concert among PEGL and the second to tenth shareholders of the Company. H shares and A shares held by the second to tenth shareholders are circulating shares issued to the public. The Company is not aware of any connected relationship or party acting in concert among the second to tenth shareholders of the Company.

#### 4. Shareholdings of the top ten holders of shares subject to trading and trading moratorium

Unit: share

Name of holders of shares subject to trading moratorium	Number of shares held subject to trading moratorium	Time of listing	Listing information on shares subject to trading moratorium Number of newly issued circulating shares	Trading moratorium
Panda Electronic Group Limited	334,715,000	11 September 2008	334,715,000	PEGL made undertakings in the Share Segregation Reform not to trade or transfer the shares held by it within 24 months from the date of obtaining the right of listing and circulation.

#### (III) Changes of the controlling shareholder and the de facto Controller

During the Reporting Period, no changes were made over the controlling shareholder and the de facto Controller of the Company which were still Panda Electronics Group Limited ("PEGL") and China Huarong Assets Management Company (中國華融資產管理公司) respectively.

#### (IV) Substantial shareholders' interests and short positions in the shares or underlying shares of the Company

As at 30 June 2007, so far as the directors, supervisors and senior management of the Company are aware, long positions in shares or underlying shares of the Company held by substantial shareholders (exclusive of Directors, Supervisors and senior management of the Company) which were required under Section 336 of the SFO to be entered in the register referred to therein are as follows: (1) PEGE holds 334,715,000 domestic shares, accounting for approximately 81.04% of the domestic shares in issue and approximately 51.10% of the total shares in issue. The nature of Interests in such shares is corporate interest which is held in the capacity of beneficial owner. (2) Lewis Joseph holds 20,260,000 H shares, accounting for approximately 8.37% of the H shares in issue and approximately 3.10% of the total shares in issue. The nature of Interests in such shares is personal interest which is held in the capacity of beneficial owner. (3) Tuesday Thirteen Inc. holds 16,920,000 H shares, accounting for approximately 7.00% of the H shares in issue and approximately 2.59% of the total shares in issue. The nature of Interests in such shares is corporate interest which is held in the capacity of controlled corporation. No short positions are found in any shares held by the above substantial shareholders.

Save as disclosed above, the Company has not been aware of any other persons (except Directors, Supervisors and senior management of the Company) who has any interests or short positions which were required to be entered in the register as required pursuant to Section 336 of the SFO.

## IV. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### (I) Shareholdings of Directors, Supervisors and Senior Management:

During the period, the shareholdings of Directors, Supervisors and Senior Management remained unchanged and are as follows:

Name	Position	No. of shares held at the beginning of the Reporting Period (A share)	No. of shares increased /decreased during the Reporting Period(+/-)	No. of shares held at the end of the Reporting Period (A share)	Reasons for change
Li Anjian	Chairman and General Manager	0	0	0	
Xu Guofei	Non-executive Director and Vice Chairman	2,546	0	2,546	
Liu Ailian	Non-executive Director	0	0	0	
Zhu Lifeng	Non-executive Director	4,378	0	4,378	
Shi Qiusheng	Non-executive Director	5,940	0	5,940	
Lu Qing	Non-executive Director	0	0	0	
Cai Lianglin	Independent Non-Executive Director	0	0	0	
Tang Yousong	Independent Non-Executive Director	0	0	0	
Ma Chung Lai, Lawrence	Independent Non-Executive Director	0	0	0	
Zhang Zhengping	Chairman of the Supervisory Committee	4,648	0	4,648	
Zhong Youxiang	Supervisor	0	0	0	
Tang Min	Supervisor	0	0	0	
Wu Shiyuan	Independent Supervisor	0	0	0	
Sun Suhua	Independent Supervisor	0	0	0	
Wang Hongjin	Deputy General Manager	6,750	0	6,750	
Wu Liulin	Deputy General Manager	0	0	0	
Liu Kun	Deputy General Manager	0	0	0	
Shen Jianlong	Chief Accountant and Secretary to the Board	0	0	0	

Save as disclosed above, none of the Directors, Supervisors and senior management of the Company or any of their respective associates has any interests or short positions in the shares, underlying shares or debentures of the Company or its associates which were required to be recorded in the register required to be kept under Section 352 of Part XV of SFO or to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

None of the Directors, Supervisors, Senior Management or their respective associates were granted or exercised any rights to subscribe for any shares or debt securities of the Company during the Reporting Period.

(II) **New appointments and dismissals of Directors, Supervisors and Senior Management during the Reporting Period**

At the 2006 Annual General Meeting held on 12 June 2007, Mr. Li Anjian, Mr. Xu Guofei, Ms. Liu Ailian, Mr. Zhu Lifeng, Mr. Shi Qiusheng and Mr. Lu Qing were elected as Directors of the Sixth Board of the Company; Mr. Cai Lianglin, Mr. Tang Yousong and Mr. Ma Chung Lai, Lawrence were elected as Independent Directors of the Sixth Board of the Company; Ms. Zhang Zhengping was elected as Supervisor of the Sixth Supervisory Committee of the Company, and Mr. Wu Shiyuan and Ms. Sun Suhua were elected as Independent Supervisors of the Sixth Supervisory Committee of the Company.

At the First Meeting of the Sixth Board of Directors held on 12 June 2007, Mr. Li Anjian and Mr. Xu Guofei were elected as Chairman and Vice Chairman, respectively. Mr. Li Anjian was appointed as General Manager of the Company. Mr. Wang Hongjin, Mr. Wu Liulin and Mr. Liu Kun were appointed as Deputy General Managers of the Company, and Mr. Shen Jianlong was appointed as Chief Accountant of the Company and the Secretary to the Board.

Ms. Zhang Zhengping was elected as Chairman of the Supervisory Committee and Mr. Zhong Youxiang and Ms. Tang Min were confirmed as employee supervisors of the Sixth Supervisory Committee of the Company at the first meeting of the Sixth Supervisory Committee held on 12 June 2007.

(Details were set out in relevant announcements published in China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 13 June 2007.)

**V. MANAGEMENT DISCUSSION AND ANALYSIS**(I) **Principal operations during the Reporting Period****1. Principal operations of the Company**

The principal operations of the Company are the development, manufacture and sales of satellite communication products, electromechanical products, electronic information products and electronic manufacturing business.

In the first half of 2007, the Company continued to strengthen its corporate reforms for sustainable development. During the Reporting Period, it achieved a remarkable development in businesses such as electronic manufacturing and satellite communications. By enhancing internal control and raising the standard of standardized operation, the Company sped up the development of its joint ventures, including ENC and BMC, which were well-positioned with sustainable development, so as to ensure a stable growth of investment return of the Company.

Under the PRC Accounting Standard for Business Enterprises, operating income of the Company for January to June 2007 amounted to RMB319 million, representing a decrease of 12.71% as compared with the corresponding period of last year; net profit achieved by the Company amounted to RMB32.3327 million, representing an increase of 12.50% as compared with the corresponding period of last year. Under the HK GAAP, operating income of the Company for January to June 2007 amounted to RMB307 million, representing a decrease of 13.10% as compared with the corresponding period of last year; net profit attributable to shareholders of the Company amounted to RMB46.8350 million, representing an increase of 41.95% as compared with the corresponding period of last year.

**2. Principal operations by business or product segments (Prepared under the PRC accounting standards) (unaudited)**

Unit: RMB'000

Business or product	Operating income	Operating costs	Gross profit margin (%)	Operating income increase / (decrease) over last period (%)	Operating costs increase / (decrease) over last period (%)	Gross profit margin increase / (decrease) over last period (%)
Electronic manufacturing	116,158	98,688	15.04	10.81	14.55	(2.77)
Electronic information	92,629	75,832	18.13	(24.74)	(32.23)	9.05
Electrometrical Satellite telecommunication	94,124	76,556	18.66	(11.69)	(16.04)	4.21
Others	—	—	—	(100.00)	(100.00)	—
Others	15,644	12,609	19.40	17.30	50.36	(17.72)
Total	318,554	263,685	17.22	(12.71)	(14.46)	1.70

**3. Operation of the principal controlling and investee companies**

## (1) Nanjing Ericsson Panda Communication Co., Ltd. ("ENC")

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson, 26% by Ericsson (China), 20% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing Enterprise Company. ENC is mainly engaged in producing products, such as GSM, GPRS, CDMA mobile telecommunication system products and network communication systems. As a logistic centre in Asia Pacific region for Ericsson, it is also the largest supplier of GSM and GPRS equipment and one of the major CDMA equipment suppliers in the PRC. During the first half of 2007, ENC achieved sustainable and steady development in its production and operation by proactively exploring markets and constantly enhancing the competitiveness of its products. Under the PRC Accounting Standard for Business Enterprises, it recorded sales revenue of RMB6,531 million in the Reporting Period, representing an increase of 48.06% as compared with the corresponding period of last year and recorded net profit of RMB225 million, representing an increase of 33.14% as compared with the corresponding period of last year.

- (2) Beijing SE Putian Mobile Communication Co., Ltd. ("BMC")

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited, 27% by China Potevio Co., Ltd. and 2% by Yung Shing. BMC is mainly engaged in manufacturing of mobile terminals (mobile phones) under the brand of Sony Ericsson, which is the principal base for manufacture of Sony Ericsson mobile phones. Under the PRC Accounting Standards, it recorded sales of RMB16,436 million in the Reporting Period, representing an increase of 72.05% as compared with the corresponding period of last year and recorded net profit of RMB383 million, representing an increase of 221.85% as compared to the corresponding period of last year.

## (II) Summary of analysis of operational performance and financial position

### 1. Analysis of reasons for movements of principal financial indicators (Prepared under the PRC Accounting Standards) (unaudited)

Unit: RMB

Items	Jan to Jun 2007	Jan to Jun 2006	Change (%)
Operating income	318,554,329.26	364,927,655.03	(12.71)
Operating profit	55,628,104.61	36,228,579.64	53.55
Investment income	139,548,962.71	66,972,017.20	108.37
Loss from asset depreciation	28,847,307.31	(11,612,534.89)	348.42
Non-operating expenditure	19,001,251.93	1,969,135.53	864.95
Net profit	32,332,684.95	28,740,323.47	12.50
Net increase from cash and cash equivalents	(188,832,446.39)	45,364,724.21	(516.25)

  

Items	As at 30 June 2007	As at 31 December 2006	Change (%)
Total assets	2,768,150,410.15	2,785,849,177.56	(0.64)
Shareholders' fund	1,393,847,415.92	1,361,514,730.97	2.37
Other receivables	104,735,366.38	555,531,779.05	(81.15)
Long-term equity investment	1,064,158,190.44	537,994,917.66	97.80

#### Notes:

- During the Reporting Period, the decrease in operating income was mainly attributable to the decrease in sales of satellite communication products and export of television top box products.
  - During the Reporting Period, the increase in operating profit and investment income was mainly attributable to the significant increase in the net profit from the joint ventures including ENC and BMC for the first half of 2007.
  - During the Reporting Period, the loss in impairment of assets was mainly attributable to the increase in proportions of changes in the accounting estimate, provisions for bad debts and the increase in loss for decline in value of provision for inventory.
  - The increase in non-operating expenditure was mainly due to the debt restructuring with Jiangsu International Trust & Investment Corporation Limited and the debt restructuring loss for receiving the equity interest of Hua Fei Colour Display Systems Company Limited.
  - The growth in net profit during the Reporting Period was mainly attributable to the significant increase in investment income.
  - The decrease in net increase from cash and cash equivalents during the Reporting Period was mainly attributable to the repayment of short-term loans and payment of goods purchased.
  - The decrease in other receivables during the Reporting Period was mainly arising from the debt restructuring.
  - The increase in long-term equity investment during the Reporting Period was mainly due to the debt restructuring and investment income.
2. **Liquidity of asset**

In accordance with the Generally Accepted Accounting Principles in Hong Kong, as at 30 June 2007, the Company's consolidated gearing ratio (the ratio of total liability to total assets) was 47.21%; current net assets value was RMB(137) million; liquidity ratio was 0.89; quick ratio was 0.64; bank deposits and cash were RMB457 million; total loan amounted to approximately RMB799 million with a standard annual interest rate of 6.57% (the rate is 6.84% since 21 July 2007).

## (III) Investments in the Reporting Period

The Company did not utilise any proceeds raised in the Reporting Period or continue any use thereof commencing from the previous periods, nor have any material investment financed by non-raised funds.

## (IV) Business plans for the second half of the year 2007

In the second half of 2007, the Company will further leverage on its advantage in technological research and development to enforce technological innovation. The Company will focus on the development of major segments such as satellite, telecommunication, electromechanical products, electronic information and electronic manufacturing, and will strive to take proactive actions to foster a stable development of the major sectors.

Meanwhile, the Company will continue to strengthen international cooperation, quicken the pace of development of sino-foreign joint ventures, particularly that of ENC and BMC, and ensure a stable growth in returns on investment.



**(V) Employees of the Company**

As at 30 June 2007, there were 1,873 employees in the Company, of which 1,058 were engaged in production, 457 in technology, 42 in sales, 61 in finance and 255 in administration and management. There were 1,762 retirees, for whom the Company undertook to pay retirement pension.

**VI. SIGNIFICANT EVENTS****(I) Corporate governance**

In the corporate governance report which was published in the Company's 2006 Annual Report, it was reported that the Company has adopted and strived to comply with the Code on Corporate Governance Practices as set out in Appendix 14 of Listing Rules ("CGP Code"). The work done by and deviations of the Company during the Reporting Period are as follows:

- (1) During the Reporting Period, according to the requirements of the Notice on the Implementation of the Administrative Measures for Information Disclosure of Listed Companies (Su Zhen Jian Gong Si Zi No. [2007]121) and the Notice on Strengthening the Management of Shares Held by the Directors, Supervisors and Senior Management of Listed Companies and the Changes thereof (Su Zhen Jian Gong Si Zi No. [2007]153) issued by Jiangsu Office of CSRC, the Company established Nanjing Panda Electronics Company Limited Management Rules on Information Disclosure and Nanjing Panda Electronics Company Limited Management Rules on Shares Held by the Directors, Supervisors and Senior Management of the Company and the Changes thereof respectively.
- (2) The special committees, including the Sixth Board of Directors, Strategy Committee, Audit Committee, Nomination Committee and Remuneration & Evaluation Committee, were formed at the First Meeting of the Sixth Board of Directors held on 12 June 2007. The majority members of the newly formed Audit Committee, Nomination Committee and Remuneration & Evaluation Committee are independent non-executive directors and all of the committees are chaired by independent non-executive directors, which comply with the "Rules for Corporate Governance" of China Securities Regulatory Commission and relevant requirements as set forth in the CGP Code of The Stock Exchange of Hong Kong.
- (3) During the Reporting Period, in response to the main problems and proposed measures as suggested in the Report on Review of Internal Control provided by Horwath Risk Advisory Services Limited in June 2006, the Company continued to improve its internal control system and strengthen management on information disclosure and supervision on internal audit. The Company also arranged learning and training courses in respect of rules for corporate governance and the new accounting policy for relevant management staff.
- (4) Since the waiver on continuing connected transactions granted by The Hong Kong Stock Exchange to the Company expired in 2004, the Company's connected transactions in 2005 and 2006 ("Previous Continuing Connected Transactions") had not been reported, announced and approved by independent shareholders according to related requirements under the Listing Rules of The Hong Kong Stock Exchange. On 11 December 2006, the continuing connected transactions ("New Continuing Connected Transactions") from 2007 to 2009 had been reported and announced by the Company and had been approved by independent shareholders in an EGM convened on 3 April 2007. As at the end of the Reporting Period, the Previous Continuing Connected Transactions are under review by the Hong Kong Stock Exchange.
- (5) The positions of the Chairman and General Manager (Chief Executive Officer) are both held by Mr. Li Anjian. This is a deviation from the code provision (A.2.1) of Code on Corporate Governance Practices.

**(II) During the Reporting Period, the Company did not make any profit appropriation, transfer of public reserves to increase share capital and plans for new issue which were recommended in the previous period and implemented in the Reporting Period. The Company did not make profit distribution and did not increase its share capital by transfer from public reserve in the half year of 2007.**

**(III) Material litigation and arbitration**

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

**(IV) Repayment of RMB500 million debts and transfer of equity interest**

The transfer of 25% equity interest of Hua Fei Color Display Systems Company Limited ("Hua Fei") was approved by the PRC's Ministry of Commerce on 28 April 2007, and Nanjing Industrial and Commercial Administration Bureau approved Hua Fei's application for change of its business registration record and issued a new corporate business license to Hua Fei on 28 May 2007. According to the new business license, the registered capital of Hua Fei is US\$289.12 million, with the Company holding 25% of the registered capital representing US\$72.28 million. Thus, the transfer of 25% equity interest in Hua Fei has been completed. As a result of the transaction, the RMB500 million debts together with interests accrued thereon have been fully repaid by Jiangsu International Trust to the Company by way of share transfer.

(For details, please refer to the announcements published on China Securities Journal and Shanghai Securities News on 2 June 2007, and Hong Kong Ta Kung Pao and The Standard on 4 June 2007.)

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

**(VI) Material connected transactions**

1. The Company had no material connected transaction during the Reporting Period. The connected transactions in the normal course of business were normal operation activities and conducted on normal commercial terms. (For details of continuing connected transactions, please refer to Item 4 of (I) under section VI. "SIGNIFICANT EVENTS" in this report.)

During the Reporting Period, the connected transactions relating to sale of products and provision of services to the controlling shareholder and its subsidiaries by the Company amounted to RMB21.3679 million. (Details set out in the "relationship and transactions with related parties" section in the notes to the financial report.)

2. Transactions relating to creditor's rights and debt

During the Reporting Period, the appropriated capital provided by the Company to the controlling shareholder and its subsidiaries was nil and the balance amounted to RMB(6.6922) million. (Details set out in the "relationship and transactions with related parties" section in the notes to the financial report.)

**(VII) Material contracts**

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

As at 30 June 2007, the Company provided guarantees to secure the following: a bank loan of RMB5,000,000 for Nanjing Panda Mechanical Manufacturing Co., Ltd., a subsidiary of the Company; a bank loan of RMB7,808,700 (equivalent to US\$1 million) for Nanjing Panda Information Industrial Co. Ltd.; a financing lease of RMB17,500,000 for Nanjing Panda Information Industrial Co., Ltd.; and a bank loan of RMB17,000,000 for Nanjing Huage Appliance and Plastic Industrial Co., Ltd. ("Nanjing Huage").

The guarantees above were granted to its controlling subsidiary, totaling RMB47,308,700 and representing 3.39% of net asset value of the Company. The gearing ratio of the guaranteed parties above were not over 70%.

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

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

**(VIII) During the Reporting Period or in the previous period, and subsisting in the Reporting Period, the Company and its shareholders holding 5% or more of the issued share capital of the Company had no matters of undertaking that might affect the Company's operating results and financial position.****(IX) On 9 April 2007, the Company received a notice issued by Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("SASAC") that on 9 April 2007, SASAC signed an agreement (the "Agreement") with China Electronics Corporation ("CEC") and Jiangsu Provincial State-owned Information Asset Management Group Company Limited ("Guo Xin Group") to jointly invest and establish a joint venture company ("the JV Company"). SASAC and Guo Xin Group invested their respective equity interest in PEGL in the JV Company.**

On 11 May 2007, the Company received a notice that a business license was issued to the JV Company after the approval of the relevant PRC government authorities. The JV Company is named as Nanjing Electronics Information Industrial Corporation ("NJEC"). The registered capital of NJEC is RMB1 billion, of which CEC accounts for 70%, SASAC accounts for 15% and Guo Xin Group accounts for 15%.

