Shu Lun Pan Horwath Hong Kong CPA Limited
香港立信浩華會計師事務所有限公司
2001 Central Plaza
18 Harbour Road Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
horwath@horwath.com.hk
www.horwath.com.hk

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NANJING PANDA ELECTRONICS COMPANY LIMITED

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

We have audited the consolidated financial statements of Nanjing Panda Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 119, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

27 March 2008
Li Pak Ki
Practising Certificate number P01330

Consolidated Income Statement

For The Year Ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	4	**994,038**	880,973
Cost of sales		**(848,399)**	(744,211)
Gross profit		**145,639**	136,762
Other revenue	5	**25,365**	18,272
Distribution costs		**(18,282)**	(17,904)
Administrative expenses		**(217,055)**	(205,344)
Finance costs	6	**(60,596)**	(56,799)
Share of results of associates		**247,405**	230,730
Profit before income tax	7	**122,476**	105,717
Income tax expenses	9	**(2,665)**	(4,160)
Profit for the year		**119,811**	101,557
Attributable to:			
Equity holders of the Company		**111,995**	93,110
Minority interests		**7,816**	8,447
		119,811	101,557
Proposed final dividend	11	**52,401**	—
Earnings per share (RMB)	12	**0.17**	0.14

Consolidated Balance Sheet

At 31 December 2007
(Expressed in Renminbi)

	Note	**2007** **RMB'000**	2006 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	14	**493,820**	484,460
Construction in progress	15	**9,659**	10,022
Land use rights	16	**48,805**	11,279
Interests in associates	18	**1,030,034**	573,139
Deferred tax assets	19	**5,204**	—
		1,587,522	1,078,900
Current assets			
Inventories	20	**305,991**	236,838
Bills receivable		**2,132**	31,775
Trade receivables	21	**101,342**	120,407
Other receivables, deposits and prepayments	22	**108,204**	614,532
Amounts due from fellow subsidiaries, associates and related companies	31(e)	**48,508**	31,531
Pledged bank balances and deposits		**92,015**	44,776
Bank balance and cash		**391,684**	607,318
		1,049,876	1,687,177
Current liabilities			
Bank borrowings	23	**711,335**	873,865
Trade payables	24	**162,123**	140,701
Other payables, customers' deposits and accrued charges		**172,477**	242,920
Amounts due to fellow subsidiaries, associates and related companies	31(e)	**20,531**	4,113
Amount due to ultimate holding company	31(g)	**11,402**	48,739
Current portion of obligations under finance leases	25	**10,534**	16,833
Tax payable		**4,017**	783
		1,092,419	1,327,954
Net current (liabilities)/assets		**(42,543)**	359,223
Total assets less current liabilities		**1,544,979**	1,438,123

Consolidated Balance Sheet

At 31 December 2007
(Expressed in Renminbi)

	Note	**2007** **RMB'000**	2006 RMB'000
Total assets less current liabilities		**1,544,979**	1,438,123
Non-current liabilities			
Obligations under finance leases	25	**(7,387)**	(18,158)
Net assets		**1,537,592**	1,419,965
Equity			
Share capital	26	**655,015**	655,015
Share premium and reserves		**835,666**	723,671
Attributable to equity holders of the Company		**1,490,681**	1,378,686
Minority interests		**46,911**	41,279
Total equity		**1,537,592**	1,419,965

The financial statements on pages 61 to 119 were approved and authorised for issue by the board of directors on 27 March 2008 and signed on its behalf by:

LI Anjian
Director

LIU Ailian
Director

Balance Sheet

At 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	14	**288,989**	279,197
Construction in progress	15	**7,629**	7,633
Land use rights	16	**10,945**	11,279
Investments in subsidiaries	17	**139,850**	143,772
Interests in associates	18	**576,975**	262,145
		1,024,388	704,026
Current assets			
Inventories	20	**152,122**	130,338
Bills receivable		**—**	30,098
Trade receivables	21	**5,413**	7,954
Other receivables, deposits and prepayments	22	**61,984**	608,764
Dividend receivable		**2,082**	1,677
Amounts due from fellow subsidiaries, associates and related companies	31(e)	**164**	23,177
Amounts due from subsidiaries	31(f)	**162,759**	41,018
Pledged bank balances and deposits		**80,000**	21,054
Bank balances and cash		**246,571**	518,982
		711,095	1,383,062
Current liabilities			
Bank borrowings	23	**653,000**	826,000
Trade payables	24	**15,612**	44,172
Other payables, customers' deposits and accrued charges		**87,947**	88,651
Amounts due to fellow subsidiaries, associates and related companies	31(e)	**2,934**	1,189
Amounts due to subsidiaries	31(f)	**6,617**	46,700
Amount due to ultimate holding company	31(g)	**4,584**	36,582
		770,694	1,043,294
Net current (liabilities)/assets		**(59,599)**	339,768
Net assets		**964,789**	1,043,794

Balance Sheet

At 31 December 2007
(Expressed in Renminbi)

	Note	**2007** **RMB'000**	2006 RMB'000
Equity			
Share capital	26	**655,015**	655,015
Share premium and reserves	27	**309,774**	388,779
Total equity		**964,789**	1,043,794

The financial statements on pages 61 to 119 were approved and authorised for issue by the board of directors on 27 March 2008 and signed on its behalf by:

LI Anjian
Director

LIU Ailian
Director

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2007
(Expressed in Renminbi)

	Equity attributable to equity holders of the Company								
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory common funds *RMB'000*	Asset revaluation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *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 year and total income and expense recognised for the year	—	—	—	—	—	93,110	93,110	8,447	101,557
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(6,866)	(6,866)
Dividends paid to minority interests	—	—	—	—	—	—	—	(1,054)	(1,054)
Profit appropriations	—	—	—	3,046	—	(3,046)	—	—	—
Reserve realised on amortisation of intangible assets	—	—	—	—	(188)	188	—	—	—
Balance at 31 December 2006	655,015	389,338	4,020	192,896	35,688	101,729	1,378,686	41,279	1,419,965
Profit for the year and total income and expense recognised for the year	—	—	—	—	—	111,995	111,995	7,816	119,811
Dividends paid to minority interests	—	—	—	—	—	—	—	(2,123)	(2,123)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(61)	(61)
Adjustment to profit appropriation in prior years	—	—	—	(1,505)	—	1,505	—	—	—
Profit appropriations				5,049	—	(5,049)	—	—	—
Balance at 31 December 2007	655,015	389,338	4,020	196,440	35,688	210,180	1,490,681	46,911	1,537,592

