

Corporate Governance Report

A. General Corporate Governance

During the reporting period, the Company has complied with the relevant laws and regulations including the Company Law, the Securities Law and the Code of Corporate Governance Practice (“CGP Code”) promulgated by the SEHK. In accordance with documents relating to corporate governance and proper operation issued by China Securities Regulatory Commission (“CSRC”), and the requirements of the Listing Rules of SEHK and Shanghai Stock Exchange, the Company continues to improve its corporate governance system as a corporate legal person, set up a modern corporate system, enhance internal control and management and standardize the operation of the Company.

During the reporting period, the Company mainly carried out the following task in relation to corporate governance:

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 change hereof respectively.
2. The special committees, including the Strategy Committee, Audit Committee, Nomination Committee and Remuneration & Evaluation Committee, were formed at the First Meeting of the Sixth Board 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 SEHK.
3. In the reporting period, pursuant to the requirements of the press release issued on 9 August 2007 by the SEHK in relation to the decision of the Listing Committee regarding the disciplinary actions against the Company and certain present and ex-directors, and the major problems and recommended remedial measures specified in the Report on Review of Internal Control provided by Horwath Risk Advisory Services Limited (“Horwath RA”) 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.



Corporate Governance Report

A. General Corporate Governance (Continued)

During the reporting period, in an attempt to further improve the internal control system, the Company formulated and amended such documents as “Management Method of Subsidiary” (控股子公司管理辦法), “Information Disclosure Management System” (信息披露管理事務制度), “Internal Information Reporting System” (內部信息報告制度) and “Duties and Responsibilities of the Secretariat Office” (董事會秘書室工作職責) to ensure compliance with the disclosure requirements of the Listing Rules, reinforce supervision and management of its subsidiaries so as to avoid the risk of malfunction.

Departments such as the Audit Committee and the auditing department are internal inspection regulatory departments set up by the Company.

During the reporting period, in accordance with the training requirements of the Listing Committee as set out in the said press release, two Directors of the Company completed the 20-hour training in compliance and corporate governance matters. Two other directors completed part of the training with the SEHK’s approval for time extension to complete the rest of the training.

In November 2007, Horwath RA conducted a follow-up review of the internal control system of the Company and issued the “Follow-up Report on the Internal Control Review”. Horwath RA confirmed that the Company had fully adopted and implemented the recommended remedial measures.

(Please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News and the website of the SEHK on 11 December 2007 for details.)

4. Since the waiver on continuing connected transactions granted by the SEHK to the Company expired in 2004, the Company’s connected transactions conducted in 2005 and 2006 (“Previous Continuing Connected Transactions”) were not reported, announced and approved by independent shareholders according to related requirements under the Listing Rules. The continuing connected transactions from 2007 to 2009 (“New Continuing Connected Transactions”) of the Company were approved by the independent shareholders at the extraordinary general meeting convened on 3 April 2007 and hence are in compliance with the requirements of Rule 14A.35 under the Listing Rules.
5. Pursuant to the relevant requirements of the “Notice on Reinforcement of Special Corporate Governance Campaign of Listed Companies” (關於開展加強上市公司治理專項活動有關事宜的通知) (Zheng Jian Gong Si Zi [2007] No.28) issued by CSRC and the “Notice on Launch of Special Corporate Governance Campaign of Listed Companies” (關於開展上市公司治理專項活動相關工作的通知) (Su Zheng Jian Gong Si Zi [2007] No.104) issued by Securities Regulatory Commission of Jiangsu Province (江蘇證監局), the Company proactively initiated various special corporate governance campaigns, diligently organized self-investigation and assessment regarding corporate governance, and timely suggested and implemented related remedial measures.



Corporate Governance Report

A. General Corporate Governance (Continued)

On 13 September 2007, the Board of the Company approved the “Corporate Governance Self-Investigation Report and Rectification Scheme” (公司治理自查報告和整改計劃) to bring the functions of the specialized committees of the Board and the independent Directors into full play so as to enhance the efficiency of decision making; further improve risk management and internal control system, reinforce training provided for the senior management to enhance the standard of corporate governance; further reinforce measures such as disclosure of connected transactions and designate person in charge of and implementing the above tasks.