Upon completion of registration of change in PEGL's equity interest, NJEC will hold 47.98% equity interests in PEGL and becomes the largest shareholder of PEGL.

(For details, please refer to the announcements dated 12 April 2007 and 14 May 2007 which were published in China Securities Journal and Shanghai Securities News, and announcements dated 27 April 2007 and 14 May 2007 which were published in Hong Kong Ta Kung Pao and The Standard.)

**(X) During the Reporting Period, the Company did not hold stocks and securities issued by other listed companies and did not hold shares of unlisted financial enterprises and proposed listing companies.****(XI) It was resolved at the Annual General Meeting held on 12 June 2007 that Yue Hua Certified Public Accountant Co., Ltd. and Horwath Hong Kong CPA Limited were re-appointed as domestic and international auditors of the Company for 2007 respectively.****(XII) The status of the Company, the Board and its Directors being subject to administrative penalty or public criticism by CSRC or Stock Exchanges during the Reporting Period:**

Since the end of 2005, The Stock Exchange of Hong Kong has started the disciplinary procedures in respect of the Company's level of information disclosure against the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Listing Committee of The Stock Exchange of Hong Kong Limited convened a disciplinary hearing on 26 June 2007 and issued a press release on 9 August 2007 in respect of disciplinary action against the Company, certain existing directors and ex-directors, including censure and criticism against the relevant existing directors and ex-directors of the Company. (Please refer to the website of The Hong Kong Stock Exchange for details.)

(XIII) The Audit Committee and the Senior Management of the Company have reviewed the Interim Report, the accounting principles and accounting standards and methods adopted by the Company, studied the matters relating to internal control and reviewed the unaudited financial statements for the six months ended 30 June 2007. The Audit Committee is of the opinion that the financial statements comply with the applicable accounting standards and legal requirements and that adequate disclosure has been made.

(XIV) Other matters:

**1. Income tax**

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

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

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

**3. Pre-emptive rights**

In accordance with the laws of the PRC and the articles of association of the Company, there are no provisions for the pre-emptive rights for the Company.

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

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

**5. During the Reporting Period, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules.**

The Company has made specific enquiry with all Directors who confirmed that they have complied with the Model Code during the Reporting Period.



VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES) (UNAUDITED)

BALANCE SHEET

Unit: RMB

Assets	30 June 2007		31 December 2006	
	Consolidated	Holding company	Consolidated	Holding company
<b>Current assets:</b>				
Cash and bank balances	456,838,659.26	386,867,898.08	652,094,029.71	540,035,813.29
Trading financial assets	—	—	—	—
Bills receivable	409,477.65	173,200.01	31,775,270.00	30,098,000.00
Accounts receivable	156,854,633.55	26,850,340.90	163,415,609.64	61,746,509.94
Prepayments	126,537,119.57	65,627,961.27	76,380,467.07	43,743,400.62
Interest receivable	—	—	—	—
Dividends receivable	—	1,677,294.39	—	1,677,294.39
Other receivables	104,735,366.38	95,778,354.92	555,531,779.05	599,967,169.42
Stocks	336,407,539.05	217,560,426.54	236,837,950.71	130,338,506.15
Non-current assets				
due within one year	—	—	—	—
Other current assets	—	—	—	—
<b>Total current assets</b>	<b>1,181,782,795.46</b>	<b>794,535,476.11</b>	<b>1,716,035,106.18</b>	<b>1,407,606,693.81</b>
<b>Non-current assets:</b>				
Available-for-sale financial assets	—	—	—	—
Held-to-maturity investments	—	—	—	—
Long-term receivables	—	—	—	—
Long-term equity investments	1,064,158,190.44	1,223,231,310.00	537,994,917.66	697,112,094.87
Investment properties	—	—	—	—
Fixed assets, at cost	715,672,552.82	385,468,738.68	712,755,744.96	384,773,935.43
Less: accumulated depreciation	236,870,291.11	103,686,293.49	220,880,822.43	97,722,353.32
Fixed assets, net	478,802,261.71	281,782,445.19	491,874,922.53	287,051,582.11
less: provision for impairment	8,139,541.27	7,854,185.11	8,139,541.27	7,854,185.11
Fixed assets, net	470,662,720.44	273,928,260.08	483,735,381.26	279,197,397.00
Construction in progress	19,780,175.00	17,318,825.01	16,486,338.80	14,096,558.60
Construction supplies	—	—	—	—
Clearance of fixed assets	—	—	—	—
Biological assets for production	—	—	—	—
Intangible assets	12,447,655.04	11,767,610.46	12,734,190.07	12,012,509.80
Development expenses	—	—	—	—
Goodwill	—	—	—	—
Long term deferred expenses	3,478,308.90	—	—	—
Deferred tax asset	15,840,564.87	—	18,863,243.59	—
Other non-current assets	—	—	—	—
<b>Total non-current assets</b>	<b>1,586,367,614.69</b>	<b>1,526,246,005.55</b>	<b>1,069,814,071.38</b>	<b>1,002,418,560.27</b>
<b>Total assets</b>	<b>2,768,150,410.15</b>	<b>2,320,781,481.66</b>	<b>2,785,849,177.56</b>	<b>2,410,025,254.08</b>



Unit: RMB

Liabilities and Shareholders' Equity	30 June 2007		31 December 2006	
	Consolidated	Holding company	Consolidated	Holding company
<b>Current liabilities:</b>				
Short term loans	743,396,372.86	713,587,672.86	836,070,200.00	806,000,000.00
Trading financial liabilities	—	—	—	—
Bills payable	25,463,425.00	20,000,000.00	37,794,637.80	20,000,000.00
Accounts payable	189,015,965.22	33,370,938.78	148,551,080.80	45,421,192.14
Advances from customers	137,970,508.88	87,832,872.42	53,792,028.89	4,786,379.41
Salaries payable	20,561,914.15	12,319,650.95	17,365,001.86	8,126,439.15
Taxes payable	40,356,920.89	37,863,550.58	47,642,104.38	46,926,373.41
Interest payable	—	—	—	—
Dividends payable	—	—	—	—
Other payables	143,143,502.95	50,289,304.85	205,216,630.49	143,029,675.20
Non-current liabilities due within one year	—	—	—	—
Other current liabilities	—	—	—	—
<b>Total current liabilities</b>	<b>1,299,908,609.95</b>	<b>955,263,990.44</b>	<b>1,346,431,684.22</b>	<b>1,074,290,059.31</b>
<b>Non-current liabilities:</b>				
Long term loans	—	—	—	—
Bonds payables	—	—	—	—
Long term payables	29,672,715.46	—	34,990,818.63	—
Specific payables	—	—	—	—
Accrued liabilities	—	—	—	—
Deferred tax liability	11,550.64	11,550.64	11,550.64	11,550.64
Other non-current liabilities	—	—	—	—
<b>Total non-current liabilities</b>	<b>29,684,266.10</b>	<b>11,550.64</b>	<b>35,002,369.27</b>	<b>11,550.64</b>
<b>Total liabilities</b>	<b>1,329,592,876.05</b>	<b>955,275,541.08</b>	<b>1,381,434,053.49</b>	<b>1,074,301,609.95</b>
<b>Shareholders' equity:</b>				
Share capital	655,015,000.00	655,015,000.00	655,015,000.00	655,015,000.00
Capital reserve	480,404,773.85	480,219,584.04	480,404,773.85	480,219,584.04
Less: treasury stock	—	—	—	—
Surplus reserve	191,184,000.53	191,184,000.53	191,184,000.53	191,184,000.53
Undistributed profits	67,243,641.54	39,087,356.01	34,910,956.59	9,305,059.56
Difference in conversion of foreign exchange	—	—	—	—
<b>Total shareholders' equity attributable to the Parent</b>	<b>1,393,847,415.92</b>	<b>1,365,505,940.58</b>	<b>1,361,514,730.97</b>	<b>1,335,723,644.13</b>
<b>Minority interests</b>	<b>44,710,118.18</b>	<b>—</b>	<b>42,900,393.10</b>	<b>—</b>
<b>Total shareholders' equity</b>	<b>1,438,557,534.10</b>	<b>1,365,505,940.58</b>	<b>1,404,415,124.07</b>	<b>1,335,723,644.13</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,768,150,410.15</b>	<b>2,320,781,481.66</b>	<b>2,785,849,177.56</b>	<b>2,410,025,254.08</b>

PROFIT AND LOSS STATEMENT

Unit: RMB

Items	Jan-Jun 2007		Jan-Jun 2006	
	Consolidated	Holding Company	Consolidated	Holding Company
1. Total operating income	318,554,329.26	37,684,049.65	364,927,655.03	25,547,266.77
Include: Operating income	318,554,329.26	37,684,049.65	364,927,655.03	25,547,266.77
2. Total operating cost	402,475,187.36	128,543,396.33	395,671,092.59	68,652,260.06
Include: Operating cost	263,685,454.97	34,023,363.79	308,260,256.15	18,366,965.17
Business taxes and surcharge	2,191,364.88	65,133.59	2,104,166.60	2,514.15
Selling expenses	13,481,321.85	963,671.42	12,661,450.16	216,089.52
Administrative expenses	67,303,917.16	45,419,982.02	58,263,346.55	38,026,038.36
Financial expenses	26,965,821.19	24,160,049.37	25,994,408.02	24,665,754.00
Loss in assets impairment	28,847,307.31	23,911,196.14	(11,612,534.89)	(12,625,101.14)
Add: Income from change in fair value (losses are represented by "-")				
Investment income (losses are represented by "-")	139,548,962.71	139,548,962.71	66,972,017.20	66,972,017.20
Include: Investment income of associates and joint ventures	139,548,962.71	139,548,962.71	66,972,017.20	66,972,017.20
3. Operating profit (losses are represented by "-")	55,628,104.61	48,689,616.03	36,228,579.64	23,867,023.91
Add: Non-operating income	818,396.64	—	1,276,696.50	11,140.00
Less: Non-operating expenses	19,001,251.93	18,907,319.58	1,969,135.53	1,840,029.29
Include: Loss from the disposal of non-current assets	1,752.20	—	1,887,205.57	1,833,529.29
4. Total Profit (losses are represented by "-")	37,445,249.32	29,782,296.45	35,536,140.61	22,038,134.62
Less: Income tax	4,716,383.52	—	4,724,565.93	—
5. Net Profit (losses are represented by "-")	32,728,865.80	29,782,296.45	30,811,574.68	22,038,134.62
Profit attributable to the equity shareholders of the Parent	32,332,684.95	29,782,296.45	28,740,323.47	22,038,134.62
Minority interest	396,180.85	—	2,071,251.21	—
6. Earnings per share:				
(1) Basic earnings per share	0.0494	0.0455	0.0439	0.0336
(2) Diluted earnings per share	0.0494	0.0455	0.0439	0.0336



## STATEMENT OF CHANGE OF SHAREHOLDERS' EQUITY

Items	January to June 2007							Total shareholders' equity
	Shareholders' equity attributable to the Parent							
	Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Other	Minority interest	
1. Balance of last year	655,015,000.00	480,404,773.85	—	191,184,000.53	34,910,956.59	—	42,900,393.10	1,404,415,124.07
Add: change in accounting policies	—	—	—	—	—	—	—	—
Correction of prior errors	—	—	—	—	—	—	—	—
2. Balance at the beginning of this year	655,015,000.00	480,404,773.85	—	191,184,000.53	34,910,956.59	—	42,900,393.10	1,404,415,124.07
3. Change of this year (a decrease is represented by "-")								
(1) Net profit	—	—	—	—	32,332,684.95	—	1,809,725.08	34,142,410.03
(2) Profit and loss directly accounted for in shareholders' equity								
1. Net change in fair value of financial assets available for sale	—	—	—	—	—	—	—	—
2. Effect of changes in other shareholders' equity in investee companies referred to equity	—	—	—	—	—	—	—	—
3. Effect of income tax relating to items of shareholders' equity	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
Subtotal of item (1) and (2) above	—	—	—	—	32,332,684.95	—	1,809,725.08	34,142,410.03
(3) Contribution by shareholders and reduction of capital								
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—
2. Amount settled by shares for amount accounted for in shareholders' equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(4) Profit distribution								
1. Transfer from surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—
3. Compensation of loss from surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Balance at the end of this year	655,015,000.00	480,404,773.85	—	191,184,000.53	67,243,641.54	—	44,710,118.18	1,438,557,534.10



January to June 2006  
Shareholders' equity attributable to the Parent

Items	Share capital	Capital reserve	Less:				Other	Minority interest	Total shareholders' equity
			treasury stock	Surplus reserve	Undistributed profits				
1. Balance of last year	655,015,000.00	480,208,784.04	—	188,137,542.53	(58,682,872.55)	(6,440,994.67)	—	1,258,237,459.35	
Add: change in accounting policies	—	—	—	—	12,010,813.59	6,440,994.67	45,117,002.21	63,568,810.47	
Correction of prior errors	—	—	—	—	—	—	—	—	
2. Balance at the beginning of this year	655,015,000.00	480,208,784.04	—	188,137,542.53	(46,672,058.96)	—	45,117,002.21	1,321,806,269.82	
3. Change of this year									
(a decrease is represented by "-")									
(1) Net profit	—	—	—	—	28,740,323.47	—	(2,222,334.41)	26,517,989.06	
(2) Profit and loss directly accounted for in shareholders' equity									
1. Net change in fair value of financial assets available for sale	—	—	—	—	—	—	—	—	
2. Effect of changes in other shareholders' equity in investee companies referred at equity	—	—	—	—	—	—	—	—	
3. Effect of income tax relating to items of shareholders' equity	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	
Subtotal of item (1) and (2) above	—	—	—	—	28,740,323.47	—	(2,222,334.41)	26,517,989.06	
(3) Contribution by shareholders and reduction of capital									
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—	
2. Amount settled by shares for amount accounted for in shareholders' equity	—	—	—	—	—	—	—	—	
3. Others	—	—	—	—	—	—	—	—	
(4) Profit distribution									
1. Transfer from surplus reserves	—	—	—	—	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	—	—	—	—	
3. Others	—	—	—	—	—	—	—	—	
(5) Internal transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	
3. Compensation of loss from surplus reserve	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	
4. Balance at the end of this year	655,015,000.00	480,208,784.04	—	188,137,542.53	(17,931,735.49)	—	42,894,667.80	1,348,324,258.88	





## CASH FLOW STATEMENT

Unit: RMB

Items	Jan - Jun 2007	
	Consolidated	Holding Company
<b>1. Cash flows from operating activities</b>		
Cash received from the sale of goods and services provided	464,194,632.22	162,116,358.61
Return of tax payment	2,122,941.16	—
Other cash received relating to operating activities	981,485,143.00	912,079,156.52
<b>Sub-total of cash inflows from operating activities</b>	<b>1,447,802,716.38</b>	<b>1,074,195,515.13</b>
Cash paid on purchase of goods and services	391,767,492.27	153,470,974.45
Cash paid to staff and paid on behalf of staff	91,315,377.71	42,277,354.80
Taxes paid	21,827,523.32	1,276,630.23
Cash paid relating to other operating activities	991,655,841.22	912,977,100.59
<b>Sub-total of cash outflows from operating activities</b>	<b>1,496,566,234.52</b>	<b>1,110,002,060.07</b>
<b>Net cash flows from operating activities</b>	<b>(48,763,518.14)</b>	<b>(35,806,544.94)</b>
<b>2. Cash flows from investment activities:</b>		
Cash received from investment recovered	6,322,470.00	6,322,470.00
Cash received from investment income	—	—
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	8,080.00	—
Cash received from disposal of subsidiaries and other business units	—	—
Cash received relating to other operating activities	—	—
<b>Sub-total of cash inflows from investment activities</b>	<b>6,330,550.00</b>	<b>6,322,470.00</b>
Cash paid on purchase of fixed assets, intangible assets and other long term assets	28,181,404.77	7,071,575.51
Cash paid for investment	—	—
Net cash paid on acquisition of subsidiaries and other business units	—	—
Cash paid on other investment activities	—	—
<b>Sub-total of cash outflows from investment activities</b>	<b>28,181,404.77</b>	<b>7,071,575.51</b>
<b>Net cash flows from investment activities</b>	<b>(21,850,854.77)</b>	<b>(749,105.51)</b>
<b>3. Cash flows from financing activities:</b>		
Cash received from investment	—	—
Including: cash received by subsidiaries from equity investment of minority shareholders	—	—
Cash received from borrowings	296,000,000.00	284,000,000.00
Cash received from bond issue	—	—
Cash received from other financing activities	—	—
<b>Sub-total of cash inflows from financing activities</b>	<b>296,000,000.00</b>	<b>284,000,000.00</b>
Cash paid on repayment of debts	388,412,327.14	376,412,327.14
Cash paid on distribution of dividends or profits, or interest repayment	25,805,746.34	24,344,055.63
Including: dividends and profit paid to minority shareholders by subsidiaries	—	—
Cash paid on other financing activities	—	—
<b>Sub-total of cash outflows from financing activities</b>	<b>414,218,073.48</b>	<b>400,756,382.77</b>
<b>Net cash flows from financing activities</b>	<b>(118,218,073.48)</b>	<b>(116,756,382.77)</b>
<b>4. Effect on cash due to foreign currency exchange</b>	<b>—</b>	<b>(55,881.99)</b>
<b>5. Net increase in cash and cash equivalents</b>	<b>(188,832,446.39)</b>	<b>(153,367,915.21)</b>
Add: balance of cash and cash equivalents at the beginning of the year	607,318,095.22	518,982,179.29
<b>6. Balance of cash and cash equivalents at the end of the year</b>	<b>418,485,648.83</b>	<b>365,614,264.08</b>

CASHFLOW SUPPLEMENTARY INFORMATION

Unit: RMB

Items	Jan - Jun 2007	
	Consolidated	Holding Company
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>		
Net profit	32,728,865.80	29,782,296.45
Add: Provision for assets impairment	28,847,307.31	23,911,196.14
Depreciation of fixed assets	18,915,742.54	5,963,940.17
Amortisation of intangible assets	361,335.03	244,899.34
Amortisation of long term deferred expenses	259,136.77	—
Loss arising from disposal of fixed assets, intangible assets and other long term assets (Income is represented by "-")	—	—
Loss from fixed assets scrapped (Income is represented by "-")	—	—
Loss from change in fair value (Income is represented by "-")	—	—
Financial expense	26,965,821.19	24,160,049.37
Loss on investment	(139,548,962.71)	(139,548,962.71)
Decrease in deferred income tax assets (Increase is represented by "-")	3,022,678.72	—
Increase in deferred income tax liabilities (Decrease is represented by "-")	—	—
Decrease in inventories (Increase is represented by "-")	(91,988,199.47)	(94,640,531.52)
Decrease in trade debtors (Increase is represented by "-")	27,486,528.61	136,045,222.88
Increase in trade creditors (Decrease is represented by "-")	44,186,228.07	(21,724,655.06)
Others	—	—
Net cash flows from operating activities	<u>(48,763,518.14)</u>	<u>(35,806,544.94)</u>
<b>2. Investment and financial activities not involving cash:</b>		
Debt capitalization	—	—
Convertible bonds due within one year	—	—
Lease of fixed assets by financing	—	—
<b>3. Net change in cash and cash equivalents:</b>		
Cash balance as at end of the year	456,838,659.26	386,867,898.08
Less: deposits at end of the year	38,353,010.43	21,253,634.00
Less: cash balance as at beginning of the year	652,094,029.71	540,035,813.29
Add: deposits at beginning of the year	44,775,934.49	21,053,634.00
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	<u>(188,832,446.39)</u>	<u>(153,367,915.21)</u>



**NOTES TO THE FINANCIAL STATEMENTS**

From 1 January 2007 to 30 June 2007

*(Amounts expressed in Renminbi ("RMB") unless otherwise stated)***(1) Introduction to the Company**

The Company was established on 27 April 1992 as a state owned enterprise after the approval from Nanjing Economic System Reform Committee with document number Ning Ti Gai Zi (1992) No. 34. It turned into Nanjing Panda Electronics Company Limited (Present name) later by its sole promoter, Panda Electronics Group Company Limited (PEGL), acquired the Company's 480,000,000 state-owned legal person shares in establishment with a consideration of total net asset value of RMB480,000,000.00. Registered capital for the Company at its establishment was RMB515,000,000.00, comprising 480,000,000 state-owned legal person shares of RMB1 each and 35,000,000 employee's shares of RMB1 each.