Consolidated Cash Flow Statement

For The Year Ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before taxation		**122,476**	105,717
Adjustments for:			
Excess of additional interest in net assets of a subsidiary acquired over cost		**—**	(108)
Share of results of associates		**(247,405)**	(230,730)
Interest income		**(3,413)**	(4,296)
Interest expenses		**56,072**	52,736
Finance lease interest		**2,382**	1,403
Depreciation and amortisation		**43,857**	37,585
(Gain)/loss on disposal of property, plant and equipment and construction in progress, net		**(2,788)**	1,562
Impairment loss on property, plant and equipment		**—**	62
Gain on disposal of an associate		**(1,937)**	—
Operating cash flows before changes in working capital		**(30,756)**	(36,069)
Increase in inventories		**(69,153)**	(61,683)
Decrease in trade and other receivables, deposits and prepayments and amounts due from related parties		**115,523**	118,646
Decrease/(increase) in bills receivable		**29,643**	(27,528)
Increase/(decrease) in bills payable		**16,235**	(6,270)
Decrease in trade and other payables, customers' deposits and accrued charges and amounts due to related parties		**(32,603)**	(1,503)
Cash generated from/(used in) operations		**28,889**	(14,407)
Interest paid		**(56,072)**	(52,736)
Finance lease interest paid		**(2,382)**	(1,403)
Income tax paid		**(4,635)**	(3,290)
Net cash used in operating activities		**(34,200)**	(71,836)

Consolidated Cash Flow Statement

For The Year Ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(28,041)**	(47,249)
Expenditure on construction in progress		**(21,507)**	(103,781)
Acquisition of land use rights		**(38,288)**	—
Acquisition of additional interest in a subsidiary		**(61)**	(6,758)
Proceeds from disposal of an associate		**6,322**	—
Proceeds from disposal of property, plant and equipment		**4,769**	7,945
Acquisition of associates		**—**	(14,124)
(Placement of)/release of pledged bank deposits		**(47,239)**	172
Interest received		**3,413**	4,296
Dividends received from associates		**179,018**	233,435
Net cash generated from investing activities		**58,386**	73,936
Financing activities			
New loans raised		**1,076,536**	1,245,570
Repayment of loans		**(1,255,301)**	(1,204,570)
(Decrease)/increase in amount due to ultimate holding company		**(5,737)**	237,831
Guarantee fund (withdrawn)/placed by ultimate holding company		**(31,600)**	31,600
Repayment of obligations under finance leases		**(21,595)**	(6,668)
Dividends paid to minority shareholders		**(2,123)**	(1,054)
Net cash (used in)/generated from financing activities		**(239,820)**	302,709
Net (decrease)/increase in cash and cash equivalents		**(215,634)**	304,809
Cash and cash equivalents at beginning of year		**607,318**	302,509
Cash and cash equivalents at end of year		**391,684**	607,318
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**391,684**	607,318

1. Organisation and operations

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

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

2. Basis of preparation and significant accounting policies

(a) Statement of compliance and basis of preparation of financial statements

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

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

(b) Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised HKFRSs that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7, *Financial instruments: Disclosures* and HKAS 1 (Amendment): *Capital disclosures* has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

(Expressed in Renminbi)

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

(b) Adoption of new and revised standards *(continued)*

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

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKFRS 8	Operating Segments	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
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

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

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transaction between group enterprises are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

(d) Business combination

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

Goodwill represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisitions of associates is included in investments in associates.

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

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

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

(f) Subsidiaries

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

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

Details of the Company's subsidiaries as of 31 December 2007 are set out in Note 17 to the financial statements.

(g) Associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

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

(h) Property, plant and equipment

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

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

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

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

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

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

Buildings	20 to 30 years
Plant, machinery and equipment	5 to 11 years
Transportation equipment and motor vehicles	5 to 10 years

The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

(i) Construction in progress

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

(j) Land use rights

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

(k) Impairment of assets excluding goodwill

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

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

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

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

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

(l) Inventories

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

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

(m) Financial assets

Financial assets are recognised when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The Group has one category of financial assets, which is loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

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

(m) Financial assets *(continued)*

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

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

(m) Financial assets *(continued)*

(ii) Impairment *(continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

(iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

(n) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

(i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(ii) Financial liabilities

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group has one category of financial liabilities, which is other financial liabilities. Other financial liabilities including bank loans, trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

(iii) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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

(p) Leases

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

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

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

(q) Taxation

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

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

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

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

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

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

(q) Taxation *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt in equity.

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

(r) Provisions and contingencies

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are reviewed regularly and adjusted to reflect the current best estimate.

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

(s) Translation of foreign currencies

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currency") are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are included in profit or loss for the period.

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

(t) Borrowings costs

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

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

(u) Retirement benefit scheme

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

(v) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period which it is incurred.

(w) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

(x) Recognition of income

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and exclude value added tax or other sales related taxes.

(i) Revenue from the sale of products is recognised when the group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.

(ii) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iv) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

(v) Revenue for providing technology services is recognised to the extent of services rendered and according to the terms of the agreement.

(y) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the other party or exercise significiant influence over the other party in making financial and operating decisions, or vice versa, or where the Group and the other party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(z) Segment reporting

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

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

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

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

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

3. Critical accounting judgement and key sources of estimation uncertainty

Judgement

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

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

3. Critical accounting judgement and key sources of estimation uncertainty *(continued)*

Estimation uncertainty

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

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(iii) Provision for obsolete inventories

Management reviews the condition of the inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete items. Management reassesses the estimation on each balance sheet date.

4. Turnover

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

5. Other revenue

	2007	2006
	RMB'000	*RMB'000*
Rental income	**5,877**	4,476
Technology licence income	**4,642**	4,749
Bank and other interest income	**3,413**	4,296
Net exchange gains	**—**	417
Gain on disposal of an associate	**1,937**	—
Government subsidies	**3,038**	2,116
Compensation income*	**5,200**	—
Excess of additional interest in net assets of subsidiary acquired over cost	**—**	108
Sundry income	**1,258**	2,110
	25,365	18,272

* During the year, the Group received a compensation income of RMB5.2 million from the PRC government for having to evacuate its properties constructed on the land the government had taken over.

