

# PANDA

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

## 2008中期報告

(股份代號 Stock Code: 0553)

Communication

Electronics

Information-Technology

Interim Report

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## I. IMPORTANT NOTICE

1. The board of directors (the "Board") and the supervisory committee (the "Supervisory Committee") and the directors ("Directors"), supervisors ("Supervisors"), senior management staff of Nanjing Panda Electronics Company Limited ("the Company") confirm that the information in the Company's 2008 interim report (the "Interim Report") does not contain any misrepresentation, misleading statements, or material omissions and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents.
2. Director Mr. Lu Qing was engaged in other duties and therefore did not attend the Board Meeting held on 19 August 2008. Mr. Lu appointed Mr. Xu Guofei to attend the meeting and to exercise the voting rights on his behalf.
3. The Company's interim financial statements for the six months ended 30 June 2008 (the "Reporting Period") were unaudited.
4. Mr. Li Anjian, Chairman of the Company, Mr. Shen Jianlong, Chief Accountant, and Ms. Wu Yuzhen, Manager of the Finance Department, have declared the truthfulness and completeness of these financial statements contained in the Interim Report.

## II. CORPORATE BASIC INFORMATION

### (I) Company profile:

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

## (II) Key financial data and indices

## 1. Prepared in accordance with the PRC Accounting Standards for Business Enterprises (unaudited)

	<i>Unit: RMB</i>		
	<b>30 June 2008</b>	31 December 2007	Change between the end of the Reporting Period and beginning of the preceding year (%)
Total assets	<b>2,576,145,387.99</b>	2,589,635,753.94	(0.52)
Shareholders' equity (excluding minority interest)	<b>1,428,686,523.51</b>	1,437,690,036.74	(0.63)
Net asset value per share	<b>2.18</b>	2.19	(0.63)
			Change between this Reporting Period and the same period last year (%)
	<b>Jan to June 2008</b>	Jan to June 2007	
Operating profit	<b>25,340,736.93</b>	55,628,104.61	(54.45)
Total profit	<b>28,655,036.01</b>	37,445,249.32	(23.47)
Net profit	<b>25,315,789.25</b>	32,332,684.95	(21.70)
Net profit after extraordinary profit and loss	<b>22,652,790.60</b>	42,925,850.14	(47.23)
Basic earnings per share	<b>0.0386</b>	0.0494	(21.70)
Basic earnings per share after extraordinary items	<b>0.0346</b>	0.0655	(47.23)
Diluted earnings per share	<b>0.0386</b>	0.0494	(21.70)
Return on net assets (%)	<b>1.77</b>	2.32	Decreased by 0.55 percentage points
Net cash flow from operating activities	<b>(136,717,020.11)</b>	(48,763,518.14)	(180.37)
Net cash flow per share from operating activities	<b>(0.2087)</b>	(0.0744)	(180.37)

Notes: Items of extraordinary profit and loss (unaudited)

	<i>Unit: RMB</i>
<b>Items of extraordinary profit and loss</b>	<b>Amount</b>
Gains and losses from disposal of non-current assets	611,682.06
Government grants (except for the grants which are closely related to the Company's business and have the standard amount and quantities in accordance with the national standard) attributable to gains and losses for the period	2,276,677.35
Debt restructuring profit and loss	1,514.27
Other non-operating net income and expenses other than the aforesaid items	424,425.40
Impact on enterprise income tax	(311,782.26)
Net extraordinary items attributable to minority shareholders	(339,518.17)
Total	<u><u>2,662,998.65</u></u>

2. Key accounting and financial indices prepared in accordance with accounting standards generally accepted in Hong Kong are set out on page 13 to page 22 of the Financial report.

3. Differences between accounting principles generally accepted in Hong Kong and PRC Accounting Standards for Business Enterprises as applicable to the net profit and net assets of the Company are set in Note 16 to the Financial Report on page 22.

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

#### (I) Changes in share capital

As at 30 June 2008, there was no change in total number of shares and shareholding structure of the Company.

#### (II) Information of shareholders

The total number of shareholders, the number of shares held by the top ten shareholders and top ten holders of circulating shares of the Company as at 30 June 2008 are as follows:

Unit: Share

Total number of shareholders at the end of the reporting period 25,499 shareholders, of which 25,459 were holders of A Shares and 40 were holders of H Shares

#### Details of the top ten shareholders

Name of shareholders	Type of shareholders (state-owned or foreign shareholders)	Shareholding percentage (%)	Total number of shares held	Number of shares subject to trading moratorium	Number of shares pledged or frozen
Panda Electronics Group Limited ("PEGL")	State-owned shareholders	51.10	334,715,000	334,715,000	67,350,000 shares were pledged, 92,815,000 shares were judicially frozen and 100,000,000 shares were both pledged and judicially frozen
HKCSS (Nominees) Limited	Foreign shareholders	36.81	241,107,599	0	Unknown
Zeng Hong	Public Shareholder	0.249	1,628,603	0	Unknown
Fang Jinlian	Public Shareholder	0.198	1,299,046	0	Unknown
Li Fanchao	Public Shareholder	0.155	1,013,300	0	Unknown
Zhang Huiqing	Public Shareholder	0.124	811,292	0	Unknown
Zhang Folian	Public Shareholder	0.124	810,400	0	Unknown
Gong Fei	Public Shareholder	0.083	543,722	0	Unknown
Wang Lan	Public Shareholder	0.077	506,150	0	Unknown
Yu Hongyang	Public Shareholder	0.072	473,800	0	Unknown

#### Details of the top ten holders of shares not subject to trading moratorium

Name of shareholders	Number of shares not subject to trading moratorium	Class of shares
HKCSS (Nominees) Limited	241,107,599	H
Zeng Hong	1,628,603	A
Fang Jinlian	1,299,046	A
Li Fanchao	1,013,300	A
Zhang Huiqing	811,292	A
Zhang Folian	810,400	A
Gong Fei	543,722	A
Wang Lan	506,150	A
Yu Hongyang	473,800	A
Wu Yunping	431,820	A

Description of the connected relationship or party acting in concern among the aforesaid shareholders

There is no connected relationship or party acting in concern between the state-owned shareholder and the top ten holders of shares of the Company not subject to trading moratorium. The Company is not aware of any connected relationship or party acting in concern between the state-owned shareholder and the top ten holders of shares of the Company not subject to trading moratorium

Notes:

- (1) Among the shareholders named above, PEGL held 334,715,000 shares on behalf of the state, representing 51.10% of the issued share capital of the Company, which were circulating shares subject to trading moratorium. Among them, 67,350,000 shares have been pledged, 92,815,000 shares have been judicially frozen, and 100,000,000 shares have been both pledged and judicially frozen.
- (2) HKSCC (Nominees) Limited held 241,107,599 H Shares, representing 36.81% of the issued share capital of the Company, on behalf of a number of clients. The Company is not aware of any individual client holding more than 5% of share capital issued by the Company.
- (3) There is no connected relationship or party acting in concert among PEGL and the second to tenth shareholders of the Company. H shares and A shares held by the second to tenth shareholders are circulating shares issued to the public. The Company is not aware of any connected relationship or party acting in concert among the second to tenth shareholders of the Company.

**Numbers of shares of top ten holders of shares subject to trading moratorium and the conditions of trading moratorium**

Unit: Share

Name of holder of shares subject to trading moratorium	Number of shares subject to trading moratorium	Condition for shares subject to trading moratorium to be listed		Conditions of trading moratorium
		Date of commencement of trading	Number of new tradable shares	
PEGL	334,715,000	11 September 2008	334,715,000	PEGL made undertakings in the Share Segregation Reform not to trade or transfer the shares held by it within 24 months from the date of obtaining the right of listing and circulation

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

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

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

On 30 June 2008, so far as the Directors, Supervisors and senior management staff of the Company were aware of, long positions in shares or underlying shares of the Company held by substantial shareholders (exclusive of Directors, Supervisors and senior management staff of the Company) which were required, pursuant to section 336 of the Securities and Futures Ordinance ("SFO"), to be filed in the register were as follows: (1) PEGL held 334,715,000 domestic shares, accounting for approximately 81.04% of domestic shares in issue and approximately 51.10% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of beneficial owner. (2) Lewis Joseph held 20,260,000 H Shares, accounting for approximately 8.37% of H Shares in issue and approximately 3.10% of the total shares in issue. The nature of interests in such shares is personal interest which was held in the capacity of beneficial owner. (3) Tuesday Thirteen Inc., held 16,920,000 H Shares, accounting for approximately 7.00% of H Shares in issue and approximately 2.59% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of controlled corporation. No short positions were found in any shares held by the above substantial shareholders.

Save as disclosed above, the Company is not aware of any person (exclusive of Directors, Supervisors and senior management of the Company) who has any interests or short positions which were required to be filed in the register pursuant to section 336 of the SFO.

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

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

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

Name	Position	No. of shares held at the beginning of the Reporting Period (share)	No. of shares increased/decreased during the Reporting Period(+/-)	No. of shares held at the end of the Reporting Period (share)	Reasons for change
Li Anjian	Chairman and General Manager	0	0	0	
Xu Guofei	Non-executive Director and Vice Chairman	2,546	0	2,546	
Liu Ailian	Non-executive Director	0	0	0	
Zhu Lifeng	Non-executive Director	4,378	0	4,378	
Shi Qiusheng	Non-executive Director	5,940	0	5,940	
Lu Qing	Non-executive Director	0	0	0	
Cai Lianglin	Independent Non-Executive Director	0	0	0	
Tang Yousong	Independent Non-Executive Director	0	0	0	
Ma Chung Lai, Lawrence	Independent Non-Executive Director	0	0	0	
Zhang Zhengping	Chairman of the Supervisory Committee	4,648	0	4,648	
Zhong Youxiang	Supervisor	0	0	0	
Tang Min	Supervisor	0	0	0	
Wu Shiyuan	Independent Supervisor (Note 1)	0	0	0	
Sun Suhua	Independent Supervisor	0	0	0	
Wang Hongjin	Deputy General Manager (Note 2)	6,750	0	9,750	
Wu Liulin	Deputy General Manager	0	0	0	
Liu Kun	Deputy General Manager	0	0	0	
Xia Dechuan	Deputy General Manager	0	0	0	
Shen Jianlong	Chief Accountant and Secretary to the Board	0	0	0	

Notes: (1) Mr. Wu Shiyuan resigned as an Independent Supervisor on 26 June 2008 by reason of attainment of age.

(2) Mr. Wang Hongjin resigned as the Deputy General Manager on 30 June 2008 by reason of attainment of age.

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

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

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

Mr. Wu Shiyuan resigned as an Independent Supervisor of the Company on 26 June 2008 by reason of attainment of old age.

The Board accepted the resignation of Mr. Wang Hongjin as the Deputy General Manager of the Company on 30 June 2008 by age reason and appointed Mr. Xia Dechuan as the Deputy General Manager of the Company for a term of three years with effect from 30 June 2008.

(Details were set out in the relevant announcements published in China Securities Journal and Shanghai Securities News on 27 June 2008 and 1 July 2008, the website of Shanghai Stock Exchange and the website of the Hong Kong Stock Exchange).

V. REPORT OF THE BOARD OF DIRECTORS

(I) Principal operations during the Reporting Period

1. Principal operations

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

In the first half of 2008, the Company insisted on sustainable development by continuing to strengthen its corporate reforms, optimizing the business structure and utilizing its advantages on resources. The Company achieved significant growth in its principal operations. Meanwhile, the Company pressed ahead to improve the management services to speed up the development of its joint ventures, including ENC and BMC, which were well-positioned with sustainable development, so as to ensure a better investment return of the Company.

Under the PRC Accounting Standard for Business Enterprises, operating income of the Company for January to June 2008 amounted to RMB527 million, representing an increase of 65.29% as compared with the corresponding period of last year; net profit achieved by the Company amounted to RMB25,315,800, representing a decrease of 21.70% as compared with the corresponding period of last year. Under the HK GAAP, operating income of the Company for January to June 2008 amounted to RMB527 million, representing an increase of 71.35% as compared with the corresponding period of last year; net profit attributable to shareholders of the Company amounted to RMB42,072,000, representing a decrease of 10.17% as compared with the corresponding period of last year.

2. Principal operations by business or product segments (Prepared under the PRC Accounting Standards for Business Enterprises) (unaudited)

Unit: RMB'000

Business or product	Operating income	Operating costs	Gross profit margin (%)	Operating income increase / (decrease) over last period (%)	Operating costs increase / (decrease) over last period (%)	Gross profit margin increase / (decrease) over last period (%)
Electronic manufacturing	181,251	143,794	20.67	56.04	45.71	5.63
Electronic information	168,847	145,764	13.67	82.28	92.22	(4.46)
Electrometrical	100,126	84,253	15.85	6.38	10.05	(2.81)
Satellite Telecommunication*	65,400	51,339	21.50	—	—	—
Others	4,155	5,007	(20.51)	36.69	(29.60)	(12.14)
Total	519,779	430,157	17.24	67.96	66.61	0.67

Of which, the total transaction amount of the connected transactions of sales of products and the provision of service to controlling shareholders and its subsidiaries by the Company was RMB30,230,700.

\* Operating income from satellite telecommunication for the same period last year: nil.

3. Operation of the principal controlling and investee companies

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

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M.Ericsson, 26% by Ericsson (China), 20% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing Enterprise Company. ENC is mainly engaged in producing products, such as GSM, GPRS, CDMA mobile telecommunication system products and network communication systems. As a logistic centre in Asia Pacific region for Ericsson, it is also the largest supplier of GSM and GPRS equipment and one of the major CDMA equipment suppliers in the PRC. During the first half of 2008, ENC achieved sustainable and steady development in its production and operation by proactively exploring markets, constantly enhancing the competitiveness of its products, grasping the opportunities brought by the Olympics in Beijing, expanding the market share and increasing the sales of products. Under the PRC Accounting Standards for Business Enterprises, it recorded sales revenue of RMB8,371 million from January to June 2008, representing an increase of 28.17% as compared with the corresponding period last year and recorded net profit of RMB326 million, representing an increase of 44.89% as compared with the corresponding period last year.



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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited, 27% by China Potevio Co., Ltd. and 2% by Yung Shing. BMC is mainly engaged in manufacturing of mobile terminals (mobile phones) under the brand of Sony Ericsson, which has become the major global base for manufacture and supply centre of Sony Ericsson mobile phones. In the first half of the year, BMC maintained its advantage in pioneer technology and provided customers with products of high quality. Meanwhile, the gross profit margin of products dropped under severe market competitions, which has adversely affected the sales and profits. Under the PRC Accounting Standards for Business Enterprises, it recorded sales of RMB12,911 million from January to June 2008, representing a decrease of 21.45% as compared with the corresponding period last year and recorded net profit of RMB112 million, representing a decrease of 70.76% as compared to the corresponding period last year.

## (3) Hua Fei Colour Display Systems Company Limited ("Hua Fei Company")

Hua Fei Company is held as to 25% by the Company, 20% by Nanjing Hua Dong Electronics Information Technology Holdings Limited ("Hua Dong Electronics") and 55% by LP Displays International Led ("LP"). Its principal operations include development, design and manufacture of colour image tubes, colour monitor tubes and other colour display system products, their spare parts and materials and related electronic products, as well as sales of self-produced products.

Under the PRC Accounting Standards for Business Enterprises, it recorded sales revenue of RMB563 million in the PRC in the Reporting Period, representing a decrease of 25.33% as compared with the corresponding period last year and recorded revenue from exported sales of RMB539 million, representing an increase of 20.12% as compared with the corresponding period last year. In the Reporting Period, it had a further loss of RMB158 million.

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

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

Unit: RMB

Items	Jan-Jun 2008	Jan-Jun 2007	Change (%)
Operating income	526,538,377.32	318,554,329.26	65.29
Operating costs	433,817,455.15	263,685,454.97	64.52
Operating profit	25,340,736.93	55,628,104.61	(54.45)
Loss from asset depreciation	18,064,558.14	28,847,307.31	(37.38)
Investment income	75,827,954.81	139,548,962.71	(45.66)
Non-operating income	4,407,279.00	818,396.64	438.53
Non-operating expenditure	1,092,979.92	19,001,251.93	(94.25)
Income tax expenses	2,807,817.66	4,716,383.52	(40.47)
Net cash flows from operating activities	(136,717,020.11)	(48,763,518.14)	(180.37)
Items	As at 30 June 2008	As at 31 December 2007	Change (%)
Currency funding	155,341,363.38	483,699,275.19	(67.88)
Bills receivable	3,533,100.00	2,131,704.70	65.74
Accounts receivable	257,799,483.95	159,234,159.78	61.90
Prepayments	78,937,153.84	51,028,779.49	54.69
Dividends receivable	90,156,000.00	0.00	100.00
Other receivables	36,744,033.01	57,076,371.78	(35.62)
Construction in progress	18,106,279.69	10,257,698.23	76.51
Salaries payable	12,846,436.40	8,601,850.13	49.35
Dividends payable	10,000,000.00	0.00	100.00
Long term payables	12,507,349.52	17,921,097.26	(30.21)
Differences in foreign currency statement	2,027,715.93	0.00	100.00
Minority interests	12,674,821.30	46,818,871.15	(72.93)

**Notes:**

- (1) The increase in operating income for the Reporting Period is mainly attributable to the increasing orders received for electronic manufacturing and electronic information products, and part of delivery for satellite telecommunication products completed during the period.
- (2) The increase in operating costs for the Reporting Period is mainly attributable to the increasing orders received for electronic manufacturing and electronic information products, and part of delivery for satellite telecommunication products completed during the period.
- (3) The decrease in operating profit for the Reporting Period is mainly attributable to the decreased investment income for the period.
- (4) The decrease in loss from asset depreciation for the Reporting Period is mainly attributable to the higher provision for bad accounts for the same period last year due to change in accounting estimates.
- (5) The decrease in investment income for the Reporting Period is mainly attributable to the decreased investment income from Hua Fei and BMC for the period.
- (6) The increase in non-operating income for the Reporting Period is mainly attributable to the increased government subsidies received in the period.
- (7) The decrease in non-operating expenditure for the Reporting Period is mainly attributable to the higher loss from debt restructuring for the same period last year.
- (8) The decrease in income tax expenses for the Reporting Period is mainly attributable to the decrease in deferred income tax expenses for the period.
- (9) The decrease in net cash flows from operating activities for the Reporting Period is mainly attributable to the higher prepayments and payment for inventory, and part of operating income uncollected during the period.
- (10) The decrease in currency funding for the Reporting Period is mainly attributable to the decreased cash flows from ordinary operating activities and payment of dividends for 2007.
- (11) The increase in bills receivable for the Reporting Period is mainly attributable to the increased bills received in normal operating activities.
- (12) The increase in accounts receivable for the Reporting Period is mainly attributable to part of accounts receivable falling in credit terms due to noticeably increased sales revenue.
- (13) The increase in prepayments for the Reporting Period is mainly attributable to the increased prepayment for materials due to undersupply in raw materials market.
- (14) The increase in dividends receivable for the Reporting Period is mainly attributable to part of dividends from ENC uncollected for 2007.
- (15) The decrease in other receivables for the Reporting Period is mainly attributable to part of receivables under fund raising project for building collected in the period.
- (16) The increase in construction in progress for the Reporting Period is mainly attributable to the on-going construction and investment in Xingang project.
- (17) The increase in salaries payable for the Reporting Period is mainly attributable to the unsettled centralised allowances for June.
- (18) The increase in dividends payable for the Reporting Period is mainly attributable to part of dividends of the Company for 2007 unsettled to PEGL.
- (19) The decrease in long term payables for the Reporting Period is mainly attributable to the payment under financing lease settled as scheduled.
- (20) The increase in currency translation differences for the Reporting Period is mainly attributable to the fact that GALANT (Hong Kong) Limited, a subsidiary of the Company, adopted US dollars as its functional currency.
- (21) The decrease in minority interests for the Reporting Period is mainly attributable to the acquisition of minority interests in four subsidiaries by the Company during the period.

**2. Liquidity of asset**

In accordance with the Generally Accepted Accounting Principles in Hong Kong, as at 30 June 2008, the Company's consolidated gearing ratio (the ratio of total liability to total assets) was 43.03%; current net assets value was (RMB48 million); liquidity ratio was 0.95; quick ratio was 0.63; bank deposits and cash were RMB255 million; total loan amounted to approximately RMB741 million with a standard annual interest rate of approximately 7.47%.

**(III) Investments in the Reporting Period**

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

**(IV) Business plan for the second half of the year 2008**

The second half of the year 2008 is crucial to the Company's development. The Company will continue to propel its adjustment for business structure. Besides further invigorating the drive for corporate development, the Company will continue to enforce its technological innovation. Further joint enterprise will be developed through international cooperation. As a result, it ensures steady growth and investment income of the major segment of business.

In addition to its commitment to standardized operation and improvement of internal control, the Company will establish a long-term mechanism in prohibiting substantial shareholders from fund occupation. The Company will attain a higher independency and ensure the legal interest of shareholders.

**(V) Employees of the Company**

As at 30 June 2008, there were 3,169 employees in the Company, of which 1,594 were engaged in production, 846 in technology, 349 in sales, 137 in finance and 243 in administration and management. There were 915 retirees, for whom the Company undertook to pay retirement pension.

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

During the Reporting Period, the Company has complied with the relevant laws and regulations including the Company Law, the Securities Law and the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules ("CG Code") of the Hong Kong Stock Exchange. In accordance with documents relating to corporate governance and proper operation issued by China Securities Regulatory Commission ("CSRC"), and the requirements of the Listing Rules of Hong Kong Stock Exchange and Shanghai Stock Exchange, the Company continues to improve its corporate governance system as a corporate legal person, set up a modern corporate system, enhance internal control and management and standardize the operation of the Company.

The work done by and deviations of the Company during the Reporting Period are as follows:

- (1) In accordance with relevant requirements set out in the "Notice on Announcement of Special Corporate Governance Campaign" ([2008] No. 27) announced by CSRC, the Company diligently organized a re-assessment of the completion and effect of the rectification of special corporate governance campaigns launched by the Company in 2007 during the Reporting Period, explored deficiencies regarding governance in depth and suggested remedial measures in the future. The Company also reinforced the achievement in governance so as to foster more organized operation and better corporate governance of the Company for a higher level of governance.

(Details were set out in the relevant announcements published in China Securities Journal and Shanghai Securities News on 30 July 2008, the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.)

- (2) Amendments to the "Codes of Conduct for Controlling Shareholder", the "Rules of Procedures for Shareholders' General Meetings", the "Rules of Procedures for the Board Meetings" and "Rules of Procedures for the Supervisory Committee" in accordance with the requirements of rectification of special corporate governance campaigns were considered and approved at the annual general meeting held on 15 May 2008. In terms of system, organized operation of the Company was guaranteed and transactions of non-operating funds between controlling shareholders and related parties were precluded.
- (3) During the Reporting Period, the completed hours of training and further study in relation to Directors' compliance and corporate governance met the requirement of the Listing Committee of the Hong Kong Stock Exchange. Thus far, the Company had fulfilled the order specified by the Listing Committee of the Hong Kong Stock Exchange in the press release dated 9 August 2007.
- (4) Mr. Li Anjian holds the positions of Chairman and General Manager (Chief Executive Officer) which is deviated from the code provision A.2.1 of the CG Code.

**(II) Profit distribution plan in this Reporting Period**

The following profit distribution plan was passed at the Company's Annual General Meeting held on 15 May 2008: the Company is to take the aggregate share capital of 655,015,000 shares as at 31 December 2007 as the basis to declare a cash dividend of RMB0.08 per share (tax inclusive) to all shareholders. The total amount of cash dividend amounts to RMB52,401,200.00. The Company resolved that no capitalization of capital reserve would be made. The profit distribution plan has been completed in June 2008.

The Company did not make profit distribution and did not increase its share capital by transfer from capital reserve in the first half year of 2008.