The Company was registered as an enterprise legal person on 29 April 1992, with its business registration number of 13488315-2. Scope of business after approval includes development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching system, electronic component parts, equipment and apparatus, electronic machinery and equipment, general machinery, medical machinery, electronic products, component parts of computers, stationaries equipment, industrial moulds and other equipment.

In the extraordinary general meeting of the Company held on 27 May 1994, except other matters, an exceptional resolution was passed to approve the restructuring report, which included matters concerning disconsolidation and restructuring the assets and liabilities of the Company and companies under PEGL as well as re-affirming the stateowned legal person shares of the Company. In the same meeting, one exceptional resolution was also passed. The Board of Directors was authorized to handle all affairs related to conversion of the Company into Socially Funded Company and to make a public offer and listing of the Company's A & H shares. According to the exceptional resolution, the net asset value of the Company would be adjusted on 29 June 1994. Net asset value of the Company at establishment was re-defined as RMB322,873,348.00, including registered capital of RMB322,870,000.00, comprising 287,870,000 state-owned legal person shares, 35,000,000 employee's shares, and capital reserve of RMB3,348.00.

According to the restructuring report dated 10 February 1994 and the reply concerning the report released by the State Committee for Changing System dated 11 March 1996. Registered capital for the Company increased from RMB 322,870,000.00 to RMB390,015,000.00. It was diverted into 355,015,000 state-owned legal person shares and 35,000,000 employee's shares. All the above were recorded in accounting books at par and were fully paid and distributed.

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

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

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

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 03967 18 April 1997. Its registered capital was RMB655,015,000. The approved scope of business includes research and development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching systems, electronic component parts, apparatus, machinery and equipment, industrial moulds and other equipment, computers and system engineering.

**(2) Principle Accounting Policies and Accounting Estimates and the Method of Consolidating the Financial Statements of the Company and Its Subsidiaries****1. Basis of Preparation of the Financial Statement**

The financial statements of the Company have been prepared on an on-going basis in accordance with actual transaction and events and in conformity with the Accounting Principles for Business Enterprises issued by the Ministry of Finance on 15 February 2006 and the requirements of the "public offering of securities of companies standardize information disclosure Quiz No.7-old and new accounting standards during the transition period will be more financial or the preparation of the information and disclosure" issued by China Securities Regulatory Commission on 15 February 2007 under the significant accounting policies and accounting evaluation described below.

**2. Financial Year**

The financial year of the Company covered the calendar year from 1 January to 31 December.

**3. Reporting Currency**

The Company uses Renminbi as its currency for recording transactions.

**4. Principle of Book-keeping and Valuation**

The book-keeping of the Company's account is conducted on an accrual accounting basis generally at historical cost. When the amount of accounting elements recognized conforms to the requirements of Accounting Principles for Business Enterprises and can be measured reliably, they can be calculated by replacement cost, net realizable value, present value and fair value.

## 5. Foreign Currency Transaction

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

## 6. Translation of foreign currency financial statement

Projects of assets and liabilities in the foreign currency statement are translated by the middle rate issued by People's Bank of China on the balance sheet date. Save as "retained profits" in projects of owner's equity, while other projects are translated by the middle rate issued by the People's Bank of China when they are incurred. Projects of income and fees stated in the income statement are translated by the middle rate issued by the People's Bank of China on the transaction date, exchange differences hereby incurred are separately stated in "differences in translation of foreign currency statement" for the project of owner's equity in the balance sheet.

## 7. Definition of Cash Equivalent

Cash equivalents as defined by the Company represent short-term, (usually with maturity within three months from the date of purchase) highly liquid investments which are easily converted into cash of the known amount with low valuation risk.

## 8. Financial assets and financial liabilities

### (1) Classification and measurement of financial assets and financial liabilities

The Company classifies its financial assets into tradable financial assets, financial assets available for sale, receivables and investment held to maturity in terms of the goal of investment and economic nature. Among which tradable financial assets are calculated at fair value of which changes are included through profit and loss in the prevailing period, while financial assets available for sale are calculated at fair value of which changes are included in shareholder's equity, and are transferred out upon the end of recognition of those financial assets through profit and loss of the prevailing period. Receivables and investment held to maturity are calculated at amortized cost.

The Company classify its financial liabilities into those measured at fair value through profit and loss and other financial liabilities measured at amortized cost with reference to economic nature.

### (2) Recognition of fair value of financial assets and financial liabilities

1 For financial assets held or will be undertaken by the Company where there is an active market, the Company are quoted by adopting the prevailing offer in the active market. For financial assets to be acquired or financial liabilities to be undertaken are quoted by adopting the prevailing asking price in the active market. For those without prevailing offer or asking price, the market quotations in the latest transaction or those adjusted are adopted, unless there are clear evidence which states that the market quotations are not fair value.

2 For those without an active market, the Company will adopt the valuation technique to recognize its fair value. Valuation techniques include using the price adopted in recent market transactions between knowledgeable, willing parties, reference to the current fair value of other instrument that is substantially the same, discounted cash flow analysis and option pricing model.

### (3) Transferal and Calculation of Financial Assets

Transferal of financial assets refer to a transferal or delivery of the financial assets from the Company will transfer or deliver to the counterparty other than their issuers in whole or in part, including two methods:

- 1 Transfer received cash flows from financial assets to another party;
- 2 Transfer financial assets to another party but reserve the rights of acquiring cash flows from the financial assets and undertake the obligations of paying the cash flows to be received to the ultimate payee.

When the Company has virtually transferred all risks and rewards arising from all or part of its ownership of the financial assets to the transferee, recognition of those financial assets will cease, while differences between the consideration and the carrying value of the financial assets so received are recognized as profit and loss. Meanwhile, accumulated profits or loss of the financial assets originally recognized in owners' equity are transferred to profit and loss, retaining all risks and rewards under the rights whilst continuing the recognition of all or part of the financial assets. Consideration so received is recognized as financial liabilities.

For all risks and rewards under the ownership of the financial assets not yet transferred or retained by the Company, where the ownership of those financial assets have not yet been abandoned, recognition of the financial assets is to be conducted to the extent of their relation to the financial assets transferred, followed by corresponding recognition of the related liabilities.



## (4) Cease of recognition of financial assets and financial liabilities

Recognition of the financial assets of the Company will cease when one of the terms in the following is fulfilled:

- 1 Contract rights of acquiring the cash flows from the financial assets is terminated
- 2 The financial assets have been transferred in conformity with the conditions of cease of recognition stipulated under Accounting Standard for Business Enterprises.

Recognition of financial liabilities will only cease or cease in part when current obligation arising from financial liabilities of the Company have been dissolved in whole or in part.

## (5) Impairment of Financial Assets

Where the Company inspects the carrying value of financial assets other than tradable financial assets on the balance sheet date and there are objective evidence of impairment of financial assets, provisions for impairment are made. For separate material financial assets, impairment test needs to be conducted separately. If there is any objective evidence of impairment, impairment loss will be recognized through profit or loss. For financial assets of which separate amount is of minor significance and for those without ever incurring impairment as tested separately, the Company will conduct impairment test on the credit portfolio according to credibility of customers and the actual circumstances where bad debts were incurred over the years so as to recognize impairment loss.

Objective evidence supporting impairment on financial assets refers to the issues actually incurred upon initial recognition of financial assets, those posing an influence on the estimated future cash flows of financial assets, which can be reliably measured by enterprises.

Objective evidence of impairment on financial asset include those listed as follows:

- A: Issuers or debtors encounter severe financial difficulties;
- B: Debtors violate terms of contract, such as a breach of rules or delay during settlement of interests or principal;
- C: Debtors give way to those under financial difficulty accounting on economic or legal reasons;
- D: Debtors may go into liquidation or conduct other financial reorganization;
- E: Transaction of the financial assets ceases in the active market as the issuer encounters great financial difficulties;
- F: Any reduction in cash flow of certain assets among a group of financial assets cannot be identified, while it is discovered that the estimated future cash flow of the financial assets has been reduced and can be measured since initial recognition after an overall evaluation based on disclosed information. If the repayment capability of the debtor of the group of financial assets gradually deteriorates, unemployment rate of the country or region where the debtor is staying increases, prices in regions where collaterals are provided significantly decrease or an industry sentiment turns unfavorable ;
- G: Significant and adverse changes have taken place in the technological, market, economic or legal environments in which the debtor operates, making investors of equity instruments difficult to recover the investment cost;
- H: Substantial or non-temporary reduction of the fair value of investment on equity instruments;
- I: Other objective evidence showing signs of impairment on financial assets.

When an impairment of financial assets calculated at amortized cost incurs, impairment loss are calculated on basis of the differences between the present value of estimated future cash flows discounted at carrying value and that discounted by the original actual interest rate.

Upon recognition of the impairment loss on financial assets at amortized cost, if there is an objective evidence showing that the value of the financial assets has been restored which objectively relates to the events incurred upon the recognition of loss, the impairment loss initially recognized will be reversed through profit and loss, yet the carrying value so reversed will not exceed the amortized cost of the financial assets on the date of reversal as if no provisions for impairment has been made.

When financial assets available for sale impair in value, the accumulated loss arising from the decrease in fair value which is initially directly included in owner's equity will be transferred out through profit and loss.

**9. Calculation of loss from Bad Debts**

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

- (2) Calculation of loss from bad debts: Bad debts are accrued on a provision method. Provision for bad debts is determined by aging analysis together with individual recognised method at the end of the year and charged to the profit (loss) statement for the period in which it arises. Subject to the approval of the Board of Directors of the Company or shareholders' general meeting, whenever there is clear evidence showing no or remote possibilities to recover any outstanding trade debtors, such bad debts are written off.

Shares of provisions for loss from bad debts are as follows:

Ageing analysis	Shares of provisions
Within one year	5%
One to two years	10%
Two to three years	50%
Three to five years	80%
Exceeding five years	100%

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

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

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

#### 10. Inventories

- (1) Classification of inventories: Inventories are classified as raw materials, 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) Work in progress 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.
- (6) For inventories available for direct sale such as end products, commodities and materials for sale, their net realizable value is determined based on expected price of these inventories less expected sales fee and underlying tax. For inventories such as materials held for production, the net realizable value is determined based on the expected selling price of end products produced less cost expected to be going to incur upon completion, expected sales fees and underlying tax. For inventories held for the purpose of execution of sales contract, the net realizable value is measured on basis of the contractual price. For enterprises holding more inventories than those ordered under the sales contract, the excessive net realizable value of inventories is calculated on the general market price.

#### 11. Calculation of long-term equity investment

- (1) Initial Measurement

The initial investment cost of the long-term equity investment of the Company is recognized in the following ways which vary in terms of the way of acquisition:

1. For the long-term equity investment acquired upon merger of companies under joint control, the initial investment cost is based on share of carrying value of owner's equity of the acquiree acquired on the date of merger; while the differences between the cost of acquisition and the initial investment cost are used to adjust capital reserves. Any capital reserve which are insufficient to be released will be retained in profit upon adjustment.

2. For the long-term equity investment acquired upon merger of companies not under joint control, its initial investment cost is the fair value of assets, equity instrument issued and liabilities incurred or undertaken on the transaction date, in addition to the cost of merger measured at cost directly related to the acquisition. All identifiable assets and liabilities undertaken by the acquiree on the date of merger (including contingent liabilities) are measured at fair value without taking account into the amount of minority interests. Goodwill is the amount of the cost of merger in excess of the share of fair value of identifiable net assets of the acquiree acquired by the Company. Amount less than the share of fair value of the identifiable net assets of the acquirer is directly recognized in the combined profit and loss account.
3. Long term investment acquired otherwise
  - A. For long-term equity investment settled in cash, initial investment cost refers to the actual consideration paid.
  - B. Initial investment cost refers to long-term equity investment acquired through the issue of equity securities in accordance with the fair value of equity securities in issue.
  - C. Initial investment cost is long-term equity investment of investors with reference to the value stipulated agreed under an investment contract or an agreement. Those under a contract or agreement without a fair value will be measured at fair value.
  - D. For long-term investment acquired by exchange of non-currency assets with commercial substances, the fair value of the assets transferred out is the initial investment cost of long-term equity investment received; for those without commercial substances, the carrying value of assets transferred out is the initial investment cost of the long-term equity investment received.
  - E. For long-term equity investment acquired through debt reorganization, the initial investment cost is recognized at fair value of the long-term equity investment.

(2) Subsequent Measurement

1. Investment in subsidiaries is calculated by cost approach

A subsidiary refers to held by the Company, a long-term equity investment of the acquiree that can be controlled. If the Company held more than 50% of equity interest of a certain entity or can practically control an entity despite a shareholding less than 50%, the entity is the subsidiary of the Company.

2. Investment in joint ventures or associated companies is calculated by equity method

A joint venture refers to an equity investment held by the Company under which a joint control can be exercised with other parties to the merger on the equity investment of the investee. Joint ventures refer to an equity investment held by the Company under which material influence can be posed against the investee. If the Company holds an equity interest ranging from 20% to 50% in a certain equity and exercise no practical control over the entity, or impose material influence against the entity despite a shareholding beyond 20% in certain entity by the Company, the entity is the joint venture or associated enterprise of the Company.

Recognition of the net profit and loss of the investee attributable to Company is conducted on basis of the fair value of each identifiable assets of the investee upon acquisition of investment upon adjustment of the net profit of the investee.

Where the accounting policies and accounting period adopted by the investee are not in line with that of the Company, the financial statement of the investee is adjusted in accordance with the accounting policies and the accounting period of the Company and hereby recognize profit and loss from investment.

For changes in owners' equity other than net profit and loss of the investee, the carrying value of long-term equity investment is adjusted and included in owner's equity.

3. Long-term equity investment without control, joint control or material influence

For long-term equity investment where there are no quotations and where fair value cannot be reliably measured in an active market is calculated by the cost approach.

For long-term equity investment where there are quotations or where the fair value can be reliably measured in an active market is stated under the item of financial assets available for sale. Its changes in fair value is included in shareholder's equity.

(3) Impairment of long-term equity investment

When the Company discovers signs of impairment on long-term equity investment in the inspection during the end of the period, the recoverable amount should be evaluated. Any recoverable amount less than its carrying value should be provided for impairment of long-term equity investment according to the differences of the carrying value over recoverable amounts.

For long-term equity investment where there are no quotations and where the fair value cannot reliably measured in an active market, the premium of its carrying value over the amount of present value determined by future cash flows discounted by the prevailing market rate of return of similar financial assets is recognized as impairment loss through profit and loss of the prevailing period.

For long-term equity investment other than financial assets available for sale, provisions for impairment cannot be reversed in the duration of assets once it is made. Impairment loss on financial assets available for sale can be reversed through equity.

**12. Pricing and depreciation method of properties held for investment**

Properties held for investment are stated at cost. During which, the cost of externally purchased properties held-for-investment includes purchasing price, relevant taxes and surcharges and other expenses which are directly attributable to the asset. Cost of self construction of properties held for investment is composed of necessary expenses incurred for constructing that assets to a state expected to be available for use. Properties held for investment by investors are stated at the value agreed in an investment contract or agreement, but those under contract or agreement without fair value are stated at fair value.

The Company adopts cost methodology amid subsequent measurement of properties held for investment, while depreciation and amortization is calculated using the straight-line method according to their estimated useful lives.

**13. Calculation and Depreciation of Fixed Assets**

- (1) Recognition of fixed assets: Fixed assets referred to the tangible assets of the following natures: production of products, provision of labor, holding for lease or operating, assets of useful life exceeding one year or assets not belong to major equipment for production and operation valued at RMB2,000 or more and with useful life exceeding two years.
- (2) Fixed assets are classified as houses, buildings, machinery, equipment, transportation vehicle, electronic equipment and other equipment.
- (3) Valuation of fixed assets: Fixed assets are stated as cost. Costs of external acquisition of fixed assets are the sum of the actual price, value-added tax, the relevant tax (such as import tariffs), and any directly attributable costs of bring the assets to its working condition and location for its intended use. Fixed assets contributed by investors are stated as the value as agreed upon by the acquisition and disposal parties.
- (4) Depreciation 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:

Class	Residual rate (%)	Useful life (year)	Annual rate of depreciation (%)
Buildings	5	20-30	3.17-4.75
Machinery and equipment	5	8-11	11.88-8.64
Transportation vehicle	5	5-10	9.5-19
Electronic equipment	5	5-7	13.57-19
Other equipment	5	5	19

- (5) Standard of recognition of fixed assets by financing lease

The assets will be classified as fixed assets by financing lease if the Company satisfies one or more of the following conditions:

- (1) As stipulated in the lease agreement (or a reasonable judgment made pursuant to relevant conditions at the commencement date of the lease), the ownership of fixed assets by financing lease can be passed to the Company when the lease expires;
- (2) As the Company has a option to acquire the leased fixed assets and the agreed price of purchase is far below the fair value of leased fixed assets at the time of exercise of the option, it is certain that the Company will exercise the option at the commencement date of the lease;
- (3) Despite that the ownership of fixed assets is not transferrable, the lease period represents 75% or more of the useful life of leased fixed assets;
- (4) The present value of the minimum lease payment by the Company at the commencement date of lease is equal to 90% or more of the fair value of leased fixed assets at the commencement date of lease. The present value of the minimum lease payment received by the lessor at the commencement date of lease is equal to 90% or more of the fair value of leased fixed assets at the commencement date of lease;
- (5) Due to the special nature of the leased assets, those assets can be used only by the Company if without any substantial renovation;
- (6) Treatment of subsequent expenses of fixed assets:

Subsequent expenses include expenses for repair, upgrade, improvement and renovation expenses, the accounting treatment of which is as follows:

- (1) Expenses of daily repair and overhaul of fixed assets will be included in the expenses for the current period in which they are incurred;





- (2) Where the economic benefits of upgrade and improvement expenses of fixed assets will possibly be flowed to the Company and the expenses are calculable, such expenses can be directly recognized in the value of fixed assets and deducted from the book value of replacing assets;
- (3) Where the economic benefits of renovation expenses of fixed assets will be possibly flowed to the Company and the expenses are calculable, such expenses, after audited in the subjects list under fixed assets, will be amortized by using straight-line method within the shorter of two renovation periods or remaining useful lives of fixed assets.
- (7) 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 leads to operating business and disposal of fixed assets earlier than the end of its useful life, thereby resulting in negative influence on the Company;
  - (d) There is a significant change to the environment in which the Company operates, such as technologies, market, economy or jurisdiction or there is a significant change in the market at which products are sold in the period when changes arise or in the recent past, thereby resulting in negative influence on the Company;
  - (e) There is a significant increase in the market interest rate, posing a potential impact on the discount rate on the expected recoverable amount by the Company, thereby resulting in significant decrease in recoverable amount from fixed assets; and
  - (f) Other circumstances showing an indication of impairment of fixed assets.