6. Finance costs

	2007	2006
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**56,072**	54,139
Finance lease interest	**2,382**	1,403
Bank and other charges	**2,142**	1,257
	60,596	56,799

7. Profit before income tax

	2007 **RMB'000**	2006 RMB'000
Profit before income tax is arrived at after charging/(crediting):		
Allowance for inventories	**11,441**	—
Carrying amount of inventories sold	**821,679**	678,052
Amount of inventories recognised as an expense	**833,120**	678,052
Bad debts written off	**—**	2,122
Depreciation of property, plant and equipment	**43,095**	33,416
Amortisation of land use rights (included in administrative expenses)	**762**	66
Amortisation of trademark (included in administrative expenses)	**—**	4,103
Impairment loss/(reversed) on (included in administrative expenses)		
— Accounts receivable	**4,417**	(1,885)
— Other receivables	**38,295**	68,918
— Amounts due from related companies	**5,862**	(2,433)
Impairment loss on property, plant and equipment	**—**	62
Research and development expenses	**33,316**	31,911
Staff costs (excluding directors' and supervisors' emoluments)		
Salaries, bonuses and allowances	**57,285**	59,940
Retirement benefit scheme contributions	**8,945**	3,079
Auditors' remuneration	**2,258**	1,670
Operating lease rentals in respect of land and buildings	**3,386**	4,162
Exchange loss	**3,913**	—
(Gain)/loss on disposal of property, plant and equipment, net	**(2,788)**	1,562

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

(a) Directors' and supervisors' emoluments

The emoluments paid or payable to each of the fifteen (2006: fifteen) Directors and Supervisors were as follows:

Year ended 31 December 2007

Name	Fees *RMB'000*	Basic salaries, housing allowances, other allowances and benefits in kind *RMB'000*	Contributions to pension schemes *RMB'000*	Total *RMB'000*
Executive Director:				
Li Anjian	—	300	20	320
Non-executive Directors:				
Liu Ailian	240	—	—	240
Zhu Lifeng	240	—	—	240
Xu Guofei	300	—	—	300
Shi Qiusheng	240	—	—	240
Lu Qing	240	—	—	240
	1,260	—	—	1,260
Independent Non-executive Directors:				
Wan Hui *(Note 1)*	—	—	—	—
Zhu You Song (Note 2)	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	73	—	—	73
	73	—	—	73
Supervisors:				
Zhang Zhengping	—	240	20	260
Zhong Youxiang	—	120	20	140
Tang Min	—	120	20	140
	—	480	60	540
Independent Supervisors:				
Wu Shiyuan	—	—	—	—
Sun Suhua	—	—	—	—
	—	—	—	—
Total	1,333	780	80	2,193

Notes:

1. Resigned on 12 June 2007.
2. Appointed on 12 June 2007.

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

(a) Directors' and supervisors' emoluments *(continued)*

Year ended 31 December 2006

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

Notes:

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

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

(b) The five highest paid individuals:-

	2007 Number of Individuals	2006 Number of Individuals
Five highest paid individuals		
Directors	**—**	—
Supervisors	**—**	—
Employees	**5**	5
	5	5

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

	2007 ***RMB'000***	2006 *RMB'000*
Salaries and other benefits	**2,422**	2,090
Retirement benefits scheme contributions	**98**	76
	2,520	2,166

9. Income tax expenses

(a) Income tax expenses in the consolidated income statement represent:

	2007 RMB'000	2006 RMB'000
Current tax		
— PRC enterprise income tax	**7,869**	4,160
Deferred tax		
— attributable to the origination and reversal of temporary differences	**(6,590)**	—
— resulting from a change in tax rate	**1,386**	—
	(5,204)	—
	2,665	4,160

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 enterprise income tax at the rate of 15% of its assessable profit with effect from 1 January 1995.

All subsidiaries of the Company pay PRC income tax at the rates between 15% and 33%.

(b) The taxation charge for the year can be reconciled to the accounting profit as follows:

	2007 RMB'000	2006 RMB'000
Profit before income tax	**122,476**	105,717
Tax calculated at the statutory PRC tax rate of 33%	**40,417**	34,887
Exemption/reduction of income tax under preferential tax treatment	**(6,818)**	(7,542)
Tax effect of:		
Share of results of associates	**(81,644)**	(76,141)
Income not subject to taxation	**(6,085)**	(7,696)
Expenses not deductible for taxation purposes	**11,054**	4,081
Deferred tax benefits arising from tax losses not recognised	**53,506**	56,607
Effect of change in tax rate	**1,386**	—
Utilisation of previously unrecognised tax losses	**(4,706)**	—
Recognition of deferred tax assets previous by unrecognised	**(4,562)**	—
Others	**117**	(36)
Taxation charge	**2,665**	4,160

9. Income tax expenses *(continued)*

(c) New tax law of the PRC

On 16 March 2007, the National People's Congress promulgated the PRC Enterprise Income Tax Law (the "New Tax Law"), which became effective from 1 January 2008.

According to the new tax law, the standard enterprise tax rate for enterprises in the PRC will be reduced from 33% to 25%. However, a "high-technology company" will continue to be entitled to a preferential tax treatment. The detailed application of the newly introduced preferential tax policies have yet to be made public.

Under the New Tax Law which became effective from 1 January 2008 and in accordance with "Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax" promulgated by the State Council on 26 December 2007, an entity established before 16 March 2007 that was entitled to preferential tax treatment prior to the New Tax Law will be subject to a transitional tax rate beginning in period 2008 ("Transitional Tax Rate") before the new corporate income tax rate of 25% applies. For companies currently enjoying a reduced tax rate of 15%, the Transitional Tax Rate is 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 onwards respectively. The tax rate will transit to the standard tax rate of 25% for entities with current tax rate of 24% effective from 1 January 2008.

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable. The deferred tax assets/liabilities of subsidiaries in the PRC are measured using enacted tax rates expected to apply to taxable income, based on the Transitional Tax Rate.

10. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of RMB79,005,000 (2006: profit of RMB60,340,000) which has been dealt with in the financial statements of the Company.

11. Dividend

The Board recommended the payment of a final cash dividend before tax of RMB0.08 per share, based on the retained earnings available for distribution determined under PRC accounting standards and regulations, in respect of the year ended 31 December 2007. The proposed final dividend after the balance sheet date has not been recognised as a liability at the balance sheet date. This dividend is subject to the approval by the shareholders at the Annual General Meeting. The total estimated dividend to be paid is RMB52,401,200 (2006: Nil).

(Expressed in Renminbi)

12. Earnings per share

The calculation of the earnings per share is based on profit attributable to equity holders of the Company of RMB111,995,000 (2006: profit of RMB93,110,000) and 655,015,000 shares in issue throughout 2007 and 2006.

No diluted earnings per share for the years ended 31 December 2007 and 2006 has been presented as there were no dilutive potential ordinary shares in issue as at 31 December 2007 and 2006.