**(III) There was no litigation and arbitration which was material to the Company during the Reporting Period or which has already occurred in the previous periods and subsisted during the Reporting Period.****(IV) There was no acquisition, disposal of assets or asset reorganization which was material to the Company that occurred during the Reporting Period or occurred in the previous period and subsisted during the Reporting Period.**

## (V) Material connected transactions

- The Company had no material connected transaction or asset reorganization save and except the continuing connected transactions from 2007 to 2009 as approved by independent shareholders in the Extraordinary General Meeting held by the Company on 3 April 2007 (i.e. the continuing connected transactions of the Company in the first half of 2008 which were conducted in the usual course of business and on normal commercial terms).

During the Reporting Period, the connected transactions relating to sale of products and provision of services to the controlling shareholder and its subsidiaries by the Company amounted to RMB30,230,700. (Details were set out in the notes "Relationship and transactions with related parties" to the Financial Report)

- Transactions relating to creditor's rights and debt

Unit: RMB

Related parties	Provision of funds to related parties		Provision of funds to the Company by related parties	
	Amount of transaction	Balance	Amount of transaction	Balance
Panda Electronics Group Ltd.	0	0	(3,160,364.55)*	2,496,750.95
Nanjing Panda Television Co., Ltd.	0	0	0	1,137,335.14
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	0	0	2,000,969.29	2,000,969.29
Nanjing Panda Electronics Import/Export Co., Ltd.	0	0	249,246.05	249,246.05
Nanjing Panda Technology Industrial Co., Ltd.	0	0	(771,524.27)*	0
Intenna (Nanjing) Co., Ltd.	0	0	(2,868,031.10)*	65,777.57
Panda Electronics (Kunshan) Co., Ltd.	918,000.00	2,686,220.94	0	0
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	0	1,950,000.00	0	0
Total	918,000.00	4,636,220.94	(4,549,704.58)	5,950,079.00

Of which: During the Reporting Period, the appropriated capital provided by the Company to the controlling shareholder and its subsidiaries was nil and the balance amounted to RMB0.

\*: In the beginning of the Reporting Period, funds of PEGL, Nanjing Panda Technology Industrial Co., Ltd. and Intenna (Nanjing) Co., Ltd. used by the Company amounted to RMB5,657,115.50, RMB771,524.27 and RMB2,933,808.67 respectively, the amount incurred forms part of the funds returned by the Company for this Reporting Period.

## (VI) Material contracts

- During the Reporting Period or in the previous period and subsisting during the Reporting Period, the Company did not hold any trust, contract and lease of other companies or other companies hold any trust, contract and lease of assets of the Company.
- Material guarantee

During the Reporting Period, the amount guaranteed by the Company for the subsidiaries amounted to RMB32,398,900, the remaining amounted to RMB62,601,600. The details of which are as follows:

As at 30 June 2008, the Company provided guarantees to secure the following: a bank loan of RMB5,000,000 for Nanjing Panda Mechanical Manufacturing Co., Ltd, a subsidiary of the Company; a bank loan of RMB6,861,500 (originally US\$1 million) and an acceptance of RMB5,398,900 for Nanjing Panda Information Industrial Co., Ltd.; a bank loan of RMB17,000,000, an acceptance of RMB10,000,000 and a financing lease of RMB4,900,600 for Nanjing Huage Appliance and Plastic Industrial Co., Ltd. and a bank loan of RMB5,000,000 and a financing lease of RMB8,440,600 for Nanjing Panda Electronics Manufacturing Company Limited.

The guarantees above were granted to its controlling subsidiary, totaling RMB62,601,600 and representing 4.38% of net asset value of the Company. The gearing ratio of the guaranteed parties above were not over 70%.

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

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

- (VII) During the Reporting Period or in the previous period and subsisting in the Reporting Period, the Company and its shareholders holding 5% or more of the issued share capital of the Company had no matters of undertaking that might affect the Company's operating results and financial position, nor did they increase the number of shares subject to trading moratorium undertakings.
- (VIII) During the Reporting Period, the Company did not hold stocks and securities issued by other listed companies and did not hold equities of unlisted financial enterprises.
- (IX) On 9 April 2007, Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC"), China Electronics Corporation ("CEC") and Jiangsu Provincial Guo Xin Asset Management Group Ltd (江蘇省國信資產管理集團有限公司) ("Guo Xin Group") signed an agreement to jointly establish Nanjing Electronics Information Industrial Corporation (南京中電熊貓信息產業有限公司) ("NEIIC"). The registered capital of NEIIC is RMB1 billion, of which CEC accounts for 70% (in cash), Nanjing SASAC and Guo Xin Group account for 15% each (with their respective equity interests in the enterprises such as PEG, etc.). (For details, please refer to the relevant announcements dated 12 April 2007 and 14 May 2007 which were published in China Securities Journal and Shanghai Securities News, and announcements dated 27 April 2007 and 14 May 2007 which were published in Hong Kong Ta Kung Pao and The Standard.) Currently, the approval procedure of such changes in the equity interests was in progress.
- (X) It was resolved at the Annual General Meeting held on 15 May 2008 that Zhong Rui Yue Hua Certified Public Accountants Company Limited and Shu Lun Pan Horwath Hong Kong CPA Limited were reappointed as domestic and international auditors of the Company for 2008 respectively.
- (XI) The Company, the Board and its Directors didn't suffer administrative penalty or public criticism from CSRC or stock exchanges during the Reporting Period.
- (XII) The Audit Committee comprising five non-executive Directors and the senior management have reviewed the accounting principles and accounting standards and methods adopted by the Company, studied the matters relating to internal control and reviewed the unaudited financial report for the six months ended 30 June 2008. The Audit Committee is of the opinion that the relevant unaudited financial report comply with the applicable accounting standards and legal requirements and that adequate disclosure have been made.
- (XIII) Other matters:

**1. Income tax**

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

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

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

**3. Pre-emptive rights**

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

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

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

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

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

**VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS GENERALLY ACCEPTED IN HONG KONG) (UNAUDITED)**
**CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Notes	Six months ended	
		30 June 2008 (unaudited) RMB'000	30 June 2007 (unaudited) RMB'000
Turnover	3	526,538	307,282
Cost of sales		(436,352)	(258,189)
Gross profit		90,186	49,093
Other revenue		14,090	7,284
Distribution costs		(17,200)	(13,481)
Administrative expenses		(86,433)	(110,915)
Profit/(loss) from operations		643	(68,019)
Finance costs		(31,054)	(30,666)
Share of results of associates		75,828	137,654
Profit before taxation		45,417	38,969
Income tax (expenses)/credit	5	(2,808)	14,147
Profit for the period		<u>42,609</u>	<u>53,116</u>
Attributable to:			
Equity holders of the Company		42,072	46,835
Minority interests		537	6,281
		<u>42,609</u>	<u>53,116</u>
Dividends	6	—	—
Earnings per share (RMB)	7	<u>0.06</u>	<u>0.07</u>

**CONSOLIDATED BALANCE SHEET**  
AT 30 JUNE 2008

	Notes	30 June 2008 (unaudited) RMB'000	31 December 2007 (audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	508,756	493,820
Construction in progress		18,106	9,659
Land use right		48,339	48,805
Interests in associates	10	965,706	1,030,034
Deferred tax assets		5,616	5,204
		<u>1,546,523</u>	<u>1,587,522</u>
<b>Current assets</b>			
Inventories		365,263	305,991
Bills receivable		2,705	2,132
Trade receivables	11	203,856	101,342
Other receivables, deposits and prepayments		100,798	108,204
Dividend receivable from associate		90,156	—
Amounts due from fellow subsidiaries, associates and related companies		59,033	48,508
Pledged bank balances and deposits		72,234	92,015
Bank balances and cash		183,151	391,684
		<u>1,077,196</u>	<u>1,049,876</u>
<b>Current liabilities</b>			
Bank borrowings	12	728,360	711,335
Trade payables	11	179,452	162,123
Other payables, customers' deposits and accrued charges		177,997	172,477
Dividend payable		10,000	—
Amounts due to fellow subsidiaries, associates and related companies		3,856	20,531
Amount due to ultimate holding company		14,158	11,402
Current portion of obligations under finance leases		9,611	10,534
Tax payable		2,214	4,017
		<u>1,125,648</u>	<u>1,092,419</u>
<b>Net current liabilities</b>		<u>(48,452)</u>	<u>(42,543)</u>
<b>Total assets less current liabilities</b>		<u>1,498,071</u>	<u>1,544,979</u>
<b>Non-current liabilities</b>			
Obligations under finance leases		(3,421)	(7,387)
<b>Net assets</b>		<u>1,494,650</u>	<u>1,537,592</u>
<b>Equity</b>			
Share capital	13	655,015	655,015
Share premium and reserves		826,850	835,666
<b>Attributable to equity holders of the Company</b>		<u>1,481,865</u>	<u>1,490,681</u>
<b>Minority interests</b>		<u>12,785</u>	<u>46,911</u>
<b>Total equity</b>		<u>1,494,650</u>	<u>1,537,592</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Share capital	Share premium	Capital reserve	Statutory common fund	Asset revaluation reserve	Exchange reserve	Retained profits	Attributable to equity holders of the Company	Minority interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	655,015	389,338	4,020	192,896	35,688	—	101,729	1,378,686	41,279	1,419,965
Profit for the period	—	—	—	—	—	—	46,835	46,835	6,281	53,116
Balance at 30 June 2007	<u>655,015</u>	<u>389,338</u>	<u>4,020</u>	<u>192,896</u>	<u>35,688</u>	<u>—</u>	<u>148,564</u>	<u>1,425,521</u>	<u>47,560</u>	<u>1,473,081</u>
Balance at 1 January 2008	655,015	389,338	4,020	196,440	35,688	—	210,180	1,490,681	46,911	1,537,592
Exchange difference arising on translation of overseas operation recognised in equity directly	—	—	—	—	—	1,513	—	1,513	—	1,513
Profit for the period	—	—	—	—	—	—	42,072	42,072	537	42,609
Total recognised income and expenses during the period	—	—	—	—	—	1,513	42,072	43,585	537	44,122
Dividend declared during the period	—	—	—	—	—	—	(52,401)	(52,401)	—	(52,401)
Acquisition of additional interest in subsidiaries	—	—	—	—	—	—	—	—	(34,663)	(34,663)
Balance at 30 June 2008	<u>655,015</u>	<u>389,338</u>	<u>4,020</u>	<u>196,440</u>	<u>35,688</u>	<u>1,513</u>	<u>199,851</u>	<u>1,481,865</u>	<u>12,785</u>	<u>1,494,650</u>



**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 30 JUNE 2008

	Six months ended	
	30 June 2008 (unaudited) RMB'000	30 June 2007 (unaudited) RMB'000
<b>Net cash used in operating activities</b>	(178,464)	(85,039)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(27,604)	(1,970)
Expenditure on construction in progress	(15,712)	(15,532)
Proceeds from disposal of property, plant and equipment	717	7
Acquisition of additional interests in subsidiaries	(18,350)	—
Proceeds from disposal of investment in an associate	—	6,322
Release of pledged bank deposits	19,781	6,423
Interest received	3,832	3,448
Dividend received	50,000	—
<b>Net cash generated from/(used in) investing activities</b>	12,664	(1,302)
<b>Financing activities</b>		
New loans raised	217,000	—
Repayment of loans	(212,443)	(92,674)
Repayment of finance lease obligations	(4,889)	(9,817)
Dividend paid	(42,401)	—
<b>Net cash used in financing activities</b>	(42,733)	(102,491)
<b>Decrease in cash and cash equivalents</b>	(208,533)	(188,832)
<b>Cash and cash equivalents at beginning of the period</b>	391,684	607,318
<b>Cash and cash equivalents at end of the period</b>	<u>183,151</u>	<u>418,486</u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	255,385	456,839
Less: Pledged bank balances	(72,234)	(38,353)
	<u>183,151</u>	<u>418,486</u>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. Basis of preparation

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

## 2. Principal accounting policies

The interim financial statements have been prepared under the historical cost convention.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2007.

In the current period, the Group has adopted all of the new and revised standards and interpretations issued by HKICPA, which are applicable to the Group's operation and effective for the Group's financial year beginning 1 January 2008. The adoption of these standards and interpretations had no material effect on how the results or financial position of the Group for the current or prior accounting periods have been prepared and presented.

At the date of this report, the following standards and interpretations were in issue but not yet effective:

		<b>Effective for annual periods beginning on or after</b>
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 13	Customer Loyalty Programmes	1 July 2008

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

## 3. Turnover

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

## 4. Depreciation

During the period, depreciation of RMB19,568,000 (six months ended 30 June 2007 : RMB18,915,000) was charged in respect of the Group's property, plant and equipment.

## 5. Income tax (expenses)/credit

Income tax (expenses)/credit comprises:

	<b>Six months ended</b>	
	<b>30 June 2008 (unaudited) RMB'000</b>	<b>30 June 2007 (unaudited) RMB'000</b>
PRC income tax	<b>(3,220)</b>	(1,694)
Deferred taxation	<b>412</b>	15,841
Income tax (expenses)/credit	<b><u>(2,808)</u></b>	<b><u>14,147</u></b>

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

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

**6. Interim dividend**

A final dividend of RMB0.08 per share (total dividend RMB52,401,000) in respect of the previous year was approved and declared during the period.

The directors of the company do not recommend the payment of an interim dividend (six months ended 30 June 2007: Nil).

**7. Earnings per share**

The calculation of earnings per share is based on the profit attributable to shareholders for the six months ended 30 June 2008 of RMB42,072,000 (six months ended 30 June 2007: RMB46,835,000) and on 655,015,000 shares in issue throughout the period.

**8. Segment reporting****(a) Business segment**

For management purposes, the Group is currently 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 electronic testing devices, equipment and appliances

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

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

*Period ended 30 June 2008*

	Electronic manufacturing products (Unaudited) RMB'000	Electro- mechanical products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic information products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<b>Revenue</b>						
External sales	<u>173,305</u>	<u>100,167</u>	<u>65,978</u>	<u>175,518</u>	<u>11,570</u>	<u>526,538</u>
<b>Results</b>						
Segment results	<u>21,391</u>	<u>5,076</u>	<u>14,717</u>	<u>8,581</u>	<u>(87,013)</u>	<u>(37,248)</u>
Unallocated corporate expenses						<u>(11,085)</u>
Operating loss						(48,333)
Other revenue						14,090
Interest income						3,832
Share of results of associates						75,828
Income tax expenses						<u>(2,808)</u>
Profit for the period						<u><u>42,609</u></u>

At 30 June 2008

	Electronic manufacturing products (Unaudited) RMB'000	Electro- mechanical products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic information products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<b>Assets</b>						
Segment assets	437,185	163,243	268,187	210,174	572,718	1,651,507
Interests in associates						965,706
Unallocated corporate assets						6,506
						<u>2,623,719</u>
<b>Liabilities</b>						
Segment liabilities	212,265	111,895	165,053	150,679	481,518	1,121,410
Unallocated corporate liabilities						7,659
						<u>1,129,069</u>
<b>Other information</b>						
Depreciation	<u>10,778</u>	<u>2,072</u>	<u>—</u>	<u>313</u>	<u>6,405</u>	

Period ended 30 June 2007

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

At 31 December 2007

	Electronic manufacturing products (Unaudited) RMB'000	Electro- mechanical products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic information products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<b>Assets</b>						
Segment assets	389,438	206,781	301,230	194,769	30,146	1,122,364
Interests in associates						1,030,034
Unallocated corporate assets						485,000
						<u>2,637,398</u>
<b>Liabilities</b>						
Segment liabilities	216,912	173,964	209,543	149,964	41,220	791,603
Unallocated corporate liabilities						308,203
						<u>1,099,806</u>
<b>Other information</b>						
Capital expenditure	19,644	1,750	—	525	—	
Depreciation	<u>20,812</u>	<u>4,364</u>	<u>—</u>	<u>656</u>	<u>1,147</u>	

## (b) Geographical segment

For the six months ended 30 June 2008 and 2007, over 90% of sales of the Group is generated from sales in the PRC.

## 9. Additions to property, plant and equipment

During the period, the Group spent approximately RMB27,604,000 and RMB15,712,000 (six months ended 30 June 2007: RMB7,269,000 and RMB9,068,000) on acquisition of property, plant and equipment and construction in progress respectively.

## 10. Interests in associates

	30 June 2008 (unaudited) RMB'000	31 December 2007 (audited) RMB'000
Share of net assets	962,263	1,026,591
Premium on acquisition	3,443	3,443
	<u>965,706</u>	<u>1,030,034</u>

## 11. Trade debtors and creditors

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

The following is an aged analysis of trade debtors net of allowances for bad and doubtful debts at 30 June 2008:

	30 June 2008 (unaudited) RMB'000	31 December 2007 (audited) RMB'000
Within 1 year	186,721	96,033
1 to 2 years	3,772	4,038
2 to 3 years	6,375	913
Over 3 years	6,988	358
	<u>203,856</u>	<u>101,342</u>

The following is an aged analysis of trade creditors at 30 June 2008:

	30 June 2008 (unaudited) RMB'000	31 December 2007 (audited) RMB'000
Within 1 year	142,947	129,080
1 to 2 years	7,463	12,653
2 to 3 years	3,099	11,450
Over 3 years	25,943	8,940
	<u>179,452</u>	<u>162,123</u>

## 12. Borrowings

	30 June 2008 (unaudited) RMB'000	31 December 2007 (audited) RMB'000
Bank borrowings		
— Short term loans		
— unsecured	451,862	402,305
— secured	210,000	255,000
— Bills payable	66,498	54,030
	<u>728,360</u>	<u>711,335</u>
Amount due within 1 year shown under current liabilities	<u>728,360</u>	<u>711,335</u>

## 13. Share capital

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

## 14. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	Fellow subsidiaries, associates and related companies Six months ended		Ultimate holding company Six months ended	
	30 June 2008 (unaudited) RMB'000	30 June 2007 (unaudited) RMB'000	30 June 2008 (unaudited) RMB'000	30 June 2007 (unaudited) RMB'000
Sales of components and parts	7,561	4,318	—	6,669
Purchases of components and parts	5,770	5,335	—	64
Fees paid for welfare, support and sub-contracting services	1,698	5,234	1	221
Income for welfare, support and sub-contracting services provided	22,668	2,060	—	—
Rental income	<u>52</u>	<u>25</u>	<u>—</u>	<u>—</u>

## 15. Contingent liabilities

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

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

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

*Impact on the consolidated income statement*

	Six months ended	
	30 June 2008 (unaudited) RMB'000	30 June 2007 (unaudited) RMB'000
Profit attributable to shareholders as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	42,072	46,835
Income and expenditure taken directly to reserves	(16,054)	—
Minority interest	5	4,471
Amortisation of unrecognised intangible assets	(100)	(100)
Recognition of deferred tax assets	—	(18,863)
Others	(607)	(10)
	<u>25,316</u>	<u>32,333</u>

*Impact on the consolidated balance sheets*

	30 June 2008 (unaudited) RMB'000	31 December 2007 (audited) RMB'000
Net assets as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	1,481,865	1,490,681
Unrecognised intangible assets	420	520
Goodwill	(3,045)	(3,045)
Share of reserve of associates	(50,614)	(50,614)
Minority interests	110	92
Others	(49)	56
	<u>1,428,687</u>	<u>1,437,690</u>

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

- (I) The financial statements of the Company for the Reporting Period were unaudited.
- (II) Financial Statements and notes (Prepared in accordance with the PRC Accounting Standards, for Business Enterprises)

### Consolidated Balance Sheet

30 June 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	30 June 2008	31 December 2007
<b>Current assets:</b>		
Currency funding	255,384,679.17	483,699,275.19
Trading financial assets	—	—
Bills receivable	3,533,100.00	2,131,704.70
Accounts receivable	257,799,483.95	159,234,159.78
Prepayments	78,937,153.84	51,028,779.49
Interest receivable	—	—
Dividends payable	90,156,000.00	—
Other receivables	36,744,033.01	57,076,371.78
Stocks	365,262,777.70	305,991,561.56
Non-current assets falling due within one year	—	—
Other current assets	—	—
<b>Total current assets</b>	<b>1,087,817,227.67</b>	<b>1,059,161,852.50</b>
<b>Non-current assets:</b>		
Available-for-sale financial assets	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investments	912,047,054.80	976,375,099.99
Investment properties	—	—
Fixed assets	505,021,597.33	489,982,056.01
Construction in progress	18,106,279.69	10,257,698.23
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Gas assets	—	—
Intangible assets	43,886,957.62	44,556,461.90
Development assets	—	—
Goodwill	—	—
Long-term deferred expenses	3,649,537.55	4,098,976.61
Deferred income tax assets	5,616,733.33	5,203,608.70
Other non-current assets	—	—
<b>Total non-current assets</b>	<b>1,488,328,160.32</b>	<b>1,530,473,901.44</b>
<b>Total assets</b>	<b>2,576,145,387.99</b>	<b>2,589,635,753.94</b>

Legal Representative  
of the Company:  
Li Anjian

Chief Accountant:  
Shen Jianlong

Head of the  
Accounting Department:  
Wu Yuzhen



Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

<b>Liabilities and Shareholders' equity</b>	<b>30 June 2008</b>	<b>31 December 2007</b>
<b>Current liabilities</b>		
Short-term loans	661,861,500.00	657,304,600.00
Trading financial liabilities	—	—
Bills payable	66,497,863.20	54,029,931.78
Accounts payable	192,296,868.69	181,425,207.53
Advances from customers	49,000,647.50	49,445,588.77
Salaries payable	12,846,436.40	8,601,850.13
Taxes payable	34,314,247.11	40,170,918.76
Interest payable	1,306,732.50	1,306,732.50
Dividends payable	10,000,000.00	—
Other payables	93,627,398.26	94,320,919.32
Non-current liabilities due within one year	—	—
Other current liabilities	—	—
	<u>1,121,751,693.66</u>	<u>1,086,605,748.79</u>
<b>Total liabilities</b>		
<b>Non-current liabilities:</b>		
Long term loans	—	—
Bonds payables	—	—
Long-term payables	12,507,349.52	17,921,097.26
Specific payables	—	—
Accrued liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	525,000.00	600,000.00
	<u>13,032,349.52</u>	<u>18,521,097.26</u>
<b>Total non-current liabilities</b>		
	<u>13,032,349.52</u>	<u>18,521,097.26</u>
<b>Total liabilities</b>	<u>1,134,784,043.18</u>	<u>1,105,126,846.05</u>
<b>Shareholders' equity:</b>		
Share capital	655,015,000.00	655,015,000.00
Capital reserve	496,263,215.96	480,209,034.37
Less: treasury stock	—	—
Surplus reserve	194,728,117.46	194,728,117.46
Undistributed profits	80,652,474.16	107,737,884.91
Differences in foreign currency statement	2,027,715.93	—
	<u>1,428,686,523.51</u>	<u>1,437,690,036.74</u>
<b>Sub-total of equity attributable to shareholders of the parent company</b>		
	<u>1,428,686,523.51</u>	<u>1,437,690,036.74</u>
<b>Minority interests</b>	<u>12,674,821.30</u>	<u>46,818,871.15</u>
<b>Total shareholders' equity</b>	<u>1,441,361,344.81</u>	<u>1,484,508,907.89</u>
<b>Total liabilities and shareholders' equity</b>	<u>2,576,145,387.99</u>	<u>2,589,635,753.94</u>