#### 14. Verification of Projects under Construction

- (1) Calculation of construction prices of projects under construction: project costs are determined on the basis of the expenses actually incurred. Projects for own account are measured on the basis of direct materials, direct wages, direct work commencement expenses, etc. Subcontracted projects are measured on the basis of project prices payable. Costs of equipment installation projects are determined on the basis of the value of the equipment installed, installation fees, expenses incurred by project debugging, etc..
- (2) Timing of converting projects under construction into fixed assets: from the date on which the fixed assets built by the Company come into an expected usable state, the projects under construction are converted into fixed assets on the basis of the estimated value of project estimates or pricing or project actual costs, etc. Depreciation is calculated from the next month. Further adjustments are made after final accounting is completed upon completion of projects.
- (3) Recognition and provision for impairment of projects under construction: the Company carries out a comprehensive inspection of projects under construction at the conclusion of each year. Under any or some of the following circumstances, impairment provisions will be made on the basis of the difference between the amount recoverable by a project and the book value of such projects. Provision is made with respect to each construction project.
  - (a) Construction of the project under construction has been suspended for a long period of time and is not expected to recommence in the next three years;
  - (b) The project constructed has been lagging behind both in terms of functionality or technology, and will generate very uncertain economic benefits for the Company;
  - (c) Other circumstances that are sufficient to prove that there has been impairment of the project under construction.

#### 15. Accounting for Borrowing Costs

- (1) Principle of Confirming Borrowing Costs

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

- (2) During Capitalization of Borrowing Costs
- (a) Beginning of Capitalization: Interest, discount or premium amortization, and foreign exchange conversion differences accrued in connection with special borrowings will be capitalized under all of the following three conditions: 1. capital expenditure has been incurred; 2. borrowing costs have been incurred; 3. acquisition or construction necessary for the assets to come into an expected usable state has been carried out.
  - (b) Suspension of capital: acquisition or construction of fixed assets undergo ordinary suspension, and the suspension less for more than 3 months consecutively, then the capitalization of suspension borrowing cases will be recognized as current costs, until the acquisition or construction of assets costs, until the acquisition or construction of assets stare again.
  - (c) Stop of Capitalization: when acquisition or construction of fixed assets come into an expected usable state, then stop the capitalization of borrowing costs.
- (3) Capitalized Amount of Borrowing Costs
- (a) Special borrowings: the amount of interests expenses actually incurred in the period less interest income derived from unused borrowings deposited in banks or less investment income derived from provisional investment, are recognized.
  - (b) General borrowings: the capitalized interest amount for general borrowings is calculated and recognized by multiplying a weighted average of the accumulated expenditure on the assets in excess of the expenditure on the some assets of the special borrowings, by a capitalization rate for general borrowings.

## 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.

Expenditure in research stage of internal special research project of the Company should be included in the profit or loss for the current period in which they are incurred.

Expenditure in development stage of internal special research project of the Company should be recognized as intangible assets when the Company satisfies the following conditions:

- (1) The intangible assets are completed for the purpose of their uses or the sale or their technical feasibility.
  - (2) The Company has an intention to complete the intangible assets for their uses or the sale;
  - (3) Ways of creating economic benefits by intangible assets include proof of existing market of the products manufactured by use of intangible assets or the existing market of intangible assets and the proof of the use if the intangible assets are only for the Company's internal use.
  - (4) The Company has sufficient technical and financial resources and other supporting resources to complete the research and development of such intangible assets and are capable of using or selling such intangible assets.
  - (5) Expenditure incurred in the development stage of such intangible assets can be accurately calculated.
- (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.
- The Company's intangible assets such as trademarks with uncertain beneficial terms shall not be amortized.
- (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 **Methods of recognizing impairment provisions of inventories, property investment and assets other than financial assets**

(1) Impairment test

The Company conducted an impairment test for the assets that show the following signs at the balance sheet date:

- 1) Where the asset prices fall substantially in the current period, the price fall is obviously higher than the estimated decrease from the passage of time or normal use of such assets.
- 2) Where a dramatic change in the economic, technology and legal environment in which the Company operates and the markets in which the assets are located occurs in the period or recent period, a negative effect is imposed on the enterprise.
- 3) Increase in market interest rates or investment return in other markets results in a significant decrease of recovered amount of such assets.
- 4) It is proved that the assets are obsolete or are damaged.
- 5) The assets have been or will be idle, no longer used or intended to be disposed of ahead of schedule.
- 6) It is proved that the economic benefits of the assets have been or will be lower than expectation.
- 7) It is proved that other assets have shown indication of impairment.

An annual impairment test is conducted for the intangible assets with an uncertain useful life, whether an indication of impairment exists or not.

(2) Recognition of asset groups

Where it is difficult to estimate the recoverable amount of a single asset, the recoverable amount of an asset group is determined on the basis of the asset group to which such asset belongs.

The asset groups are recognized based on that the combination of certain assets can generate cash flows that are independent of other assets or the assets combination.

(3) Determination of recoverable amount of assets or asset group

As an impairment test is conducted, the recoverable amount is determined based on the higher between the net amount of fair value of assets less than disposal expenses and the present value of estimated future cash flows from the assets.

The net amount of fair value of the assets or asset group less disposal expenses is determined according to the following methods:

- 1) The agreed price in the sales agreement reached in arm's length transactions minus the disposal expenses directly attributable to such asset.
- 2) Where there is no sales agreement but an active asset market exists, the market price of such asset minus disposal expenses is adopted. The market price of such asset is determined based on the offer price by the seller of such asset.
- 3) Where there are no sales agreement and an active asset market, reference is made to the most recent transaction prices of similar assets in the same industry or the estimate made based on the aforesaid transaction prices.

If it is still unable to reliably estimate the net amount of the fair value of the asset after deduction of disposal expenses based on the methods above, the recoverable amount is the present value of estimated future cash flows of such asset.

Estimated future cash flows of the asset or asset group are the discounted value of the estimated future cash flows generated during the estimated useful life and the course of continuing use of the asset or asset group at the time of disposal using the Company's weighted average cost of capital, interest rate of incremental loan and a pre-tax interest rate that reflects current market assessments of time value of money and the risks specific to the asset, after reasonable adjustment.

(4) Treatment or reversal of impairment

If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount. The reduced amount is recognized as an impairment loss in the profit or loss, and a relevant impairment provision of the asset is made.

Once recognized, the impairment loss cannot be reversed in future accounting periods and will be transferred out when the asset is disposed.

**18. Verification of goodwill**

In a merger of two enterprises not under the same control, the difference of the merger cost in excess of the fair value of net amount of identifiable assets of the acquired party is recognized as the goodwill. An impairment test should be conducted once at the end of a year for the goodwill established after the merger and together with the impairment test for the relevant asset group or combination of assets.

**19. 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.

**20. 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.

**21. Verification of long-term payables**

The lease payment payable by the Company for the financially-leased fixed assets and other payables such as instalment payments for acquisition of fixed assets, are verified as long-term payables. At the commencement date of the lease, the lower of fair value of the leased assets at the commencement date and the minimum lease payment is treated as the book value of the leased asset, and the minimum lease payment is treated as the book value of long-term payables, and the difference is treated as unrecognized financial expenses that will be amortized using actual interest rates.

**22. 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.

**23. Staff Salary**

- (1) Staff salary of the Company primarily includes:
  - Staff salary, bonus, allowance and subsidies;
  - Welfare provision;
  - Social insurance such as medical insurance, pension insurance, unemployment insurance, work injury insurance and birth insurance;
  - Housing reserve fund, labour union expenditures and staff education expenditures;
  - Benefits not in monetary value;
  - Compensation paid for the termination of employment contracts with employees;
  - Relevant expenditures relating to the provision of other services by employees.

## (2) Recognition and Calculation

In the accounting period in which employees provide service to the Company, payable staff salary, except the compensation from dismissal of employees but including monetary salary and benefit not in monetary value, is recognized as liabilities. The salary is booked as the cost of relevant asset or the profit or loss in that period.

The expenditures paid by the Company on behalf of employees in medical insurance, pension insurance, unemployment insurance, work injury insurance, birth insurance, housing reserve fund, labour union expenditure are accrued on a percentage of total staff salary. The basis and share of provision for the expenditure above are as follows:

Items	Basis of provisions	Share of provisions	Note
Pension insurance	Total salary verified last year	21%	Verified annually
Unemployment insurance	Total salary verified last year	2%	Verified annually
Work injury insurance	Total salary verified last year	0.8%	Verified annually
Medical insurance	Total salary verified last year	9%	Verified annually
Birth insurance	Total salary verified last year	0.8%	Verified annually
Housing reserve fund	Total salary verified last year	8%	Verified annually. New employees hired after 1 December 1998 will be granted with housing allowance at a rate of 18%.
Union funds	Total monthly salary	2%	Verified monthly

**24. Compensation for dismissal of employees**

## (1) Recognition of compensation for dismissal of employees

The compensation paid by the Company for termination of employment contract with employees before expiry of the contracts is recognized as estimated liabilities in profit and loss statement of the period after the conditions of recognition under "Accounting Standards for Business Enterprises No.9-Salary" have been satisfied.

## (2) Calculation of compensation for dismissal of employees

- In the dismissal schemes in which employees have no option, the Company makes provisions of compensation for dismissal of employees as liabilities according to the number of employees planned to be dismissed and compensation amount.
- In the voluntary redundancy, the Company makes provisions of compensation for dismissal of employees as liabilities according to the estimated number of employees and compensation amount.

**25. 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:

- 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.
- 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 falls 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 estimated.
- 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 estimated.

**26. Accounting Of Income Tax**

The Company applies the balance sheet liability method for accounting of income tax.

The Company recognizes deferred tax assets arising from deductible temporary difference but the amount is limited to the taxable income that the Company can possibly obtain to deduct the deductible temporary differences. Where sufficient taxable income can be possibly obtained, the reduced amount shall be reversed. The amount of sufficient taxable income possibly obtained by the Company in future is confirmed according to the business plans (or profit estimate) approved by the management.

Except deferred tax liabilities incurred in the following transactions, the Company recognizes all taxable deferred tax liabilities arising from the temporary difference:

- 1) Initial recognition of goodwill;
- 2) Initial recognition of assets or liabilities created in the transactions with the following characteristics:
  1. The transaction is not a corporate merger;
  2. When the transaction occurs, both of the accounting profit and taxable income (or deductible loss) are not affected.

On the balance sheet date, deferred tax assets and deferred tax liabilities of the Company are calculated at a rate during the period in which the Company expects to recover such assets or settle the liabilities, pursuant to the requirements of tax laws. When applicable tax rates change, the recognized deferred tax assets and deferred tax liabilities are re-calculated and the amount of change is accounted for as income tax in the change period, except the deferred tax assets and deferred tax liabilities created in transactions or items that are directly recognized in shareholders' equity.

On the balance sheet date, the Company reviews the book value of deferred tax assets. If the Company cannot possibly obtain sufficient taxable income in future to deduct the benefits of deferred tax assets, the book value of deferred tax assets is reduced accordingly.

## 27. Method of preparing consolidated financial statements

When the Company has a right to control the financial and operation policies of an entity, and benefit from the operation of such entity, the Company is considered to have a controlling right in the entity.

Except those subsidiaries from the group restructuring, the result of an acquired subsidiary not under the same control shall be consolidated into the income statement commencing from the effective date of acquisition and the result of a disposed subsidiary not under the same control shall be consolidated into the income statement up to the effective date of disposal. In preparing the consolidated balance sheet at the acquisition date, identifiable assets and liabilities of the acquired party shall be stated according to the fair value recognized in the merger.

In case of acquisition of a subsidiary under the same control, the consolidated income statement includes income, expenses and profit of all merging parties arising from the beginning of the merger to the merger date. Net profit realized by the merged party before the merger shall be reflected in a single item in consolidated income statement. Consolidated cash flow statement should include the cash flows of all merging parties from the beginning of the merger to the merger date.

In preparation of consolidated statements, long-term equity investment in a subsidiary is adjusted under equity method for the purpose that net profit or loss of the investee company can be consolidated after adjustment based on the fair value of all identifiable assets of the investee company at the time of investment.

In the event there is an inconsistency of accounting policies between the subsidiary and the Company, adjustments to the financial statements of subsidiaries will be made by the Company according to the accounting policy of the Company when necessary.

All transactions, balance and settlement between the entities within the scope of consolidation are offset in preparation of consolidated financial statements.

Net profit or loss held by minority shareholders in the merged subsidiary is stated in a separate item in the consolidated financial statements.

Minority shareholders' interest in net assets of the merged subsidiary is stated in a separate item in the consolidated financial statements.

## 28. Impact of changes in accounting policies and accounting estimates during Reporting Period

- (1) Change in accounting policy

Since 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance, pursuant to which amendments were made to the following accounting policies of the Company and retrospective adjustments have been made in the comparative financial statements in accordance with the requirements of "Notification of Implementation of Information Disclosure on Financial Accounting relating to New Accounting Standards" 《關於做好與新會計準則相關財務會計資訊披露的通知》(Zheng Jian Fa[2006]No.136) and "Q&A No. 7 regarding Rules on Information Disclosure of Publicly-listed Companies — Preparation and Disclosure of Comparative Financial Information during the Transitional Period of Existing and New Accounting Standards" issued by China Securities Commission, during which:

- a. Previous implementation of tax payable method for income tax is changed to the implementation of balance sheet liability method. Such adjustment affects the profit from January to June 2006 amounting to RMB 3,066,031.43, owner's equity on 1 January 2007 amounting to RMB 18,863,243.59, during which equity attributable to the shareholders of the parent increased by RMB14,405,410.66, while those attributable to minority shareholders increased by RMB4,457,832.93.

- b. The Company does not adjust the initial investment cost for the premium of initial investment cost over the fair value of net identifiable financial assets of the investee in accordance with New Accounting Standards No.2. The differences no longer amortized. Such adjustment affected the profit from January to June 2006 amounting to RMB269,710.27, while other differences between the borrowers' long-term equity investment calculated by equity method are no longer amortized. Such amendment increases the retained earnings on 1 January 2007 by RMB44,057.65, among which equity attributable to shareholders of the parent increased by RMB30,840.36 and those attributable to minority shareholders increased by RMB13,217.29.
- c. In the combined financial statement prepared by the Company on 31 December 2006 in accordance with the prevailing accounting standards, the minority interests were RMB38,429,342.88. Shareholder's equity should be included under the new accounting standards, by which the shareholder's equity on 1 January 2007 increased by RMB38,429,342.88. In addition, for assets with deferred income tax arising from provisions for impairment on assets, equity attributable to minority interests were RMB4,471,050.22, while those under the new accounting standards amounted to RMB42,900,393.10.

(2) Change of accounting estimates

During the Reporting Period, the Company had made amendments on the ratio of provisions for aging in the provisions for bad debts of receivables and on the expiry date of depreciation of part of a certain class of fixed assets. Details please refer to Note 2 (9) and Note 2(13).

**29. Revision and impact of significant error in the previous period**

The Company did not have any revision of significant error in the previous period.

(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).

**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%, 5% and 4% respectively.

**5. Real property tax**

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

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

(4) Controlling Subsidiaries and Joint Venture Companies

Particulars of Subsidiaries and Joint Venture Companies are as follows:

Name	Registered capital	Investment	% of equity held		Principal operations	Consolidated or not	Note
	0,000		0,000	Direct			
Nanjing Panda Electronic Material Co., Ltd.	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 Mechanical Engineering Plant	RMB4,500.00	RMB3,055.38	99.00	—	production and sale of electronic products, telecommunication equipment and appliance and apparatus	Y	
Nanjing Panda Accurate Machinery Co., Ltd.	RMB500.00	RMB362.53	70.00	—	production of equipment and spare parts for electronic industry; processing of sophisticated machinery	Y	
Nanjing Panda Mechanical Manufacturing Co., Ltd.	RMB500.00	RMB350.00	70.00	—	metal components	Y	
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	RMB3,000.00	RMB3,000.00	100.00	—	plastic product & accessories	Y	
Nanjing Panda Machinery Co., Ltd.	RMB300.00	RMB210.00	70.00	—	processing and manufacturing of mechanical parts	Y	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	RMB100.00	RMB51.00	51.00	—	production and sales of household appliance	N	2
Nanjing Electronic Calibration Co., Ltd.	RMB100.00	RMB70.00	70.00	—	accreditation of electromechanical products	Y	
Nanjing Panda System Integration Co., Ltd.	RMB300.00	RMB180.00	51.00	—	development and sales of computer software	Y	
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	USD80.00	RMB331.08	50.00	—	development, production and sales of power supply equipment	N	3
Nanjing Panda Electronics Manufacturing Co., Ltd.	USD1,000.00	RMB3,724.11	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:* The company has terminated its operation and was cancelled in August 2006. Therefore, its financial statements are no longer consolidated with the Company.

*Note 2:* 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 3:* This company is a jointly invested company controlled by the joint investor. Therefore, by the equity method, it was not incorporated into the scope of consolidation.





## (5) Notes to the Consolidated Financial Statements

## 1. Cash and bank balances

Item	30 June 2007	31 December 2006
Cash	745,020.87	657,314.99
Bank deposit	114,930,125.70	253,195,108.33
Other cash and bank deposit	341,163,512.69	398,241,606.39
Total	<u>456,838,659.26</u>	<u>652,094,029.71</u>

- (1) The period-end balance of other cash and bank deposit includes prior notice deposit of RMB295,310,502.26.
- (2) The period-end balance of other cash and bank deposit includes marginal deposit for security of RMB38,353,010.43 which may not be drawn at any time.
- (3) The decrease of 29.94% at the end of the Reporting Period than that at 2006 year-end was mainly due to repay of short-term bank loans and increase of payment for purchase.

## 2. Bills receivable

Type of bills	30 June 2007	31 December 2006
Bank acceptance notes	314,200.01	31,775,270.00
Commercial notes	95,277.64	—
Total	<u>409,477.65</u>	<u>31,775,270.00</u>

- (1) The period-end bills receivables include no amount due from shareholders with 5% or above of shareholding (with voting power) in the Company.
- (2) The period-end bills receivable have no pledge or security.
- (3) The discount business of bank acceptances without the accounting of the item transacted by Nanjing Huage Dian Qi Plastic Industrial Co., Ltd., a subsidiary of the Company for Nanjing Panda Television Co., Ltd. has the bank acceptances balance with discounted and without at term is RMB174,990,000, including the marginal deposit of RMB107,495,000 deposited by Nanjing Panda Television Co., Ltd., while the expenditure occurred in such discount business is afforded by Nanjing Panda Television Co., Ltd.
- (4) The decrease of 98.71% at the end of the reporting period than that at 2006 year-end was mainly due to the fact that such bills were discounted and fell due at the end of the Reporting Period.

## 3. Accounts receivable

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

Item	30 June 2007			31 December 2006		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within 1 year	151,768,612.72	80.74	7,378,496.60	162,406,805.80	84.48	7,883,704.26
1 - 2 years	11,745,159.98	6.25	2,573,914.97	6,661,950.10	3.47	2,338,070.88
2 - 3 years	4,291,495.73	2.28	2,289,374.72	5,131,993.41	2.67	2,190,629.71
3-5 years	10,072,900.82	5.36	8,781,749.41	8,474,396.80	4.40	6,847,131.62
Over 5 years	10,099,110.97	5.37	10,099,110.97	9,573,802.87	4.98	9,573,802.87
Total	<u>187,977,280.22</u>	<u>100.00</u>	<u>31,122,646.67</u>	<u>192,248,948.98</u>	<u>100.00</u>	<u>28,833,339.34</u>

- (2) The percentage of provision for bad debt is set out on Note 2(9).
- (3) The period-end accounts receivable include a loan of RMB1,776,396.95 due from Panda Electronic Group Company Limited, which was held by the Company as to 51.10% (with voting power).