13. Segment reporting

(a) Business segments

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

Electronic manufacturing products:	Development, production and sale of electronic manufacturing products
Electromechanical products:	Development, production and sale of electromechanical products, equipment and appliances
Satellite telecommunications products:	Development, manufacture and sale of satelline telecommunication products
Electronic Information Products:	Development, manufacture and sale of electronic information products

13. Segment reporting *(continued)*

(a) Business segment *(continued)*

The following tables provide an analysis of the Group's turnover, results and certain assets liabilities and expenditure information by business segments for the years ended 31 December 2007 and 2006:-

Year ended 31 December 2007

	Electronic manufacturing products *RMB'000*	Electro-mechanical Products *RMB'000*	Satellite telecom-munication products *RMB'000*	Electronic information products *RMB'000*	Other operations *RMB'000*	Consolidated *RMB'000*
Segment revenue						
External sales	305,820	189,002	198,771	276,672	23,773	994,038
Segment result	30,252	16,105	26,466	13,328	5,022	91,173
Unallocated corporate expenses						(161,061)
Interest income						3,413
Interest expenses						(58,454)
Share of results of associates						247,405
Income tax expenses						(2,665)
Profit for the year						119,811
Assets						
Segment assets	389,438	206,781	301,230	194,769	30,146	1,122,364
Interests in associates						1,030,034
Unallocated corporate assets						485,000
Consolidated total assets						2,637,398
Liabilities						
Segment liabilities	216,912	173,964	209,543	149,964	41,220	791,603
Unallocated corporate liabilities						308,203
Consolidated total liabilities						1,099,806
Other information						
Capital expenditure	19,644	1,750	—	525	—	
Depreciation	20,812	4,364	—	656	1,147	

13. Segment reporting (continued)

(a) Business segment *(continued)*

Year ended 31 December 2006

	Electronic manufacturing products RMB'000	Electro-mechanical Products RMB'000	Satellite telecom-munication products RMB'000	Electronic information products RMB'000	Other operations RMB'000	Consolidated RMB'000
Segment revenue						
External sales	237,224	219,624	179,562	192,728	51,835	880,973
Segment result	11,652	3,097	24,881	16,306	2,523	58,459
Unallocated corporate expenses						(132,226)
Interest income						4,296
Interest expenses						(55,542)
Share of results of associates						230,730
Income tax expenses						(4,160)
Profit for the year						101,557
Assets						
Segment assets	315,322	174,335	176,464	220,509	39,461	926,091
Interests in associates						573,139
Unallocated corporate assets						1,266,874
Consolidated total assets						2,766,077
Liabilities						
Segment liabilities	178,829	145,255	112,163	184,833	43,183	664,263
Unallocated corporate liabilities						681,849
Consolidated total liabilities						1,346,112
Other information						
Capital expenditure	82,073	3,271	—	1,117	3	
Depreciation	16,701	4,153	—	514	1,504	

(b) Geographical segments

No geographical segments have been presented as over 90% of the Group's sales are generated from sales in the PRC.

14. Property, plant and equipment

The Group	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Total RMB'000
Cost or valuation:				
At 1 January 2006	237,749	200,280	7,405	445,434
Additions	22,137	88,329	342	110,808
Transfers from construction in progress	107,557	6,650	—	114,207
Disposals	(4,847)	(22,880)	(222)	(27,949)
At 31 December 2006	362,596	272,379	7,525	642,500
Additions	10,511	20,939	1,116	32,566
Transfers from construction in progress	15,648	6,222	—	21,870
Disposals	(659)	(10,618)	(860)	(12,137)
At 31 December 2007	388,096	288,922	7,781	684,799
Accumulated depreciation:				
At 1 January 2006	48,674	90,519	3,811	143,004
Charge for the year	11,596	21,230	590	33,416
Impairment loss	—	62	—	62
Written back on disposal	(2,327)	(15,924)	(191)	(18,442)
At 31 December 2006	57,943	95,887	4,210	158,040
Charge for the year	14,602	28,330	163	43,095
Impairment loss recovered	—	(3,857)	—	(3,857)
Written back on disposal	(627)	(4,944)	(728)	(6,299)
At 31 December 2007	71,918	115,416	3,645	190,979
Net book value:				
At 31 December 2007	316,178	173,506	4,136	493,820
At 31 December 2006	304,653	176,492	3,315	484,460

14. Property, plant and equipment *(continued)*

The Company	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Total RMB'000
Cost or valuation:				
At 1 January 2006	198,297	51,546	864	250,707
Additions	21,900	1,677	160	23,737
Transfers from construction in progress	107,557	—	—	107,557
Disposals	(4,835)	(3,254)	—	(8,089)
At 31 December 2006	322,919	49,969	1,024	373,912
Additions	5,866	1,185	558	7,609
Transfers from construction in progress	14,498	626	—	15,124
Disposals	—	(1,512)	—	(1,512)
At 31 December 2007	343,283	50,268	1,582	395,133
Accumulated depreciation:				
At 1 January 2006	40,683	47,597	409	88,689
Charge for the year	10,170	1,144	76	11,390
Reclassification	2,702	(2,702)	—	—
Written back on disposal	(2,315)	(3,049)	—	(5,364)
At 31 December 2006	51,240	42,990	485	94,715
Charge for the year	11,054	1,545	105	12,704
Written back on disposal	—	(1,275)	—	(1,275)
At 31 December 2007	62,294	43,260	590	106,144
Net book value:				
At 31 December 2007	280,989	7,008	992	288,989
At 31 December 2006	271,679	6,979	539	279,197

(a) All the Group's and the Company's buildings are located in the PRC.

(b) Included in buildings of the Group and the Company as at 31 December 2007 were properties with total carrying amount of approximately RMB85,672,000, which were located on land held by PEGCL. No rental was paid during the year. The rest of the buildings were located on land under land use rights of the Group.

14. Property, plant and equipment *(continued)*

(c) The Group leases production plant and machinery under finance leases expiring from 2 to 3 years. None of the leases includes contingent rentals.

During the year, additions to plant and machinery of the Group financed by new finance leases were RMB4,386,000 (2006: RMB52,571,000). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was RMB50,148,000 (2006: RMB50,977,000). The related depreciation charge for the year was RMB5,215,000 (2006: RMB1,594,000).

(d) The Group and the Company have no relevant information on the carrying amount of each revalued class of property, plant and equipments that would have been recognised had the assets been carried under the cost model.