In accordance with the supervisory suggestion from the Securities Regulatory Commission of Jiangsu Province (江蘇證監局) on the corporate governance of the Company and the evaluation from the Shanghai Stock Exchange on the corporate governance status of the Company, together with the Company’s actual situation, the Company amended such regulatory documents as the “Rules of Procedures for Shareholders’ General Meeting” (股東大會議事規則), “Rules of Procedures for the Board Meetings” (董事會議事規則), “Rules of Procedures for the Supervisory Committee Meetings” (監事會議事規則), “Working Regulations for General Manager” (總經理工作規則) and “Code of Conduct for Controlling Shareholder” (控股股東行為規範準則), and formulated the “Management Regulations on the Shareholding of Directors, Supervisors and the Senior Management and Relevant Shareholding Changes” (董事、監事和高級管理人員所持本公司股份及其變動管理規定) to further improve the governance structure of the Company.

(Please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News and the websites of the SEHK and the Shanghai Stock Exchange on 14 September 2007 and 14 November 2007 for details of the Corporate Governance Self-Investigation Report and Rectification Report (公司治理自查報告和整改報告).)

Through this special corporate governance campaign, especially the rectification and implementation of various remedial measures, the management standard of the Company’s governance structure had been raised with various internal control systems and relevant mechanisms improved which encouraged normative operation of the Company, protected the legal interests of all shareholders, which promoted the sustainable and systematic development of the Company with positive effect.



Corporate Governance Report

B. Directors' Securities Transaction

During the reporting period, the Company adopted and applied the Model Code.

Having made specific enquiry to all Directors of the Company, all Directors have expressed that they have complied with the required standard set out in the Model Code and the relevant requirements in the Management Regulations on the Shareholding of Directors, Supervisors and Management and Relevant Shareholding Changes (董事、監事和高級管理人員所持本公司股份及其變動管理規定).

C. Board of Directors

1. Board composition

During the reporting period, re-election was conducted by the Board. Directors of the Sixth Board were elected in the AGM.

The Sixth Board comprises nine Directors, of which three of them are independent non-executive Directors and at least one of them have the required professional qualifications, or accounting or related financial management expertise.

The Board members for the year ended 31 December 2007 were as follows and the brief biographies of each Director are set out in Section 5 headed "Profiles of Directors, Supervisors, Senior Management and Staff".

Executive Directors:

Mr. Li Anjian (*Chairman*)

Non-executive Directors:

Mr. Xu Guofei (*Vice Chairman*)

Ms. Liu Ailian

Mr. Zhu Lifeng

Mr. Shi Qiusheng

Mr. Lu Qing

Independent Non-executive Directors:

Mr. Cai Lianglin

Mr. Taug Yousong

Mr. Ma Chung Lai, Lawrence

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company still considers that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. The term of appointment of the non-executive Directors are 3 years.



Corporate Governance Report

C. Board of Directors *(Continued)*

2. Nomination of Directors

The Board established the Sixth Nomination Committee on 12 June 2007 which comprised Mr. Li Anjian, Mr. Xu Guofei, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong. Mr. Tang Yousong, being an independent non-executive Director, was the Chairman.

The main roles and functions of Nomination Committee include studying and giving recommendation as to the candidates for directors and senior management staff of the Company, the nomination criteria and procedure.