- (4) The five largest debtors amounted to RMB66,184,230.00, accounting for 35.21% of the total value of the accounts receivable, of which:

Debtors	Amounts RMB	Outstanding Time	Nature of debts
China Electronics Technology Group Corporation	16,950,091.99	Within 1 year	Trade receivables
Nanjing Panda Television Co., Ltd.	15,865,087.71	Within 1 year	Trade receivables
Yomakoh Precision Plastics (Wuxi) Co., Ltd.	13,394,575.57	Within 1 year	Trade receivables
Nanjing Broadcasting Network Inc.	11,023,316.16	Within 1 year	Trade receivables
Nanjing Sharp Electronic Co., Ltd.	8,951,158.57	Within 1 year	Trade receivables
Total	<u>66,184,230.00</u>		

#### 4. Other receivable

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

Item	30 June 2007			31 December 2006		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within 1 year	81,972,297.27	36.69	8,919,267.90	24,278,197.66	3.27	2,459,740.91
1 - 2 years	16,174,218.61	7.24	1,779,378.11	387,196,982.95	52.08	26,293,018.23
2 - 3 years	11,378,042.20	5.09	5,739,159.22	245,141,541.48	32.97	75,545,126.22
3 - 5 years	60,175,001.73	26.94	48,526,388.20	34,064,711.60	4.58	30,851,769.28
More than 5 years	53,707,361.46	24.03	53,707,361.46	52,795,939.99	7.10	52,795,939.99
Total	<u>223,406,921.27</u>	<u>100.00</u>	<u>118,671,554.89</u>	<u>743,477,373.68</u>	<u>100.00</u>	<u>187,945,594.63</u>

- (2) Percentage of bad debt provision can be referred to Note 2(9).
- (3) The period -end other receivables include RMB815,389.55 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 RMB87,432,955.65, accounting for 39.26% of the total other receivables for the year. The debtors are:

Debtors	Outstanding amounts RMB	Date of debts	Nature of debts
House-building project under raised funds	45,153,340.74	Within 1 year, 1-2 years	Advances
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd	21,372,784.19	More than 5 years	Current accounts and investment fund
Nanjing Panda Chenguang Electronics Group Limited	12,986,830.72	More than 5 years	Current accounts
Nanjing Subway Construction Headquarters	4,500,000.00	Within 1 year	Current accounts
Shanghai Zhongtong Information Network Co., Ltd.	3,420,000.00	More than 5 years	Current accounts
Total	<u>87,432,955.65</u>		



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

Name of invested companies	Amount of debts	Date of debts	Amounts provision for bad debts	Percentage of provision for bad debts (%)	Cause of provision for bad debts
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd	21,372,784.19	More than 5 years	21,372,784.19	100.00	Dormant
Nanjing Panda Chenguang Electronics Group Limited	12,986,830.72	More than 5 years	12,986,830.72	100.00	Dormant
Shanghai Zhongtong Information Network Co., Ltd.	3,420,000.00	More than 5 years	3,420,000.00	100.00	unreachable
Nanjing Panda Digital Technology Development Co., Ltd.	2,000,000.00	More than 5 years	2,000,000.00	100.00	Unrecoverable
Panda Electronic Group Labour Service Company	1,851,271.47	Within 2 - 3 years	1,851,271.47	100.00	Bankrupt and in liquidation
<b>Total</b>	<b>41,630,886.38</b>		<b>41,630,886.38</b>		

- (6) The decrease of 70.05% at the end of the reporting period than that at 2006 year-end was mainly due to recovery of a debt of RMB500,000,000 from Jiangsu International Trust & Investment Corporation Limited, details of which are set out in Note 5(7).

## 5. Prepayment

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

Item	30 June 2007		31 December 2006	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	92,684,756.10	73.25	65,304,816.70	85.50
1 - 2 years	26,054,437.76	20.59	10,579,333.65	13.85
2 - 3 years	7,487,516.86	5.92	479,416.72	0.63
3 - 5 years	293,508.85	0.23	16,900.00	0.02
More than 5 years	16,900.00	0.01	—	—
<b>Total</b>	<b>126,537,119.57</b>	<b>100.00</b>	<b>76,380,467.07</b>	<b>100.00</b>

- (2) Period-end prepayment does not include any amount due from Panda Electronic Group Company Limited, the holder with 51.10% shareholding (with voting power) in the Company.
- (3) At the end of the period, the total of the biggest five prepayment was RMB60,708,582.76, accounting for 47.98% of the total of which:

Unit	Amount RMB	Nature of Debt
China Qingan World Trade Co., Ltd.	35,953,432.76	Prepayment for goods
Jiangsu Jiecheng Chezhai Electronics Information Engineering Co. Ltd. (江蘇捷誠車載電子信息工程有限公司)	10,000,000.00	Prepayment for goods
Suzhou Chuangmei Technology Co., Ltd.	5,155,150.00	Prepayment for goods
Beijing Xingwang Xunda Technology Development Co., Ltd.	4,800,000.00	Prepayment for goods
Jiangsu Jingwei Computers Co. Ltd.	4,800,000.00	Prepayment for goods
<b>Total</b>	<b>60,708,582.76</b>	

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

6 Stocks and provision for diminution

(1) Stocks

Stock	At 31 December 2006	Increase in the Period	Decrease in the Period	At 30 June 2007
Raw materials	53,540,430.52	265,836,520.09	193,669,294.19	125,707,656.42
Circulating materials	652,926.15	2,903,747.18	2,614,131.94	942,541.39
Stored commodities	42,539,374.33	282,875,857.65	272,163,990.39	53,251,241.59
Sub-contracting materials	802,640.55	58,624,771.76	46,690,979.42	12,736,432.89
Semi finished goods	209,534.36	1,583,565.51	1,723,560.78	69,539.09
Delivered commodities	21,880,770.27	15,585,137.75	31,017,915.69	6,447,992.33
Work in progress	136,456,512.44	346,182,975.40	326,604,262.28	156,035,225.56
<b>Total</b>	<b>256,082,188.62</b>	<b>973,592,575.34</b>	<b>874,484,134.69</b>	<b>355,190,629.27</b>

(2) Provision for diminution of the stocks

Stock	At 31 December 2006	Provision in the Period	Decrease in the Period		At 30 June 2007
			Write-off	Reverse	
Raw materials	6,069,658.67	7,418,611.13	4,708,264.61	698,121.34	8,081,883.85
Stored commodities	7,500,663.65	—	2,185,082.74	288,290.13	5,027,290.78
Delivered commodities	4,439,572.99	—	—	—	4,439,572.99
Work in progress	1,234,342.60	—	—	—	1,234,342.60
<b>Total</b>	<b>19,244,237.91</b>	<b>7,418,611.13</b>	<b>6,893,347.35</b>	<b>986,411.47</b>	<b>18,783,090.22</b>

(3) 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.

(4) The increase of 38.7% at the end of this reporting period than that at 2006 year-end was due to the increase of procurement by demand of order of the Company.



## 7. Long term equity investment

Name of invested unit	Share of equity holding (%)	Initial investment	Equity adjustment for the period	Accumulated equity adjustment	Other transferred	Closing balance	Closing provision for impairment	Opening provision for impairment	Note
Nanjing Wei Chuang LI Terminal Co., Ltd.	35.00	34,769,364.00	—	(34,769,364.00)	—	—	—	—	
Nanjing Ericsson Panda Communication Company Limited	27.00	60,863,279.60	60,629,331.90	240,448,366.09	—	301,311,645.69	—	—	
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	5,791,969.00	20,635,077.83	—	90,322,515.58	—	—	
Intenna (Nanjing) Communications Systems Ltd. Co	35.00	1,750,000.00	(237,889.87)	729,935.65	—	2,479,935.65	—	—	
MPower Batteries (Nanjing) Ltd.	40.00	4,200,000.00	—	(4,200,000.00)	—	—	—	—	
Nanjing Panda Tamura Communication Equipment Co., Ltd	50.00	3,310,800.00	—	(3,310,800.00)	—	—	—	—	
Nanjing Panda Hitachi Technology Co., Ltd.	49.00	6,533,170.00	(4,384,704.80)	(6,533,170.00)	—	—	—	—	c
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
Beijing SE Putian Mobile Communication Limited	20.00	47,664,270.97	76,503,511.63	213,841,745.22	—	261,506,016.19	—	—	
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd	33.33	1,000,000.00	—	(124,024.81)	—	875,975.19	875,975.19	875,975.19	
Shanghai Zhonglong Information Network Co., Ltd	45.00	450,000.00	—	(450,000.00)	—	—	—	—	
Nanjing Electronics (Kunshan) Co., Ltd	40.00	1,757,905.88	—	695,239.94	—	2,453,145.82	—	—	
Nanjing Panda Medical Electronics Co., Ltd.	50.00	500,000.00	—	(289,888.13)	—	200,111.87	200,111.87	200,111.87	
Tai Lei Zi Panda Transportation System Company Limited	40.00	8,626,600.00	—	(368,665.76)	—	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	
Nanjing Huaxian High Technology Company Limited	20.00	10,000,000.00	—	—	—	10,000,000.00	—	—	
Hua Fei Colour Display Systems Company Limited	25.00	392,892,722.42	(5,075,725.16)	(5,075,725.16)	—	387,816,997.27	—	—	d
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	
<b>Total</b>		<b>670,451,658.83</b>	<b>133,226,492.71</b>	<b>413,317,457.06</b>	<b>—</b>	<b>1,083,769,115.89</b>	<b>19,610,925.45</b>	<b>19,610,925.45</b>	

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

(b) The company has terminated its operations.

(c) The equity interest of the company has been transferred and relevant formalities for registration of change of equity interest with the administration for industry and commerce have been completed.

- (d) On 9 March 2005, the Company entered into a debt assignment agreement with Panda Mobile and Jiangsu Provincial Investment Management Co. Ltd., whereby it is agreed that the debt owed by Panda Mobile to the Company in the amount of RMB500,000,000 was to be assigned to Jiangsu Provincial Investment Management Co. Ltd. ("Jiangsu Investment Management") which will answer for the repayment. This agreement took effect from 9 March 2005. On 8 May 2006, the Company, Jiangsu Investment Management and Jiangsu International Trust & Investment Corporation Limited ("Jiangsu International Trust") entered into the Agreement on Assignment of Debt. Pursuant to the agreement, Jiangsu International Trust will undertake the Debt owed by Jiangsu Investment Management to the Company in the amount of RMB500,000,000. On 8 May 2006, the Company and Jiangsu International Trust entered into the Equity Transfer Agreement, pursuant to which Jiangsu International Trust will transfer 25% equity interest of Hua Fei Colour Display Systems Company Limited to the Company to repay the said debt. The aforesaid agreements were considered and approved by the Board of Directors and by the shareholders of the Company at the 2006 EGM. As approved by the Reply to Transfer of Equity Interest of Hua Fei Colour Display Systems Company Limited (Su Guo Xin Fa [2006] No. 148), Jiangsu Provincial Guo Xin Group authorised the valuation report and approved the filing of the transfer to be conducted on Jiangsu Provincial Assets and Equity Exchange. On 30 January 2007, Jiangsu Provincial Assets and Equity Exchange confirmed completion of the transfer in its Confirmation on Completion of Transfer of 25% Equity Interest of Hua Fei Colour Display Systems Company Limited (Su Chan Jiao [2007] No. 004). As approved by the Ministry of Commerce in the Reply to Transfer of Equity Interest of Hua Fei Colour Display Systems Company Limited dated 28 April 2007 (Shang Zi Pi [2007] No. 822), the transfer was registered with the administration of industry and commerce on 20 May 2007, representing completion of formalities for the said transfer of equity interest.

## 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
<b>Fixed assets, at cost</b>						
1 January 2007	385,415,431.47	287,389,108.83	7,524,901.69	14,371,255.90	18,055,047.07	712,755,744.96
<b>Increase in the period</b>	—	4,046,755.00	1,344,352.25	1,752,565.32	106,973.00	7,268,645.57
Transfer to construction in progress	—	3,144,435.00	70,000.00	1,409,266.46	—	4,623,701.46
<b>Decrease in the period</b>	3,341,673.88	910,973.83	—	99,190.00	—	4,351,837.71
30 June 2007	382,073,757.59	290,542,890.00	8,869,253.94	16,024,631.22	18,162,020.07	715,672,552.82
<b>Fixed assets, accumulated depreciation</b>						
1 January 2007	80,476,377.88	120,769,101.99	4,210,585.58	4,368,598.33	11,056,158.65	220,880,822.43
<b>Increase in the period</b>	6,132,178.05	10,082,763.30	364,212.40	815,355.29	499,312.94	17,893,821.98
<b>Decrease in the period</b>	904,334.04	902,881.46	—	97,137.80	—	1,904,353.30
30 June 2007	85,704,221.89	129,948,983.83	4,574,979.98	5,086,815.82	11,555,471.59	236,870,291.11
<b>Fixed assets, book value</b>						
1 January 2007	304,939,053.59	166,620,006.84	3,314,316.11	10,002,657.57	6,998,888.42	491,874,922.53
30 June 2007	296,369,535.70	160,593,906.17	4,294,455.96	10,937,815.40	6,606,548.48	478,802,261.71
<b>Finance Lease of fixed assets</b>	—	48,585,104.74	—	—	—	48,585,104.74

The closing balance of fixed assets included RMB193,082,652.14 of fixed assets - building used for pledge (stated at cost), the accumulated depreciation of RMB51,688,798.98, and the net value of RMB141,393,853.16, which are used for pledge for the borrowings of RMB210,000,000.00 from Industrial and Commercial Bank of China, Nanjing Hanfu Branch with a term ended 4 December 2007. Save for the above-mentioned fixed assets, there is no other fixed assets used for pledge.

### Provision of impairment of fixed assets

Type	1 January 2007	Increase in the period	Decrease in the period	30 June 2007
Buildings	285,356.16	—	—	285,356.16
Machinery and equipment	6,890,570.97	—	—	6,890,570.97
Other equipment	963,614.14	—	—	963,614.14
<b>Total</b>	<b>8,139,541.27</b>	<b>—</b>	<b>—</b>	<b>8,139,541.27</b>

## 9. Construction in progress

## (1) Construction in Progress

Name of Construction Project	1 January 2007	Increase in the year	Transfer to fixed assets in the period	Decrease in the period	30 June 2007	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	7,140,318.02	1,387,315.08	—	—	8,527,633.10	—	Government bond capital
Expanding project of building 103	6,118,448.97	—	—	—	6,118,448.97	—	Internal capital
Xingang project	6,463,940.58	1,700,951.33	—	—	8,164,891.91	—	Internal capital
Financial informatization project	492,300.00	134,000.00	—	—	626,300.00	—	Internal capital
Other	4,331,551.68	5,845,653.97	4,623,701.46	1,150,382.72	4,403,121.47	—	Internal capital
<b>Total</b>	<b>42,700,287.70</b>	<b>9,067,920.38</b>	<b>4,623,701.46</b>	<b>1,150,382.72</b>	<b>45,994,123.90</b>	<b>—</b>	
Including: loan expensed capitalized	—	—	—	—	—	—	

## (2) Provision for impairment of construction in progress

Name of Construction Project	1 January 2007	Increase in the period	Decrease in the period	30 June 2007	Reasons of Provision
Jiangning base	18,153,728.45	—	—	18,153,728.45	Dormant
Expanding project of building 103	6,118,448.97	—	—	6,118,448.97	To be demolished and relocated
Other	1,941,771.48	—	—	1,941,771.48	
<b>Total</b>	<b>26,213,948.90</b>	<b>—</b>	<b>—</b>	<b>26,213,948.90</b>	

## 10. Intangible assets

## (1) Intangible assets

Type	Acquisition method	Original amount	1 January 2007	Increase in the period	Transfer to this period	Amortisation for the period	Accumulated amortisation	30 June 2007	Remaining period for amortisation
Land use right 1	purchase	2,097,551.00	1,613,500.80	—	—	21,513.34	505,563.54	1,591,987.46	37 years
Land use right 2	repayment of debts by way of assets	9,700,000.00	9,675,689.00	—	—	145,866.00	170,177.00	9,529,823.00	32 years and 8 months
Trademark use right	purchase	2,300,000.00	929,975.61	—	—	100,000.00	1,470,024.39	829,975.61	—
Other	purchase	873,380.00	725,024.66	74,800.00	—	93,959.69	167,511.03	705,868.97	—
<b>Total</b>		<b>170,036,131.00</b>	<b>12,944,190.07</b>	<b>74,800.00</b>	<b>—</b>	<b>361,335.03</b>	<b>2,313,275.96</b>	<b>12,657,655.04</b>	

## (2) Provision for impairment of intangible assets

Items	1 January 2007	Increase in the period	Decrease in the period	30 June 2007	Reasons of charging
Trademark use right	210,000.00	—	—	210,000.00	The trademark has no use value
<b>Total</b>	<b>210,000.00</b>	<b>—</b>	<b>—</b>	<b>210,000.00</b>	

11. Long term deferred expenses

Item	Original amount	1 January 2007	Increase in the period	Amortisation for the period	Accumulated amortisation	30 June 2007
Factory premise for precision plastics	1,723,571.58	—	1,723,571.58	84,076.68	84,076.68	1,639,494.90
Power expansion and cable hut project	1,150,382.72	—	1,150,382.72	19,173.05	19,173.05	1,131,209.67
Other	863,491.37	—	863,491.37	155,887.04	155,887.04	707,604.33
<b>Total</b>	<b>3,737,445.67</b>	<b>—</b>	<b>3,737,445.67</b>	<b>259,136.77</b>	<b>259,136.77</b>	<b>3,478,308.90</b>

The increase at the end of the reporting period was mainly due to amortisation of expenses on renovation of the factory premises.

12. Deferred income tax assets

Confirmed deferred income tax assets

Items	30 June 2007	31 December 2006
Provision for bad debts	10,318,170.94	10,863,910.88
Provision for diminution in value of inventories	2,458,758.96	5,591,624.08
Provision for impairment of fixed assets	94,167.53	94,167.53
Provision for impairment of intangible assets	69,300.00	69,300.00
Provision for impairment of long term equity investment	758,487.14	1,196,058.95
Accrued expenses	2,141,680.30	1,048,182.15
<b>Total</b>	<b>15,840,564.87</b>	<b>18,863,243.59</b>

13. Loss from assets impairment

Items	1 January 2007	Provision in the period	Decrease in the period		30 June 2007
			Reversal	Transfer out	
1. Total provision for bad debts	216,778,933.97	27,367,487.56	4,952,379.91	89,060,551.18	150,133,490.44
2. Total provision for diminution of value of inventories	19,244,237.91	7,418,611.13	986,411.47	6,893,347.35	18,783,090.22
3. Total provision for impairment of long term investment	19,610,925.45	—	—	—	19,610,925.45
4. Total provision for impairment of fixed assets	8,139,541.27	—	—	—	8,139,541.27
5. Provision for impairment of intangible assets	210,000.00	—	—	—	210,000.00
6. Provision for impairment of construction in progress	26,213,948.90	—	—	—	26,213,948.90
<b>Total</b>	<b>290,197,587.50</b>	<b>34,786,098.69</b>	<b>5,938,791.38</b>	<b>95,953,898.53</b>	<b>223,090,996.28</b>

14. Short term loans

Type of loan	30 June 2007	31 December 2006	Note
Charged loans	210,000,000.00	210,000,000.00	(1)
Guaranteed loans	533,396,372.86	626,070,200.00	(2), (3), (4)
<b>Total</b>	<b>743,396,372.86</b>	<b>836,070,200.00</b>	

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



- (2) Panda Electronics Group Company, the parent company of the Company, guaranteed a bank loan of RMB80,000,000.00 on behalf of the Company for RMB100,000,000.00 guaranteed amount from Nanjing Branch of Citic Bank; guaranteed a bank loan of RMB120,000,000.00 on behalf of the Company for RMB120,000,000.00 guaranteed amount from Nanjing Branch of China Merchants Bank; guaranteed a bank loan of RMB126,000,000.00 on behalf of the Company from Nanjing Branch of Bank of Communication Co., Ltd. with a guaranteed term from 26 March 2007 to 28 August 2007; guaranteed a bank loan of RMB78,000,000.00 on behalf of the Company for RMB78,000,000.00 guaranteed amount from Nanjing Commercial Bank Chengdong Branch; guaranteed a bank loan of RMB50,000,000.00 on behalf of the Company for RMB50,000,000.00 guaranteed amount from Nanjing Branch of Hua Xia Bank Co., Limited with a guaranteed term from 9 March 2007 to 9 March 2008; guaranteed a bank loan of RMB20,000,000.00 on behalf of the Company from China Everbright Bank with a guaranteed term from 20 October 2006 to 20 October 2007.
- (3) Panda Electronics Group Company, the parent company of the Company, and Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, jointly guaranteed a bank loan of RMB29,587,672.86 granted to the Company by Industrial and Commercial Bank of China, Nanjing Hanfu Branch.
- (4) The remaining guaranteed loans of RMB29,808,700.00 were granted to the Company's subsidiaries under the guarantees provided by the Company.