15. Construction in progress

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**10,022**	20,448	**7,633**	20,390
Additions	**21,507**	103,781	**15,120**	94,800
	31,529	124,229	**22,753**	115,190
Transfers to property, plant and equipment	**(21,870)**	(114,207)	**(15,124)**	(107,557)
At 31 December	**9,659**	10,022	**7,629**	7,633

Construction in progress does not include any capitalisation of interest paid.

16. Land use rights

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net book value:				
At 1 January	**11,279**	1,645	**11,279**	1,645
Additions	**38,288**	9,700	**—**	9,700
Amortisation	**(762)**	(66)	**(334)**	(66)
At 31 December	**48,805**	11,279	**10,945**	11,279

The Group and the Company's land use rights are located in the PRC under medium term leases. The costs of the Group's and the Company's land use rights as at 31 December 2007 are RMB50,110,000 (2006: RMB11,822,000) and RMB11,822,000 (2006: RMB,11,822,000) respectively.

17. Investments in subsidiaries

	2007 RMB'000	2006 RMB'000
Unlisted equity securities, at cost	**196,705**	196,705
Less: Impairment loss recognised	**(56,855)**	(52,933)
	139,850	143,772

Particulars of the subsidiaries as at 31 December 2007, all of which are limited liability companies established/registered and operating in the PRC and directly held by the Company, were as follows:-

Name of subsidiary	Date of establishment/ registration	Registered capital	Proportion of nominal value of issued capital/registered capital directly held by the Company directly	indirectly	Principal activities
Shenzhen Panda Electronics Company	21 December 1992	RMB6,500,000	95%	—	Trading of electronic products and components
Nanjing Panda Technology Equipment Co., Ltd.	15 October 1999	RMB5,000,000	70%	—	Manufacture and sale of equipment for production of television sets
Nanjing Panda Information Industry Co. Ltd.	20 July 1998	US$7,400,000	72%	—	Development, production and sale of electronics information products
Panda International Telecommunication Systems Company Limited, Nanjing	12 October 1993	US$1,240,000	72%	—	Sale and distribution of cellular mobile telephones and pagers
Nanjing Guanghua Electronics Plastic Casings Factory *(Note (a))*	20 December 1984	RMB11,497,600	71.94%	—	Manufacture and sale of plastic and spare parts
Nanjing Panda Mechanical Engineering Plant	12 May 1995	RMB45,000,000	99.11%	—	Manufacture and sale of communication and electronic equipment
Nanjing Panda Accurate Machinery Co., Ltd.	10 February 1999	RMB5,000,000	70%	—	Manufacture and sale of specialised electronic equipment

(Expressed in Renminbi)

17. Investments in subsidiaries *(continued)*

Name of subsidiary	Date of establishment/ registration	Registered capital	Proportion of nominal value of issued capital/registered capital directly held by the Company directly	indirectly	Principal activities
Nanjing Panda Appliance & Apparatus Co. Ltd.	29 September 2000	RMB1,000,000	70%	—	Development and production of electromechanical products and installation of electronic communication systems
Nanjing Panda Mechanical Manufacturing Co. Ltd	28 June 2001	RMB5,000,000	70%	—	Manufacture of raw materials, components and parts for production
Nanjing Panda Hua Ge Electronic Plastics Co. Ltd	26 December 2001	RMB30,000,000	100%	—	Manufacture and sale of plastic products and spare parts
Nanjing Panda Mechanical Co., Ltd.	24 January 2002	RMB3,000,000	70%	—	Manufacture and subcontracting of mechanical parts
Nanjing Electronic Calibration Co., Ltd.	28 October 2002	RMB1,000,000	70%	—	Inspection of electromechanical products
Nanjing Panda Network Technology Co., Ltd. *(Note (b))*	18 October 2002	RMB10,000,000	50%	—	Data communication terminal products and network communication products
Nanjing Panda System Integration Co., Ltd.	30 September 2002	RMB3,000,000	51%	1.7%	Development and sale of computer software
Nanjing Panda Power Supply Technology Co., Ltd.	1 December 2004	RMB11,000,000	79.55%	—	Design, manufacture and sale of UPS and special power supply systems and converters
Nanjing Panda Electronic Manufacture Co., Ltd.	23 June 2004	US$10,000,000	75%	—	Development and production of electronic components
Galant Limited	7 November 2005	HK$10,000	100%	—	Research and development of communication products

17. Investments in subsidiaries *(continued)*

Notes

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

On 12 November 2007, the Company and the joint venture partner entered into a sale and purchase agreement whereby the Company agreed to acquire the remaining equity interests held by the joint venture partner at a consideration with reference to the net asset value of Guanghua as at 31 December 2007. On 28 January 2008, the acquisition was completed.

(b) The subsidiary has ceased business and is insignificant to the Group. Accordingly, its financial statements are not consolidated in the Group's financial statements.

18. Interests in associates

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investments, at cost	**—**	—	**690,987**	304,628
Less: Impairment loss recognised	**—**	—	**(114,012)**	(42,483)
Share of net assets	**1,026,591**	569,696	**—**	—
Goodwill	**3,443**	3,443	**—**	—
	1,030,034	573,139	**576,975**	262,145

(Expressed in Renminbi)

18. Interests in associates *(continued)*

Particulars of the principal associates of the Group as at 31 December 2007, all of which were established/ registered in the PRC, are as follows:-

Name of associates	Date of establishment/ registration	Equity interest attributable to the Group	Principal activities
Nanjing Ericsson Panda Communication Company Limited ("ENC")	15 September 1992	27%	Manufacture and sale of cellular mobile telephone system products and digital switching system products
Nanjing Flextronics Panda Mobile Terminals Co., Ltd.	20 November 1998	35%	Production, development and sale of data communication terminal equipment
Shenzhen Jinghua Electronic Company Limited	9 July 1993	38.03%	Development, manufacture and sale of communication equipment and electronic equipment
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	8 August 1995	20%	Manufacture and sale of mobile communication products
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	29 July 2001	50%	Development, manufacture and sale of power supply machines
Nanjing Thales Panda Transportation System Company Limited	9 December 2004	40%	Design, research and development and production of electronic equipment of auto billing systems
Nanjing Huaxian High Technology Company Limited	24 April 2006	20%	Not yet commenced business
Hua Fei Color Display Systems Co., Ltd. ("Hua Fei")	27 April 1988	25%	Design, research and development and production of color display systems

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

18. Interests in associates *(continued)*

ENC, BMC and Hua Fei Color Display Systems Co., Ltd. are the most significant associates of the Group. The details as set out below were extracted from the 2007 audited financial statements of these companies.