During the reporting period, the Nomination Committee convened two meetings in accordance with the articles of association of the Company (the "Articles of Association") and Rules of Procedures of Nomination Committee:

- (1) The first meeting in 2007 was held on 24 April 2007. All members of the Nomination Committee attended this meeting at which it was resolved to propose the nomination of Mr. Li Anjian, Mr. Xu Guofei, Ms. Liu Ailian, Mr. Zhu Lifeng, Mr. Shi Qiusheng and Mr. Lu Qing as the candidates for Directors of the Sixth Board; and Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong as the candidates for independent Directors of the Sixth Board. The proposal was submitted to the Board for discussion.
- (2) The second meeting in 2007 was held on 12 June 2007. All members of the Nomination Committee attended this meeting at which it was resolved to propose the nomination of Mr. Li Anjian as the candidate for the Company's General Manager; Mr. Wang Hongjin, Mr. Wu Liulin and Mr. Liu Kun as the candidates for the Deputy General Managers of the Company; Mr. Shen Jianlong as the candidate for the Chief Accountant and the Secretary to the Board. The proposal was submitted to the Board for discussion.

3. Chairman and Chief Executive Officer

The main duties of Chairman of the Board are to preside at the shareholder's meeting and convene the Board meetings, and to inspect the actual implementation of the resolutions passed by the Board. (Details are set out in the Article 134 of Chapter 10 of the Articles of Association.)

General Manager (Chief Executive Officer) is responsible to the Board. His principal duties include to preside over the production, operation and management of the Company, to organize the implementation of resolutions of the Board, to organize the implementation of the annual operation plan and investment proposal. (Details set out in the Article 152 of Chapter 12 of the Articles of Association.)

Mr. Li Anjian holds the positions of Chairman and General Manager (Chief Executive Officer) which is deviated from the code provision A.2.1 of the CGP Code.



Corporate Governance Report

C. Board of Directors (Continued)

4. Board Practices

The Board is collectively responsible for the management of the business and affairs of the Group with the objective of enhancing shareholders' value.

The Board is responsible to the shareholders. Its duties include convene shareholders' meetings and to report the work to shareholders meetings, to implement resolutions of the shareholder's meeting, to decide the operation plan and investment proposal of the Company, to recruit and remove the General Manager and senior management of the Company. (Details are set out in the Article 126 of Chapter 10 of the Articles of Association of the Company.)

The board of directors held four meetings for the year ended 31 December 2007 (details are set out in Section 9 headed "Report of Board of Directors" of the Annual Report) and the attendance of each director are as follows:

Name of Directors	Required attendances at the Board meetings	Attending in person (times)	Attending by proxy (times)	Absence (times)
Li Anjian	4	4	0	0
Xu Guofei	4	4	0	0
Liu Ailian	4	4	0	0
Zhu Lifeng	4	4	0	0
Shi Qiusheng	4	4	0	0
Lu Qing	4	2	2	0

5. Independent Directors and their duties

- (1) The Company diligently carried out their duties in accordance with the relevant laws, regulations and the Articles of Association. They participated in Board Meetings for the decision-making on material events. With their professional knowledge and experience, independent Directors advised the Company on its operation and management; reviewed the impartiality and fairness of connected transactions and whether such connected transactions have complied with the Listing Rules, offer independent advice on significant events such as nomination of candidates for Directors, external guarantee, proposal for profit appropriation, appointment of senior management staff and continuing connected transactions during the reporting period. They also participated in the work of audit committee to audit the Company's financial statements. During the preparation and disclosure of the Annual Report of the Company, independent Directors had fulfilled their duties and obligations with due diligence and listened to the reports regarding the Company's production and operation as well as the progress of significant events for the year by the management. On-site inspection of certain subsidiaries were conducted. They also had communications with certified public accountants for annual auditing and reviewed the relevant information. Advice and opinions were provided to the Company. Independent Directors have made contributions to protect the overall interests of the Company and the legitimate rights of shareholders as a whole and promote the development of the Company.



Corporate Governance Report

C. Board of Directors (Continued)

5. Independent Directors and their duties (Continued)

- (2) The Board held four meetings for the year ended 31 December 2007 and attendance of each Independent Director at the Board Meetings were as follows:

Name of independent directors	Required attendances at the Board Meetings	Attending in person (times)	Attending by proxy (times)	Absence (times)
Wan Hui	1	0	1	0
Cai Lianglin	4	4	0	0
Tang Yousong	3	3	0	0
Ma Chung Lai, Lawrence	4	3	1	0

Note: Ms. Wan Hui resigned as an independent Director effective from 12 June 2007; Mr. Tang Yousong was appointed as an independent Director effective from 12 June 2007.