#### 15. Bills payable

Types of Bills	30 June 2007	31 December 2006
Bank bills	25,463,425.00	37,794,637.80
Total	<u>25,463,425.00</u>	<u>37,794,637.80</u>

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

#### 16. Accounts payable and receipts in advance

Item	30 June 2007	31 December 2006
Accounts payable	189,015,965.22	148,551,080.80
Receipts in advance	137,970,508.88	53,792,028.89
Total	<u>326,986,474.10</u>	<u>202,343,109.69</u>

- (1) Closing balance of accounts payable included RMB3,713,927.73 of payables due from 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 RMB27,889,361.01, accounting for 14.76% of the total accounts payable for the period. Including:

Name of units	Outstanding amounts	Age	Nature of debts
Pacific Digital Corp	9,114,840.33	Within 1 year	Payments for goods
Panda Digital Technology Development Co., Ltd. Guangdong Zhicheng Champion (Electronics Industrial) Group Co., Ltd.	4,989,511.92	1-2 years	Payments for goods
Nanjing Panda Television Co., Ltd.	4,693,786.60	1-2 years	Payments for goods
Suzhou Chuangmei Technology Co., Ltd.	4,545,611.08	Within 1 year	Payments for goods
Total	<u>27,889,361.01</u>		

- (3) Closing balance of receipts in advance included RMB3,402,099.60 of receipts in advance from shareholder Panda Electronic Group Ltd. with 51.10% of shareholding (with voting power) of the Company.
- (4) The increase of 156.49% at the end of this reporting period than that at 2006 year-end was mainly due to receipts in advance of RMB83,000,000.00 of payments for goods from China Petroleum & Chemical Corporation, accounting for 60.16% of the total receipts in advance.

17. Salaries payable

Items	1 January 2007	Increase in the period	Decrease in the period	30 June 2007
1. Salaries, bonuses, allowances and subsidies	1,416,301.30	41,060,493.24	41,313,755.57	1,163,038.97
2. Expenses for employee benefits	10,449,617.50	7,802,822.06	7,802,822.06	10,449,617.50
3. Expenses for social security including:	1,842,570.50	14,749,395.51	12,152,979.96	4,438,986.05
1) Expenses for medical insurance	209,067.57	903,446.82	706,618.20	405,896.19
2) Expenses for basic pension insurance	828,497.20	12,244,657.45	10,015,995.56	3,057,159.09
3) Expenses for unemployment insurance	(6,771.35)	1,020,682.62	897,101.73	116,809.54
4) Expenses for work-related injury insurance	311,120.21	261,132.81	235,949.52	336,303.50
5) Expenses for childbearing insurance	500,656.87	319,475.81	297,314.95	522,817.73
4. Housing reserve fund	623,515.10	4,518,660.46	3,676,677.34	1,465,498.22
5. Trade union funds and employee education funds	2,595,334.06	1,117,441.40	1,105,665.22	2,607,110.01
6. Non-monetary benefits	—	—	—	—
7. Compensation for employment termination	437,663.40	—	—	437,663.40
8. Other including: payment of shares settled in cash	—	—	—	—
Total	<u>17,365,001.86</u>	<u>69,248,812.67</u>	<u>66,051,900.38</u>	<u>20,561,914.15</u>

18. Taxes payable

Type	Tax rate	30 June 2007	31 December 2006	
Value-added tax	*	17%	19,485,723.65	21,310,947.42
Sales tax		5%	113,247.68	692,539.69
City maintenance tax*	*	7%, 5%	16,489,868.11	18,128,100.82
Enterprise income tax		15%-33%	(101,840.02)	782,851.61
Personal income tax		Under the Individual Income Tax Law	271,371.99	875,294.99
Property tax		1.2% of the 70% property value (at cost), or 12% of the rental income	(384,475.65)	412,106.66
Land use tax			(22,041.05)	—
Stamp duty			—	401.94
Education surcharges	*	4% of circulating tax	4,252,981.99	5,187,024.33
Local Fund			252,084.19	252,836.92
Total			<u>40,356,920.89</u>	<u>47,642,104.38</u>

(1) \*This item is the outstanding tax and outstanding education surcharges accumulated from the previous years.

(2) The negative tax is mainly for actually paid tax larger than taxes payable.

19. Other payables

(1) The period end balance of other payables was RMB143,143,502.95 of which RMB6,131,890.76 was due from Panda Electronic Group Co., Ltd. holding 51.10% shareholdings (with voting power) of the Company.

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

Name of units	Outstanding amounts	Age	Nature of debts
WKK China (Shanghai) Ltd.	12,253,339.50	Within 1 year	Due equipment payment
Jiangsu Financial Leasing Co., LTD	7,169,230.52	Within 1 year	Financing lease
Panda Electronics Group Company	6,406,941.21	Within 1 year or more than 3 years	Current
Nanjing Economic and Technological Development Zone Management Committee	4,424,425.48	With 1 year or 1-2 years	Specific appropriating fund
Intenna (Nanjing) Communications Systems Co. Ltd.	2,898,117.88	Within 1 year	Current
Total	<u>33,152,054.59</u>		

**20. Long term payables**

Item	Term	Initial amount	Accrued interest	Paid interest	30 June 2007	31 December 2006
Financing lease of fixed assets	February 2006 to December 2009	56,666,896.00	5,192,478.00	2,854,789.46	29,672,715.46	34,990,818.63
<b>Total</b>		<b>56,666,896.00</b>	<b>5,192,478.00</b>	<b>2,854,789.46</b>	<b>29,672,715.46</b>	<b>34,990,818.63</b>

- (1) The amount for financing leasing payable by the Company for the second half of 2007, 2008 and 2009 are RMB12,394,157.60, RMB13,342,758.00 and RMB6,273,488.40 respectively, totalling RMB32,010,404.00 for 3 years.
- (2) As at 30 June 2007, the balance of unrecognised financing expenses is RMB2,337,688.54.
- (3) The unrecognised financing expenses of the Company are amortised with the actual interest method.

**21. Deferred tax liabilities**

Item	30 June 2007	31 December 2006
Income tax payable arising from receipt of non-cash assets	11,550.64	11,550.64
<b>Total</b>	<b>11,550.64</b>	<b>11,550.64</b>

**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 2007	Increase/decrease for the period				30 June 2007	
		Bonus	New issue	Allotment	Share issue	transfer	Sub-total
<b>1. Non-circulating shares</b>							
1. Promoter's shares	334,715,000.00	—	—	—	—	—	334,715,000.00
including: state owned shares	334,715,000.00	—	—	—	—	—	334,715,000.00
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	334,715,000.00	—	—	—	—	—	334,715,000.00
<b>2. Circulating shares:</b>							
1. Domestic listed RMB ordinary shares	78,300,000.00	—	—	—	—	—	78,300,000.00
2. Domestic listed foreign shares	—	—	—	—	—	—	—
3. Overseas listed foreign shares	242,000,000.00	—	—	—	—	—	242,000,000.00
4. Other	—	—	—	—	—	—	—
Total for circulating share	320,300,000.00	—	—	—	—	—	320,300,000.00
<b>3. Total number of shares</b>	<b>655,015,000.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>655,015,000.00</b>

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

Name of shareholders or class of shares	Nature of shares	30 June 2007	31 December 2006
Panda Electronics Group Limited	Promoter's shares	355,015,000.00	355,015,000.00
Domestic listed RMB ordinary shares	Circulating A shares	58,000,000.00	58,000,000.00
Overseas listed foreign shares	Circulating H Shares	242,000,000.00	242,000,000.00
<b>Total</b>		<b>655,015,000.00</b>	<b>655,015,000.00</b>

23. Capital reserve

Items	1 January 2007	Increase in the period	Decrease in the period	30 June 2007
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	1,937,285.12	—	—	1,937,285.12
<b>Total</b>	<b>480,404,773.85</b>	<b>—</b>	<b>—</b>	<b>480,404,773.85</b>

24. Surplus reserve

Items	1 January 2007	Increase in the period	Decrease in the period	30 June 2007
Statutory surplus reserve	120,807,359.20	—	—	120,807,359.20
Discretionary surplus reserve	70,376,641.33	—	—	70,376,641.33
<b>Total</b>	<b>191,184,000.53</b>	<b>—</b>	<b>—</b>	<b>191,184,000.53</b>

25. Undistributed profit

Item	30 June 2007	31 December 2006
Opening undistributed profit	34,910,956.59	(58,682,872.55)
Add: opening undistributed profit adjustment	—	12,010,813.59
Adjusted opening undistributed profit	34,910,956.59	(46,672,058.96)
Add: net profit for the period/year	32,332,684.95	84,629,473.55
Less: transfer to statutory surplus reserve	—	3,046,458.00
transfer to discretionary surplus reserve	—	—
distributed dividends for ordinary shares	—	—
capitalization of dividends for ordinary shares	—	—
<b>Closing undistributed profit</b>	<b>67,243,641.54</b>	<b>34,910,956.59</b>

26. Income from principal activities

Items	Jan-Jun 2007	Jan-Jun 2006
Income from principal activities	309,473,736.68	355,706,000.15
Income from other activities	9,080,592.58	9,221,654.88
<b>Total</b>	<b>318,554,329.26</b>	<b>364,927,655.03</b>

(1) Income and cost of principal activities

Principal activities	Income from principal activities		Cost of principal activities	
	Jan-Jun 2007	Jan-Jun 2006	Jan-Jun 2007	Jan-Jun 2006
Electronic Manufacture products	116,157,532.69	104,826,843.71	98,688,161.97	86,153,875.22
Electronic information products	92,628,925.90	123,080,259.50	75,832,458.92	111,897,604.62
Electrometrical products	94,123,971.10	106,584,277.78	76,556,228.38	91,182,624.50
Satellite telecommunication products	—	17,100,000.00	—	10,640,341.69
Other	6,563,306.99	4,114,619.16	7,111,748.50	3,988,028.22
<b>Total</b>	<b>309,473,736.68</b>	<b>355,706,000.15</b>	<b>258,188,597.77</b>	<b>303,862,474.25</b>

Sales revenue from the largest five customers totalled RMB94,040,359.86, accounting for 30.39% of total sales revenue for the year. Including

Name of customers	Sales volume	Percentage (%)
Nanjing Broadcasting Network Inc.	29,778,625.52	9.62
LG Electronics Nanjing Display Co., Ltd.	24,929,733.00	8.06
Baodeqiang Technology Co. Ltd.	14,510,550.57	4.69
Yomakoh Precision Plastics Co., Ltd.	14,460,402.81	4.67
Nanjing Metro Co. Ltd.	10,361,047.96	3.35
Total	<u>94,040,359.86</u>	<u>30.39</u>

(2) Income and cost of other operations

Items	Jan-Jun 2007			Jan-Jun 2006		
	Income	Expense	Profit	Income	Expense	Profit
Rents	994,972.40	1,769,139.04	(774,166.64)	3,030,075.60	1,733,278.34	1,296,797.26
Electricity and water tariff	—	—	—	41,764.71	41,764.71	—
Sales of materials	2,907,533.19	2,014,295.19	893,238.00	730,868.98	421,054.19	309,814.79
Technical services fees	1,755,673.77	164,577.33	1,591,096.44	3,729,344.90	1,435,393.61	2,293,951.29
Labour service income	398,190.57	256,628.08	141,562.49	988,571.99	408,076.09	580,495.90
Other income	3,024,222.65	1,292,217.56	1,732,005.09	701,028.70	358,214.96	342,813.74
Total	<u>9,080,592.58</u>	<u>5,496,857.20</u>	<u>3,583,735.38</u>	<u>9,221,654.88</u>	<u>4,397,781.90</u>	<u>4,823,872.98</u>

27. Tax on principal activities and surtaxes

Items	Calculation basis	Rate	Jan-Jun 2007	Jan-Jun 2006
Sales tax	Rentals and labour, etc.	5%, 3%	1,258,743.85	845,825.33
City maintenance and construction tax	circulating tax	7%, 5%	608,403.08	762,030.09
Education surcharges	circulating tax	4%	324,217.95	496,311.18
Total			<u>2,191,364.88</u>	<u>2,104,166.60</u>

28. Financial expenses

Items	Jan-Jun 2007	Jan-Jun 2006
Interest expenses	26,607,112.73	26,416,482.10
Less: Interest income	(3,448,491.57)	(1,834,954.91)
Add: Exchange loss/gain	(251,856.25)	(27,761.86)
Add: Other expenses	4,059,056.28	1,440,642.69
Total	<u>26,965,821.19</u>	<u>25,994,408.02</u>

29. Asset impairments

Items	Jan-Jun 2007	Jan-Jun 2006
1. Bad debt losses	22,415,107.65	(11,612,534.89)
2. Loss from inventory price reduction	6,432,199.66	—
Total	<u>28,847,307.31</u>	<u>(11,612,534.89)</u>

The amount during the reporting period increased by 348.42% over the same period of 2006. This was mainly due to change in accounting estimate, the increased percentage of provision for bad debts and the increased provision for diminution of value of inventory.

30. Investment income

Name of invested companies	Jan-Jun 2007	Jan-Jun 2006	Note
Nanjing Ericsson Panda Communication Co., Ltd.	60,629,331.91	45,597,674.79	
Shenzhen Jianghua Electronic Co., Ltd.	5,791,969.00	(90,913.24)	
Intenna (Nanjing) Communication Systems Ltd. Co.	(237,889.87)	(643,068.73)	
Nanjing Panda Tamura Communication Equipment Co., Ltd.	—	(1,204,309.40)	
Nanjing Panda Hitachi Technology Co., Ltd.	1,937,765.20	(444,816.53)	c
Hua Fei Colour Display Systems Company Limited	(5,075,725.16)	—	
Beijing SE Putian Mobile Communication Limited	76,503,511.63	23,757,450.31	
Total	<u>139,548,962.71</u>	<u>66,972,017.20</u>	

- a) There are no significant limitations on remittance of income from the above investments.
- b) The amount during the reporting period increased by 108.37% over the same period of 2006. This was primarily due to the noticeable increase of net profit of Beijing SE Putian Mobile Communication Limited.
- c) Gains from equity transfer were recorded during the reporting period.

31. Non-operating income

Items	Jan-Jun 2007	Jan-Jun 2006
Net gain from disposal of fixed assets	6,937.63	311,735.80
Net gain from fine payments	5,650.00	170,353.59
Subsidy income	526,418.49	771,571.17
Other	279,390.52	23,035.94
Total	<u>818,396.64</u>	<u>1,276,696.50</u>

32. Non-operating expenses

Items	Jan-Jun 2007	Jan-Jun 2006
Net loss from disposal of fixed asset	1,752.20	1,887,205.57
Losses from debt restructuring	18,907,277.58	—
Net fine payment expenses	2,570.71	4,935.92
Donation	17,000.00	8,500.00
Non-recurring Loss	13,410.79	15,867.15
Other	59,240.65	52,626.89
Total	<u>19,001,251.93</u>	<u>1,969,135.53</u>

The amount during the reporting period increased by 864.95% over the same period of 2006. This was primarily attributable to the losses from debt restructuring due to the debt restructuring between the Company and Jiangsu International Trust & Investment Corporation Limited and taking-over of the equity interest in Hua Fei Colour Display Systems Company Limited.

33. Income tax expense

Items	Jan-Jun 2007	Jan-Jun 2006
Income tax payable in the period	1,693,704.80	1,658,534.50
Deferred income tax	3,022,678.72	3,066,031.43
Income tax expense	<u>4,716,383.52</u>	<u>4,724,565.93</u>

## (6) Notes to the financial statements of the holding company

## 1. Accounts receivable

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

Items	30 June 2007			31 December 2006		
	Amount	Percentage %	Provision for Bad debts	Amount	Percentage %	Provision for Bad debts
Within 1 year	27,749,417.60	91.98	1,668,539.06	62,995,344.69	96.86	1,904,614.35
1 - 2 years	836,536.80	2.77	521,816.44	1,468,790.22	2.26	837,693.01
2 - 3 years	1,059,484.00	3.51	604,742.00	92,986.78	0.14	92,986.78
3 - 5 years	102,496.25	0.34	102,496.25	127,374.25	0.20	102,691.86
More than 5 years	422,658.07	1.40	422,658.07	350,308.07	0.54	350,308.07
<b>Total</b>	<b>30,170,592.72</b>	<b>100.00</b>	<b>3,320,251.82</b>	<b>65,034,804.01</b>	<b>100.00</b>	<b>3,288,294.07</b>

(2) Percentage of provisions for bad debts is set out on note 2(9).

(3) The period-end bills accounts receivable include a loan of RMB5,664.00 due from Panda Electronic Group Limited which was held by the Company as to 51.10% (with voting power) .

(4) The five largest debtors amounted to RMB29,581,006.33, accounting for 98.05% of the total value of the accounts receivable, including:

Debtors	Amount	Ageing analysis	Nature of Debts
China Electronics Tech Groups	16,950,091.99	within 1 years	payment for goods
Nanjing Broadcasting Network Inc.	11,023,316.16	within 1 years	payment for goods
Nanjing Panda Television Co., Ltd.	598,114.18	1-2 years	payment for goods
Wuxi Huguang Xingyuan Photoelectricity Technology Co., Ltd.	517,684.00	2-3 years	payment for goods
Second Middle School of Huozhou in Shanxi Province	491,800.00	2-3 years	payment for goods
<b>Total</b>	<b>29,581,006.33</b>		

(5) The amount at the end of the reporting period decreased by 53.61% from the end of 2006, mainly due to the recovery of account sales of satellite and communication products in 2006.

## 2. Other receivables

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

Items	30 June 2007			31 December 2006		
	Amount RMB	Percentage %	Provision for Bad debts	Amount	Percentage %	Provision for Bad debts
Within 1 year	83,536,464.67	42.45	6,797,669.38	43,976,591.40	5.69	1,585,012.06
1 - 2 years	5,952,286.48	3.02	737,119.89	393,954,464.51	50.96	23,297,898.36
2 - 3 years	9,327,904.59	4.74	4,674,095.67	246,987,214.40	31.95	74,794,960.22
3 - 5 years	50,091,284.47	25.45	40,920,700.35	76,261,714.99	9.86	61,534,945.24
More than 5 years	47,877,556.80	24.34	47,877,556.80	11,949,077.12	1.54	11,949,077.12
<b>Total</b>	<b>196,785,497.01</b>	<b>100.00</b>	<b>101,007,142.09</b>	<b>773,129,062.42</b>	<b>100.00</b>	<b>173,161,893.00</b>

(2) Percentage of provisions for bad debts is set out on note 2(9).