Legal Representative  
of the Company:  
Li Anjian

Chief Accountant:  
Shen Jianlong

Head of the  
Accounting Department:  
Wu Yuzhen

**Balance Sheet**

30 June 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

<b>Assets</b>	<b>30 June 2008</b>	<b>31 December 2007</b>
<b>Current assets:</b>		
Currency funding	166,366,660.50	326,570,810.95
Trading financial assets	—	—
Bills receivable	—	—
Accounts receivable	105,821,313.98	49,241,785.93
Prepayments	36,844,959.84	11,663,438.53
Interest receivable	—	—
Dividends receivable	91,056,000.00	2,081,925.44
Other receivables	178,156,769.97	170,638,217.62
Stocks	142,213,149.78	151,880,667.77
Non-current assets	—	—
due within one year	—	—
Other current assets	—	—
<b>Total current assets</b>	<b><u>720,458,854.07</u></b>	<b><u>712,076,846.24</u></b>
<b>Non-current assets:</b>		
Available-for-sale financial assets	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investments	1,097,800,573.85	1,140,268,172.50
Investment properties	—	—
Fixed assets	283,587,435.27	288,419,814.81
Construction in progress	14,301,504.69	8,227,280.23
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Gas assets	—	—
Intangible assets	11,277,811.78	11,522,711.12
Development expenses	—	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred tax assets	—	—
Other non-current assets	—	—
<b>Total non-current assets</b>	<b><u>1,406,967,325.59</u></b>	<b><u>1,448,437,978.66</u></b>
<b>Total assets</b>	<b><u>2,127,426,179.66</u></b>	<b><u>2,160,514,824.90</u></b>

Legal Representative  
of the Company:  
**Li Anjian**

Chief Accountant:  
**Shen Jianlong**

Head of the  
Accounting Department:  
**Wu Yuzhen**

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

<b>Liabilities and shareholders' equity</b>	<b>30 June 2008</b>	<b>31 December 2007</b>
<b>Current liabilities:</b>		
Short term loans	628,000,000.00	623,000,000.00
Trading financial liabilities	—	—
Bills payable	40,000,000.00	30,000,000.00
Accounts payable	18,891,229.79	22,687,564.60
Advances from customers	4,660,228.60	4,864,497.42
Salaries payable	7,636,435.16	1,201,428.09
Taxes payable	34,382,666.30	34,576,451.40
Interest payable	1,306,732.50	1,306,732.50
Dividends payable	10,000,000.00	—
Other payables	51,641,720.26	54,878,443.93
Non-current liabilities due within one year	—	—
Other current liabilities	—	—
<b>Total current liabilities</b>	<b><u>796,519,012.61</u></b>	<b><u>772,515,117.94</u></b>
<b>Non-current liabilities:</b>		
Long term loans	—	—
Bonds payables	—	—
Long term payables	—	—
Specific payables	—	—
Accrued liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
<b>Total non-current liabilities</b>	<b><u>—</u></b>	<b><u>—</u></b>
<b>Total liabilities</b>	<b><u>796,519,012.61</u></b>	<b><u>772,515,117.94</u></b>
<b>Shareholders' equity:</b>		
Share capital	655,015,000.00	655,015,000.00
Capital reserve	478,941,415.14	478,941,415.14
Less: Treasury stock	—	—
Surplus reserve	194,728,117.46	194,728,117.46
Undistributed profits	2,222,634.45	59,315,174.36
<b>Total shareholders' equity</b>	<b><u>1,330,907,167.05</u></b>	<b><u>1,387,999,706.96</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>2,127,426,179.66</u></b>	<b><u>2,160,514,824.90</u></b>

Legal Representative  
of the Company:  
Li Anjian

Chief Accountant:  
Shen Jianlong

Head of the  
Accounting Department:  
Wu Yuzhen

**Consolidated Income Statement**

Jan-Jun 2008

Prepared by: Nanjing Panda Electronics Company Limited

*Unit: RMB*

Items	The reporting period	Corresponding period of last year
<b>1. Total operating income</b>	<b>526,538,377.32</b>	318,554,329.26
Include: Operating income	<b>526,538,377.32</b>	318,554,329.26
<b>2. Total operating cost</b>	<b>577,025,595.20</b>	402,475,187.36
Include: Operating cost	<b>433,817,455.15</b>	263,685,454.97
Business taxes and surcharges	<b>2,534,080.63</b>	2,191,364.88
Selling expenses	<b>17,200,464.97</b>	13,481,321.85
Administrative expenses	<b>74,354,645.62</b>	67,303,917.16
Financial expenses	<b>31,054,390.69</b>	26,965,821.19
Impairment loss in assets	<b>18,064,558.14</b>	28,847,307.31
Add: Income from change in fair value (losses are represented by "-")	—	—
Investment income (losses are represented by "-")	<b>75,827,954.81</b>	139,548,962.71
Include: Investment income of associates and joint ventures	—	—
<b>3. Operating profit (losses are represented by "-")</b>	<b>25,340,736.93</b>	55,628,104.61
Add: Non-operating income	<b>4,407,279.00</b>	818,396.64
Less: Non-operating expenses	<b>1,092,979.92</b>	19,001,251.93
Include: Loss from the disposal of non-current assets	—	—
<b>4. Total Profit (losses are represented by "-")</b>	<b>28,655,036.01</b>	37,445,249.32
Less: Income tax	<b>2,807,817.66</b>	4,716,383.52
<b>5. Net Profit (losses are represented by "-")</b>	<b>25,847,218.35</b>	32,728,865.80
Profit attributable to the equity shareholders of the parent company	<b>25,315,789.25</b>	32,332,684.95
Minority interests	<b>531,429.10</b>	396,180.85
Net profit of the combined party in enterprise combination under the same control realised before the combining date	—	—
<b>6. Earnings per share:</b>		
(1) Basic earnings per share	<b>0.0386</b>	0.0494
(2) Diluted earnings per share	<b>0.0386</b>	0.0494

*Legal Representative  
of the Company:*  
**Li Anjian**

*Chief Accountant:*  
**Shen Jianlong**

*Head of the  
Accounting Department:*  
**Wu Yuzhen**

**Income statement**

Jan-Jun 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	The reporting period	Corresponding period of last year
<b>1. Operating income</b>	<b>80,383,010.88</b>	37,684,049.65
Less: Operating cost	<b>64,326,826.20</b>	34,023,363.79
Business taxes and surcharges	<b>89,783.25</b>	65,133.59
Selling expenses	<b>1,132,945.51</b>	963,671.42
Administrative expenses	<b>52,678,446.81</b>	45,419,982.02
Financial expenses	<b>24,096,946.87</b>	24,160,049.37
Impairment loss on assets	<b>17,727,873.23</b>	23,911,196.14
Add: Income from change in fair value (losses are represented by "-")	—	—
Investment income (losses are represented by "-")	<b>74,934,293.66</b>	139,548,962.71
Include: Investment income of associates and joint ventures	—	—
<b>2. Operating Profit (losses are represented by "-")</b>	<b>-4,735,517.33</b>	48,689,616.03
Add: Non-operating income	<b>696,621.02</b>	—
Less: Non-operating expenses	<b>652,443.60</b>	18,907,319.58
Include: Loss from the disposal of non-current assets	—	—
<b>3. Total Profit (losses are presented by "-")</b>	<b>-4,691,339.91</b>	29,782,296.45
Less: Income tax	—	—
<b>4. Net profit (net losses are represented by "-")</b>	<b>-4,691,339.91</b>	29,782,296.45
<b>5. Earnings per share:</b>		
(1) Basic earnings per share	—	—
(2) Diluted earnings per share	—	—

Legal Representative  
of the Company:  
Li Anjian

Chief Accountant:  
Shen Jianlong

Head of the  
Accounting Department:  
Wu Yuzhen

**Consolidated Cash flow statement**

Jan-Jun 2008

Prepared by: Nanjing Panda Electronics Company Limited

*Unit: RMB*

Items	The reporting period	Corresponding period of last year
<b>1. Cash flows from operating activities:</b>		
Cash received from the sale of goods and services provided	452,025,955.99	464,194,632.22
Return of tax payment	5,958,091.93	2,122,941.16
Other cash received relating to operating activities	160,762,684.43	981,485,143.00
<b>Sub-total of cash inflow from operating activities</b>	<b>618,746,732.35</b>	<b>1,447,802,716.38</b>
Cash paid on purchase of goods and services	465,886,945.13	391,767,492.27
Cash paid to staff and paid on behalf of staff	111,331,750.77	91,315,377.71
Taxes paid	31,776,464.44	21,827,523.32
Cash paid relating to other operating activities	146,468,592.12	991,655,841.22
<b>Sub-total of cash outflow from operating activities</b>	<b>755,463,752.46</b>	<b>1,496,566,234.52</b>
<b>Net cash flows from operating activities</b>	<b>-136,717,020.11</b>	<b>-48,763,518.14</b>
<b>2. Cash flows from investment activities:</b>		
Cash received from investment recovered	—	6,322,470.00
Cash received from investment income	50,000,000.00	—
Net cash proceeds on the disposal of fixed assets, intangible assets and other long-term assets	717,400.00	8,080.00
Cash received from disposal of subsidiaries and other business units	—	—
Cash received relating to other operating activities	—	—
<b>Sub-total of cash inflow from investment activities</b>	<b>50,717,400.00</b>	<b>6,330,550.00</b>
Cash paid on purchase of fixed assets, intangible assets and other long-term assets	43,869,483.83	28,181,404.77
Cash paid for investment	—	—
Net cash paid on acquisition of subsidiaries and other business units	—	—
Cash paid on other investment activities	—	—
<b>Sub-total of cash outflow from investment activities</b>	<b>43,869,483.83</b>	<b>28,181,404.77</b>
<b>Net cash flows from investment activities</b>	<b>6,847,916.17</b>	<b>-21,850,854.77</b>
<b>3. Cash flows from financing activities:</b>		
Cash received from investment	—	—
Including: cash received by subsidiaries from equity investment of minority shareholders	—	—
Cash received from borrowings	217,000,000.00	296,000,000.00
Cash received from other financing activities	—	—
<b>Sub-total of cash inflow from financing activities</b>	<b>217,000,000.00</b>	<b>296,000,000.00</b>
Cash paid on repayment of debts	212,000,000.00	388,412,327.14
Cash paid on distribution of dividends or profits, or interest repayment	68,355,102.06	25,805,746.34
Including: bonus and profit paid to minority shareholders by subsidiaries	—	—
Cash paid on other financing activities	—	—
<b>Sub-total of cash and cash equivalents outflow from financing activities</b>	<b>280,355,102.06</b>	<b>414,218,073.48</b>
<b>Net cash flows from financing activities</b>	<b>-63,355,102.06</b>	<b>-118,218,073.48</b>
<b>4. Effect on cash and cash equivalents due to foreign currency exchange</b>	<b>-4,447,009.48</b>	
<b>5. Net increase in cash and cash equivalents</b>	<b>-197,671,215.48</b>	<b>-188,832,446.39</b>
Add: balance of cash and cash equivalents at the beginning of the year	380,822,357.69	607,318,095.22
<b>6. Balance of cash and cash equivalents at the end of the year</b>	<b>183,151,142.21</b>	<b>418,485,648.83</b>

*Legal Representative  
of the Company:*  
**Li Anjian**

*Chief Accountant:*  
**Shen Jianlong**

*Head of the  
Accounting Department:*  
**Wu Zhuzhen**

**Cash flow statement**

Jan-Jun 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	The reporting period	Corresponding period of last year
<b>1. Cash flows from operating activities:</b>		
Cash received from the sale of goods and services provided	41,630,742.54	162,116,358.61
Return of tax payment	—	—
Other cash received relating to operating activities	112,472,417.54	912,079,156.52
<b>Sub-total of cash inflow from operating activities</b>	<b>154,103,160.08</b>	<b>1,074,195,515.13</b>
Cash paid on purchase of goods and services	76,274,703.34	153,470,974.45
Cash paid to staff and paid on behalf of staff	40,704,659.74	42,277,354.80
Taxes paid	1,735,782.97	1,276,630.23
Cash paid relating to other operating activities	113,728,552.27	912,977,100.59
<b>Sub-total of cash outflow from operating activities</b>	<b>232,443,698.32</b>	<b>1,110,002,060.07</b>
<b>Net cash flows from operating activities</b>	<b>-78,340,538.24</b>	<b>-35,806,544.94</b>
<b>2. Cash flows from investment activities:</b>		
Cash received from investment recovered	—	6,322,470.00
Cash received from investment income	50,104,256.89	—
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	45,200.00	—
Cash received from disposal of subsidiaries and other business units	—	—
Cash received relating to other operating activities	—	—
<b>Sub-total of cash inflow from investment activities</b>	<b>50,149,456.89</b>	<b>6,322,470.00</b>
Cash paid on purchase of fixed assets, intangible assets and other long term assets	8,179,598.56	7,071,575.51
Cash paid on investment	24,451,956.13	—
Net cash paid on acquisition of subsidiaries and other business units	—	—
Cash paid on other investment activities	—	—
<b>Sub-total of cash outflow from investment activities</b>	<b>32,631,554.69</b>	<b>7,071,575.51</b>
<b>Net cash flows from investment activities</b>	<b>17,517,902.20</b>	<b>-749,105.51</b>
<b>3. Cash flows from financing activities:</b>		
Cash received from investment	—	—
Cash received from borrowings	200,000,000.00	284,000,000.00
Cash received from other financing activities	—	—
<b>Sub-total of cash inflow from financing activities</b>	<b>200,000,000.00</b>	<b>284,000,000.00</b>
Cash paid on repayment of debts	195,000,000.00	376,412,327.14
Cash paid on distribution of dividends or profits, or interest repayment	66,428,000.29	24,344,055.63
Cash paid on other financing activities	—	—
<b>Sub-total of cash and cash equivalents outflow from financing activities</b>	<b>261,428,000.29</b>	<b>400,756,382.77</b>
<b>Net cash flows from financing activities</b>	<b>-61,428,000.29</b>	<b>-116,756,382.77</b>
<b>4. Effect on cash due to foreign currency exchange</b>	<b>296,695.53</b>	<b>-55,881.99</b>
<b>5. Net increase in cash and cash equivalents</b>	<b>-121,953,940.80</b>	<b>-153,367,915.21</b>
Add: balance of cash and cash equivalents at the beginning of the year	246,370,810.95	518,982,179.29
<b>6. Balance of cash and cash equivalents at the end of the year</b>	<b>124,416,870.15</b>	<b>365,614,264.08</b>

Legal Representative  
of the Company:  
Li Anjian

Chief Accountant:  
Shen Jianlong

Head of the  
Accounting Department:  
Wu Yuzhen

**Consolidated Statement of Change of Shareholders' equity**  
Jan-Jun 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	The reporting period								Corresponding period of last year							
	Shareholders' equity attributable to the Parent								Shareholders' equity attributable to the Parent							
	Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Other	Minority interest	Total shareholders' equity	Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Other	Minority interest	Total shareholders' equity
1. Balance of last year	655,915,000.00	480,209,024.37	-	194,726,117.46	107,737,084.91	-	468,918,971.15	1,484,586,967.89	655,915,000.00	480,464,773.65	-	197,194,000.53	27,418,123.14	6,943,417.57	-	1,347,078,479.95
Add: change in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-1,535,327.40	-3,723,503.78	6,943,417.57	41,944,379.42	43,047,209.20
Corrected prior errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at the beginning of this year	655,915,000.00	480,209,024.37	-	194,726,117.46	107,737,084.91	-	468,918,971.15	1,484,586,967.89	655,915,000.00	479,929,071.24	-	195,678,673.13	23,694,619.36	-	41,944,379.42	1,390,125,699.15
3. Change of this year (a decrease is represented by "-")	-	16,654,981.59	-	-	-17,065,410.75	2,807,715.93	-34,144,848.85	-43,147,560.06	-	-	-	-	32,332,694.95	-	386,180.85	32,728,865.60
(1) Net profit	-	-	-	-	35,915,789.35	-	579,433.10	35,947,216.35	-	-	-	-	32,332,694.95	-	386,180.85	32,728,865.60
(2) Profit and loss directly accounted for in shareholders' equity	-	16,654,981.59	-	-	-	2,807,715.93	-	18,081,697.52	-	-	-	-	-	-	-	-
1. Net change in fair value of financial assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Effect of changes in other shareholders' equity in investee companies referred at equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Effect of income tax in relation to items referred at equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	16,654,981.59	-	-	-	2,807,715.93	-	18,081,697.52	-	-	-	-	-	-	-	-
Subtotal of item (1) and (2) above	-	16,654,981.59	-	-	35,915,789.35	2,807,715.93	579,433.10	43,933,115.87	-	-	-	-	32,332,694.95	-	386,180.85	32,728,865.60
(3) Contribution by shareholders and reduction of capital	-	-	-	-	-	-	-34,675,478.95	-34,675,478.95	-	-	-	-	-	-	-	-
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Amount settled by shares by amount accounted for in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-34,675,478.95	-34,675,478.95	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-33,401,200.00	-	-	-33,401,200.00	-	-	-	-	-	-	-	-
1. Transfer from surplus reserves	-	-	-	-	-33,401,200.00	-	-	-33,401,200.00	-	-	-	-	-	-	-	-
2. Distribution to shareholders	-	-	-	-	-33,401,200.00	-	-	-33,401,200.00	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Internal transfer of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserve to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserve to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Compensation of loss from surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Balance at the end of this year	655,915,000.00	496,863,759.94	-	194,726,117.46	90,671,674.16	2,807,715.93	12,674,832.30	1,441,361,344.81	655,915,000.00	479,933,071.24	-	195,678,673.13	56,027,304.31	-	42,246,560.27	1,422,564,554.95

Legal Representative  
of the Company:  
Li Anjian

Chief Accountant:  
Shen Jianlong

Head of the  
Accounting Department:  
Wu Yuzhen



**Statement of Change of Shareholders' equity**  
Jan-Jun 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	The reporting period						Corresponding period of last year					
	State capital	Capital reserve stock	Less: treasury	Surplus reserve	Undistributed profits	Total shareholders' equity	State capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance of last year	655,915,000.00	478,941,415.14	-	194,728,117.46	59,315,174.36	1,387,998,706.96	655,915,000.00	481,494,773.85	-	191,194,000.53	27,891,887.45	1,354,498,461.43
Add: change in accounting policies	-	-	-	-	-	-	-	-	-	-1,779,375.84	-	-1,779,375.84
Correction of prior errors	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at the beginning of this year	655,915,000.00	478,941,415.14	-	194,728,117.46	59,315,174.36	1,387,998,706.96	655,915,000.00	479,825,398.01	-	189,678,671.13	13,971,075.36	1,339,189,246.50
3. Change of this year												
(i) decrease is represented by "+")	-	-	-	-	-57,892,539.91	-57,892,539.91	-	-	-	-	-	23,792,298.45
(1) Net profit	-	-	-	-	-4,891,239.91	-4,891,239.91	-	-	-	-	-	23,792,298.45
(2) Profit and loss directly accounted for in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Net change in fair value of financial assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-
2. Effect of changes in other shareholders' equity in investee companies referred at equity	-	-	-	-	-	-	-	-	-	-	-	-
3. Effect of income tax in relation to items referred at equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal of item (1) and (2) above	-	-	-	-	-4,891,239.91	-4,891,239.91	-	-	-	-	-	23,792,298.45
(3) Contribution and reduction of capital by shareholders	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-	-	-
2. Amount settled by shares for amount accounted for in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-52,491,200.00	-52,491,200.00	-	-	-	-	-	-
1. Transfer from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Distribution to shareholders	-	-	-	-	-52,491,200.00	-52,491,200.00	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Internal transfer of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserve to share capital	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserve to share capital	-	-	-	-	-	-	-	-	-	-	-	-
3. Compensation of loss from surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
4. Balance at the end of this year	655,915,000.00	478,941,415.14	-	194,728,117.46	2,222,634.45	1,330,907,167.05	655,915,000.00	479,825,398.01	-	188,678,671.13	43,862,471.81	1,309,971,546.95

Legal Representative  
of the Company:  
**Li Anjian**

Chief Accountant:  
**Shen Jianlong**

Head of the  
Accounting Department:  
**Wu Yuzhen**

## NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2008 to 30 June 2008

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

### I. Introduction to the Company

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

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

In the extraordinary general meeting of the Company held on 27 May 1994, except other matters, an exceptional resolution was passed to approve the restructuring report, which included matters concerning disconsolidation and restructuring the assets and liabilities of the Company and companies under PEGE as well as re-affirming the state owned legal person shares of the Company. In the same meeting, one exceptional resolution was also passed. The Board of Directors was authorized to handle all affairs related to conversion of the Company into Socially Funded Company and to make a public offer and listing of the Company's A & H shares. According to the exceptional resolution, the net asset value of the Company would be adjusted on 29 June 1994. Net asset value of the Company at establishment was re-defined as RMB322,873,348.00, including registered capital of RMB322,870,000.00, comprising 287,870,000 state-owned legal person shares, 35,000,000 employee's shares, and capital reserve of RMB3,348.00. According to the reply concerning the report released by the State Committee for Changing System dated 11 March 1996. Registered capital for the Company increased from RMB322,870,000.00 to RMB390,015,000.00. It was diverted into 355,015,000 state-owned legal person shares and 35,000,000 employee's shares. All the above were recorded in accounting books at par and were fully paid and distributed.

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

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

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

The Company obtained its enterprise legal person business license No. 320100400008823 on 22 May 2008. Its registered capital was RMB655,015,000. The approved scope of business includes research and development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching systems, electronic component parts, apparatus, machinery and equipment, medical machinery, industrial moulds and other equipment, computers and system engineering.

### II. The declaration on compliance with the Accounting Standards for enterprises

The financial statements of the Company were prepared under the requirements of Accounting Standards for Business Enterprises, reflecting the Company's financial positions, operating results, cash flows and other relevant information on a true and complete basis.

### III. Basis of preparation of financial statements

The Company's financial statements are prepared on a going concern basis based on the actual transactions and affairs occurred under the following major accounting policies and estimates, which are in accordance with the Accounting Standards for Business Enterprises — Basic Principle (Order 33 of the Ministry of Finance), the Notice on Circulation of 38 Accounting Standards for Business Enterprises including <Standard 1 — Inventories> (Cai Kuai [2003] No.3) issued on 15 February 2006, the Notice on Circulation of <Accounting Standards for Business Enterprises — Application Guide> (Cai Kuai [2006] No.18) issued on 30 October 2006 ("New Accounting Standards") and Interpretation 1 to Accounting Standards for Business Enterprises issued on 16 November 2007 by the Ministry of Finance, as well as the relevant regulations including the Q&A No. 7 regarding Rules on Information Disclosure of Publicly-listed Companies — Preparation and Disclosure of Comparative Financial Information during the Transitional Period of Existing and New Accounting Standards issued on 15 February 2007 by China Securities Regulatory Commission.

#### IV. Accounting policies and accounting estimates adopted by the Company and prior period errors

##### 1. Accounting period

Accounting periods are divided into annual periods (yearly) and interim periods. An interim period is a reporting period shorter than a full accounting year. Accounting year is the calendar year from January 1 to December 31.

##### 2. Measurement currency

The Company uses Renminbi as its currency for recording transactions.

##### 3. Principle of book-keeping and accounting measurement attribute

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

##### 4. Recognition standard for cash equivalents

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

##### 5. Foreign Currency businesses

###### (1) Translation method of foreign currency transaction when occurred

The foreign currency transactions of the Company, when initially recognized, is translated into RMB as per middle rate of the exchange rate at that day as quoted by the People's Bank of China, while the foreign currency exchange and transactions in connection with foreign exchange, shall be translated into RMB as per exchange rate adopted by the Company.

###### (2) Treatment measures for the foreign currency monetary items and foreign currency non-monetary items

The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The gap arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or on the last balance sheet date shall be recorded into the profits and losses at the current period, except that the exchange gap arising from foreign currency borrowings related to construction or production of assets eligible for capitalization in shall be capitalized in accordance with the Accounting Standards No. 17 — Borrowing Costs.

The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of its recording currency shall remain unchanged.

Foreign currency non-monetary item measured at the fair value are translated at the spot exchange rate on the date of determination of fair value. The difference between before and after the translation of the amount of functional currency will be treated as the changes in fair value (including changes in foreign exchange rates) and recorded in the profits and losses in the current period.

###### (3) Translation Method of Foreign Currency Financial Statements

According to the following provisions, the Company will translate the foreign currency dominated financial statements into RMB dominated financial statements.

The asset and liability items in the balance sheets shall be translated at the spot exchange rate on the balance sheet date. Among the owner's equity items, except "undistributed profits", other items shall be translated at the spot exchange rate when they are incurred.

The income and expense items in the income statements shall be translated at the spot exchange rate of the transaction date.