- (3) Dissenting opinions raised by Independent Directors on matters of the Company

During the reporting period, the independent Directors of the Company had not proposed any dissenting opinions to the resolutions of the Board and other meetings for the year.

6. Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company. The statement of the auditors of the Company about their reporting responsibility on the financial statements of the Company is set out in the "Report of the Auditors" in this Annual Report.

7. Remuneration of Directors

The Board established the Sixth Remuneration and Evaluation Committee on 12 June 2007 which comprised Mr. Zhu Lifeng, Mr. Lu Qing, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong. Mr. Ma Chung Lai, Lawrence was the Chairman.

Roles and functions of the Remuneration and Evaluation Committee include formulating and reviewing remuneration policies and proposal of Directors and the senior management and formulating relevant appraisal standards and conducting appraisals. The remuneration committee convened a meeting on 28 December 2007 during the reporting period. The meeting conducted appraisals of the Directors, Supervisors and the senior management of the Company and reviewed their remuneration. The remuneration of Directors, Supervisors and the senior management were set in accordance with the results of appraisals. The remuneration of directors is set out in Section 5 headed the "Profiles of Directors, Supervisors, Senior Management and Staff" in this Annual Report.



Corporate Governance Report

D. Audit Committee

The Board has set up an Audit Committee in accordance with the relevant requirements of CSRC and the Listing Rules.

The Board established the Sixth Audit Committee on 12 June 2007 which comprised Ms. Liu Ailian, Mr. Shi Qiusheng, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong. Mr. Cai Lianglin was the Chairman.

Major roles and functions of the Audit Committee include review and approval of the financial statements of the Company audited by PRC and international auditors.

During the reporting period, the Audit Committee convened two meetings in accordance with the provisions of the Articles of Association and Rules of Procedure of the Audit Committee:

1. The first meeting of 2007 was convened on 24 April 2007. All members of the Audit Committee attended the meeting to review the Company's 2006 financial report and the first quarterly financial report of 2007, and agreed to submit the report to the Board for discussion.
2. The second meeting of 2007 was convened on 14 August 2007. All members of the Audit Committee attended the meeting to review the interim financial report of 2007, and agreed to submit the report to the Board for discussion.

During the preparation and disclosure of 2007 Annual Report of the Company, various communications and meetings were conducted among the Audit Committee and the Company's certified public accountants for annual auditing. The Audit Committee reviewed and agreed with the "2007 Overall Audit Plan" submitted by the certified public accountants for annual auditing. Both parties negotiated and confirmed the schedule of the financial report for this year and requested full attention and diligent performance from the accountants and the finance department of the Company which were in charge of auditing, aspiring to prepare and audit the 2007 financial report in compliance with regulations of regulatory authorities and the new accounting standards. The financial conditions and operating results of the Company in 2007 were reflected in an objective and fair manner. The Audit committee also advised and recommended significant audit issues that worth attention.

On 25 March 2008, the Audit Committee convened a meeting and all members of the Audit Committee attended the meeting. The 2007 financial accounting report and the summary of the audited reports prepared by the accounting firms engaged in auditing this year were reviewed during the meeting and submitted for review by the Board upon agreement. The re-appointment of Zhong Rui Yue Hua Certified Public Accountants Company Limited and Shu Lun Pan Horwath Hong Kong CPA Limited as the domestic and international auditors of the Company for 2008 was agreed in the meeting.



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E. Strategy Committee

The Company established the Strategy Committee of the sixth Board of Directors on 12 June 2007. Members included Mr. Li Anjian, Mr. Xu Guofei, Ms. Liu Ailian, Mr. Zhu Lifeng, Mr. Shi Qiusheng, Mr. Lu Qing and Mr. Ma Chung Lai, Lawrence. Mr Xu Guofei was the chairman of the committee.