(3) The period-end accounts receivable include a loan of RMB323,664.54 due from Panda Electronic Group Company Limited, which was held by the Company as to 51.10% (with voting power).

- (4) The five largest debtors amounted to RMB79,751,931.14, accounting for 40.53% of the total value of the accounts receivable, including:

Debtors	Outstanding amount	Date of debts	Nature of Debts
House-building project under raised funds	45,153,340.74	Within 1 year, 1-2 years	Advance
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd	18,161,759.68	more than 5 years	Current accounts and investment fund
Nanjing Panda Chengguang Electronics Co., Ltd.	12,986,830.72	more than 5 years	Current accounts
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	1,950,000.00	3-5 years	Current accounts
Shenzhen century flower electronics Co., Ltd	1,500,000.00	more than 5 years	Current accounts
Total	<u>79,751,931.14</u>		

- (5) The period-end amount decreased by 70.05% over the same period of 2006. This was mainly attributable to the fact that the company recovered a loan of RMB500,000,000 due from Jiangsu International Trust & Investment Corporation Limited (refer to note 5(7)).

### 3. Long-term equity investment

Name of invested companies	Share of equity holding (%)	Initial amount	Equity adjustment for the period	Accumulated equity adjustment	Other transfer-out	Closing balance	Closing provision for impairment	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	—	5,026,679.00	—	13,297,774.45	—	—	
Shenzhen Panda Electronics Co. Ltd.	95	6,175,000.00	—	(2,285,556.61)	—	3,889,443.39	—	—	
Nanjing Panda International Communication System Co. Ltd.	72	7,655,000.00	—	(7,655,000.00)	—	—	—	—	
Nanjing Ericsson Panda Communication Co Ltd	27	60,863,279.60	60,829,331.90	240,448,366.09	—	301,311,645.69	—	—	
Panda Electronic Material Co. Ltd.	94.34	500,000.00	—	(500,000.00)	—	—	—	—	
Nanjing Panda Technology Equipment Co. Ltd.	70	3,500,000.00	—	(3,500,000.00)	—	—	—	—	
Nanjing Panda Information Industry Co. Ltd	72	44,000,000.00	—	(17,885,198.90)	—	26,114,801.10	—	—	
Nanjing Lingyun Information Co. Ltd	30	150,000.00	—	(85,067.55)	—	64,912.45	64,912.45	64,912.45	
Nanjing Panda Appliance & Apparatus Co., Ltd.	70	700,000.00	—	1,751,282.95	—	2,451,282.95	—	—	
Shenzhen Jinghua Electronic Co. Ltd.	38.03	69,687,437.75	5,791,969.00	20,635,077.83	—	90,322,515.58	—	—	
Nanjing Panda Mechanical Engineering Plant	99	30,042,016.46	—	(2,985,465.00)	—	27,056,551.46	—	—	
Intenna (Nanjing) Communications Systems Ltd. Co.	35	1,750,000.00	(237,889.87)	729,935.65	—	2,479,935.65	—	—	
Nanjing Panda Accurate Machinery Co. Ltd.	70	3,625,300.00	—	891,533.40	—	4,516,833.40	—	—	
MPower Batteries (Nanjing) Ltd	40	4,200,000.00	—	(4,200,000.00)	—	—	—	—	
Nanjing Panda Mechanical Manufacturing Co. Ltd.	70	3,500,000.00	—	1,691,756.49	—	5,191,756.49	—	—	
Nanjing Panda Tamura Communications Equipment Co., Ltd.	50	3,310,800.00	—	(3,310,800.00)	—	—	—	—	
Nanjing Panda Hitachi Technology Co. Ltd	49	6,533,170.00	(4,384,704.80)	(6,533,170.00)	—	—	—	—	
Nanjing Panda Machinery Co. Ltd	70	2,100,000.00	—	(341,313.80)	—	1,758,686.20	—	—	
Nanjing Huage Dian Qi Plastic Industrial Co. Ltd	100	30,000,000.00	—	320,731.87	—	30,320,731.87	—	—	
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	51	510,000.00	—	—	—	510,000.00	510,000.00	510,000.00	
Nanjing Panda System Integration Co. Ltd	51	1,800,000.00	—	323,749.44	—	2,123,749.44	—	—	
Nanjing Electronic Calibration Co., Ltd.	70	700,000.00	—	527,451.73	—	1,227,451.73	—	—	
Beijing Ericsson Pulian Mobile Communication Co. Ltd	20	47,664,270.97	76,503,116.63	213,841,745.22	—	261,506,016.19	—	—	
Nanjing Panda Electronics Manufacturing Co. Ltd	75	37,241,175.00	—	5,663,735.12	—	42,904,910.12	—	—	
Nanjing Panda Power Sources Technology Co. Ltd.	79.55	8,750,000.00	—	190,227.03	—	8,940,227.03	—	—	
Nanjing Huaxian Hi-tech Co., Ltd.	20	10,000,000.00	—	—	—	10,000,000.00	—	—	
Hua Fei Colour Display Systems Company, Limited	25	392,892,722.42	(5,075,725.16)	(5,075,725.16)	—	387,816,997.26	10,439,935.58	10,439,935.58	
Other investment stated at equity method		17,528,567.85	—	(7,088,632.27)	—	10,439,935.58	3,763,465.36	3,763,465.36	
Other investment stated at cost		3,763,465.36	—	—	—	3,763,465.36	—	—	
Total		<u>842,182,664.86</u>	<u>133,226,492.70</u>	<u>395,626,958.53</u>	<u>—</u>	<u>1,238,009,623.39</u>	<u>14,778,313.39</u>	<u>14,778,313.39</u>	

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



## 4. Business income

Items	Jan-Jun 2007	Jan-Jun 2006
1. Income from principal activities	34,577,322.40	21,817,204.15
2. Other business income	3,106,727.25	3,730,062.62
<b>Total</b>	<b>37,684,049.65</b>	<b>25,547,266.77</b>

## (1) Segmented by income

Principal activities	Income from principal activities		Cost of principal activities	
	Jan-Jun 2007	Jan-Jun 2006	Jan-Jun 2007	Jan-Jun 2006
Electronic manufacturing products	—	—	—	—
Electronic information products	30,331,727.58	768,408.54	28,343,654.08	387,173.29
Electromechanical products	3,863,604.82	3,948,795.61	3,087,144.39	5,197,378.87
Satellite telecommunication products	—	17,100,000.00	—	10,640,341.69
Others	381,990.00	—	—	—
<b>Total</b>	<b>34,577,322.40</b>	<b>21,817,204.15</b>	<b>31,430,798.47</b>	<b>16,224,893.85</b>

## (2) Sales revenue from the largest five customers totalled RMB32,663,428.75, accounting for 94.46% of total sales revenue for the period, among the total:

Name of customers	Sales	Proportion (%)
Nanjing Broadcasting Network Inc.	29,778,625.52	86.12
Nanjing Panda Handa Technology Co., Ltd.	1,472,204.64	4.26
Nanjing Sharp Electronics Co., Ltd.	1,008,863.23	2.92
Nanjing LG Xingang Display Company Limited	243,589.74	0.70
BSH Electrical Appliances (Jiangsu) Co., Ltd.	160,145.62	0.46
<b>Total</b>	<b>32,663,428.75</b>	<b>94.46</b>

The year-on-year increases in income and cost of principal activities for the reporting period are mainly due to the sales increase of the Company's digital TV set top-box products.

## 5. Investment income

Name of invested companies	Jan-Jun 2007	Jan-Jun 2006	Note
Nanjing Ericsson Panda Communication Company Limited	60,629,331.91	45,597,674.79	
Shenzhen Jinghua Electronic Co., Ltd.	5,791,969.00	(90,913.24)	
Intenna (Nanjing) Communications Systems Ltd. Co.	(237,889.87)	(643,068.73)	
Nanjing Panda Tamura Communications Equipment Co., Ltd.	—	(1,204,309.40)	
Nanjing Panda Hitachi Technology Co., Ltd.	1,937,765.20	(444,816.53)	c
Hua Fei Colour Display Systems Company, Limited	(5,075,725.16)	—	
Beijing SE Putian Mobile Communication Ltd.	76,503,511.63	23,757,450.31	
<b>Total</b>	<b>139,548,962.71</b>	<b>66,972,017.20</b>	

- a) There are no significant limitations on remittance of income from the above investments.
- b) The amount during the reporting period increased by 108.37% over the same period of 2006. This was primarily due to the noticeably increased net profit of Beijing SE Putian Mobile Communication Limited.
- c) Gains from equity transfer were recorded during the reporting period.

(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 Company Limited	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	With limited liabilities	Liu Kun

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

Name of the related party	1 January 2007	Increase in the period	Decrease in the period	30 June 2007
Panda Electronic Group Company Limited	1,266,060,000.00	—	—	1,266,060,000.00
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	1,000,000.00	—	—	1,000,000.00

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

Name of the related party	Value of shareholding		Percentage of shareholding	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Panda Electronic Group Company Limited	334,715,000.00	334,715,000.00	51.10%	51.10%
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	510,000.00	510,000.00	51%	51%

4. Related parties with non-controlling relationship

(1) Under the same holding company as the Company

Name of the related party	Shares held by the holding company	Principal activities	Related transaction with the Company
Nanjing Panda Electronic Import/Export Company	70%	Agency of its own products and import and export products	Agency of import products and purchase
Nanjing Panda Television Co., Ltd.	100%	Televisions and related products	Sales, purchase and provision of labour
Nanjing Zhen Hua Sound Equipment plant	51%	Loudspeaker, package, paper cases	Sales, purchase and provision of labour
Nanjing Panda Power Sources Equipment Co., Ltd.	100%	UPS, transformer	Sales
Nanjing Panda Technology Co., Ltd.	99%	Industrial operations	Capital flow and labour services
Nanjing Panda New-industry Trading Company Limited	100%	Agency and retail of electronic products	Purchase
Nanjing Lianhui Communication Technology Company Limited	80%	Network digital communication software	Purchase
Nanjing Panda Handa Technology Co., Ltd.	100%	shortwave satellite communication products	Sales and labour 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	Notes
Nanjing Ericsson Panda Communication Company Limited	27%	Production and sales of exchange and Base Station	Purchase and Sales	
Beijing SE Putian Mobile Communication Limited	20%	Production and sales of Song Ericsson mobile terminal (handset)	Sales	
Nanjing Panda Tamura Communications Equipment Co., Ltd.	50%	Development, manufacture and production of power supply	Purchase	
Panda Electronics (Kunshan) Co., Ltd	40%	SMT processing	Nil	
Nanjing Panda Hitachi Technology Co., Ltd	49%	SMT processing	Sales	
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	33.33%	Coatings, paintings, glass wall, etc.	Entrusted processing	
Shenzhen Jinghua Electronic Co., Ltd	38.03%	Communication Equipment.	Electronic products	Nil
MPower Batteries (Nanjing) Ltd.	40%	Handset cells etc.	Rentals, management fee, etc.	
Nanjing Tai Lei Zi Panda Transportation System Company Limited	40%	Design, research, production and sales of electronic devices for automatic ticketing system and related products	Sales	

## (2) Related transactions

## 1. Sales of products

Name of related parties	Jan - Jun 2007 Amount	Jan - Jun 2006 Amount
Nanjing Panda Television Co., Ltd.	6,669,233.78	2,911,726.30
Panda Electronic Group Company Limited	14,581.20	9,327,705.16
Panda Mechatronics Instrument Technology Co., Ltd.	1,592,353.30	—
Nanjing Ericsson Panda Communication Co., Ltd	515,765.97	5,152,662.99
Nanjing Panda Technology Industrial Co., Ltd.	1,846.16	—
Nanjing Lianhui Communication Technology Co., Ltd.	152,401.71	—
Nanjing Panda Hitachi Technology Co., Ltd.	—	424,463.26
Nanjing Panda Electronics Import/Export Co., Ltd.	1,697,120.10	1,876,527.20
Nanjing Tai Lei Zi Panda Transportation System Company Limited	2,410,493.70	267,146.16
<b>Total</b>	<b>13,053,795.92</b>	<b>19,960,231.07</b>

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

## 2. Purchase of materials

Name of related parties	Jan - Jun 2007 Amount	Jan - Jun 2006 Amount
Panda Electronics Group Co., Ltd.	64,348.22	865,053.69
Nanjing Zhen Hua Sound Equipment Plant	899,794.65	798,248.88
Nanjing Panda Electronics Import/Export Co., Ltd.	3,714,595.21	1,415,525.64
Nanjing Panda Television Co., Ltd.	222,889.16	558,405.89
Panda Mechatronics Instrument Technology Co., Ltd.	146,495.48	—
Nanjing Panda Hitachi Technology Co., Ltd.	—	3,965.41
Nanjing Lianhui Communication Technology Company Limited	350,899.16	480,000.00
<b>Total</b>	<b>5,399,021.88</b>	<b>4,121,199.51</b>

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

3 Provision of services

<b>Name of related parties</b>	<b>Jan - Jun 2007 Amount</b>	<b>Jan - Jun 2006 Amount</b>
Nanjing Ericsson Panda Communications Co., Ltd.	—	200,517.50
Nanjing Panda Handa Technology Co., Ltd.	<u>9,180,134.39</u>	—
Nanjing Panda Television Co., Ltd.	<u>2,060,229.93</u>	<u>8,383,258.67</u>
<b>Total</b>	<b><u>11,240,364.32</u></b>	<b><u>8,583,776.17</u></b>

Pricing policy for provision of services to all related parties: market price.

4. Receipt of services

<b>Name of related parties</b>	<b>Jan - Jun 2007 Amount</b>	<b>Jan - Jun 2006 Amount</b>
Nanjing Panda Technology Industrial Co., Ltd.	<u>5,234,459.68</u>	—
Panda Electronic Group Company Limited	<u>221,366.19</u>	<u>4,782,370.54</u>
<b>Total</b>	<b><u>5,455,825.87</u></b>	<b><u>4,782,370.54</u></b>

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

5. Lease of assets

<b>Name of related parties</b>	<b>Jan - Jun 2007 Amount</b>	<b>Jan - Jun 2006 Amount</b>
Panda Electronic Group Company Limited	—	593,274.21
Panda Mechatronics Instrument Technology Co., Ltd.	<u>24,948.00</u>	—
Nanjing Panda Tamura Communications Equipment Co., Ltd.	—	<u>44,050.00</u>
<b>Total</b>	<b><u>24,948.00</u></b>	<b><u>637,324.21</u></b>

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

6. Acceptance of leased assets

<b>Name of related parties</b>	<b>Jan - Jun 2007 Amount</b>	<b>Jan - Jun 2006 Amount</b>
Panda Electronic Group Company Limited	<u>242,432.36</u>	—
Nanjing Panda Technology Industrial Co., Ltd.	<u>375,254.99</u>	—
<b>Total</b>	<b><u>617,687.35</u></b>	<b>—</b>

7. Acceptance of guarantee

<b>Name of related parties</b>	<b>Jan - Jun 2007 Amount</b>	<b>Jan - Jun 2006 Amount</b>
Panda Electronic Group Company Limited	<u>474,000,000.00</u>	676,000,000.00
Nanjing Panda Electronic Manufacturing Co., Ltd.	<u>29,587,672.86</u>	—
<b>Total</b>	<b><u>503,587,672.86</u></b>	<b><u>676,000,000.00</u></b>

Panda Electronic Group Company Limited and Nanjing Panda Electronic Manufacturing Co., Ltd. jointly provide guarantee for the loan of RMB29,587,672.86 granted to the Company by Industrial and Commercial Bank of China, Nanjing Hanfu Branch.

## (3) Balance of accounts with related parties

Name of related parties	Item	30 June 2007	31 December 2006
Panda Electronic Group Company Limited	Accounts receivables	1,776,396.95	34,277,547.27
	Other receivables	815,389.55	862,810.44
	Account payables	3,713,927.73	3,469,112.24
	Advances from customers	3,402,099.60	22,422.50
	Other payables	6,131,890.76	77,149,426.62
Nanjing Panda Television Co., Ltd.	Accounts receivables	15,865,087.71	13,242,236.04
	Other receivables	1,325,977.49	1,037,840.00
	Account payables	4,545,611.08	438,498.27
	Advance from customers	281,303.73	—
	Other receivable	2,496,335.14	1,359,000.00
Panda Mechatronics Instrument Technology Co., Ltd.	Accounts receivables	378,394.35	408,595.20
	Other receivables	565,351.08	—
	Account payables	624,083.90	468,202.31
	Advance from customers	52,712.09	—
	Other receivable	—	140,000.00
Nanjing Ericsson Panda Communications Co., Ltd.	Accounts receivables	931,416.12	1,775,611.20
Nanjing Panda Electronics Import/Export Co., Ltd.	Accounts receivables	748,019.56	488,509.04
	Prepayments	32,282.00	—
	Account payables	3,787,613.38	1,848,022.16
Panda Electronic (Hong Kong) Company Ltd.	Advance from customers	—	380,155.64
Nanjing Panda Chenguang Electronics Co., Ltd.	Other receivables	12,986,830.72	12,986,830.72
Nanjing Panda Ju Neng	Accounts receivables	526,032.61	526,032.61
Small Home Electronic Appliance Co., Ltd.	Other receivables	21,372,784.19	23,286,318.23
Intenna (Nanjing) Communications Systems Ltd. Co.	Other receivables	1,000,000.00	1,000,000.00
Panda Electronic (Kun Shan) Co., Ltd.	Accounts receivables	—	799,875.14
	Other receivables	1,185,220.94	2,052,220.94
	Other payables	—	300,000.00
Nanjing Panda Hitachi Technology Co., Ltd.	Accounts receivables	—	442,165.45
Nanjing Panda Tamura Communications Equipment Co., Ltd.	Accounts receivables	165,214.00	218,214.00
	Other receivables	14,281.51	—
	Account payables	20,000.00	—
Nanjing Lianhua Nap	Other receivables	2,159,223.42	2,391,398.42
New Coating & Decorating Co., Ltd.	Account payables	158,543.32	268,289.64
Nanjing Zhen Hua Sound Equipment Plant	Account payables	1,096,928.24	769,351.97
Nanjing Tai Lei Zi Panda Transportation System Company Limited Co., Ltd.	Account payables	7,921.32	—
	Account payables	16,410.02	216,410.00
	Advance from customers	5,468,562.92	945,418.13
	Other receivables	2,349,754.00	—
Nanjing Panda Technology Industrial Co., Ltd.	Other payables	315,677.46	—
Nanjing Lianhui Communication Technology Company Limited	Account receivable	63,675.50	—
	Prepayment	871,644.00	—
	Other receivables	20,000.00	—
	Account payable	1,753.23	—
Nanjing Panda Handa Technology Co., Ltd.	Account receivables	2,273,123.93	—
	Advance from customers	749,518.05	—
	Other receivables	275,050.45	—

## (8) Contingent Liabilities

As at 30 June 2007, the Company provided guarantees to the following parties:

Name of parties guaranteed	Gearing ratio of the guaranteed party	Guaranteed item	Guaranteed amount	Used amount (RMB'0,000)	Term of guarantee	Note
Nanjing Panda Mechanical Manufacturing Co., Ltd.	67.90%	Loans	—	500.00	2006.2.28-2007.12.31	
Nanjing Panda Information Industrial Co., Ltd.	69.19%	Loans	—	780.87	2006.8.24-2007.8.24	1
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	67.32%	Loans	2,000	1,700.00	2006.11.16-2007.11.16	
Nanjing Panda Information Industrial Company Ltd	69.19%	Note	1,750	1,750.00	2007.5.9-2007.11.16	
Total				4,730.87		

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

As of 30 June 2007, the total guarantee amount of the Company represented 3.39% of its net assets.