The gap arising from the translation of foreign currency financial statements based on the aforesaid methods shall be presented separately under the owner's equity item in the balance sheets.

Cash flows statements denominated by a foreign currency should be translated at the exchange rate at the date when the cash flows were generated. The effect of changes in exchange rate on cash should be regarded as a reconciling item and presented separately in the cash flow statement.

## 6. Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

Transfer the rights for receiving cash flows from financial assets to another party;

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

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

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

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

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

Contract rights of acquiring the cash flows from the financial assets are terminated.

The financial assets have been transferred in conformity with the conditions of cease of recognition stipulated under Accounting Standard for Business Enterprises No. 23.

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

### (5) Impairment of Financial Assets

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

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

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

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

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

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

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

## 7. Receivables

### (1) Recognition scope of provision for bad debts

Where the Company inspects the carrying value of account receivables on the balance sheet date and there are objective evidence of impairment of account receivables, impairment provisions will be made.

A serious financial difficulty occurs to the debtor;

The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal;

The debtor will probably become bankrupt or carry out other financial reorganizations;

Other objective evidences showing the impairment of the accounts receivable.

### (2) Accounting methods for bad debts

The Company adopted allowance method for bad debts incurred.

## (3) Provision method for bad debts

On each balance sheet date, the Company carries out impairment tests on a standalone basis on individually material receivables (which standalone accounts for 5% or more of the outstanding receivables or amounts to over RMB5 million). Where objective evidence of impairment exists, an impairment loss is calculated and provision for bad debts is made based on the difference of the present value of future cash flows below its carry amount. Receivables individually insignificant or without impairment after standalone test are classified into certain groups based on the ageing, whereby impairment loss is calculated and provision for bad debts is made by applying a certain percentage to the balance of receivable groups. Typically, provision for bad debts is made based on the following percentages:

Ageing	Percentage of provision
Within 1 year (include 1 year, the same as below)	5%
1-2 years	10%
2-3 years	50%
3-5 years	80%
5 years above	100%

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

Nanjing Ericsson Panda Communication Co., Ltd, an associated company of the Company, adopted allowance method for impossible bad debts, and individual recognized method to determine special provision for bad debts for recoverables which is obviously different from other accounts receivable. For other accounts receivable for which made no special provision for bad debts, the provision is made by aging analysis based on the following percentage:

verdue credit period	Percentage of provision for bed debts
Within 1 year	0%
1 year above	100%

Hua Fei Colour Display Systems Company Limited, an associated company of the Company, adopted allowance method for impossible bad debts. Provisions for bad debts were made according to ageing analysis of accounts receivable at the end of the period. According to the actual financial status and cash flows of debtors (excluding associated companies), provision is made for the bad debts by the Company based on the following percentages:

No provision for bad debts if ageing is within 5 months (exclusive three months, the same as follow);

50% provision is made if ageing is above 5 months.

## 8. Inventories

## (1) Classification of Inventories

The inventories of the Company include raw materials, products in progress and semi-finished products, circulation materials, low-value consumables and commodity inventories, etc.

## (2) Measurement method for inventories received and delivered Inventories

Inventories received are initially recorded at their cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs. Weighted average method is adopted when the inventories are used or delivered.

## (3) Circulation materials shall be one-off amortized in cost expense when using

## (4) The Company adopts perpetual inventory record system.

## (5) Recognition scope and provision methods for impairment provision of inventory

On each balance sheet date, the Company's inventories are stated at the lower of cost or net realisable value. Provision for diminution in value is made and charged to the current profit and loss by the Company for those inventories of which the expected carrying value is higher than their net realizable value as a result of being rotted or deteriorated, the declining market price of the inventories and failing to recover in the foreseeable future, being wholly or partly obsolete, product upgrading and evolving, etc. Provision for diminution in value of inventories is provided on a standalone basis.

Net realisable value is the estimated selling price of inventories less the estimated costs to completion and the estimated expenses and the related taxes necessary to make the sale. For the direct saleable commodity inventories, their net realisable value is determined by the amount of estimated selling price of inventories less estimated sale expense and related tax; for material inventories, net realisable value is the estimated selling price of finished goods less the estimated costs to completion and the estimated expenses and the related taxes necessary to make the sale; for inventories held for performing sale or labour contracts, net realisable value is calculated based on contractual price. Where the quantity of the Company's inventories exceeds that ordered under sale contract, the net realisable value of the surplus inventories is calculated based on general selling price.

Net realisable value of inventories is recognised on each balance sheet date. Should the factors causing any write-down of the inventories do not exist any more, the amount of write-down will be recovered and be reversed from the provision for diminution in value of inventories that has been made. The reversed amount will be included in the current profits and losses.

## 9. Long-term equity investment

Long-term equity investment mainly include the equity investment that is able to exercise control, joint control or has significant influences over the investees, or the equity investment that does not do joint control nor have significant influences on the investees and has no offer in the active market, with a fair value which cannot be reliably measured.

## (1) Basis for confirmation of joint control or significant influences

Joint control is the contractually agreed sharing of control over an economic activity. Basis for confirmation of joint control include: Any party to the joint venture shall not separately control production and operation activities of the joint venture; the decision concerning the elementary operation activities of the joint venture need unanimous consent from all parties to the joint venture.

Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. Basis for confirmation of significant influence mainly include: when the Company directly or indirectly hold through subsidiaries 20%(inclusive) or above but less than 50% shares with voting rights, it will be recognized as having significant influence on the investees, except that there are clear evidences showing it can not participate the production and operation decision of the investees thus constituting no significant influence; when the Company hold 20% (exclusive) below shares with voting rights of the investees, it generally will be recognized no significant influence on the investees. It can be recognized as having significant influence on the investees should the following conditions be satisfied:

- A. Having representatives in the board of directors of investees or equivalent governing body;
- B. participating in the policy making process of investees;
- C. Significant transactions occurred with investees;
- D. Dispatching management staff to investees;
- E. Providing key technology information to investees.

## (2) Initial measurement of long-term equity investment

For long-term equity investment acquired by merger of business, the Company will recognize its initial cost based on the following methods:

For the merger of enterprises under the same control, with payment of cash, transfer of non-cash assets or bearing debt as the consideration of the merger, the initial cost of the long-term equity investment shall be recognized at the share of the book value of the owner's equity of the merged enterprise. The difference between the initial cost of the long-term equity investment and the cash paid, non-cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. If the consideration of the merger is satisfied by issue of equity securities, the initial cost of the long-term equity investment will be recognized at the share of the book value of the owner's equity of the merged enterprise on the date of merger. With the total face value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall be used to offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

For the merger of enterprises not under same control, the initial cost of the long-term equity investment will be recognized at the merger cost as determined in accordance with the Accounting Standards for Enterprises No. 20 — Merger of Enterprises.

Besides the long-term equity investments formed by the merger of enterprises, the initial cost of a long-term equity investment acquired by other means shall be recognized in accordance with the provisions as follows:

The initial cost of a long-term equity investment acquired by payment of cash shall be recognized at the actual purchase cost. The initial cost consists of the expenses directly related to the acquiring of the long-term equity investment, taxes and other necessary expenses;

The initial cost of a long-term equity investment acquired by issue of equity securities shall be recognized at the fair value of the equity securities issued;

The initial cost of a long-term equity investment invested as an investor shall be recognized at the value stipulated in the investment contract or agreement, other than the unfair value stipulated in the contract or agreement;

The initial cost of a long-term investment acquired by the exchange of non-monetary assets shall be recognized in accordance with the Accounting Standards for Enterprises No. 7 — Exchange of Non-monetary Assets.

The initial cost of a long-term equity investment acquired by debt restructuring shall be recognized in accordance with Accounting Standards for Enterprises No. 12 - Debt Restructuring.

(3) Subsequent measurement method and recognition methods of investment income of long-term equity investment

Long-term equity investments that are accounted for using cost method include: long-term equity investments that can exercise control over the investee; long-term equity investment without control or joint control or significant influence over the investee, without quotation in the active market and whose fair value cannot be measured reliably.

Long-term equity investments accounted for using cost method are measured based on initial investment cost, adjusted according to addition or disposal of investment. Cash dividends or profit declared by investee are included into current profit and loss. The amount of investment income recognized is limited to the amount distributed out of accumulated net profits of the investee that has arisen after the investment was made. The amount of profit or cash dividends declared by the investee in excess of the above threshold is treated as return of investment cost.

Long-term equity investment with joint control or material impact on the investee is accounted for using equity method. The initial cost of long-term equity investment which is greater than its share of fair value of the investee's identifiable net assets is stated without adjustment. The shortfall of the initial cost from its share of fair value of the investee's identifiable net assets is credited to the current profit and loss account against the cost of the long-term equity investment. The fair value of the investee's identifiable net assets is determined in accordance with the Accounting Standards for Business Enterprises No. 20 - Enterprise Merger.

Upon acquiring long-term equity investment by the Company, it shall, in accordance with the attributable share of the net profits or losses of the investee, recognize the investment profits or losses and adjust the book value of the long-term equity investment. The book value of long-term equity investment is reduced by the Company based on its share of the investee's profit or cash dividends as declared.

The net loss from the investment in investee is reorganised to the extent that the book value of the long-term equity investment and other long-term interest in substance in the investee are written down till nil, unless the Company is under an obligation to bear additional loss. In the event that net profit is recorded by the investee in the future, recognition of the Company's share of the investee's net profit may be resumed after recovering its share of unrecognised loss.

The Company's share of the investee's net profit and loss is recognised based on the fair value of identifiable assets of the investee upon acquisition of the investment, subject to an adjustment to the investee's net profit. The Company will recognize investment income based on the carrying amount of net profit of the investee should the following conditions are satisfied:

- A. The Company can not reasonably ascertain the fair value of identifiable net assets of the investee upon acquisition of the investment.
- B. The difference between the fair value and carrying value of identifiable net assets of the investee is not significant when the investment is made.
- C. The relevant information on the investee can not be acquired due to other reasons and an adjustment can not be made for net profit and loss of investee according to regulations.

The financial statements of the investee are subject to adjustment where there is a difference in the accounting policies and accounting periods adopted by the investee with those of the Company in accordance with the latter, upon which the investment gain or loss from the investment is recognised. Changes in shareholders' equity other than the share of the investee's net profit and loss are accounted for with an adjustment to the book value of the long-term equity investment and included into shareholders' equity, and the portion previously included in the owner's equity shall be transferred to the current profits and losses according to a certain proportion.



## 10. Accounting Method for Investment Properties

Investment property is held to earn rentals or for capital appreciation or both. Investment properties of the Company include leased land use rights; land use rights held for sale after appreciation; leased buildings.

### (1) Recognition of Investment properties

No investment property shall be recognized unless it meets the following requirements simultaneously:

The economic benefits pertinent to this investment property are likely to flow into the enterprise;

The cost of the investment property can be reliably measured.

### (2) Initial measurement of the investment property

The cost of an purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.

The cost of a self-built investment property shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.

The cost of an investment property obtained by other means shall be recognized in accordance with the relevant accounting standards.

Subsequent expenditures related to an investment property shall be included to the cost of the investment property if they meet the recognition conditions for investment property; Otherwise, if they fail to meet the recognition conditions, they shall be included in the current profits and losses upon occurrence.

### (3) Subsequent measurement of the investment property

The cost method is adopted by the Company for subsequent measurement of investment property measurement on the date of the balance sheet. According to relevant regulations of Accounting Standards for Enterprises No. 4 — Fixed Assets and Accounting Standard for Business Enterprises No. 6 — Intangible Assets, the Company shall make amortization based on straight-line method over the expected useful life or make provision for investment property.

### (4) Conversion of the investment property

Where the Company has well-established evidence to indicate that the purpose of the property has changed, it shall convert the investment property to other assets or visa versa. The book value of the property prior to the conversion shall be entry value after conversion.

## 11. Fixed assets

### (1) Recognition scope of fixed assets

Fixed assets are tangible assets that are held for using in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives more than one accounting year. No fixed asset shall be recognized unless it meets the following requirements simultaneously:

The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;

The cost of the fixed asset can be measured reliably.

### (2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, freights, loading and unloading fees, professional service fees and other expenses that bring the fixed asset to the expected conditions for use and that may be relegated to the fixed asset.

Where the payment for a fixed asset is delayed beyond the normal credit conditions, which is equivalent to financing in nature, the cost of fixed assets shall be recognized on the basis of the present value of the purchase price. The difference between the actual payment and the present value of the purchase price shall be included in the current profits and losses within the credit period, unless it shall be capitalized in accordance with the Accounting Standards No. 17 — Borrowing Costs.

The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.

The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.

Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalised in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognised based on the amount incurred and charged to the current profit and loss... Improvement expenses on fixed assets leased by way of operating leasing are capitalised as long-term deferred expenses and amortised on a reasonable basis.

The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, merger of enterprises, and financial leasing shall be respectively ascertained in accordance with the Accounting Standards No. 7 — Exchange of Non-monetary Assets, Accounting Standards for Enterprises No. 12 — Debt Restructuring, Accounting Standards for Enterprises No. 20 — Merger of Enterprises and Accounting Standards for Enterprises No. 21 — Leases.

(3) Categories of fixed assets

The fixed assets of the Company include buildings, machine equipment, transportation equipment, electronic equipment and other equipment.

(4) Depreciation of Fixed assets

Recognition of the depreciation methods and estimated useful life, estimated residual value and depreciation rate: Fixed assets shall be depreciated by straight-line method. The categories of fixed assets, useful life, estimated residual value and depreciation rate are as follows:

Categories of fixed assets	Estimated useful life (year)	Estimated residual value (%)	Depreciation rate (%)
Buildings	20-30	5	3.17-4.75
Machine equipment	8-11	5	8.636-11.875
Transportation equipment	5-10	5	9.5-19
Electronic equipment	5-7	5	13.57-19
Other equipment	5	5	19

Depreciation method for fixed assets with provision for impairment: A fixed asset with provision for impairment is depreciated based on its initial costs less estimated residual value, the depreciation made and provision for impairment over its remaining useful life.

A fixed asset that has reached its intended use but before the final account for completed project is stated at cost and depreciated based on estimated value, which will be adjusted based on actual cost upon the final account for completed project without adjustment to the depreciation already made.

Review of useful life, estimated net residual value and depreciation method for fixed assets: The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end, any change of which is accounted for as a change in an accounting estimate. The useful life of fixed assets is subject to adjustment based on the change, if any, as compared to the original estimate. The estimated net residual value is subject to adjustment based on the change, if any, as compared to the original estimate. The depreciation method applied is subject to change where there arises a significant change in the expected realisation mode of economic benefit related to the fixed assets.

(5) Treatment of subsequent expenses related to fixed assets

Subsequent expenses related to fixed assets mainly include renovation expense, repair costs and so on that incur in the course of use of fixed assets. In accounting, subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalised in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognised based on the amount incurred and charged to the current profits and losses. Decoration expenses related to fixed assets that are qualified for recognition of fixed assets are accounted for in a separate subsidiary account under "Fixed assets", and are depreciated separately on a straight-line basis over the lower of the period between two decorations and the remaining useful life of fixed assets.

Improvement expenses on fixed assets leased by way of operating leasing are capitalised as long-term deferred expenses and amortised on a reasonable basis.

## (6) Fixed assets acquired under finance leases

## Recognition basis for fixed assets acquired under finance leases

Where a lease satisfies one or more of the following criteria, it shall be recognized as finance lease:

- A. The ownership of the leased asset is transferred to the lessee when the term of lease expires.
- B. The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option is exercised. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised by the Company.
- C. Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life of the leased asset (generally refers to 75% or above).
- D. In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially all of the fair value (generally refers to 90% or above, the same as follow) of the leased asset on the lease beginning date; in the case of the lessor, the present value of the minimum lease receipts on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date.
- E. The leased assets are of a specialized nature that only the Company (the lessee) can use them without making major modifications.

## Measurement method for fixed assets acquired under finance leases

On the lease beginning date, the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date will be recorded as the entry value of leased assets, while the amount of the minimum lease payments will be recognized as the entry value of long-term account payable, the difference between them will be recognized as unrecognized financing costs. The initial direct costs such as commissions, attorney's fees, travelling expenses, stamp duties attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement (the same below) shall be recorded in the asset value of the current period. When a lessee calculates the present value of the minimum lease payments, if it can obtain the lessor's interest rate implicit in the lease, it shall adopt the interest rate implicit in the lease as the discount rate. Otherwise, it shall adopt the interest rate provided in the lease agreement as the discount rate. In case the lessee cannot obtain the lessor's interest rate implicit in the lease and no interest rate is provided in the lease agreement, the lessee shall adopt the borrowing interest rate of the bank for the same period as the discount rate.

The lessee shall adopt the effective interest rate method to calculate and recognize the financing charge in the current period.

The Company adopts depreciation policies for leased assets consistent with those of self-owned fixed assets for the purpose of calculating the depreciation of a leased asset. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

## Depreciation method for fixed assets acquired under finance leases

In calculating the depreciation of a leased asset, the Company should adopt a depreciation policy for leased assets consistent with that for depreciable assets which are owned by the Company. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

**12. Construction in progress**

- (1) Constructions in progress of the Company are recognized at actual cost.
- (2) Time point for construction in progress being transferred to the fixed asset:

A construction in progress is transferred to fixed assets at actual cost when it has reached the working condition for its intended use. If a constructed fixed asset has reached the working condition for its intended use but the final project accounts have not been completed and approved, it will be accounted for at estimated value. An adjustment shall be made upon actual cost is determined.

**13. Intangible assets****(1) Recognition scope of intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company. No intangible asset shall be recognized unless it meets the following requirements simultaneously:

Meet the definition of intangible assets;

The economic benefits pertinent to the assets are likely to flow into the Company;

The cost of the asset can be measured reliably.

**(2) Initial measurement of intangible assets**

Intangible assets are measured initially at cost. Actual cost is determined according to following principles:

The cost of purchased intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is equivalent to financing in nature, the cost of intangible assets shall be determined on the basis of the present value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be included in the current profits and losses within the credit period, unless it shall be capitalized in accordance with the Accounting Standards No. 17 — Borrowing Costs.

The cost invested to an intangible asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.

The cost of self-developed intangible assets

The expenses for internal research and development projects of the Company are divided into expenses in the research phase and expenses in the development phase. Expenditure in research stage was recorded in the profit and loss of the current period at occurrence. Expenditure in research stage will be recognized as intangible assets should they satisfy the following conditions simultaneously:

- A. It is feasible technically to complete such intangible assets for use or sale;
- B. It is intended to complete, use or sell the intangible assets;
- C. The methods for intangible assets to generate economic benefits include being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself. Should the intangible assets be used internally, its usefulness shall be approved;
- D. There are sufficient technologies, financial resources and other resources supporting the development of the intangible assets. And the Company is able to use or sell such intangible assets;
- E. The expenses in the development phase of the intangible assets can be reliably measured.

The cost of self-developed intangible assets shall include the total expenditures incurred during the period from the time when it meets the provisions for Recognition of intangible assets to the time when the expected purposes of use are realized, except that the expenditures which have already been treated prior to the said period shall not be adjusted.

The costs of intangible assets acquired from non-monetary assets transaction, debt restructurings, government subsidies, and merger of enterprises shall be determined respectively according to the Accounting Standards for Business Enterprises No. 7 — Exchange of non-monetary assets, Accounting Standards for Business Enterprises No. 12 — Debt Restructurings, Accounting Standards for Business Enterprises No. 16 — Government Grants and Accounting Standards for Business Enterprises No. 20 — Merge of Enterprises.

## (3) Subsequent measurement of intangible assets

The Company shall analyze and judge the service life of intangible assets upon acquiring it. As for the intangible assets with limited service life, the Company shall estimate its service life, or the amount of the output or any other similar measurement unit, which constitutes its service life. If it is unable to forecast the period when the intangible asset can bring economic benefits to the Company, it shall be regarded as an intangible asset with an indefinite useful life. As at the end of the year, the Company has no intangible assets with an indefinite useful life.

With regard to intangible assets with definite useful life, its amortization amount shall be amortized within its useful life systematically and reasonably. The Company adopted straight-line method for amortization.

The reasonable amortization amount of intangible assets shall be its cost minus the expected residual value. For intangible assets with an impairment provision, the accumulative amount of impairment provision shall be deducted from the cost as well. Amortized amount of intangible assets shall be included into current profits and losses.

**14. Goodwill**

Goodwill refers to the excess of merger costs over the fair value of the identifiable net assets acquired from the acquiree during the merger of enterprises not under same control. The goodwill upon initial measurement shall be measured on the basis of its costs minus the accumulative impairment loss and shall not be amortized and conduct impairment test at the end of the period.

**15. Accounting Methods of long-term prepaid expenses**

Long-term prepaid expenses refers to expenses occurred but shall be amortized over the current period and subsequent periods with amortization period over 1 year (excluding 1 year). Long-term prepaid expenses is accounted for at actual expense, and amortised evenly over the benefit period.

**16. Impairment of Assets**

(1) Impairment of assets mainly involve long-term equity investment (excluding the long-term equity investment which does not exercise joint control nor have significant influences on the investee, and has no quotation in the active market and whose fair value cannot be reliably measured), investment properties (excluding investment properties measured at fair value), fixed assets, construction in progress, intangible assets (excluding capitalized development expense) and goodwill, etc.

## (2) Recognition of Assets with Potential Impairment

The Company shall, on the balance sheet date, make a judgment on whether there is any sign of possible assets impairment. No matter whether there is any sign of possible assets impairment, goodwill acquired in the merger of enterprise and intangible assets with indefinite useful period shall be made impairment test at each year-end. There may be an impairment of assets when one of the following signs occurs:

The current market price of assets falls significantly, beyond the expectation based on the advance of time or normal use;

Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the fixed assets is located, thus exerting an adverse effect on the enterprise;

Market interest rates or any other investment return rate have increased significantly during the period, thus affecting the discount rate used in calculating the asset's present value of the expected future cash flows and resulting in a material decrease in the fixed asset's recoverable amount;

Any evidence shows that the assets have become obsolete or physical damage occurred;

The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;

Any evidence in the internal report of the Company shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.;

Other circumstances indicate that the asset may have been impaired.

## (3) Measurement of Recoverable Amount of Assets

Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. The recoverable amount shall be determined as the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

(4) Recognition of Asset Impairment Losses

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as asset impairment loss through the current profits and losses. Meanwhile, a provision for the asset impairment shall be made accordingly. Upon the reorganization of asset impairment loss, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net residual value) within the remaining service life of the asset. Any impairment loss recognised shall not be reversed in subsequent accounting periods.

(5) Where there is any evidence indicating a possible impairment of assets, the Company shall estimate the recoverable amount based on single asset.

(6) Impairment of goodwill

For goodwill formed by merger of enterprises, the Company shall carry out an impairment test at least at the end of each year. The goodwill shall, together with the related asset group or sets of asset group, be subject to the impairment test. For the purpose of impairment test of assets, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the sets of asset groups. For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill allocated thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill, and treat them according to provisions of assets group impairment hereof.

17. **Borrowing Costs**

(1) Recognition Principles for Borrowing Cost Capitalisation

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

Capital expenditure has been incurred.

The borrowing costs have been incurred.

Having commenced the acquisition and construction or production activities which enable the assets reach the working condition for its intended use or sale.

(2) Period of Capitalization of Borrowing Cost

The period of capitalization refers to the period starting from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

Where acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended by the Company. The borrowing costs incurred during these periods shall be recognized as expenses for the current period until the acquisition, construction or production of a qualifying asset is resumed. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue.

Capitalization of borrowing cost shall be ceased when acquisition, construction or production of the qualifying asset has prepared for its intended use or sale. The borrowing costs incurred after the qualifying asset is ready for the intended use or sale shall be charged to current profit or loss when incurred.

## (3) Measurement method for the amount of borrowing cost capitalisation

During the period of capitalization, the to-be-capitalized amount of interests (including the amortization with discounts or premiums) in each accounting period shall be determined according to the following provisions:

As for the specific borrowings for the acquisition and construction or production of assets qualifying for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred on the current specific borrowings minus the income of interests earned from the unused borrowings by depositing it in the bank or investment income from such borrowing by making it as a temporary investment.