	2007			2006		
	ENC	**BMC**	**Hua Fei**	ENC	BMC	Hua Fei
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**15,654,457**	**32,642,388**	**2,689,272**	11,472,434	27,021,044	—
Profit/(loss) before taxation	**571,418**	**887,010**	**(428,857)**	459,824	718,931	—
Taxation credit/(charge)	**2,628**	**(123,717)**	**(91)**	(83,547)	(124,798)	—
Profit/(loss) after taxation	**574,046**	**763,293**	**(428,948)**	376,277	594,133	—
Profit/(loss) for the year attributable to the Group	**154,992**	**152,659**	**(71,583)**	101,595	118,827	—
Financial position						
Non-current assets	**1,288,061**	**498,188**	**2,285,078**	488,837	285,188	—
Current assets	**6,395,281**	**4,371,014**	**890,612**	7,155,995	4,726,179	—
Current liabilities	**(6,522,101)**	**(3,461,320)**	**(1,819,662)**	(6,665,551)	(4,044,778)	—
Net assets	**1,161,241**	**1,407,882**	**1,356,028**	979,281	966,589	—
Net assets attributable to the Group	**313,535**	**281,576**	**321,310**	264,406	193,318	—

19. Deferred tax assets

The components of deferred tax assets recognised in the balance sheet and the movements during the year are as follows:

	Impairment losses on					
	Receivables	Inventories	Property, plant and equipment	Recognition of deferred income	Available tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006 and 31 December 2006	—	—	—	—	—	—
Deferred tax credited to profit or loss for the year	4,617	1,224	160	198	391	6,590
Effect of change in tax rate	(1,007)	(197)	(39)	(48)	(95)	(1,386)
At 31 December 2007	3,610	1,027	121	150	296	5,204

At 31 December 2007, the Group has unused tax losses of RMB8,851,000 available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1,184,000 of such losses. No deferred tax asset has been recognised in respect of the remaining RMB7,667,000 due to the unpredictability of future profit streams. Such loss will expire within five years.

20. Inventories

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**117,464**	48,334	**58,832**	22,526
Work in progress	**147,001**	135,432	**89,830**	83,732
Finished goods	**40,940**	52,480	**3,460**	24,080
Spare parts and consumables	**586**	592	**—**	—
	305,991	236,838	**152,122**	130,338

21. Trade receivables

	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company 2007 RMB'000	The Company 2006 RMB'000
Trade receivables	**114,339**	140,070	**6,389**	9,516
Less: Allowance for bad and doubtful debts	**(12,997)**	(19,663)	**(976)**	(1,562)
	101,342	120,407	**5,413**	7,954

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

(b) The following is an ageing analysis of trade receivables net of allowances for doubtful debts at 31 December 2007:-

	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company 2007 RMB'000	The Company 2006 RMB'000
Within 1 year	**96,033**	111,154	**4,665**	6,948
1 to 2 years	**4,038**	4,408	**455**	658
2 to 3 years	**913**	2,859	**284**	323
Over 3 years	**358**	1,986	**9**	25
	101,342	120,407	**5,413**	7,954

(c) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, were as follows:

	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company 2007 RMB'000	The Company 2006 RMB'000
At beginning of year	**19,663**	21,548	**1,562**	514
Impairment loss recognised/ (reversed)	**4,417**	(1,885)	**(81)**	1,048
Uncollectible amounts written off	**(11,083)**	—	**(505)**	—
	12,997	19,663	**976**	1,562

The allowance for impairment is made for estimated irrecoverable amounts from the sale of goods and determined by reference to past default experience.

22. Other receivables, deposits and prepayments

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables *(i)*	**95,154**	684,299	**88,589**	1,128,112
Less: Allowance for doubtful debts	**(38,630)**	(146,146)	**(38,867)**	(563,091)
	56,524	538,153	**49,722**	565,021
Deposit and prepayments	**51,680**	76,379	**12,262**	43,743
	108,204	614,532	**61,984**	608,764

(i) Included in the Group's and the Company's other receivables, deposits and prepayments was a balance of RMB411,800,000, net of impairment loss, due from Jiangsu International Trust Investment Co. Ltd. ("International Trust Investment"). In 2007, International Trust Investment transferred the 25% equity interest it held in Hua Fei Color Display Systems Co. Ltd. to the Company at RMB392,893,000 based on the fair value of share of net assets acquired at the date of transfer for settlement of the debts. As a result, an impairment loss of 18,907,000 is recognised in profit or loss for the year.

The movement in the allowance for doubtful debts during the year is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**146,146**	77,228	**136,286**	66,779
Impairment loss recognised/ (reversed)	**38,295**	68,918	**40,742**	69,507
Uncollectible amounts written off	**(145,811)**	—	**(138,161)**	—
	38,630	146,146	**38,867**	136,286

23. Borrowings

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings				
— Short term loans				
— unsecured	**402,305**	626,070	**368,000**	596,000
— secured *(i)*	**255,000**	210,000	**255,000**	210,000
— Bills payable *(ii)*	**54,030**	37,795	**30,000**	20,000
	711,335	873,865	**653,000**	826,000

(i) The above bank borrowings are secured by the Group's land and buildings with a net book value of approximately RMB138,331,489 (2006: RMB144,458,448) and bank deposits of RMB50,000,000 (2006: RMB15,879,000) as at the balance sheet date.

(ii) Bills payable were issued with a term of 3 to 6 months and are secured by pledges over the Group's bank balances of RMB42,015,000 (2006: RMB28,897,000) as at the balance sheet date.

24. Trade payables

The following is an ageing analysis of trade payables at 31 December 2007:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**129,080**	106,878	**5,590**	31,050
1 to 2 years	**12,653**	13,083	**2,865**	5,496
2 to 3 years	**11,450**	3,112	**6,665**	529
Over 3 years	**8,940**	17,628	**492**	7,097
	162,123	140,701	**15,612**	44,172

25. Obligations under finance leases

At 31 December 2007, the Group had obligations under finance leases repayable as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Within one year	**11,715**	19,271
In the second year	**7,500**	13,345
In the third year	**204**	6,273
Total minimum finance lease payments	**19,419**	38,889
Future finance charges	**(1,498)**	(3,898)
Present value of finance lease obligations	**17,921**	34,991
The present value of finance lease obligations is analysed as follows:		
Within one year	**10,534**	16,833
In the second year	**7,186**	12,231
In the third year	**201**	5,927
	17,921	34,991

26. Share capital

Registered, issued and paid up capital of RMB1 per share:

	State-owned legal person shares	**A shares (held by PRC public investors)**	**H share**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	355,015	58,000	242,000	655,015
Restructure of shares (Note)	(20,300)	20,300	—	—
At 31 December 2006 and 2007	334,715	78,300	242,000	655,015

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

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

26. Share capital *(continued)*

As at 31 December 2007, PEGCL, the controlling shareholder which is holding 344,715,000 Stated-owned legal person shares of the Company, representing 51.10% of its total share capital, had a total of 92,815,000 shares, representing 14.17% of total share capital of the Company being judicially frozen owing to contractual disputes between the Company and certain bankers. PEGCL had also pledged 167,350,000 shares, representing 25.55% of the total issued share capital to banks and the pledged shares were judicially frozen by the banks.