As at 30 June 2007, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

(9) **Commitments**

1. **Expenses for contracted material external investment**

As of 30 June 2007, 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 resolved at an extraordinary meeting of the Board, the Company determined to establish a wholly-owned subsidiary in Hong Kong, named Jiaheng Xingye Limited with registered capital USD9.5 million. It is engaged in development of communication products, investment and cooperation projects of electronic information and electromechanical industry.**

3. **Save as the above commitments, as of 30 June 2007, the Company did not have any other material commitments.**

(10) **Subsequent Events**

As of 30 June 2007, the Company had no matters required to be disclosed subsequent to the balance sheet date.

(11) **Other Significant Events**

As at 30 June 2007, in the State-owned legal person share in the Company held by Panda Electronic Group Limited, the controlling shareholder of the Company, (which holds 334,715,000 State-owned legal person shares in the Company, accounting for 51.10% of the total shares in the Company), 92,815,000.00 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; 67,350,000.00 shares were pledged to the bank, which account for 10.28% of the total shares in the Company, and account for 20.12% of the total shares it holds in the Company; and 100,000,000.00 shares were pledged and frozen, which account for 15.27% of the total shares in the Company and account for 29.88% of the total shares it holds in the Company.

(12) **Supplementary Information**

1 **Extraordinary items**

Items	Jan-Jun 2007
Income or loss from disposal of long-term equity investment, fixed assets, construction in progress, intangible assets and other long-term assets	1,942,950.63
Governmental subsidies	526,418.49
Other non-operating income and expenses after recurring provision for asset impairments in accordance with the Accounting System for Business Enterprises	(18,714,459.21)
Reversal of the provision for bad debt in previous years	5,938,791.38
Impact on income tax of the aforesaid items	(203,226.64)
Impact on minority interests of the aforesaid items	(83,639.84)
<b>Total extraordinary items</b>	<b>(10,593,165.19)</b>

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 for the period from January to June 2007 are as follows:**

Profit during Reporting Period	Rate of return on net assets		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Operating profit	3.87	3.91	0.0849	0.0849
Net profit	2.32	2.35	0.0494	0.0494
Net profit after extraordinary items	3.08	3.12	0.0655	0.0655

3. **In accordance with Q&A No. 7 regarding Rules on Information Disclosure of Publicly-listed Companies - Preparation and Disclosure of Comparative Financial Information during the Transitional Period of Existing and New Accounting Standards issued by CSRC (ZJHJ Zi [2007] No.10), the comparative income statement for the six months ended 30 June 2006 together with the reconciliation of profit (pro forma) for the six months ended 30 June 2006 under the new accounting standards to the net profit disclosed in the Interim Report for 2006 are set out as follows:**

4. **Impacts on the Company's net profit and shareholders' interest by the difference between the new accounting standards and former accounting standards and systems are as follows:**

(1) Adjustments to the comparative income statement

Adjusted items in the Consolidated Income Statement

Items	Jan-Jun 2006	
	Before adjustment	After adjustment
Investment income	66,702,306.93	66,972,017.20
Income tax expenses	1,658,534.50	4,724,565.93
Unrecognised investment losses	414,108.43	—
Net profit	34,022,004.27	30,811,574.68
Including: net profit attributable to shareholders of the Company	31,144,193.10	28,740,323.47

(2) Reconciliation of profit (pro forma) for the six months ended 30 June 2006 under the new accounting standards to the net profit disclosed in the Interim Report for 2006 is as follows:

Reconciliation of profit for the six months ended 30 June 2006

Items	Amount
Net profit for Jan-Jun 2006 (under former accounting standards)	34,022,004.27
Total impact of retrospective adjustments	(3,210,429.59)
Including: Investment income	269,710.27
Income tax	(3,066,031.43)
Unrecognised investment losses	(414,108.43)
Net profit for Jan-Jun 2006 (under new accounting standards)	30,811,574.68
Pro forma information assuming completely adopting new accounting standards	—
Total impacts of other items	—
Including: operating cost	57,693.85
Selling and distribution expenses	116,442.60
Management expenses	(184,596.45)
Net profit (pro forma) for Jan-Jun 2006	30,811,574.68

Note: All adjustments above to operating cost, selling and distribution expense, and management expense are the remuneration for employees.

(3) Owner's equity stated under the former accounting system was adjusted to owner's equity under the Accounting Standards for Business Enterprises.

a. Adjustments to owner's equity as at 1 January 2006

Items	Before adjustment	After adjustment
Share capital	655,015,000.00	655,015,000.00
Capital reserve	480,208,784.04	480,208,784.04
Surplus reserve	188,137,542.53	188,137,542.53
Undistributed profit	(65,123,867.22)	(46,672,058.96)
Total	<u>1,258,237,459.35</u>	<u>1,276,689,267.61</u>

b. Adjustments to owner's equity as at 30 June 2006

Items	Before adjustment	After adjustment
Share capital	655,015,000.00	655,015,000.00
Capital reserve	480,208,784.04	480,208,784.04
Surplus reserve	188,137,542.53	188,137,542.53
Undistributed profit	(34,393,782.55)	(17,931,735.49)
Total	<u>1,288,967,544.02</u>	<u>1,305,429,591.08</u>

c. Adjustments to owner's equity as at 1 January 2007

Items	Before adjustment	After adjustment
Share capital	655,015,000.00	655,015,000.00
Capital reserve	480,404,773.85	480,404,773.85
Surplus reserve	191,184,000.53	191,184,000.53
Undistributed profit	20,474,705.57	34,910,956.59
Total	<u>1,347,078,479.95</u>	<u>1,361,514,730.97</u>

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

#### CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Note	Six months ended	
		30 June 2007 (unaudited) RMB'000	30 June 2006 (unaudited) RMB'000
Turnover	3	307,282	353,602
Cost of sales		(258,189)	(303,862)
<b>Gross profit</b>		<b>49,093</b>	<b>49,740</b>
Other revenue		7,284	7,965
Distribution costs		(13,481)	(12,661)
Administrative expenses		(110,915)	(46,282)
<b>Loss from operations</b>		<b>(68,019)</b>	<b>(1,238)</b>
Finance costs		(30,666)	(27,857)
Share of results of associates		137,654	66,972
<b>Profit before taxation</b>		<b>38,969</b>	<b>37,877</b>
Income tax expenses	5	14,147	(1,659)
<b>Profit for the period</b>		<b>53,116</b>	<b>36,218</b>
<b>Attributable to:</b>			
Equity holders of the Company		46,835	32,994
Minority interests		6,281	3,224
		<b>53,116</b>	<b>36,218</b>
Dividends	6	—	—
Earnings per share (RMB)	7	0.07	0.05



## CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

	Note	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	474,857	484,460
Construction in progress		19,780	10,022
Land use right		11,112	11,279
Interests in associates	10	1,099,302	573,139
Deferred tax assets		15,841	—
		<u>1,620,892</u>	<u>1,078,900</u>
<b>Current assets</b>			
Inventories		336,408	236,838
Bills receivable		409	31,775
Trade debtors	11	136,576	120,407
Other debtors, deposits and prepayments		206,416	614,532
Amounts due from fellow subsidiaries, associates and related companies		32,625	31,531
Bank balances and cash		456,839	652,094
Taxation credit		102	—
		<u>1,169,375</u>	<u>1,687,177</u>
<b>Current liabilities</b>			
Borrowings	12	768,860	873,865
Trade creditors	11	175,040	140,701
Other creditors, customers' deposits and accrued charges		316,991	242,920
Amounts due to fellow subsidiaries, associates and related companies		16,191	4,113
Amount due to ultimate holding company		10,431	48,739
Current portion of obligations under finance leases		19,235	16,833
Taxation		—	783
		<u>1,306,748</u>	<u>1,327,954</u>
<b>Net current assets</b>		<u>(137,373)</u>	<u>359,223</u>
<b>Total assets less current liabilities</b>		<u>1,483,519</u>	<u>1,438,123</u>
<b>Non-current liabilities</b>			
Obligations under finance leases		(10,438)	(18,158)
<b>Net assets</b>		<u>1,473,081</u>	<u>1,419,965</u>
Equity			
<b>Share capital</b>	13	655,015	655,015
<b>Share premium and reserves</b>		<u>770,506</u>	<u>723,671</u>
<b>Attributable to equity holders of the Company</b>		<u>1,425,521</u>	<u>1,378,686</u>
<b>Minority interests</b>		<u>47,560</u>	<u>41,279</u>
<b>Total equity</b>		<u>1,473,081</u>	<u>1,419,965</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory common fund RMB'000	Asset revaluation reserve RMB'000	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2006	655,015	389,338	4,020	189,850	35,876	11,477	1,285,576	40,752	1,326,328
Profit for the period	—	—	—	—	—	32,994	32,994	3,224	36,218
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(5,799)	(5,799)
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—	—	—
Balance at 30 June 2006	<u>655,015</u>	<u>389,338</u>	<u>4,020</u>	<u>189,850</u>	<u>35,500</u>	<u>44,847</u>	<u>1,318,570</u>	<u>38,177</u>	<u>1,356,747</u>
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory common fund RMB'000	Asset revaluation reserve RMB'000	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2007	655,015	389,338	4,020	192,896	35,688	101,729	1,378,686	41,279	1,419,965
Profit for the period	—	—	—	—	—	46,835	46,835	6,281	53,116
Balance at 30 June 2007	<u>655,015</u>	<u>389,338</u>	<u>4,020</u>	<u>192,896</u>	<u>35,688</u>	<u>148,564</u>	<u>1,425,521</u>	<u>47,560</u>	<u>1,473,081</u>



**CONSOLIDATED CASH FLOW STATEMENT**

FOR THE YEAR ENDED 30 JUNE 2007

	Six months ended	
	30 June 2007 (unaudited) RMB'000	30 June 2006 (unaudited) RMB'000
<b>Net cash used in operating activities</b>	<b>(85,039)</b>	<b>(102,611)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,970)	(2,891)
Expenditure on construction in progress	(15,532)	(88,834)
Proceeds from disposal of land, property, plant and equipment	7	748
Acquisition of additional interest in a subsidiary	—	(6,758)
Investment in an associate	—	(10,000)
Proceeds from disposal of investment in an associate	6,322	—
Release of pledged bank deposits	6,423	31,584
Interest received	3,448	1,835
<b>Net cash used in investing activities</b>	<b>(1,302)</b>	<b>(74,316)</b>
<b>Financing</b>		
New loans raised	—	633,500
Decrease in amount due from ultimate holding company	—	104,416
Repayment of loans	(92,674)	(513,500)
Repayment of finance lease obligation	(9,817)	(2,125)
<b>Net cash (used in) / generated from financing activities</b>	<b>(102,491)</b>	<b>222,291</b>
<b>(Decrease)/Increase in cash and cash equivalents</b>	<b>(188,832)</b>	<b>45,364</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>607,318</b>	<b>302,509</b>
<b>Cash and cash equivalents at end of the period</b>	<b><u>418,486</u></b>	<b><u>347,873</u></b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	456,839	361,237
Less:Pledged bank balances	(38,353)	(13,364)
	<b><u>418,486</u></b>	<b><u>347,873</u></b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation

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

### 2. Principal accounting policies

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

These unaudited financial statements should be read in conjunction with the 2006 annual report.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2006 except as described below.

In the current period, HKICPA issued the following standards and interpretations, which is applicable to the Group's operations and effective for the Group's financial year beginning 1 January 2007. The adoption of the standards and interpretations did not result in substantial changes to the Group's accounting policies.

		<b>Effective for annual periods beginning on or after</b>
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HK(IFRIC) - Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment	1 November 2006

At the date of this report, the following standards and interpretations which are relevant to the Group's operations were in issue but not yet effective:

		<b>Effective for annual periods beginning on or after</b>
HKFRS 8	Operating Segments	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
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 anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

### 3. Turnover

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

### 4. Depreciation

During the period, depreciation of RMB18,915,000 (six months ended 30 June 2006 : RMB13,846,000) was charged in respect of the Group's property, plant and equipment.

### 5. Income tax credit/(expenses)

**Taxation credit/(expenses) comprises:-**

	<b>30 June 2007 (unaudited) RMB'000</b>	<b>Six months ended 30 June 2006 (unaudited) RMB'000</b>
PRC income tax	(1,694)	1,659
Deferred taxation	15,841	—
Income tax credit/(expenses)	<b>14,147</b>	<b>(1,659)</b>

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

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

## 6. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 June 2006: Nil).

## 7. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders for the six months ended 30 June 2007 of RMB 46,835,000 (six months ended 30 June 2006: RMB32,994,000) and on 655,015,000 shares in issue throughout the period.

## 8. Segment reporting

### (a) Business segment

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

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

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

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

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

#### Period ended 30 June 2007

	Electronic manufacturing products (unaudited) RMB'000	Electro- mechanical products (unaudited) RMB'000	telecom- munication products (unaudited) RMB'000	Electronic information products (unaudited) RMB'000	Other operations (unaudited) RMB'000	Consolidated (unaudited) RMB'000
<b>Revenue</b>						
External sales	115,513	85,631	—	91,796	14,342	307,282
<b>Results</b>						
Segment results	4,143	4,330	313	10,726	(68,885)	(49,373)
Unallocated corporate expenses						(22,346)
Operating loss						(71,719)
Interest expenses						(30,666)
Interest income						3,700
Share of results of associates						137,654
Income tax expenses						14,147
Profit for the period						53,116

#### At 30 June 2007

	Electronic manufacturing products (unaudited) RMB'000	Electro- mechanical products (unaudited) RMB'000	telecom- munication products (unaudited) RMB'000	Electronic information products (unaudited) RMB'000	Other operations (unaudited) RMB'000	Consolidated (unaudited) RMB'000
<b>Assets</b>						
Segment assets	318,504	177,491	255,722	210,772	51,118	1,013,607
Interests in associates						1,099,302
Unallocated corporate assets						677,358
Consolidated total assets						2,790,267
<b>Liabilities</b>						
Segment liabilities	177,709	170,810	189,779	193,994	24,750	756,992
Unallocated corporate liabilities						560,194
Consolidated total liabilities						1,317,186
<b>Other information</b>						
Depreciation	10,076	1,592	—	826	6,421	

**Period ended 30 June 2006**

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

**At 31 December 2006**

	Electronic manufacturing products (audited) RMB'000	Electro- mechanical products (audited) RMB'000	telecom- munication products (audited) RMB'000	Electronic information products (audited) RMB'000	Other operations (audited) RMB'000	Consolidated (audited) RMB'000
<b>Assets</b>						
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
<b>Liabilities</b>						
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
<b>Other information</b>						
Depreciation	7,045	1,532	—	1,060	4,208	

**(b) Geographical segment**

For the six months ended 30 June 2007 and 2006, over 90% of sales of the Group is generated from sales in the PRC.

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

During the period, the Group spent approximately RMB7,268,646 and RMB9,067,920 (six months ended 30 June 2006: RMB11,391,000 and RMB88,834,000) on acquisition of property, plant and equipment and construction in progress respectively.

**10. Interests in associates**

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Share of net assets	1,095,859	569,696
Premium on acquisition	3,443	3,443
	<u>1,099,302</u>	<u>573,139</u>



### 11. Trade debtors and creditors

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

The following is an aged analysis of trade debtors net of allowances for bad and doubtful debts at 30 June 2007:-

	<b>30 June 2007</b> <i>(unaudited)</i> <b>RMB'000</b>	31 December 2006 <i>(audited)</i> <b>RMB'000</b>
Within 1 year	126,950	111,154
1 to 2 years	7,782	4,408
2 to 3 years	1,684	2,859
Over 3 years	160	1,986
	<u>136,576</u>	<u>120,407</u>

The following is an aged analysis of trade creditors at 30 June 2007:-

	<b>30 June 2007</b> <i>(unaudited)</i> <b>RMB'000</b>	31 December 2006 <i>(audited)</i> <b>RMB'000</b>
Within 1 year	125,942	106,878
1 to 2 years	22,533	13,083
2 to 3 years	7,386	3,112
Over 3 years	19,179	17,628
	<u>175,040</u>	<u>140,701</u>

### 12. Borrowings

	<b>30 June 2007</b> <i>(unaudited)</i> <b>RMB'000</b>	31 December 2006 <i>(audited)</i> <b>RMB'000</b>
Bank borrowings		
Short term loans		
- unsecured	533,396	626,070
- secured	210,000	210,000
Bills payable	25,464	37,795
	<u>768,860</u>	<u>873,865</u>
Amount due within 1 year shown under current liabilities		

### 13. Share capital

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

### 14. Related party transactions

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

	<b>Fellow subsidiaries, associates and related companies</b>		<b>Ultimate holding company</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>30 June 2006</b> <i>(unaudited)</i> <b>RMB'000</b>	30 June 2006 <i>(unaudited)</i> <b>RMB'000</b>	<b>30 June 2007</b> <i>(unaudited)</i> <b>RMB'000</b>	30 June 2006 <i>(unaudited)</i> <b>RMB'000</b>
Sales of components and parts	4,318	10,632	6,669	9,328
Purchases of components and parts	5,335	3,256	64	865
Fees paid for welfare, support and sub-contracting services	5,234	—	221	4,782
Income for welfare, support and sub-contracting services provided	2,060	8,584	—	—
Rental income	25	44	—	593
	<u>25</u>	<u>44</u>	<u>—</u>	<u>593</u>

15. **Contingent liabilities**

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

16. **Capital commitments**

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

	30 June 2007 ( <i>unaudited</i> ) RMB'000	31 December 2006 ( <i>audited</i> ) RMB'000
Contracted but not provided for		
- acquisition of property, plant and equipment	<u>3,000</u>	<u>3,000</u>

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

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

**Impact on the consolidated income statement**

	Six months ended	
	30 June 2007 ( <i>unaudited</i> ) RMB'000	30 June 2006 ( <i>unaudited</i> ) RMB'000 (restated)
Profit attributable to shareholders as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	46,835	32,994
Income and expenditure taken directly to reserves	—	(2)
Minority interest	4,471	1,153
Amortisation of revaluation surplus on trademarks	—	225
Amortisation of unrecognised intangible assets	(100)	(100)
Recognition of deferred tax assets	(18,863)	(3,066)
Others	(10)	(2,464)
Profit attributable to shareholders as per interim financial statements prepared under PRC accounting standards	<u>32,333</u>	<u>28,740</u>

**Impact on the consolidated balance sheets**

	30 June 2007 ( <i>unaudited</i> ) RMB'000	31 December 2006 ( <i>audited</i> ) RMB'000 (restated)
Net assets as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	1,425,521	1,378,686
Unrecognised intangible assets	620	720
Goodwill	(3,046)	(3,046)
Share of reserve of associates	(32,098)	(32,098)
Minority interests	2,850	(1,620)
Recognition of deferred tax assets	—	18,863
Others	—	10
Net assets as per interim financial statements prepared under PRC accounting standards	<u>1,393,847</u>	<u>1,361,515</u>



**IX. DOCUMENTS AVAILABLE FOR INSPECTION**

1. The 2007 Interim Report signed by the Chairman;
2. The financial statements signed and sealed by the legal representative, officer in charge of accounting work and officer in charge of accounting department of the Company;
3. The announcements published in Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and The Standard during the Reporting Period;
4. The memorandum and articles of association of the Company;
5. The 2007 Interim Report published in Hong Kong and Shanghai securities market.

The Board of Directors of  
**Nanjing Panda Electronics Company Limited**

14 August 2007





# PANDA

南京熊猫电子股份有限公司  
Nanjing Panda Electronics Company Limited