Where a general borrowing is used for the acquisition and construction or production assets qualifying for capitalization, the Company shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average value of the accumulative expenditures to asset minus the specific borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium for the borrowings, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined based on the effect interest method and an adjustment shall be made to the amount of interests in each period. During the period of capitalization, the to-be-capitalized amount of interests during each accounting period shall not exceed the amount of interest actually incurred for the relevant borrowings in the current period.

For the ancillary expense incurred to a specifically borrowed loan, those incurred before acquisition, construction or production of the qualifying asset has prepared for its intended use or sale, it shall be capitalized based on the incurred amount when they are incurred, and shall be recorded into the costs of the asset eligible for capitalization. Those incurred after acquisition, construction or production of the qualifying asset has prepared for its intended use or sale, shall be recognized as expenses based on the incurred amount when they are incurred, and shall be recorded into the current profit and loss. The ancillary expenses arising from a general borrowing shall be recognized as expenses at their incurred amount when they are incurred, and shall be recorded into the current profit and loss.

## 18. Share-based Payments

## (1) The Equity-settled Share-based Payments

The equity-settled share-based payment in return for employee services or similar services provided by other party shall be measured at the fair value of the equity instruments granted to the employees and other party.

As to an equity-settled share-based payment in return for services of employees or similar services provided by other party, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly.

The Company shall, after the exercise date, make no adjustment to the relevant costs or expenses as well as the total amount of the owner's equities which have been recognized.

On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.

## (2) The Cash-settled Share-based Payments

The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.

As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Company shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly.

As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company.

## Subsequent Measurement

A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.

B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits and losses.

**19. Accrued liabilities****(1) Recognition Principle for the accrued liabilities**

When the businesses in relevant with external guaranties, pending litigation or arbitrations, products quality guarantee, job cuts plan, contract which suffered a loss, restructuring obligations, disposal obligations of fixed assets satisfy the following conditions, it shall be recognized as liabilities:

That obligation is a current obligation borne by the Company;

It is likely that an outflow of economic benefits will be resulted from the performance of the obligation;

The amount of the obligation can be measured in a reliable way.

**(2) Measurement Method for the accrued liabilities**

The accrued liabilities shall be initially measured at the best estimate of the necessary expenses for the performance of the current obligation. If there is a sequent range for the necessary expenses and if all the outcomes within this range are equally likely to occur, the best estimate shall be determined in accordance with the middle estimate within the range; in other cases, the best estimate shall be conducted in accordance with the following situations, respectively:

If the contingencies concern a single item, it shall be determined in light of the most likely outcome;

If the contingencies concern two or more items, the best estimate should be calculated and determined in accordance with all possible outcomes and the relevant probabilities.

When all or some of the expenses necessary for the liquidation of estimated debts of the Company is expected to be compensated by a third party or other party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained. The amount recognized for the reimbursement should not exceed the book value of the accrued liabilities.

**20. Revenue****(1) Recognition method for the revenue from selling goods**

No revenue from selling goods may be recognized unless the following conditions are met simultaneously:

The major risks and rewards attached to ownership of the goods have been transferred to the buyers by the Company;

The Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods;

A reliable measurement can be made to the amount of the revenue;

The relevant economic benefits are likely to flow into the Company;

A reliable measurement can be made to the relevant costs incurred or to be incurred.

**(2) Recognition method for the provision of service**

If the Company can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the provision of labor services, it shall recognize the revenue from provision of services employing the percentage-of-completion method. The Company ascertained the completion schedule of transaction concerning the provision of labor services according to the proportion of the labor services provided against the total labor services to be provided.

If the Company can not, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the provision of labor services, it shall be treated as follows, respectively:

If the cost of labor services incurred is expected to be compensated, the revenue from the provision of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount.

If the cost of labor services incurred is not expected to be compensated, the cost incurred should be included in the current profit and loss, and no revenue from the provision of labor services may be recognized.



- (3) Recognition method for the revenue from abalienating use right of assets

Recognition Principles for the revenue from abalienating use right of assets

The revenue from abalienating use right of assets consists of interest revenue and royalty revenue. It may not be recognized unless the following conditions are met simultaneously:

- A. The relevant economic benefits may flow into the Company;
- B. A reliable measurement can be made to the amount of the revenue.

Specific recognition method

- A. The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the Company's cash is used by others and the actual interest rate.
- B. The amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

## 21. Construction Contract

- (1) If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized in light of the percentage-of-completion method on the date of the balance sheet. The term "percentage-of-completion method" means a method by which the contractor recognizes its revenues and costs in the light of the schedule of the contracted project. The Company ascertained the completion schedule of a contract project according to the proportion of the completed contract work against the expected total contract work.

The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: The total contract revenue can be measured in a reliable way; The economic benefits pertinent to the contract are likely flow into the Company; The actual contract costs incurred can be clearly distinguished and measured reliably; Both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

The outcome of a cost plus contract can be estimated in a reliable way subject to the following basis: The economic benefits pertinent to the contract are likely flow into the Company; The actual contract costs incurred can be clearly distinguished and can be measured in a reliable way.

- (2) If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: If the contract costs can be recovered, the contract revenue shall be recognized in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period when they are incurred; If the contract costs can not be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

## 22. Government Subsidies

- (1) Recognition conditions of government subsidies

No government subsidies may be recognized unless the following conditions are met simultaneously as follows:

The Company can meet the conditions attached to the government subsidies;

The Company can obtain the government subsidies.

- (2) Measurement of government subsidies

If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount (RMB1.00).

The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized. Those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in the current profits and losses.

If it is necessary to refund any government subsidies which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses. If there is no deferred income concerned to the government subsidies, it shall be directly included in the current profits and losses.

### 23. Exchange of Non-monetary Assets

- (1) The fair value of the assets and relevant payable taxes shall be regarded as the transaction cost, and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the profit or loss of the current period.

Non-monetary assets shall be recognized and measure, where a non-monetary assets transaction satisfies the following conditions at the same time:

- A. The transaction is commercial in nature;
- B. The fair value of the assets received or surrendered can be measured reliably.

Selection of fair value: If the fair value of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable.

Treatment when a boot incurred: where a boot is caused when the Company treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the profit or loss of the current period; the Company, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the profit or loss of the current period.

- (2) Where any non-monetary assets transaction does not meet such conditions at the same time, the carrying value and relevant payable taxes of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

Where a boot is caused when the Company treat the carrying value of the surrendered assets and the relevant payable taxes as the cost of the received assets, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall treat the result of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes as the cost of the assets received, and no profit or loss may be recognized. The Company, which receives the boot, shall treat the result of the carrying value of the assets surrendered minus the received boot and plus relevant payable taxes as the cost of the assets received, and no profit or loss may be recognized.

### 24. Debt Restructuring

- (1) Definition and scope of debt restructuring

The term "debt restructuring" refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

- (2) Accounting treatment of debtors

When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profits and losses. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profits and losses. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profits and losses. When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as stock of capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the stock of capital (or paid-in capital) as capital reserve. The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profits and losses.

Where other terms of a debt are modified, the debtor shall regard the post-modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other terms of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

If the post-modification terms of a debt concern any contingent payment and if the contingent payment meets the conditions for the recognition of expected liabilities as prescribed in Contingencies, the debtor shall recognize the contingent sum payable as expected liability, and shall include the difference between the book value of the debt to be restructured and the aggregate amount of the entry value of the restructured debt and the expected amount of liability in the current profits and losses.

## (3) Accounting treatments of the creditor

When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received in the current profits and losses. If the creditor has made provision for the impairment of the credit, he shall first offset the aforesaid difference against the impairment provision, then include the shortfall in the current profits and losses. When a debt is liquidated by non-cash asset, the creditor shall recognize the fair value of the non-cash asset received as the entry value and shall handle the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in accordance with provisions of liquidation of a debt by cash. When a debt is converted into capital, the creditor shall recognize the fair value of the shares to which it becomes entitled as investment to the debtor and shall handle the difference between the book balance of the debt to be restructured and the fair value of the shares in accordance with provisions of liquidation of a debt by cash.

When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the book balance of the debt to be restructured and the book value of the restructured debt in accordance with provisions of liquidation of a debt by cash. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the noncash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with provisions of .modification of other terms of a debt.

If the post-modification terms of the debt concern any contingent sum receivable, the creditor shall not recognize the contingent sum receivable, nor he include it in the book value of the restructured debt.

## 25. Leases

## (1) Classification of Leases

The Company classifies a lease as a finance lease or an operating lease on inception date of the lease.

## (2) Recognition standard of finance lease or and operating lease

Where a lease satisfies one or more of the following criteria, it shall be recognized as a finance lease:

The ownership of the leased asset is transferred to the lessee when the term of lease expires.

The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option becomes exercisable. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised.

Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life of the leased asset (75% or above, typically).

In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially (typically, 90% or above, the same below)all of the fair value of the leased asset on the lease beginning date; In the case of the lessor, the present value of the minimum lease receipts on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date.

The leased assets are of a specialized nature that only the Company (or the lessee) can use them without making major modifications.

The term "operating lease" shall refer to a lease other than a finance lease.

## (3) Main accounting treatment of finance lease

Accounting treatments of lessees

On the lease beginning date, the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date shall be recorded as the entering value in an account, recognize the amount of the minimum lease payments as the book value of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs (the same below)such as commissions, attorney's fees and travelling expenses, stamp duties directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. When a lessee calculates the present value of the minimum lease payments, if it can obtain the lessor's interest rate implicit in the lease, it shall adopt the interest rate implicit in the lease as the discount rate. Otherwise, it shall adopt the interest rate provided in the lease agreement as the discount rate. In case the lessor's interest rate implicit in the lease cannot be obtained and no interest rate is provided in the lease agreement, the borrowing interest rate of the bank for the same period shall be adopted as the discount rate.

In the case of the unrecognized financing charge, the effective interest rate method shall be adopted to calculate and recognize the financing charge in the current period.

In calculating the depreciation of a leased asset, the Company adopts a depreciation policy for leased assets consistent with that for depreciable assets which are owned by the Company. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

Accounting treatments of lessors

On the beginning date of the lease term, a lessor shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the finance lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income.

In respect of the unrealized financing income, the effective interest rate method shall be adopted for recognizing current financing income during the lease term.

Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

(4) Main accounting treatment of operating lease

The rents from operating leases shall be recorded by the lessor and lessee in the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred by a lessor and lessee shall be recognized as the profits and losses of the current period. Contingent rents shall be recognized through the current profit and loss.

**26. Income Taxes**

(1) Income taxes of the Company shall be accounted for using balance sheet liability method.

(2) Where the Company obtains assets or liabilities, it shall determine its tax base. Where there is difference between the carrying amount of the assets or liabilities and its tax base, the deferred income tax assets or the deferred income tax liabilities shall be recognized according to the provisions.

(3) Recognition of deferred income tax assets

The Company recognizes deferred tax assets arising from deductible temporary difference but the amount is limited to the taxable income that the Company can possibly obtain to deduct the deductible temporary differences. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:

A. The transaction is not a merger of enterprise;

B. At the time of the transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

Where the deductible temporary difference related to the investments of the subsidiaries, associated companies and joint venture companies can meet the following requirements simultaneously, the Company shall recognize the corresponding deferred income tax assets:

A. The temporary differences are likely to be reversed in the expected future;

B. It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

Any deductible loss or tax deduction that can be carried forward to the next year in accordance with the tax law shall be deemed as deductible temporary difference, the corresponding deferred income tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

## (4) Recognition of deferred income tax liabilities

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

- A. Initial recognition of goodwill;
- B. Initial recognition of assets or liabilities created in the transactions with the following characteristics;
  - a. The transaction is not a corporate merger;
  - b. When the transaction occurs, neither of the accounting profit and taxable income (or deductible loss) is not affected.

As for the taxable temporary differences related to the investments of subsidiaries, associated enterprises and joint venture enterprises, the Company shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded:

- A. The investing enterprise can control the time of the reverse of temporary differences;
- B. The temporary differences are unlikely to be reversed in the excepted future.

## (5) Measurement of income taxes

The income taxes of the current period and deferred income tax of the Company shall be treated as income tax expenses or incomes, and shall be recorded into the current profits and losses, excluding the income taxes incurred under the following circumstances:

Merger of enterprises;

The transactions or events directly recognized as the owner's equity.

## (6) Impairment of deferred income tax assets

On the balance sheet date, the book value of deferred tax assets is reviewed. If the Company cannot possibly obtain sufficient taxable income in future to offset the benefits of deferred tax assets, the book value of deferred tax assets is reduced accordingly. Income taxes of the current period shall be reduced in other circumstances other than the fact that the part of deferred income tax assets shall be included in owner's equity for recognition and its amount reduced shall be also included in owner's equity.

Where it is likely to obtain sufficient taxable income taxes, the book value of deferred tax assets reduced can be recovered.

## V. Statement of Main Accounting Policies, Change in Accounting Estimate and Correction of Previous Errors

### 1. Statement of change in accounting policy

There was no significant changes in accounting policy of the Company during the reporting period.

### 2. Statement of change in accounting estimates

There was no significant changes in accounting estimates of the Company during the reporting period.

### 3. Previous errors

There was no correction of previous errors of the Company during the reporting period.

## VI. Tax

### 1. Value-added tax

Value-added tax is applicable to the Company's revenue from sales of goods. The sales tax rate for domestic sales of goods is 17%.

The value-added tax paid for purchase of raw materials of imported raw materials etc. can be offset against sales tax. The tax rate is 17%. Of this tax, application can be made for refund of the import duty paid for export of products.

The assessable amount of value-added tax is the balance after current import duty is deducted by current sales tax.

Under the PRC relevant policies and approved by the High and New Technology Industrial Development Zone Branch of the Nanjing State Tax Bureau, some of the satellite telecommunication products made by the Company were exempted from value-added tax.

**2. Sales Tax**

Sales tax is applicable to the Company's revenue from lease of premises, construction and installation, etc.

Of this tax, the tax rate of revenue from lease of premises is 5% while the tax rate of revenue from construction and installation is 3%.

**3. Urban development tax and education surcharge**

The Company's urban development tax and education surcharge are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 4% respectively.

**4. Enterprise income tax**

The Company was recognized by Jiangsu Provincial Technological Commission as a high-tech enterprise on 29 August 1995. Accordingly, it enjoys a preferential policy of income tax and has paid income taxes as per 15% of taxable income since 1 January 1995.

The applicable enterprise income rates for subsidiaries of the Company are from 15% to 25%. Where a subsidiary of the Company is registered in Jiangning Economic and Technological Development Area, it shall enjoy the preferential income tax policy of "2-year free and 3-year half" since the profitable year as approved by Jiangning Economic and Technological Development Area.

The Company's subsidiary, Nanjing Panda Appliance & Apparatus Co. Ltd. approved as a software enterprise by Jiangsu Information Industry Department and relevant authorities, enjoys preferential tax policy as specified by Certain Policies on Encouraging the Development of Software and Integrated Circuit Industry by the State.

**5. Real property tax**

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

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

**6. Land appreciation tax**

It is calculated and paid at excess progressive tax rate of added value.

**7. Other taxes**

Other taxes are calculated and paid in accordance with relevant specific regulations of the State.

**VII. Merger of enterprises and consolidated financial statements****1. Merger of enterprises****(1) Merger of enterprises under same control****Definition of merger of enterprises under same control**

Where that enterprises involved in the merger are under the ultimate control of same party or parties before and after the merger and the control is not temporary, it shall be merger of enterprises under same control. Merger of enterprises under same control of the Company shall be judged in accordance with the following bases: parties of the merger are under the ultimate control of the group company before and after the merger; Before the merger, parties of the merger under the control of the group company for over 1 year (including 1 year), and the reporting subject after the merger of enterprises is also under the control of the group for over 1 year (including 1 year). Those satisfy the two conditions above shall be defined as merger of enterprises under same control by the Company.

In a merger of enterprises under same control, the party which acquired control right over other parties of the merger on the merger date is the merging party, the other enterprise(s) involved in the merger is (are) the merged parties.

**Basis for determination of the merger date**

Merger date refers to the date when the Company actually acquires the control right of the merged parties, i.e. the date when the control right of net assets or production and operation decisions of the merged parties is transferred to the Company. The control right transfer shall be identified if it satisfies the following conditions:

- A. Agreement on merger of enterprises has been approved by shareholders' general meeting;
- B. Where merger of enterprises shall be materially approved by relevant authorities of the State, the approval has been obtained from relevant authorities;

- C. Parties participating in the merger have gone through necessary handover procedures of properties;
- D. The Company has paid most of the merger consideration (typically, above 50%), and is capable of paying the remaining balance;
- E. The Company has actually controlled financial and operating policies of the merged parties, shared corresponding benefits and bore related risks.

Recognition of book value of assets and liabilities acquired in the merger as well as treatment of the merger difference

Assets and liabilities acquired by the Company in the merger of enterprises shall be measured at book value of the merged party on the merger date. Where difference arises from the book value of net assets acquired by the Company and that of the merger consideration (total nominal value of the shares), capital reserves shall be adjusted; where capital reserves are not enough for offset, retained earnings shall be adjusted.

Treatment method of the merger expenses

All direct relevant expenses incurred to the Company for the merger of enterprises, including auditing fees and assessment fees and legal fees, shall be included in the current profit and loss at occurrence. Expenses including handling charges and commission paid for issuing corporate bonds or bearing liabilities for the merger of enterprises shall be included in the initial measured amount of the issued corporate bonds and other liabilities. Expenses including handling charges and commission incurred in issue of equity securities shall be offset premium income of equity securities; where premium income is insufficient to offset, retained earnings shall be reduced.

(2) Merger of enterprises not under same control

Definition of merger of enterprises not under same control

Where enterprises involved in the merger are not under ultimate control of the same party or parties before and after the merger, it shall be merger of enterprises not under same control. In a merger of enterprises not under same control, the party which acquires control rights of other enterprise(s) on the acquisition date is the acquirer, the other enterprise(s) is (are) the acquiree.

Basis for the determination of the acquisition date

The acquisition date refers to the date when the Company actually acquires the control right of the acquiree (acquirees), i.e. the date when the control right of net assets or production and operation decisions of the acquiree (acquirees) is transferred to the Company. Basis for determination of the acquisition date is the same as determination of the merger date.

Determination of the merger cost

- A. In a merger of enterprises through one swap transaction, the merger cost shall be assets paid, and liabilities incurred or borne by the Company for acquiring the control right of the acquiree (acquirees) on the acquisition date and fair value of the issued equity securities.
- B. In a merger of enterprises through several swap transactions, the merger cost shall be sum of each single transaction cost.
- C. All relevant direct expenses incurred to the Company for the merger of enterprises shall be included in costs for the merger of enterprises.
- D. Where future events with possible impact on the merger cost are specified in the merger contract or agreement, and future events are likely to occur as estimated on the acquisition date and the amount of the impact on the merger cost can be reliably measured, the Company shall include them in the merger cost.

Treatment method of the merger expenses

All direct relevant expenses incurred by the Company for the merger of enterprises, including auditing fees and assessment fees and legal fees, shall be included in costs of the merger of enterprises. Expenses including handling charges and commission paid for issuing corporate bonds or bearing liabilities for the merger of enterprises shall be included in the amount of initial measurement of the issued corporate bonds and other liabilities. Expenses including handling charges and commission incurred in issue of equity securities shall be minus premium income of equity securities; where premium income is insufficient to be written off, retained earnings shall be written off.

#### Measurement of the merger consideration

Assets paid, and liabilities incurred and borne for the merger of enterprises by the Company on the acquisition date shall be measured at fair value, with difference between fair value and its book value being recorded into the current profit and loss.

#### Distribution of the merger cost

The Company distributed the merger cost on the acquisition date, and recognized all identifiable assets, liabilities and contingent liability acquired from the acquiree (acquirees).

- A. the Company recognizes the difference from the merge cost above the share of fair value of identifiable assets acquired from the acquiree (acquirees) in the merger as goodwill;
- B. the Company treats the difference from the merge cost below the share of fair value of identifiable assets acquired from the acquiree (acquirees) in accordance with the following provisions: first, the measurement of fair value of all identifiable assets, liabilities and contingent liabilities acquire from the acquiree (acquirees) shall be reviewed; where the merger cost subsequent to review is still below the share of fair value of identifiable assets acquired from the acquiree (acquirees), its difference shall be recorded into the current profit and loss.
- C. Recognition principle for fair value of identifiable assets of the acquiree

Fair value of identifiable net assets of the acquiree (acquirees) is the balance of the fair value of the identifiable assets acquired from the acquiree (acquirees) in the merger minus liabilities and contingent liabilities.

#### (3) Merger by absorption

Should the Company have merger by absorption, the book value of assets and liabilities acquired in the merger shall be recognized through the following methods:

As for the merger by absorption under same control, assets and liabilities acquired by the Company on the merger date shall be recognized as per the original book value of such assets and liabilities in the acquiree (acquirees). If the accounting policy adopted by the acquiree (acquirees) is inconsistent with the Company, on the principle of materiality, the Company shall adjust the fair value of relevant assets and liabilities of the acquiree (acquirees) in accordance with the Company's accounting policy based on which the Company shall recognize the book value of assets and liabilities acquired in the merger.

As for the merger by absorption not under same control, all the assets and liabilities which meet the recognition requirements acquired by the Company on the merger date shall be recognized as assets and liabilities of the Company at its fair value.

## 2. Consolidated financial statements

#### (1) Consolidation scope

##### Recognition principle

Recognition of the consolidation scope of the consolidated financial statements based on control. The term "control" means that the Company has the power to decide an investee's financial and operating policy, pursuant to which, the Company can get the power to obtain benefits from its operating activities. Where the Company accounts for more than 50% (excluding 50%) of total capital carrying voting rights of the investee or accounts for less than 50% of total capital carrying voting rights of the investee but has effective control, such investee shall be included in the consolidation scope.