27. Share premium and reserves

The Company	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory common funds *RMB'000*	Asset revaluation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2006	389,338	3	181,468	26,569	(268,939)	328,439
Profit for the year and total income and expense recognised for the year	—	—	—	—	60,340	60,340
Reserve realised on amortisation of intangible assets	—	—	—	(188)	188	—
Balance at 31 December 2006	389,338	3	181,468	26,381	(208,411)	388,779
Profit for the year and total income and expense recognised for the year	—	—	—	—	(79,005)	(79,005)
Balance at 31 December 2007	389,338	3	181,468	26,381	(287,416)	309,774

Statutory common funds are part of shareholders' equity representing the appropriation of 10% of profit after taxation calculated in accordance with PRC accounting standards and the Company's Articles of Association. Appropriation will no longer be required if the balance of the statutory common funds has reached 50% of the Company's registered capital. According to the Company's Articles of Association, statutory common funds can be used to offset prior year losses, to expand production and operation facilities of the Company or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory common funds falling below 25% of the registered capital.

In accordance with the Company's Articles of Association, the profit available for distribution is the lesser of the profit determined in accordance with PRC accounting standards and profit determined in accordance with accounting principles generally accepted in Hong Kong. There was no distributable reserve as at 31 December 2006 and 2007.

28. Non-cash transactions

(i) Additions to machinery and equipment of the Group during the year amounting to RMB4,525,000 (2006: RMB41,659,000) were financed by new finance leases.

(ii) During the year, International Trust Investment transferred a 25% equity interest in Hua Fei Color Display Systems Co. Ltd. It held to the Group valued at RMB392,893,000 for settlement of the balances owed to the Group.

29. Contingent liabilities

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

	The Company	
	2007	2006
	RMB'000	*RMB'000*
Guarantees given in respect of banking and other facilities made available to subsidiaries	**112,589**	108,062

The maximum liability of the Company at the balance sheet date under the guarantee is the amount of facilities drawn down by all the subsidiaries that are covered by guarantee, being RMB65,738,000 (2006: RMB77,856,000).

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

30. Commitments

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted but not provided for				
— construction in progress	**10,316**	—	**10,316**	—
— investments in subsidiaries	**—**	—	**21,840**	23,430
	10,316	—	**32,156**	23,430
Approved but not contracted for				
— investments in subsidiaries	**—**	—	**69,160**	74,171

31. Related party transactions

Other than as disclosed in note 29 to the financial statements, the Group and the Company had the following material related party transactions.

(a) During the year and in the ordinary course of business, the Group entered into the following transactions with related parties:

	Fellow subsidiaries		Associates		Ultimate holding company	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Sale of components and parts *(Note 1)*	**24,031**	8,379	**27,378**	18,866	**40**	7,326
Purchase of components and parts *(Note 1)*	**6,580**	13,611	**3,185**	4,612	**918**	1,050
Fees paid for welfare, support and sub-contracting services *(Note 2)*	**9,611**	9,591	**2,804**	—	**5,174**	4,604
Income for welfare, support, and sub-contracting services *(Note 2)*	**16,339**	16,214	**—**	467	**—**	5,750
Rental income *(Note 1)*	**720**	139	**—**	—	**290**	99
Rental expenses *(Note 1)*	**3,639**	1,755	**—**	—	**—**	2,075
Import and export agency services *(Note 2)*	**180**	—	**—**	—	**—**	—
Trademark income *(Note 2)*	**133**	483	**—**	—	**—**	—

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

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

(b) As at balance sheet date, the Company had acceptance of guarantees provided by the ultimate holding company and its fellow subsidiary in the amount of RMB378,000,000 (2006: RMB526,000,000).

(c) As at the balance sheet date, the Company had provided guarantees to its subsidiaries in the amount of RMB112,589,000 (2006: RMB108,062,000).

31. Related party transactions *(continued)*

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

	2007 RMB'000	2006 RMB'000
Salaries and other short term benefits	**4,823**	4,542
Retirement benefit scheme contributions	**337**	245
	5,160	4,787

(e) The amounts due from/(to) fellow subsidiaries, associates and related companies are unsecured, interest free and repayable on demand. Allowance for doubtful debts amounting to RMB2,886,000 (2006: RMB2,736,000) was made in respect of these amounts and the movements in the allowance for doubtful debts during the year were as follows:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
At beginning of year	**2,736**	5,169	**1,691**	3,578
Impairment loss recognised/(reversed)	**5,862**	(2,433)	**3,863**	(1,887)
Uncollectible amounts written off	**(5,712)**	—	**(4,376)**	—
	2,886	2,736	**1,178**	1,691

The provision is made for estimated irrecoverable amounts from the sale of goods and determined by reference to past default experience.

(f) The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

(g) The amount due from ultimate holding company is unsecured, interest free and repayable on demand.

32. Capital risk management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings and obligations under finance leases disclosed in notes 23 and 25 respectively, bank balances and cash and equity attributable to equity holders of the Company, comprising share capital, reserves and retained earnings.

The Group's risk management reviews the capital structure annually. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end was as follows:

	2007 *RMB'000*	2006 *RMB'000*
Borrowings	**711,335**	873,865
Obligations under finance leases	**17,921**	34,991
Pledged bank balances and deposits	**(92,015)**	(44,776)
Bank balances and cash	**(391,684)**	(607,318)
Net debt	**245,557**	256,762
Equity	**1,537,592**	1,419,965
Net debt to equity ratio	**16%**	18%

33. Financial risk management objectives and policies

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

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, other receivables, amounts due from fellow subsidiaries, associates and related companies. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, the Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs individual credit evaluations on all customers requiring credit over a certain amount. Given the Group's historical experience in collection of trade and other receivables, the Directors are of opinion that adequate provision for uncollectible trade and other receivables has been made in the financial statements. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as have similar characteristics if they are related entities.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 21.