Main functions of the Committee include studying the decisions on the Company's long-term development and material investment, financing and material capital restructuring and providing relevant suggestions. A Strategy Committee meeting was held on 12 December 2007 during the Reporting Period. The meeting discussed and studied the Company's development and recommended to the Board the need for the Company's further enhancement of development in its principal operations. The meeting also suggested that the Company should make full use of the platform as a listing company and, based on systematic analysis, consider in time the further enhancement of the Company's competitiveness through capital operation and consolidation of the Company's assets.

F. Separation of staff, asset, finance, organization and business between the Company and its controlling shareholder

1. Staff: The staff of the Company is independent from the controlling shareholder. The Company has independent management in labour, personnel and wages, and established the relevant management systems. Senior management members such as general manager and deputy general manager receive salaries from the Company. Save for the position of director, they do not hold any other positions in the controlling shareholder.
2. Asset: The Company has its own supply, production and sale systems, ancillary production system and facilities. The Company holds intangible assets such as trademark ownership, industrial property right, and non-patent technology.
3. Finance: The Company has set up its own finance department, accounting system, financial management system and its own bank accounts.
4. Organization structure: The Company established a sound organizational system in which the Board of Directors, Supervisory Committee and other internal departments operate and function independently of each other. The Company is not subordinate to its controlling shareholder in term of its duties and departmental functions.
5. Business scope: The Company has a highly independent and complete business and operation ability. The Company has signed a "Non-competition and First Right of Refusal Agreement" with its controlling shareholder in order to avoid competition within the same industry.

G. Review on the performance of the senior management and incentive systems

During the reporting period, the Company conducted a comprehensive review of the senior management on basis of duties of respective positions and performance. Incentive rewards were made according to the results of the review.



Corporate Governance Report

H. Auditor's Remuneration

Shu Lun Pan Horwath Hong Kong CPA Limited and Zhong Rui Yue Hua Certified Public Accountants Company Limited were appointed as the Company's international and PRC auditors respectively in 2007. Remuneration payable by the Company to the two Certified Public Accountants for their audit services was RMB2,020,900 (2006 was RMB1,942,600).

I. General Meeting

Shareholders' general meeting is the authority of the Company for exercising its duties and authorities in accordance with the laws to decide significant issues of the Company. The annual general meeting or extraordinary general meetings of the Company offer a channel for direct communications between the Board and the shareholders of the Company. The Company is in strict compliance with the Articles of Association and Rules of Procedure at General Meetings to regulate the convening, holding and procedure of voting of the general meetings. The general meetings were witnessed by lawyers and the votings were scrutinized by auditors, in order to ensure all shareholders, both majority and minority shareholders, to be treated fairly and shareholders could fully exercise their rights.

The notice of general meetings had been dispatched 45 days before the holding of each general meeting to encourage all shareholders to attend the meetings, with Directors, Supervisors and senior management, where practicable, attending the meetings. The meetings were presided over by the Chairman or Vice Chairman of the Company. Representatives of auditors, the Board and each of the specialized committees would also attend the meeting to answer questions raised by shareholders.

During the reporting period, the Company had convened two general meetings, including the AGM and one extraordinary general meeting. Details of which are set out in Section 7 headed "Shareholders' General Meetings" in this Annual Report.

J. Communication with Shareholders and Investor Relations

The Board recognizes its accountability to shareholders for the performance and activities of the Company. The Board strived to maintain effective communication with shareholders. The Company has established different communication channels with its shareholders and investors:

1. the AGM and extraordinary general meeting held during the reporting period provided a forum for shareholders to raise comments and exchange views with the Board;
2. the 2006 annual report, interim report and so forth have been sent to the shareholders and interested investors containing therein a full financial and operational review of the Company;
3. discharge obligations of information disclosure by disclosing financial results and various transactions in various quarterly and the annual report, various announcements and circulars (if applicable); and
4. set up an investor hotline to accommodate stock analysts and fund managers, and provided channels by way of organizing press conference and roadshows, etc.