## Major subsidiaries and determination of consolidation scope for the reporting period

Company name	Registration address	Nature of business	Registered capital: (RMB'0000)	Business scope
<b>I. Subsidiaries acquired from merger of enterprises under same control</b>				
Nanjing Panda Mechanical Engineering Plant	Nanjing	Industry	4,500	Manufacture and sales of electronic products, communication equipment and instruments
<b>II. The subsidiaries acquired otherwise</b>				
Nanjing Electronic Calibration Co., Ltd.	Nanjing	Industry	100	Inspection of electronic instruments
Nanjing Panda Appliance & Apparatus Co. Ltd.	Nanjing	Industry	100	Production, development and sale of testing appliance, design and installation of electronic information system
Nanjing Panda Mechanical Manufacturing Co., Ltd.	Nanjing	Industry	500	metal components
Nanjing Panda Accurate Machinery Co., Ltd.	Nanjing	Industry	500	production of equipment and spare parts for electronic industry; processing of sophisticated machinery
Nanjing Panda Technology Equipment Co., Ltd.	Nanjing	Industry	500	production and installation of production line
Nanjing Panda Machinery Co., Ltd.	Nanjing	Industry	300	processing and manufacturing of mechanical parts
Nanjing Panda Information Industry Co., Ltd.	Nanjing	Industry	USD740	development, production and sale of electronic information products
Nanjing Panda System Integration Co., Ltd.	Nanjing	Industry	300	development and sales of computer software
Nanjing Panda Electronics Manufacturing Co., Ltd.	Nanjing	Industry	US\$1,000	development and production of new models of electronic products
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	Nanjing	Industry	4,000	plastic product & accessories
Nanjing Panda Power Sources Technology Co., Ltd.	Nanjing	Industry	1,100	design, production and sales of power sources and special type power transformer
Nanjing Guanghua Electronics Co. Ltd	Nanjing	Industry	1,149.76	PVC, ABS products
Nanjing Panda International Telecommunication System Co., Ltd.	Nanjing	Industry	US\$124	development, production sale of telephone and telecommunication system
Shenzhen Panda Electronic Co., Ltd.	Shenzhen	Industry	650	home appliance telecommunication equipment and apparatus
Galant Limited	Hong Kong	R & D	HK\$10,000	R&D of communication products

Company name	The Company's actual investment (RMB 0000)	Balance of net investment in substance in subsidiaries (RMB 0000)	Shareholding percentage	Percentage of voting rights	Whether to consolidate
<b>I. Subsidiaries acquired from merger of enterprises under same control</b>					
Nanjing Panda Mechanical Engineering Plant	3,004.20	3,004.20	99.11%	100%	Yes
<b>II. The subsidiaries acquired otherwise</b>					
Nanjing Electronic Calibration Co., Ltd.	70	70	70%	70%	Yes
Nanjing Panda Appliance & Apparatus Co. Ltd.	70	70	70%	70%	Yes
Nanjing Panda Mechanical Manufacturing Co. Ltd.	350	350	70%	70%	Yes
Nanjing Panda Accurate Machinery Co., Ltd.	362.53	362.53	70%	70%	Yes
Nanjing Panda Technology Equipment Co., Ltd.	503.19	503.19	100%	100%	Yes
Nanjing Panda Mechanical Co., Ltd.	210	210	70%	70%	Yes
Nanjing Panda Information Industry Co., Ltd.	5,922.23	5,922.23	100%	100%	Yes
Nanjing Panda System Integration Co., Ltd.	152.08	152.08	52.7%	52.7%	Yes
Nanjing Panda Electronic Manufacturing Company Limited	7,827.46	7,827.46	100%	100%	Yes
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	2,462.28	2,462.28	100%	100%	Yes
Nanjing Panda Power Supply Technology Co., Ltd.	875	875	79.55%	79.55%	Yes
Nanjing Guanghua Electronics Plastic Casting Factory	828.11	828.11	100%	100%	Yes
Nanjing Panda International Telecommunication System Co., Ltd.	765.50	765.50	72%	72%	Yes
Shenzhen Panda Electronics Company Limited	617.50	617.50	95%	95%	Yes
Galant Limited	HK\$1.00	HK\$1.00	100%	100%	Yes

(2) Preparation method of consolidated financial statements

Basic preparation method of consolidated financial statements

Based on the financial statements of the parent and subsidiaries included in the consolidation and in accordance with other relevant information, financial statements are prepared through adjustment in long-term equity investment in subsidiaries after offsetting the parent's equity capital investment and its share in shareholders' equity of the subsidiaries, material transactions within the Company and transactions between home office and branches. Minority interests shall be presented as "Minority Interests" under the owner's equity in the consolidated balance sheet. Minority interests shall be presented as "Minority Interests" under net profits in the consolidated income statements.

Treatment method for acquisition or disposal of subsidiaries in the reporting period

For acquisition of subsidiaries due to merger of enterprises under same control during the reporting period, the opening balance of the Company's consolidated balance sheet shall be adjusted in its preparation. For acquisition of subsidiaries not arising from merger of enterprises under same control, the opening balance of consolidated balance sheet needs not adjustment in its preparation. For disposal of subsidiaries during the reporting period, the opening balance of consolidated balance sheet needs not adjustment in its preparation.

For acquisition of subsidiaries due to merger of enterprises under same control during the reporting period, the revenue, expense and profit of such subsidiaries from the beginning to the end of the reporting period when the merger occurs are included into the consolidated income statement. For acquisition of subsidiaries not arising from merger of enterprises under same control, the revenue, expense and profit of such subsidiaries from the date of acquisition to the end of the reporting period are included into the consolidated income statement. For disposal of subsidiaries during the reporting period, the revenue, expense and profit of such subsidiaries from the period beginning to the date of disposal are included into the consolidated income statement.

For acquisition of subsidiaries due to merger of enterprises under same control during the reporting period, the cash flows of such subsidiaries from the beginning to the end of the reporting period when the merger occurs are included into the consolidated cash flow statement. For acquisition of subsidiaries not arising from merger of enterprises under same control, the cash flows of such subsidiaries from the date of acquisition to the end of the reporting period are included into the consolidated cash flow statement. For disposal of subsidiaries during the reporting period, the cash flows of such subsidiaries from the period beginning to the date of disposal are included into the consolidated cash flow statement.

Treatment of different accounting policies or accounting periods between the Company and its subsidiaries

In preparation of consolidated financial statements, the financial statements of the subsidiaries are subject to adjustment where there is a difference in their accounting policies or accounting periods with those of the Company or are required to be separately prepared in accordance with the latter.

(3) Minority interests

Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Electronic Calibration Co., Ltd.	414,237.69	388,169.47
Nanjing Panda Appliance & Apparatus Co. Ltd.	990,723.69	799,915.63
Nanjing Panda Mechanical Manufacturing Co. Ltd.	4,119,710.17	3,344,921.17
Nanjing Panda Accurate Machinery Co., Ltd.	3,489,698.32	3,264,835.99
Nanjing Panda Technology Equipment Co., Ltd.	—	—
Nanjing Panda Mechanical Co., Ltd.	997,122.34	876,510.91
Nanjing Panda Mechanical Engineering Plant	—	—
Nanjing Panda Information Industry Co., Ltd.	—	4,798,597.88
Nanjing Panda System Integration Co., Ltd.	1,213,838.63	1,762,690.22
Nanjing Panda Electronic Manufacturing Company Limited	—	21,470,720.78
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	—	—
Nanjing Panda Power Supply Technology Co., Ltd.	1,343,661.82	1,596,269.78
Nanjing Guanghua Electronic Plastic Casting Factory	—	8,406,160.29
Nanjing Panda International Telecommunication System Co., Ltd.	—	—
Shenzhen Panda Electronics Company Limited	105,828.64	110,079.03
Total	<u>12,674,821.30</u>	<u>46,818,871.15</u>

Additional loss borne by the Company

Company name	Closing balance	Opening balance
Nanjing Panda Technology Equipment Co., Ltd.	4,640,952.33	4,651,622.27
Nanjing Panda International Telecommunication System Co., Ltd.	14,025,404.15	11,790,518.70
Total	<u>18,666,356.48</u>	<u>16,442,140.97</u>

**VIII. Notes to major items of consolidated financial statements**

Unless specified otherwise in the following notes (including the notes to the financial statements of the Company), the terms "opening balance" and "closing balance" refer to the balances as of 1 January 2008 and 30 June 2008 respectively, and the terms "last period" and "the period" refer to January to June 2007 and January to June 2008 respectively.

**1. Cash and Bank Balances**

Items	Closing balance			Opening balance		
	Amount in original currency	Exchange rate	Equivalent amount in Renminbi	Amount in original currency	Exchange rate	Equivalent amount in Renminbi
<b>Cash</b>						
Including: Renminbi	563,865.58	1.0000	563,865.58	465,875.15	1.0000	465,875.15
US dollar	—	—	—	9,351.00	7.3046	68,305.31
Euro	424.10	10.8302	4,595.42	424.10	10.6669	4,523.83
<b>Subtotal of cash</b>	<b>—</b>	<b>—</b>	<b>568,461.00</b>	<b>—</b>	<b>—</b>	<b>538,704.29</b>
<b>Bank balances</b>						
Including: Renminbi	176,057,446.53	1.0000	176,057,446.53	446,450,445.15	1.0000	446,450,445.15
US dollars	927,199.78	6.8591	6,361,902.78	319,208.18	7.3046	2,331,688.07
HK dollar	1,627.63	0.8792	1,431.05	1,623.47	0.93638	1,520.18
Euro	14,941.43	10.8302	161,900.85	—	10.6669	—
<b>Subtotal of bank balances</b>	<b>—</b>	<b>—</b>	<b>182,582,681.21</b>	<b>—</b>	<b>—</b>	<b>448,783,653.40</b>
<b>Other cash and bank balances</b>						
Including: Renminbi	72,233,536.96	1.0000	72,233,536.96	34,376,917.50	1.0000	34,376,917.50
<b>Subtotal of other cash and bank balances</b>	<b>—</b>	<b>—</b>	<b>72,233,536.96</b>	<b>—</b>	<b>—</b>	<b>34,376,917.50</b>
<b>Total</b>	<b>—</b>	<b>—</b>	<b>255,384,679.17</b>	<b>—</b>	<b>—</b>	<b>483,699,275.19</b>

(1) Details of the time deposits totaling RMB2,508,385.50 included in the Company's bank balances are as follows:

Bank	Amount	Period	Commencement and ending date	Interests	Note
Bank of China Ming Imperial Palace of Nanjing Branch	1,008,385.50	3 months	2008.4.25-2008.7.25	3.33%	—
Industrial and Commercial Bank of China, Haifuxiang office	1,500,000.00	1 year	2007.11.15-2008.11.14	2.52%	—
<b>Total</b>	<b>2,508,385.50</b>				

(2) The Company's bank balances included call deposits totaling RMB104,249,439.19.

(3) The closing balance of cash and bank balances decreased by 47.2% from the opening balance, mainly due to the decrease in cash flows from operating activities and payment of dividends for 2007.

**2. Bills Receivable**

(1) Details of bills receivable

Types of Bills	Closing balance	Opening balance
Bank acceptance notes	3,533,100.00	2,131,704.70
<b>Total</b>	<b>3,533,100.00</b>	<b>2,131,704.70</b>

(2) The closing balance of bills receivable includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.

- (3) The year-end bills receivable have no pledge or security.
- (4) The discount business of bank acceptances without the accounting of the item transacted by Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., a subsidiary of the Company for Nanjing Panda Television Co., Ltd. has a year-end balance of RMB50,000,000.00 for the bank acceptance notes discounted and not expired, the marginal deposit for which was deposited by Nanjing Panda Television Co., Ltd., while the expenses occurred in such discount business were afforded by Nanjing Panda Television Co., Ltd.
- (5) The closing balance of bills receivable includes RMB828,000.00 due from other related parties. Please refer to Note X (3)9.

### 3. Accounts Receivable

- (1) Break-down of ageing of accounts receivable

Items	Balance	Closing balance		Net amount
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable	190,158,084.26	66.53	13,181,096.95	176,976,987.31
Other unsubstantial amount of accounts receivable	95,655,591.46	33.47	14,833,094.82	80,822,496.64
<b>Total</b>	<b>285,813,675.72</b>	<b>100.00</b>	<b>28,014,191.77</b>	<b>257,799,483.95</b>
Items	Balance	Opening balance		Net amount
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable	101,274,999.32	55.33	7,118,861.00	94,156,138.32
Other unsubstantial amount of accounts receivable	81,767,961.14	44.67	16,689,939.68	65,078,021.46
<b>Total</b>	<b>183,042,960.46</b>	<b>100.00</b>	<b>23,808,800.68</b>	<b>159,234,159.78</b>

Substantial amount of single account receivable refers to the single amount accounting for 5% or more of the closing balances or the amount over RMB5,000,000.00.

- (2) Ageing analysis of accounts receivable

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt
Within 1 year	261,075,139.90	91.35	5	13,184,854.62	162,175,600.43	88.60	5	10,103,143.11
1-2 years	8,381,153.98	2.93	10	2,284,736.61	8,567,430.55	4.68	10	3,237,598.88
2-3 years	7,165,762.44	2.51	50	4,562,180.38	4,163,470.21	2.27	50	2,826,867.00
3-5 years	6,148,759.81	2.15	80	4,939,560.57	6,025,808.76	3.30	80	5,530,541.18
More than 5 years	3,042,859.59	1.06	100	3,042,859.59	2,110,650.51	1.15	100	2,110,650.51
<b>Total</b>	<b>285,813,675.72</b>	<b>100.00</b>		<b>28,014,191.77</b>	<b>183,042,960.46</b>	<b>100.00</b>		<b>23,808,800.68</b>

- (3) Details of the five largest debtors of accounts receivable at the end of the period

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
China Information Technology Co., Ltd.	65,400,000.00	22.88	Within 1 year
Nanjing Panda Handa Technology Co., Ltd.	40,765,332.49	14.26	Within 1 year
Nanjing Sharp Electronics Co., Ltd.	20,232,905.12	7.08	Within 1 year
Nanjing Panda Television Co. Ltd.	18,506,954.94	6.48	Within 1 year, 1-3 years
Nanjing Ericsson Panda Commication Company Limited	14,471,078.57	5.06	Within 1 year
<b>Total</b>	<b><u>159,376,271.12</u></b>	<b><u>55.76</u></b>	

- (4) The closing balance of accounts receivable includes RMB63,538.10 due from shareholders with 51.10% of shareholding in the Company.
- (5) The closing balance of accounts receivable includes RMB77,215,470.59 due from other related parties, representing 27.02% of the total accounts receivable. Please refer to Note X(III) 10 for disclosure of relevant related transactions.
- (6) The closing balance of accounts receivable increased by 61.90% from the opening balance, mainly due to the increase in sales revenue during the period and part of the accounts receivable falling in credit terms.

4. Prepayment

- (1) Details of prepayment

Ageing	Closing balance			Opening balance		
	Amount	Percentage	Provision for bad debts	Amount	Percentage	Provision for bad debts
		%	%		%	%
Within 1 year	70,849,221.37	88.96	5	41,365,683.61	79.32	5
1-2 years	6,305,131.78	7.92	10	9,559,549.97	18.33	10
2-3 years	1,425,808.51	1.79	50	779,867.22	1.50	50
3-5 years	957,756.12	1.20	80	335,908.97	0.64	80
More than 5 years	107,289.51	0.13	100	107,289.51	0.21	100
<b>Total</b>	<b><u>79,645,207.29</u></b>	<b><u>100.00</u></b>	<b><u>708,253.45</u></b>	<b><u>52,148,299.28</u></b>	<b><u>100.00</u></b>	<b><u>1,119,519.79</u></b>

- (2) Prepayment more than one year mainly consisted of research costs and construction payment which were not settled.
- (3) The closing balance of prepayment includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (4) The closing balance of prepayment decreased by 54.69% from the opening balance, mainly due to the prepayments for materials in the tense market of raw materials.

5. Dividend receivable

- (1) Details of dividend receivable

Name of investee	Closing balance	Opening balance
Nanjing Ericsson Panda Communication Co., Ltd.	<u>90,156,000.00</u>	—
<b>Total</b>	<b><u>90,156,000.00</u></b>	<b><u>—</u></b>

- (2) As resolved at the board meeting of Nanjing Ericsson Panda Communication Co., Ltd., a dividend distribution for 2007 net profit available for distribution of RMB519,096,000 was made. According to shareholding proportion, the Company expects to receive RMB140,156,000. As at 30 June 2008, the Company received a dividend of RMB50,000,000.

## 6. Other Receivables

## (1) Break-down of other receivables

Items	Balance	Percentage %	Closing balance		Net amount
			Provision for bad debt		
Substantial amount of single other receivables	41,456,611.81	51.18	26,663,830.59		14,792,781.22
Other unsubstantial amount of other receivables	39,541,484.71	48.82	17,590,232.92		21,951,251.79
<b>Total</b>	<b>80,998,096.52</b>	<b>100.00</b>	<b>44,254,063.51</b>		<b>36,744,033.01</b>
			Opening balance		
Items	Balance	Percentage %	Provision for bad debt		Net amount
Substantial amount of single other receivables	52,267,128.98	52.58	25,078,049.19		27,189,079.79
Other unsubstantial amount of other receivables	47,137,299.36	47.42	17,250,007.37		29,887,291.99
<b>Total</b>	<b>99,404,428.34</b>	<b>100.00</b>	<b>42,328,056.56</b>		<b>57,076,371.78</b>

Substantial amount of single other receivable refers to the single amount accounting for 5% or more of the closing balances or the amount over RMB5,000,000.00.

## (2) Ageing analysis of other receivables

Ageing	Amount	Closing balance			Amount	Opening balance		
		Percentage %	Percentage of provision for bad debts %	Provision for bad debt		Percentage %	Percentage of provision for bad debts %	Provision for bad debt
Within 1 year	30,262,905.45	37.36	5	2,568,204.94	26,682,111.56	26.84	5	1,705,245.28
1-2 years	4,596,922.52	5.68	10	1,650,934.35	5,350,599.45	5.38	10	1,481,030.77
2-3 years	706,692.42	0.87	50	705,674.88	51,848,168.46	52.16	50	24,669,537.00
3-5 years	32,648,755.61	40.31	80	26,546,428.82	5,797,179.77	5.84	80	4,745,874.41
More than 5 years	12,782,820.52	15.78	100	12,782,820.52	9,726,369.10	9.78	100	9,726,369.10
<b>Total</b>	<b>80,998,096.52</b>	<b>100.00</b>		<b>44,254,063.51</b>	<b>99,404,428.34</b>	<b>100.00</b>		<b>42,328,056.56</b>

## (3) Details of the five largest debtors of other receivables at the end of the period

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Fund raising project for building	30,160,000.00	37.24	3-4 years
Siemens Finance and Leasing Ltd.	7,064,578.85	8.72	Within 1 year
Nanjing Panda Digital Technology Development Co., Ltd.	4,232,032.96	5.22	1-3 years
Panda Electronics (Kunshan) Co., Ltd.	2,686,220.94	3.32	Within 1 year,
			3-4 years
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	1,950,000.00	2.41	More than 5 years
<b>Total</b>	<b>46,092,832.75</b>	<b>56.91</b>	

- (4) The closing balance of other receivables includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (5) The closing balance of other receivables includes RMB4,636,220.94 due from related parties, representing 5.72% of the total other receivables. Please refer to Note X (3) (9) for disclosure of relevant related transactions.
- (6) The closing balance of other receivables decreased by 35.62% from the opening balance, mainly due to part of receivables under fund raising project for building collected during the period.

## 7. Inventories

- (1) Details of Inventories

Items	Balance	Closing balance		Net amount
		Including: capitalised borrowing expenses	Provision for diminution in value of inventories	
Raw materials	111,008,590.05	—	4,768,460.07	106,240,129.98
Packaging materials	160,785.36	—	—	160,785.36
Low-value consumables	473,550.30	—	—	473,550.30
Work in progress	152,228,542.94	—	1,475,783.58	150,752,759.36
Stored commodities	100,767,011.59	—	12,818,596.05	87,948,415.54
Sub-contracting materials	8,317,505.83	—	—	8,317,505.83
Consigned commodities	1,019,832.57	—	—	1,019,832.57
Delivered commodities	10,469,802.84	—	120,004.08	10,349,798.76
<b>Total</b>	<b>384,445,621.48</b>	<b>—</b>	<b>19,182,843.78</b>	<b>365,262,777.70</b>

Items	Balance	Opening balance		Net amount
		Including: capitalised borrowing expenses	Provision for diminution in value of inventories	
Raw materials	68,957,954.96	—	2,589,723.86	66,368,231.10
Packaging materials	25,383.33	—	—	25,383.33
Low-value consumables	585,956.72	—	—	585,956.72
Work in progress	149,941,549.31	—	2,340,658.65	147,600,890.66
Stored commodities	87,068,309.75	—	4,571,464.19	82,496,845.56
Sub-contracting materials	6,074,105.73	—	—	6,074,105.73
Delivered commodities	113,653.38	—	—	113,653.38
<b>Total</b>	<b>315,655,429.42</b>	<b>—</b>	<b>9,663,867.86</b>	<b>305,991,561.56</b>

- (2) Provision for diminution in value of inventories

Items	Opening balance	Decrease in the year	Provision in the year			Closing balance
			Reverse	Write-off	Total	
Raw materials	2,589,723.86	2,202,215.32	—	23,479.11	23,479.11	4,768,460.07
Work in progress	2,340,658.65	326,141.50	—	1,191,016.57	1,191,016.57	1,475,783.58
Stored commodities	4,571,464.19	10,653,947.08	2,278,579.87	128,235.35	2,406,815.22	12,818,596.05
Delivered commodities	162,021.16	—	—	42,017.08	42,017.08	120,004.08
<b>Total</b>	<b>9,663,867.86</b>	<b>13,182,303.90</b>	<b>2,278,579.87</b>	<b>1,384,748.11</b>	<b>3,663,327.98</b>	<b>19,182,843.78</b>

Basis of provision for diminution in value of inventories: on each balance sheet day, inventories are measured based on the lower of cost and net realisable value, and provision for diminution in value of inventories is made based on the surplus of cost over net realisable value of inventories on an individual basis.

Reason for reversal of provision for diminution in value of inventories: Should the factors causing any write-down of the inventories do not exist any more, the amount of write-down shall be recovered and be reversed from the provision for diminution in value of inventories that has been made.

- (3) The closing balance of inventories increased by 19.37% from the opening balance, mainly due to increase in inventories necessary for production.



## 8. Long-term equity investment

## (1) Details of long-term equity investment

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Investment in associated companies	979,331,736.86	75,827,954.81	140,156,000.00	915,003,691.67
Investment in other enterprises	—	—	—	—
Less: Provision for impairment of long term investment	2,956,636.87	—	—	2,956,636.87
<b>Total</b>	<b>976,375,099.99</b>	<b>75,827,954.81</b>	<b>140,156,000.00</b>	<b>912,047,054.80</b>

## (2) Details of investment in associated companies

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd.	269,833,380.56	22,371,909.44	—	292,205,290.00	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	10,000,000.00	—	—	10,000,000.00	Nanjing	Technology development
Hua Fei Colour Display Systems Company Limited	321,310,048.42	(39,498,538.48)	—	281,811,509.94	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	274,975,164.99	87,957,245.46	140,156,000.00	222,776,410.45	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	86,886,977.05	4,309,573.50	—	91,196,550.55	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	2,189,350.13	(310,153.15)	—	1,879,196.98	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	—	—	—	—	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00	—	—	2,756,525.00	Korea	—
Nanjing Thales Panda Transportation System Company Limited	8,530,408.35	997,918.04	—	9,528,326.39	Nanjing	Manufacture
Panda Electronics (Kunshan) Co. Ltd.	2,649,770.49	—	—	2,649,770.49	Kunshan	Manufacture
Nanjing Panda Medical Electronics Co. Ltd.	200,111.87	—	—	200,111.87	Nanjing	Manufacture
<b>Total</b>	<b>979,331,736.86</b>	<b>75,827,954.81</b>	<b>140,156,000.00</b>	<b>915,003,691.67</b>		

(3) Long-term equity accounted for using equity method

Name of investee	Initial investment	Opening balance	Investment amount increased during the year (less the equity transfer for the year)	Increase/decrease of the investee's equity	Cash bonus distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd.	50,361,373.68	269,833,380.56	—	22,371,909.44	—	292,205,290.00
Nanjing Huaxian High Technology Company Limited	10,000,000.00	10,000,000.00	—	—	—	10,000,000.00
Hua Fei Colour Display Systems Company Limited	392,892,722.42	321,310,048.42	—	(39,498,538.48)	—	281,811,509.94
Tamura Electronics (Nanjing) Co., Ltd.	3,310,800.00	—	—	—	—	—
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	274,975,164.99	—	87,957,245.46	140,156,000.00	222,776,410.45
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	86,886,977.05	—	4,309,573.50	—	91,196,550.55
Intenna (Nanjing) Co. Ltd.	1,750,000.00	2,189,350.13	—	(310,153.15)	—	1,879,196.98
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00	—	—	—	—	—
Panda Electronics (Kunshan) Co. Ltd.	1,757,905.88	2,649,770.49	—	—	—	2,649,770.49
Nanjing Panda Medical Electronics Co. Ltd.	500,000.00	200,111.87	—	—	—	200,111.87
Nanjing Thales Panda Transportation System Company Limited	8,626,600.00	8,530,408.35	—	997,918.04	—	9,528,326.39
Panda Korea Chen Xi Joint Venture Company Limited	3,494,075.00	2,756,525.00	—	—	—	2,756,525.00
<b>Total</b>	<b>638,013,558.33</b>	<b>979,331,736.86</b>	<b>—</b>	<b>75,827,954.81</b>	<b>140,156,000.00</b>	<b>915,003,691.67</b>

(4) There was no long-term equity investment accounted for at cost method as at the end of the reporting period.