33. Financial risk management objectives and policies *(continued)*

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

The Group	Carrying amount	Total contractual undiscounted cash flow	Less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007						
Borrowings	711,335	739,747	272,093	467,654	—	—
Trade payables	162,123	162,123	162,123	—	—	—
Other payables	184,540	184,540	184,540	—	—	—
Amounts due to fellow subsidiaries, associates and related companies	20,531	20,531	20,531	—	—	—
Amount due to ultimate holding company	11,402	11,402	11,402	—	—	—
Obligations under finance leases	17,921	19,419	6,131	5,584	7,500	204
	1,107,852	1,137,762	656,820	473,238	7,500	204
2006						
Borrowings	873,865	892,592	537,167	355,425	—	—
Trade payables	140,701	140,701	140,701	—	—	—
Other payables	190,489	190,489	190,489	—	—	—
Amounts due to fellow subsidiaries, associates and related companies	4,113	4,113	4,113	—	—	—
Amount due to ultimate holding company	48,739	48,739	48,739	—	—	—
Obligations under finance leases	34,991	38,889	9,636	9,635	13,345	6,273
	1,292,898	1,315,523	930,845	365,060	13,345	6,273

33. Financial risk management objectives and policies *(continued)*

(b) Liquidity risk *(continued)*

The Company	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Less than 6 months RMB'000	More than 6 months but less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years RMB'000
2007						
Borrowings	653,000	685,164	235,318	449,846	—	—
Trade payables	15,612	15,612	15,612	—	—	—
Other payables	83,082	83,082	83,082	—	—	—
Amounts due to fellow subsidiaries, associates and related companies	2,934	2,934	2,934	—	—	—
Amount due to subsidiaries	6,617	6,617	6,617	—	—	—
Amount due to ultimate holding company	4,584	4,584	4,583	—	—	—
	765,829	797,993	348,146	449,846	—	—
2006						
Borrowings	826,000	852,610	495,641	356,969	—	—
Trade payables	44,172	44,172	44,172	—	—	—
Other payables	83,865	83,865	83,865	—	—	—
Amounts due to fellow subsidiaries, associates and related companies	1,189	1,189	1,189	—	—	—
Amount due to subsidiaries	46,700	46,700	46,700	—	—	—
Amount due to ultimate holding company	36,582	36,582	36,582	—	—	—
	1,038,508	1,065,118	708,149	356,969	—	—

33. Financial risk management objectives and policies *(continued)*

(c) Market risk

(i) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively.

The following table details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the balance sheet date.

The Group	2007 Average effective interest rate %	2007 Amount RMB'000	2006 Average effective interest rate %	2006 Amount RMB'000
Net fixed rate borrowings				
Short term bank loans	**7.56%**	**439,305**	6.43%	778,070
Bills payable	**0.05%**	**54,030**	0.05%	37,795
Obligations under finance leases	**9.70%**	**17,921**	9.09%	34,991
		511,256		850,856
Variable rate borrowings				
Short term bank loans	**7.78%**	**218,000**	7.34%	58,000
Total borrowings		**729,256**		908,856

The Company	2007 Average effective interest rate %	2007 Amount RMB'000	2006 Average effective interest rate %	2006 Amount RMB'000
Net fixed rate borrowings				
Short term bank loans	**7.57%**	**420,000**	6.43%	748,000
Bills payable	**0.05%**	**30,000**	0.05%	20,000
		450,000		768,000
Variable rate borrowings				
Short term bank loans	**7.81%**	**203,000**	7.34%	58,000
Total borrowings		**653,000**		826,000

33. Financial risk management objectives and policies *(continued)*

(c) Market risk *(continued)*

(i) Interest rate risk *(continued)*

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the group's profit after taxation and accumulated losses respectively by approximately RMB330,000 (2006: RMB194,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(ii) Currency risk

Currency risk to the Company is minimal as most of the Company's transactions are carried out in Renminbi.

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Euros.

The following table details the Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2007		2006	
	United States dollars	**Euros**	United States dollars	Euros
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Trade receivables	**12,380**	**—**	1,099	129
Other receivables, deposits and prepayments	**3,040**	**—**	2,391	—
Bank balance and cash	**17,456**	**160**	2,686	49
Trade payables	**(1,666)**	**—**	(1,814)	—
Other payables, customers' deposits and accrued charges	**(346)**	**—**	—	—
Overall net exposure	**30,864**	**160**	4,362	178

33. Financial risk management objectives and policies *(continued)*

(c) Market risk *(continued)*

(ii) Currency risk *(continued)*

As at 31 December 2007, if United States Dollars had strengthened/weakened by 7% against the Renminbi, with all other variables held constant, profit before tax for the year and retained profits would have been approximately RMB2,019,000 (2006: RMB285,000) higher/lower.

A reasonably possible change of 5% in exchange rate between Euros and Renminbi would have no material impact on the Group's profit and equity for the year.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis represent an aggregation of the effects on each of the group entities' profit/(loss) for the year and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

34. Fair value of financial instruments

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

35. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007 ***RMB'000***	2006 *RMB'000*
Financial assets		
Loans and receivables (including cash and bank balances)	**690,073**	1,373,960
Financial liabilities		
Financial liabilities measured at amortised cost	**1,040,020**	1,250,632

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

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

Impact on the consolidated income statement

	2007	2006
	RMB'000	*RMB'000*
Profit for the year attributable to equity holders of the Company per financial statements prepared under accounting principles generally accepted in Hong Kong	**111,995**	93,110
Deferred tax assets recognised as prior year adjustment	**(4,562)**	—
Amortisation of revaluation surplus on trademarks	**—**	225
Amortisation of unrecognised intangible assets	**(200)**	(200)
Share of results of associates	**(18,515)**	(5,232)
Minority interests	**629**	2,136
Others	**(255)**	(892)
Profit for the year attributable to equity holders of the Company per financial statements prepared under PRC accounting standards	**89,092**	89,147

Impact on the consolidated balance sheet

	2007	2006
	RMB'000	*RMB'000*
Equity attributable to equity holders of the Company per financial statements prepared under accounting principles generally accepted in Hong Kong during the year	**1,490,681**	1,378,686
Unrecognised intangible assets	**520**	720
Goodwill	**(3,045)**	(3,090)
Share of reserves of associates	**(50,614)**	(32,098)
Minority interests	**92**	2,850
Others	**56**	10
Equity attributable to equity holders of the Company per financial statements prepared under PRC accounting standards during the year	**1,437,690**	1,347,078

37. Comparative figures

Certain comparative figures have been reclassified in order to conform with the current year's presentation.