(5) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision during the year	Reversal	Decrease in the year Write-off	Total	Closing balance
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00	—	—	—	—	2,756,525.00
Nanjing Panda Medical Electronics Co. Ltd	200,111.87	—	—	—	—	200,111.87
<b>Total</b>	<b>2,956,636.87</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,956,636.87</b>

## 9. Fixed Assets

## (1) Details of fixed assets

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
<b>Original cost</b>				
Buildings	406,422,783.17	2,660,270.70	78,868.80	409,004,185.07
Machinery and equipment	297,301,766.61	26,752,190.99	3,246,610.30	320,807,347.30
Transportation equipment	7,781,638.15	379,156.00	283,600.00	7,877,194.15
Electronic equipment	10,603,267.54	2,647,491.26	1,942,712.12	11,308,046.68
Other equipment	21,884,718.20	2,420,871.20	5,464.00	24,300,125.40
<b>Total</b>	<b>743,994,173.67</b>	<b>34,859,980.15</b>	<b>5,557,255.22</b>	<b>773,296,898.60</b>
<b>Accumulated depreciation</b>				
Buildings	93,121,298.64	6,476,114.88	74,925.36	99,522,488.16
Machinery and equipment	138,156,179.77	10,632,195.54	3,021,032.01	145,767,343.30
Transportation equipment	3,646,355.56	301,059.95	269,420.00	3,677,995.51
Electronic equipment	6,163,365.13	682,210.69	1,417,285.62	5,428,290.20
Other equipment	8,642,802.45	1,476,464.12	5,300.08	10,113,966.49
<b>Total</b>	<b>249,730,001.55</b>	<b>19,568,045.18</b>	<b>4,787,963.07</b>	<b>264,510,083.66</b>
<b>Impairment provision of fixed assets</b>				
Buildings	285,356.16	—	—	285,356.16
Machinery and equipment	3,721,211.57	—	241,350.12	3,479,861.45
Transportation equipment	—	—	—	—
Electronic equipment	275,548.38	—	275,548.38	—
Other equipment	—	—	—	—
<b>Total</b>	<b>4,282,116.11</b>	<b>—</b>	<b>516,898.50</b>	<b>3,765,217.61</b>
<b>Net fixed assets</b>				
Buildings	313,016,128.37			309,196,340.75
Machinery and equipment	155,424,375.27			171,560,142.55
Transportation equipment	4,135,282.59			4,199,198.64
Electronic equipment	4,164,354.03			5,879,756.48
Other equipment	13,241,915.75			14,186,158.91
<b>Total</b>	<b>489,982,056.01</b>			<b>505,021,597.33</b>

## (2) Construction in progress being transferred to fixed asset

Items	Transfer date	Transferred amount
Buildings constructed in new site	Mar 2008	2,660,270.70
Machinery and equipment	Jan-Jun 2008	4,604,579.57
<b>Total</b>		<b>7,264,850.27</b>

## (3) Fixed assets acquired under finance leases

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	48,836,609.97	9,414,433.14	—	39,422,176.83
<b>Total</b>	<b>48,836,609.97</b>	<b>9,414,433.14</b>	<b>—</b>	<b>39,422,176.83</b>

## (4) Fixed assets leased out by operating lease

Items	Original book value	Accumulated depreciation	Book value	Remarks
Buildings	193,082,652.14	57,814,909.63	135,267,742.51	Partial lease
<b>Total</b>	<b>193,082,652.14</b>	<b>57,814,909.63</b>	<b>135,267,742.51</b>	<b>—</b>

## (5) Fixed assets without certificate

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	101,709,845.03	7,133,276.92	—	94,576,568.11
<b>Total</b>	<b>101,709,845.03</b>	<b>7,133,276.92</b>	<b>—</b>	<b>94,576,568.11</b>

## (6) Fixed assets used for pledge

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	193,082,652.14	57,814,909.63	—	135,267,742.51
<b>Total</b>	<b>193,082,652.14</b>	<b>57,814,909.63</b>	<b>—</b>	<b>135,267,742.51</b>

## (7) Impairment provision of fixed assets

Items	Opening balance	Provision in the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
Buildings	285,356.16	—	—	—	—	285,356.16
Machinery and equipment	3,721,211.57	—	—	241,350.12	241,350.12	3,479,861.45
Electronic equipment	275,548.38	—	—	275,548.38	275,548.38	—
<b>Total</b>	<b>4,282,116.11</b>	<b>—</b>	<b>—</b>	<b>516,898.50</b>	<b>516,898.50</b>	<b>3,765,217.61</b>

## 10. Construction in Progress

## (1) Details of Construction in progress

Name of project	Budget	Opening balance	Increase in the year	Transferred to fixed assets in the year	Other decrease	Closing balance	Resource of fund
Xingang project	RMB120 million	8,227,280.23	6,074,224.46	—	—	14,301,504.69	Internal capital
Reconstruction of commercial houses, newly built wall and sewer	RMB2,331,600	2,000,418.00	659,852.70	2,660,270.70	—	—	Compensation for removal of Urban Construction & Development Company
Machinery and equipment	—	—	7,992,354.57	4,604,579.57	—	3,387,775.00	Internal capital
Mould	—	30,000.00	387,000.00	—	—	417,000.00	Internal capital
<b>Total</b>		<b>10,257,698.23</b>	<b>15,113,431.73</b>	<b>7,264,850.27</b>	<b>—</b>	<b>18,106,279.69</b>	

## (2) The increase of 76.51% in construction in progress was mainly due to continued construction and investment of Xingang Project.

**11. Intangible Assets**

## (1) Details of intangible assets

Items	Initial cost	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Accumulative amortization in the year	Closing balance
Land use rights	68,718,309.80	43,360,210.64	30,000.00	—	495,262.42	25,823,361.58	42,894,948.22
Trademark use rights	2,300,000.00	729,975.65	—	—	100,002.00	1,670,026.35	629,973.65
Others	933,899.00	676,275.61	—	—	104,239.86	361,863.25	572,035.75
<b>Total</b>	<b>71,952,208.80</b>	<b>44,766,461.90</b>	<b>30,000.00</b>	<b>—</b>	<b>699,504.28</b>	<b>27,855,251.18</b>	<b>44,096,957.62</b>

## (2) Impairment provision for intangible assets

Items	Opening balance	Provision in the year	Reversal	Decrease in the year Write-off	Total	Closing balance
Trademark use rights	210,000.00	—	—	—	—	210,000.00
<b>Total</b>	<b>210,000.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>210,000.00</b>

**12. Long-term Deferred Expenses**

Items	Original amount	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Closing balance
Firmment expenses	3,587,722.56	3,161,476.61	—	—	293,439.06	2,868,037.55
Operating lease fee	1,250,000.00	937,500.00	—	—	156,000.00	781,500.00
<b>Total</b>	<b>4,837,722.56</b>	<b>4,098,976.61</b>	<b>—</b>	<b>—</b>	<b>449,439.06</b>	<b>3,649,537.55</b>

**13. Deferred Income Tax Assets**

## (1) Details of deferred income tax assets

Items	Closing balance	Opening balance
Deferred income tax assets arising from the difference between the book value and tax base of assets	5,485,483.33	5,053,608.70
Deferred income tax assets arising from the difference between the book value and tax base of liabilities	131,250.00	150,000.00
<b>Total</b>	<b>5,616,733.33</b>	<b>5,203,608.70</b>

## (2) Details of temporary difference

Items	Closing balance	Opening balance
Accounts receivable	16,437,291.27	10,881,534.62
Other Receivables	7,392,389.36	6,926,754.30
Prepayment	165,859.70	419,154.26
Inventories	3,239,230.93	5,208,881.55
Fixed assets	285,356.16	483,269.93
Unrecovered losses	2,342,190.82	1,184,052.55
Deferred income	525,000.00	600,000.00
<b>Total</b>	<b>30,387,318.24</b>	<b>25,703,647.21</b>

14. Details of Provision for Impairment of Assets

Items	Opening balance	Provision in the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
1. Total provision for bad debt	67,256,377.03	15,618,008.43	8,387,714.34	1,510,162.39	9,897,876.73	72,976,508.73
Including: Accounts receivable	23,808,800.68	4,589,594.39	384,203.30	—	384,203.30	28,014,191.77
Other accounts receivable	42,328,056.56	11,028,414.04	8,003,511.04	1,098,896.05	9,102,407.09	44,254,063.51
Prepayment	1,119,519.79	—	—	411,266.34	411,266.34	708,253.45
2. Total provision for impairment of inventories	9,663,867.86	13,182,303.90	2,278,579.87	1,384,748.11	3,663,327.98	19,182,843.78
Including: Raw materials	2,589,723.86	2,202,215.32	—	23,479.11	23,479.11	4,768,460.07
Work in progress	2,340,658.65	326,141.50	—	1,191,016.57	1,191,016.57	1,475,783.58
Commodity inventories	4,571,464.19	10,653,947.08	2,278,579.87	128,235.35	2,406,815.22	12,818,596.05
Delivered commodities	162,021.16	42,017.08	42,017.08	120,004.08	—	—
3. Total provision for impairment of long term equity investment	2,956,636.87	—	—	—	—	2,956,636.87
4. Total provision for impairment of fixed assets	4,282,116.11	—	—	516,898.50	516,898.50	3,765,217.61
Including: Buildings	285,356.16	—	—	—	—	285,356.16
Machinery and equipment	3,721,211.57	—	—	241,350.12	241,350.12	3,479,861.45
Electronic equipment	275,548.38	—	—	275,548.38	275,548.38	—
5. Provision for impairment of construction in progress	210,000.00	—	—	—	—	210,000.00
<b>Total</b>	<b>84,368,997.87</b>	<b>28,800,312.33</b>	<b>10,666,294.21</b>	<b>3,411,809.00</b>	<b>14,078,103.21</b>	<b>99,091,206.99</b>

15. Short Term Loans

(1) Details of Short term loans

Type of loan	Closing balance	Opening balance
Collateral loan	210,000,000.00	210,000,000.00
Guaranteed loan	451,861,500.00	402,304,600.00
Pledge loans	—	45,000,000.00
<b>Total</b>	<b>661,861,500.00</b>	<b>657,304,600.00</b>

(2) No loans mentioned above were not unsettled beyond due date.

(3) The Company pledged properties located at 301 Zhong Shan Dong Lu, Xuan Wu District, Nanjing with certificates of title to the property (Ning Xuan Zi No.102156) with assessed value of RMB336,560,000.00 for loans from Nanjing Han Fu Branch of Industrial and Commercial Bank of China as follows:

Name of Borrower	Amount	Duration period
Nanjing Panda Electronics Company Limited	70,000,000.00	2007.12.21-2008.11.12
Nanjing Panda Electronics Company Limited	75,000,000.00	2007.12.18-2008.11.26
Nanjing Panda Electronics Company Limited	25,000,000.00	2007.12.13-2008.12.10
Nanjing Panda Electronics Company Limited	40,000,000.00	2007.11.06-2008.10.17
<b>Total</b>	<b>210,000,000.00</b>	

- (4) Panda Electronics Group Limited, the controlling shareholder of the Company, provided guarantee for the Company with properties located at 301 Zhong Shan Dong Lu, Xuan Wu District, Nanjing with certificates of title to the properties (Ning Xuan Zi No.241064, Ning Xuan Zi No.031481, Ning Xuan Zi No.031482, Ning Xuan Zi No.031483, Ning Xuan Zi No.031484, and Ning Xuan Zi No.241065) for loans from Nanjing Han Fu Branch of Industrial and Commercial Bank of China as follows:

Name of Borrower	Amount	Duration period
Nanjing Panda Electronics Company Limited	75,000,000.00	2007.12.18-2008.11.26
Nanjing Panda Electronics Company Limited	25,000,000.00	2007.12.13-2008.12.10
Nanjing Panda Electronics Company Limited	40,000,000.00	2007.11.6-2008.10.17
<b>Total</b>	<b><u>140,000,000.00</u></b>	

- (5) Details of guaranteed loans of the Company and its subsidiaries, please refer to Note X (III) 5 and 6.

#### 16. Bills Payable

Types of Bills	Closing balance	Opening balance	Amount due in the next accounting period
Bank acceptance notes	66,497,863.20	54,029,931.78	66,497,863.20
<b>Total</b>	<b><u>66,497,863.20</u></b>	<b><u>54,029,931.78</u></b>	<b><u>66,497,863.20</u></b>

#### 17. Accounts Payable

- (1) Details of Accounts Payable

Aging	Closing balance		Opening balance	
	Amount	Percentage	Amount	Percentage
Within 1 year	151,048,595.10	78.55	137,824,514.65	75.97
1-2 years	9,621,542.37	5.00	13,012,255.57	7.17
2-3 years	3,099,664.20	1.61	12,317,635.00	6.79
More than 3 years	28,527,067.02	14.84	18,270,802.31	10.07
<b>Total</b>	<b><u>192,296,868.69</u></b>	<b><u>100.00</u></b>	<b><u>181,425,207.53</u></b>	<b><u>100.00</u></b>

- (2) RMB1,395,816.19 payable from Panda Electronics Group Limited which hold 51.10% share of the Company is included in the closing balance of accounts payable.
- (3) RMB11,448,917.72 payable to other related parties is included in closing balance of accounts payable. Disclosure of such related transaction is set out in Note X (iii) 9.
- (4) Other payables in large amount with ageing over one year

Name of creditor	Amount	Reason for failure to repay	Whether will be repaid after the date of financial statement
Nanjing Flextronics Panda Thales Terminal Co. Ltd.	2,548,591.15	Unsettled	No
<b>Total</b>	<b><u>2,548,591.15</u></b>		

18. Advances from customers

(1) Details of Advances from customers

Aging	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	42,872,160.57	87.49	40,574,034.56	82.06
1-2 years	1,289,321.15	2.63	3,215,553.61	6.50
2-3 years	809,940.69	1.65	275,334.98	0.56
More than 3 years	4,029,225.09	8.23	5,380,665.62	10.88
<b>Total</b>	<b>49,000,647.50</b>	<b>100.00</b>	<b>49,445,588.77</b>	<b>100.00</b>

(2) RMB24,220.60 paid in advance by Panda Electronic Group Limited which hold 51.10% share of the Company is included in the closing balance of advances.

(3) RMB10,409,906.30 paid in advance by other related parties is included in closing balance of advances. Disclosure of such related transaction is set out in Note X (iii) 9.

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

19. Salaries Payable

Items	Opening balance	Increase in the year	Payment in the year	Closing balance
Salaries and bonus	3,601,879.58	62,238,381.84	64,712,327.19	1,127,934.23
Expenses for employee benefits	—	9,006,164.94	9,006,164.94	—
Expenses for social security	1,580,978.41	21,666,992.43	16,793,784.31	6,454,186.53
Housing reserve fund	532,997.03	6,403,683.35	4,534,668.48	2,402,011.90
Trade union funds and employee education funds	2,777,995.11	1,310,694.82	1,334,416.19	2,754,273.74
Compensation for employment termination	108,000.00	21,700.00	21,700.00	108,000.00
Others	—	72,280.00	72,250.00	30.00
<b>Total</b>	<b>8,601,850.13</b>	<b>100,719,897.38</b>	<b>96,475,311.11</b>	<b>12,846,436.40</b>

20. Taxes Payable

Items	Tax rate	Closing balance	Opening balance
Value-added tax	Refer to Note VI: Taxation	12,470,736.68	17,594,621.32
Sales tax	Refer to Note VI: Taxation	338,794.42	147,140.74
City maintenance tax*	Refer to Note VI: Taxation	13,537,174.80	13,622,670.66
Education surcharges	Refer to Note VI: Taxation	4,280,201.46	4,325,871.73
Enterprise income tax	Refer to Note VI: Taxation	2,214,028.88	4,017,392.53
Individual income tax	Refer to Note VI: Taxation	1,166,456.25	229,572.79
Property tax	Refer to Note VI: Taxation	74,770.43	—
Fund for flood control	—	131,692.10	131,692.10
Others	—	100,392.09	101,956.89
<b>Total</b>		<b>34,314,247.11</b>	<b>40,170,918.76</b>

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

21. Interest Payable

Items	Closing balance	Opening balance
Short-term loan interest	1,306,732.50	1,306,732.50
<b>Total</b>	<b>1,306,732.50</b>	<b>1,306,732.50</b>



**22. Dividends Payable**

<b>Name of investee</b>	<b>Closing balance</b>	<b>Opening balance</b>
Panda Electronics Group Limited	<u>10,000,000.00</u>	—
<b>Total</b>	<u><b>10,000,000.00</b></u>	<u>—</u>

As approved by the Company's Annual General Meeting of 2007, the Company is to take the aggregate share capital as at 31 December 2007 of 665,015,000 shares as the basis to declare a cash dividend of RMB0.08 per share (tax inclusive) to all shareholders. The total amount of cash dividend amounts to RMB52,401,200.00. As at 30 June 2008, the dividend of RMB10,000,000.00 payable to Panda Electronics Group Limited which hold 51.10% share of the Company remain unpaid.

**23. Other Payables**

<b>Aging</b>	<b>Closing balance</b>		<b>Opening balance</b>	
	<b>Amount</b>	<b>Percentage %</b>	<b>Amount</b>	<b>Percentage %</b>
Within 1 year	<u>34,869,419.92</u>	<u>37.24</u>	29,420,266.46	31.19
1-2 years	<u>3,114,779.10</u>	<u>3.33</u>	13,805,627.83	14.64
2-3 years	<u>4,567,174.53</u>	<u>4.88</u>	9,082,767.83	9.63
More than 3 years	<u>51,076,024.71</u>	<u>54.55</u>	42,012,257.20	44.54
<b>Total</b>	<u><b>93,627,398.26</b></u>	<u><b>100.00</b></u>	<u><b>94,320,919.32</b></u>	<u><b>100.00</b></u>

- (1) The closing balance of other payables includes payables of RMB2,496,750.95 to Panda Electronics Group Limited, the shareholder holding 51.10% shares of the Company.
- (2) The closing balance of other payables includes RMB3,453,328.05 payables to other related parties. For details of such connected transaction, please refer to Note X. (III) 9.
- (3) Other payables in large amount

<b>Name of creditor</b>	<b>Amount</b>	<b>Nature (or content)</b>
Nanjing Economic and Technological Development Zone Management Committee	4,837,925.48	appropriating fund
Panda Electronics Group Limited	2,496,750.95	current
Nanjing Jiangning District Economic and Technological Development Zone Management Committee	2,397,834.50	appropriating fund
Jiangsu Haifu Motors Trading Centre	2,037,902.61	rent
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	2,000,969.29	appropriating fund
<b>Total</b>	<u><b>13,771,382.83</b></u>	

**24. Long Term Payables**

<b>Type</b>	<b>Period</b>	<b>Closing balance</b>	<b>Opening balance</b>
Finance lease	1 December 2006 to 1 February 2010	<u>4,485,305.40</u>	5,599,656.22
Finance lease	1 February 2006 to 1 September 2009	<u>7,204,443.98</u>	9,945,982.97
Finance lease	26 July 2006 to 26 July 2008	<u>817,600.14</u>	2,375,458.07
<b>Total</b>		<u><b>12,507,349.52</b></u>	<u><b>17,921,097.26</b></u>

## NANJING PANDA ELECTRONICS COMPANY LIMITED

### 25. Share Capital

Items	Opening balance		Increase/decrease in the year (+,-)				Closing balance		
	Amount	Percentage	New issue	Bonus share issue	Transfer of capital reserve into share capital	Others	Sub-total	Amount	Percentage %
I. Shares subject to trading moratorium									
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	334,715,000.00	51.10	—	—	—	—	—	334,715,000.00	51.10
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Including: Domestic legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
Total shares subject to trading moratorium	334,715,000.00	51.10	—	—	—	—	—	334,715,000.00	51.10
II. Shares not subject to trading moratorium									
1. RMB denominated ordinary shares	78,300,000.00	11.95	—	—	—	—	—	78,300,000.00	11.95
2. Domestic-listing foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares	242,000,000.00	36.95	—	—	—	—	—	242,000,000.00	36.95
4. Others	—	—	—	—	—	—	—	—	—
Total shares not subject to trading moratorium	320,300,000.00	48.90	—	—	—	—	—	320,300,000.00	48.90
III. Total shares	655,015,000.00	100.00	—	—	—	—	—	655,015,000.00	100.00

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

Name of shareholder or class of share	Nature of shares	Closing balance	Opening balance
Panda Electronics Group Limited	Promoter's shares	334,715,000.00	334,715,000.00
Domestic listed RMB ordinary shares	Circulating A shares	78,300,000.00	78,300,000.00
Overseas listed foreign shares	Circulating H shares	242,000,000.00	242,000,000.00
Total		<u>655,015,000.00</u>	<u>655,015,000.00</u>

### 26. Capital Reserve

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Capital premium	477,875,089.49	—	—	477,875,089.49
Other capital reserve	2,333,944.88	16,054,181.59	—	18,388,126.47
<b>Total</b>	<u>480,209,034.37</u>	<u>16,054,181.59</u>	<u>—</u>	<u>496,263,215.96</u>

The increase of capital reserves was due to the acquisition of the minority interests of the subsidiaries by the Company.

**27. Surplus Reserve**

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Statutory surplus reserve	124,351,476.13	—	—	124,351,476.13
Discretionary surplus reserve	70,376,641.33	—	—	70,376,641.33
<b>Total</b>	<b>194,728,117.46</b>	<b>—</b>	<b>—</b>	<b>194,728,117.46</b>

**28. Undistributed Profit**

Items	30 June 2008	30 June 2007
<b>Closing balance of previous year</b>	<b>107,737,884.91</b>	27,418,123.14
Add: changes in accounting policies	—	-3,723,503.78
Correction of previous errors	—	—
<b>Opening balance of the year</b>	<b>107,737,884.91</b>	23,694,619.36
Add: Consolidated net profit	<b>25,847,218.35</b>	96,278,894.45
Compensation of loss from surplus reserve	—	—
Other transfer-in	—	—
Less: Transfer to statutory surplus reserve	—	5,049,444.33
Transfer to discretionary surplus reserve	—	—
Distribution to shareholders	<b>52,401,200.00</b>	—
Minority interests	<b>531,429.10</b>	7,186,184.57
<b>Closing balance of the year</b>	<b>80,652,474.16</b>	<b>107,737,884.91</b>

As approved by the Company's Annual General Meeting of 2007, the Company is to take the aggregate share capital as at 31 December 2007 of 665,015,000 shares as the basis to declare a cash dividend of RMB0.08 per share (tax inclusive) to all shareholders. The total amount of cash dividend amounts to RMB52,401,200.00

**29. Operating Income and Costs**

(1) Income from principal activities and other activities

Items	30 June 2008	30 June 2007
Income from principal activities	<b>519,779,025.84</b>	309,473,736.68
Income from other activities	<b>6,759,351.48</b>	9,080,592.58
<b>Total operating income</b>	<b>526,538,377.32</b>	<b>318,554,329.26</b>
Cost of principal activities	<b>430,156,817.95</b>	258,188,597.77
Cost of other activities	<b>3,660,637.20</b>	5,496,857.20
<b>Total operating cost</b>	<b>433,817,455.15</b>	<b>263,685,454.97</b>

(2) Income, cost and profit from principal activities of each business segment

Business segment	30 June 2008		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	181,250,837.59	143,794,421.47	37,456,416.12
Electronic information products	168,847,343.17	145,763,954.08	23,083,389.09
Electrometrical products	100,125,610.52	84,252,914.70	15,872,695.82
Satellite telecommunication products	65,400,000.00	51,339,000.00	14,061,000.00
Others	4,155,234.56	5,006,527.70	(851,293.14)
Sub-total	519,779,025.84	430,156,817.95	89,622,207.89
Less: inter-segment offset	—	—	—
<b>Total</b>	<b>519,779,025.84</b>	<b>430,156,817.95</b>	<b>89,622,207.89</b>

Business segment	30 June 2007		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	116,157,532.69	98,688,161.97	17,469,370.72
Electronic information products	92,628,925.90	75,832,458.92	16,796,466.98
Electrometrical products	94,123,971.10	76,556,228.38	17,567,742.72
Satellite telecommunication products	—	—	—
Others	6,563,306.99	7,111,748.50	(548,441.51)
Sub-total	309,473,736.68	258,188,597.77	51,285,138.91
Less: inter-segment offset	—	—	—
<b>Total</b>	<b>309,473,736.68</b>	<b>258,188,597.77</b>	<b>51,285,138.91</b>

(3) Sales revenue from the largest five customers totaled RMB249,943,552.47, accounting for 47.47% of total sales revenue for the year.

30. Sales tax and surcharges

Items	30 June 2008		30 June 2007	
	Calculation basis	Amount	Calculation basis	Amount
Sales tax	5% of lease income and others	1,465,260.94	5% of lease income and others	1,258,743.85
City maintenance tax	7% of turnover tax	669,870.98	7% of turnover tax	608,403.08
Education surcharges	4% of turnover tax	398,948.71	4% of turnover tax	324,217.95
<b>Total</b>		<b>2,534,080.63</b>		<b>2,191,364.88</b>

31. Finance costs

Items	30 June 2008	30 June 2007
Interest expenses	28,669,613.25	26,607,112.73
Less: Interest income	(3,832,199.27)	(3,448,491.57)
Exchange gain	4,447,009.48	(251,856.25)
Handling charges	352,175.60	114,479.42
Others	1,417,791.63	3,944,576.86
<b>Total</b>	<b>31,054,390.69</b>	<b>26,965,821.19</b>

32. Asset Impairment Loss

Items	30 June 2008	30 June 2007
Bad debt losses	7,160,834.11	22,415,107.65
Loss from inventory impairment	10,903,724.03	6,432,199.66
<b>Total</b>	<b>18,064,558.14</b>	<b>28,847,307.31</b>

33. Investment income

Name of investee	30 June 2008	30 June 2007	Note
Nanjing Ericsson Panda Communication Company Limited	87,957,245.46	60,629,331.91	—
Beijing SE Putian Mobile Communications Co., Ltd.	22,371,909.44	76,503,511.63	—
Nanjing Panda Hitachi Techno Co., Ltd.	—	1,937,765.20	(2)
Hua Fei Colour Display Systems Company Limited	(39,498,538.48)	(5,075,725.16)	—
Shenzhen Jingwah Electronics Co., Ltd	4,309,573.50	5,791,969.00	—
Intenna (Nanjing) Co. Ltd.	(310,153.15)	(237,889.87)	—
Nanjing Thales Panda Transportation System Company Limited	997,918.04	—	—
<b>Total</b>	<b>75,827,954.81</b>	<b>139,548,962.71</b>	

- (1) There was no significant limitations on remittance of such investment income stated above.
- (2) The Company has transferred equity interests in this company in 2007.
- (3) Investment income for January to June 2008 was 45.66% lower than that of January to June 2007. This is mainly due to less investment income from Hua Fei Colour Display Systems Company Limited and Beijing SE Putian Mobile Communication Co., Ltd from January to June 2008.

### 34. Non-operating Income

- (1) Details of non-operating income

Items	30 June 2008	30 June 2007
Gains from disposal of non-current assets	781,189.10	6,937.63
Including: Gains from disposal of fixed assets	602,221.80	6,937.63
Gains from disposal of other non-current fixed assets	178,967.30	—
Profits from debt restructuring	1,514.27	—
Governmental subsidy	2,276,677.35	526,418.49
Net gain from fine payments	83,934.40	5,500.00
Asset inventory surplus	88,381.22	—
Others	1,175,582.66	279,540.52
<b>Total</b>	<b>4,407,279.00</b>	<b>818,396.64</b>

- (2) Governmental subsidy

Items	30 June 2008		30 June 2007	
	Amount	Including: Amount recorded in the current profits and losses	Amount	Including: Amount recorded in the current profits and losses
Reimbursement of value-added tax for software product	391,677.35	391,677.35	21,418.49	21,418.49
Financial subsidy	1,885,000.00	1,885,000.00	505,000.00	505,000.00
<b>Total</b>	<b>2,276,677.35</b>	<b>2,276,677.35</b>	<b>526,418.49</b>	<b>526,418.49</b>

- (3) Non-operating income for January to June 2008 increased by 438.53% over the same period of 2007, mainly due to the receipt of increased amount of financial subsidy by the Company.

### 35. Non-operating Expenses

Items	30 June 2008	30 June 2007
Loss from the disposal of non-current assets	169,507.04	1,752.20
Including: loss from disposal of fixed assets	169,507.04	1,752.20
Loss from debt restructuring	—	18,907,277.58
Local Fund	79,800.00	—
Donation expenses	513,800.00	17,000.00
Fine payment expenses	211,015.57	—
Compensation expenses	115,424.00	—
Others	3,433.31	75,222.15
<b>Total</b>	<b>1,092,979.92</b>	<b>19,001,251.93</b>

Non-operating expenses for January to June 2008 decreased by 94.25% over the same period of 2007, mainly due to the debt restructuring in 2007 with Jiangsu International Trust & Investment Corporation Limited in which loss was generated from the reception of equity of Hua Fei Colour Display Systems Company Limited.

36. Income Tax Expenses

(1) Composition of income tax expense (gains)

Items	30 June 2008	30 June 2007
Income tax expense in the period	3,220,942.29	1,693,704.80
Deferred income tax expense	(413,124.63)	3,022,678.72
<b>Total</b>	<b>2,807,817.66</b>	<b>4,716,383.52</b>

37. Basic Earnings per Share and Diluted Earnings per Share

Items	30 June 2008	30 June 2007
Basic earnings per share	0.04	0.05
Diluted earnings per share	0.04	0.05

Note: (1) Calculation of basic earning per share

Basic earnings per share = Net profit attributable to holders of ordinary shares ÷ the weighted average of outstanding ordinary shares

The weighted average of outstanding ordinary shares =  $S_0 + S_1 + S_2 \times M_1 \div M_0 - S_1 \times M_1 \div M_0 - S_k$

Including: "S<sub>0</sub>" represents total number of shares at the beginning of the period;

"S<sub>1</sub>" represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period;

"S<sub>2</sub>" represents shares increased from issue of new shares or debt to equity during reporting period;

"S<sub>1</sub>" represents the reduced shares arising from repurchase during reporting period;

"S<sub>k</sub>" represents the number of reduced shares during the reporting period;

"M<sub>0</sub>" represents months in the reporting period;

"M<sub>1</sub>" represents the months from the next month of the increase of shares to the end of the reporting period;

"M<sub>1</sub>" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

(2) Calculation of diluted earning per share

Diluted earnings per share = Net profit attributable to holders of ordinary shares of the company + (interests of the diluted potential ordinary shares recognized as expenses in the current period - Conversion expenses) ÷ (1 - Income tax ratio) / (S<sub>0</sub> + S<sub>1</sub> + S<sub>2</sub> × M<sub>1</sub> ÷ M<sub>0</sub> - S<sub>1</sub> × M<sub>1</sub> ÷ M<sub>0</sub> - S<sub>k</sub> + The weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond).

Including: "S<sub>0</sub>" represents total number of shares at the beginning of the reporting period;

"S<sub>1</sub>" represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period;

"S<sub>2</sub>" represents shares increased from issue of new shares or debt to equity during reporting period;

"S<sub>1</sub>" represents the reduced shares arising from repurchase during reporting period;

"S<sub>k</sub>" represents the number of reduced shares during the reporting period;

"M<sub>0</sub>" represents months in the reporting period;

"M<sub>1</sub>" represents the months from the next month of the increase of shares to the end of the reporting period;

"M<sub>1</sub>" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

## 38. Supplemental Information of Cash Flow Statements

## (1) Reconciliation of net profit to cash flows from operating activities

Items	30 June 2008	30 June 2007
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
<b>Net profit</b>	<b>25,847,218.35</b>	<b>32,728,865.80</b>
Add: Provision for assets impairment	18,064,558.14	28,847,307.31
Depreciation of fixed assets	19,568,045.18	18,915,742.54
Amortisation of intangible assets	699,504.28	361,335.03
Amortisation of long-term deferred expenses	449,439.06	259,136.77
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gain is represented by "-")	(392,362.37)	—
Loss from fixed assets scrapped (gain is represented by "-")	(219,319.69)	—
Loss from change in fair value (gain is represented by "-")	—	—
Finance expense (income is represented by "-")	26,255,205.61	26,965,821.19
Loss on investment (income is represented by "-")	(75,827,954.81)	(139,548,962.71)
Decrease in deferred income tax assets (increase is represented by "-")	(413,124.63)	3,022,678.72
Increase in deferred income tax liabilities (decrease is represented by "-")	—	—
Decrease in inventories (increase is represented by "-")	(59,271,216.14)	(91,988,199.47)
Decrease in trade receivables (Increase is represented by "-")	(157,698,755.05)	27,486,528.61
Increase in trade payables (Decrease is represented by "-")	66,221,741.96	44,186,228.07
Others	—	—
<b>Net cash flow from operating activities</b>	<b>(136,717,020.11)</b>	<b>(48,763,518.14)</b>
<b>2. Material investment and financial activities not involving cash:</b>		
Debt capitalization	—	—
Convertible bonds due within one year	—	—
Lease of fixed assets by financing	—	—
<b>3. Net change in cash and cash equivalents:</b>		
Cash balance as at end of the year	183,151,142.21	418,485,648.83
Less: cash balance as at beginning of the year	380,822,357.69	607,318,095.22
Add: balance of cash equivalents as at the end of the year	—	—
Less: balance of cash equivalents as at the beginning of the year	—	—
<b>Net increase in cash and cash equivalents</b>	<b>(197,671,215.48)</b>	<b>(188,832,446.39)</b>

## (2) Information on cash and cash equivalents

Items	30 June 2008	30 June 2007
<b>I. Cash</b>		
Including: Cash on hand	568,461.00	745,020.87
Bank deposit available for payment at any time	182,582,681.21	114,930,125.70
Other cash fund available for payment at any time	—	302,810,502.26
<b>II. Cash equivalents</b>		
Including: Bond investment due within three months	—	—
<b>III. Closing balance of cash and cash equivalents</b>		
Including: restricted cash and cash equivalents used by the Parent Company or subsidiaries of the Group	72,233,536.96	38,353,010.43

## IX. Notes to major items of the financial statements of parent company

## 1. Accounts Receivable

## (1) Break-down of accounts receivable by categories

Items	Balance	Closing balance		Net amount
		Percentage %	Provision for bad debts	
Substantial amount of single accounts receivable	103,993,052.50	92.32	5,199,652.63	98,793,399.87
Other unsubstantial amount of accounts receivable	8,638,991.52	7.68	1,611,077.41	7,027,914.11
<b>Total</b>	<b>112,632,044.02</b>	<b>100.00</b>	<b>6,810,730.04</b>	<b>105,821,313.98</b>
Items	Balance	Opening balance		Net amount
		Percentage %	Provision for bad debts	
Substantial amount of single accounts receivable	49,026,348.46	92.55	2,389,925.49	46,636,422.97
Other unsubstantial amount of accounts receivable	3,943,789.74	7.45	1,338,426.78	2,605,362.96
<b>Total</b>	<b>52,970,138.20</b>	<b>100.00</b>	<b>3,728,352.27</b>	<b>49,241,785.93</b>

Substantial amount of single accounts receivable refers to the single amount accounting for 5% or more of the closing balance or with amount over RMB5,000,000.00.

## (2) The ageing analysis of accounts receivable

Ageing	Amount	Closing balance			Amount	Opening balance		
		Percentage %	Percentage of provision for bad debts %	Provision for bad debt		Percentage %	Percentage of provision for bad debts %	Provision for bad debt
Within 1 year	110,891,387.72	98.45	5	5,843,651.39	51,034,549.05	96.35	5	2,569,040.14
1-2 years	529,422.00	0.47	10	53,052.00	536,627.80	1.01	10	53,662.78
2-3 years	765,770.12	0.68	50	478,032.47	1,204,493.00	2.27	50	920,651.00
3-5 years	445,464.18	0.40	80	435,994.18	47,350.00	0.09	80	37,880.00
More than 5 years	—	—	100	—	147,118.35	0.28	100	147,118.35
<b>Total</b>	<b>112,632,044.02</b>	<b>100.00</b>		<b>6,810,730.04</b>	<b>52,970,138.20</b>	<b>100.00</b>		<b>3,728,352.27</b>



## (3) Details of the five largest debtors of accounts receivable at the end of the period

Name of debtor	Amount	Percentage in the total value of the accounts receivable	Ageing
China Information Technology Company Ltd.	65,400,000.00	58.06	Within 1 year
Nanjing Panda Handa Technology Co., Ltd.	38,593,052.50	34.26	Within 1 year
Yancheng Broadcasting Network Co., Ltd.	2,214,100.00	1.97	Within 1 year
Sichuan Ziyang Broadcasting Network Co., Ltd.	985,125.00	0.87	Within 1 year
Nanjing Broadcasting Network Co., Ltd.	812,909.05	0.72	Within 1 year
<b>Total</b>	<b>108,005,186.55</b>	<b>95.88</b>	

## 2. Other Receivables

## (1) Break-down of other receivables by categories

Items	Balance	Closing balance		Net amount
		Percentage	Provision for bad debts	
Substantial amount of single other receivables	196,914,105.19	87.79	2,465,705.26	164,448,399.93
Other unsubstantial amount of other receivables	27,377,666.09	12.21	3,669,296.05	13,708,370.04
<b>Total</b>	<b>224,291,771.28</b>	<b>100.00</b>	<b>6,135,001.31</b>	<b>178,156,769.97</b>

Items	Balance	Opening balance		Net amount
		Percentage	Provision for bad debts	
Substantial amount of single other receivables	192,107,933.67	90.34	35,435,919.57	156,672,014.10
Other unsubstantial amount of other receivables	20,544,687.89	9.66	6,578,484.37	13,966,203.52
<b>Total</b>	<b>212,652,621.56</b>	<b>100.00</b>	<b>42,014,403.94</b>	<b>170,638,217.62</b>

Substantial amount of single other receivables refers to the single amount accounting for 5% or more of the closing balances or with the amount over RMB5,000,000.00.

## (2) Ageing analysis of other receivables

Ageing	Closing balance				Opening balance			
	Amount	Percentage	Provision for bad debts	Provision for bad debt	Amount	Percentage	Provision for bad debts	Provision for bad debt
Within 1 year	176,625,191.20	78.75	5	9,030,243.49	136,301,478.75	64.10	5	5,031,123.31
1-2 years	3,557,668.99	1.59	10	637,968.94	3,690,904.43	1.74	10	679,406.54
2-3 years	35,505.22	0.02	50	17,620.00	55,119,907.19	25.92	50	22,641,460.65
3-5 years	38,121,184.93	16.99	80	30,496,947.94	11,588,110.22	5.44	80	7,710,202.47
more than 5 years	5,952,220.94	2.65	100	5,952,220.94	5,952,220.97	2.80	100	5,952,220.97
<b>Total</b>	<b>224,291,771.28</b>	<b>100.00</b>		<b>46,135,001.31</b>	<b>212,652,621.56</b>	<b>100.00</b>		<b>42,014,403.94</b>

(3) Details of the five largest debtors of other receivables at the end of the period

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Nanjing Panda International Telecommunication System Co., Ltd.	45,696,898.94	20.37	3-4 year
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	43,159,911.37	19.24	Within 1 year
Galant Limited	35,023,940.00	15.62	Within 1 year
Fund raising project for building Nanjing Panda Information Industry Company Limited	30,160,000.00	13.45	Within 1 year
	19,123,228.31	8.53	Within 1 year
<b>Total</b>	<b>173,163,978.62</b>	<b>77.21</b>	

3. Long-term Equity Investment

(1) Details of long-term equity investment

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Investment in subsidiaries	192,403,251.35	24,390,309.16	—	216,793,560.51
Investment in associated companies	965,194,921.15	74,830,036.77	140,156,000.00	899,868,957.92
Less: provision for impairment of long term investment	17,330,000.00	1,531,944.58	—	18,861,944.58
<b>Total</b>	<b>1,140,268,172.50</b>	<b>97,688,401.35</b>	<b>140,156,000.00</b>	<b>1,097,800,573.85</b>

(2) Details of investment in associated companies

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	269,833,380.56	22,371,909.44	—	292,205,290.00	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited.	10,000,000.00	—	—	10,000,000.00	Nanjing	Technology development
Hua Fei Colour Display Systems Company Limited	321,310,048.42	(39,498,538.48)	—	281,811,509.94	Nanjing	Manufacture
Tamura Electronics (Nanjing) Co., Ltd.	—	—	—	—	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.	—	—	—	—	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	274,975,164.99	87,957,245.46	140,156,000.00	222,776,410.45	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd	86,886,977.05	4,309,573.50	—	91,196,550.55	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	2,189,350.13	(310,153.15)	—	1,879,196.98	Nanjing	Manufacture
Nanjing Wei Chuang Li Terminal Co. Ltd.	—	—	—	—	Nanjing	Manufacture
<b>Total</b>	<b>965,194,921.15</b>	<b>74,830,036.77</b>	<b>140,156,000.00</b>	<b>899,868,957.92</b>		

## (3) Long-term equity investment accounted for using equity method

Name of investee	Initial investment	Opening balance	Investment amount increased during the year (less the equity transfer for the year)	Increase/decrease of the investee's equity	Cash bonus distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	50,361,373.68	269,833,380.56	—	22,371,909.44	—	292,205,290.00
Nanjing Huaxian High Technology Company Limited.	10,000,000.00	10,000,000.00	—	—	—	10,000,000.00
Hua Fei Colour Display Systems Company Limited	392,892,722.42	321,310,048.42	—	(39,498,538.48)	—	281,811,509.94
Tamura Electronics (Nanjing) Co., Ltd.	3,310,800.00	—	—	—	—	—
MPower Batteries (Nanjing) Ltd.	4,200,000.00	—	—	—	—	—
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	274,975,164.99	—	87,957,245.46	140,156,000.00	222,776,410.45
Shenzhen Jingwah Electronics Co., Ltd	69,687,437.75	86,886,977.05	—	4,309,573.50	—	91,196,550.55
Interna (Nanjing) Co. Ltd.	1,750,000.00	2,189,350.13	—	(310,153.15)	—	1,879,196.98
Nanjing Wei Chuang Li Terminal Co. Ltd.	34,769,364.00	—	—	—	—	—
<b>Total</b>	<b>652,556,715.30</b>	<b>965,194,921.15</b>	<b>—</b>	<b>74,830,036.77</b>	<b>140,156,000.00</b>	<b>899,868,957.92</b>

## (4) Long-term equity investment accounted for at cost

Name of investee	Initial investment	Opening balance	Increase in the year	Decrease in the year	Closing balance
Subsidiaries					
Nanjing Electronic Calibration Co., Ltd.	700,000.00	700,000.00	—	—	700,000.00
Nanjing Panda Appliance & Apparatus Co. Ltd.	700,000.00	700,000.00	—	—	700,000.00
Nanjing Panda Mechanical Manufacturing Co. Ltd.	3,500,000.00	3,500,000.00	—	—	3,500,000.00
Nanjing Panda Accurate Machinery Co., Ltd.	3,625,300.00	3,625,300.00	—	—	3,625,300.00
Nanjing Panda Technology Equipment Co., Ltd.	3,500,000.00	3,500,000.00	1,531,944.58	—	5,031,944.58
Nanjing Panda Mechanical Co., Ltd.	2,100,000.00	2,100,000.00	—	—	2,100,000.00
Nanjing Panda Mechanical Engineering Plant	30,553,773.07	30,042,016.46	—	—	30,042,016.46
Nanjing Panda Information Industry Co., Ltd.	44,000,000.00	44,000,000.00	86,793.98	—	44,086,793.98
Nanjing Panda System Integration Co., Ltd.	1,520,834.09	1,520,834.09	—	—	1,520,834.09
Nanjing Panda Electronic Manufacturing Company Limited	37,241,175.00	37,241,175.00	22,771,569.60	—	60,012,744.60
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	24,622,830.35	34,622,830.35	—	—	34,622,830.35
Nanjing Panda Power Supply Technology Co., Ltd.	8,750,000.00	8,750,000.00	—	—	8,750,000.00
Nanjing Guanghua Electronics Plastic Casings Factory	8,271,095.45	8,271,095.45	1.00	—	8,271,096.45
Nanjing Panda International Telecommunication System Co., Ltd.	7,655,000.00	7,655,000.00	—	—	7,655,000.00
Shenzhen Panda Electronics Company Limited	6,175,000.00	6,175,000.00	—	—	6,175,000.00
Galant Limited	—	—	—	—	—
<b>Total</b>	<b>182,915,007.96</b>	<b>192,403,251.35</b>	<b>24,390,309.16</b>	<b>—</b>	<b>216,793,560.51</b>

## (5) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision in the year	Decrease in the year Reversal	Write-off	Total	Closing balance
Nanjing Panda Technology Equipment Co., Ltd.	3,500,000.00	1,531,944.58	—	—	—	5,031,944.58
Nanjing Panda International Telecommunication System Co., Ltd.	7,655,000.00	—	—	—	—	7,655,000.00
Shenzhen Panda Electronics Company Limited	6,175,000.00	—	—	—	—	6,175,000.00
<b>Total</b>	<b>17,330,000.00</b>	<b>1,531,944.58</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>18,861,944.58</b>

## 4. Operating Income and Operating Cost

## (1) Income from principal business and other business

Items	30 June 2008	30 June 2007
Income from principal business	78,353,755.91	34,577,322.40
Income from other business	2,029,254.97	3,106,727.25
<b>Total income from operation</b>	<b>80,383,010.88</b>	<b>37,684,049.65</b>
Cost of principal business	62,721,622.35	31,430,798.47
Cost of other business	1,605,203.85	2,592,565.32
<b>Total operating cost</b>	<b>64,326,826.20</b>	<b>34,023,363.79</b>

## (2) Income, cost and profit from principal operation of business segments

Business segments	30 June 2008		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacturing products	—	—	—
Electronic Information products	6,763,765.33	5,969,010.85	794,754.48
Electromechanical products	6,189,990.58	5,393,010.93	796,979.65
Satellite telecommunications products	65,400,000.00	51,359,600.57	14,040,399.43
Other	—	—	—
<b>Total</b>	<b>78,353,755.91</b>	<b>62,721,622.35</b>	<b>15,632,133.56</b>
Business segments	30 June 2007		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacturing products	—	—	—
Electronic Information products	30,331,727.58	28,343,654.08	1,988,073.50
Electromechanical products	3,863,604.82	3,087,144.39	776,460.43
Satellite telecommunications products	—	—	—
Other	381,990.00	—	381,990.00
<b>Total</b>	<b>34,577,322.40</b>	<b>31,430,798.47</b>	<b>3,146,523.93</b>

## 5. Investment Income

Name of invested unit	30 June 2008	30 June 2007	Note
Nanjing Ericsson Panda Communication Company Limited	87,957,245.46	60,629,331.91	—
Beijing SE Putian Mobile Communication Co. Limited	22,371,909.44	76,503,511.63	—
Hua Fei Colour Display Systems Company Limited	(39,498,538.48)	(5,075,725.16)	—
Shenzhen Jinghua Electronic Company Limited	4,309,573.50	5,791,969.00	—
Intenna (Nanjing) Co. Ltd.	(310,153.15)	(237,889.87)	—
Nanjing Panda Hitachi Technology Co. Ltd.	—	1,937,765.20	(2)
Nanjing Electronic Calibration Co., Ltd.	104,256.89	—	—
<b>Total</b>	<b>74,934,293.66</b>	<b>139,548,962.71</b>	

(1) There was no significant limitations on remittance of investment income of the Company.

(2) The Company disposed of equity interests in this company in 2007.

## 6. Provision for impairment of assets condensed statement

Items	Opening amount	Provision for the year	Increase for the year		Total	Closing amount
			Reversal	Write-off		
I. Total provision for bad debts	45,789,006.21	15,005,341.31	7,541,718.74	260,647.43	7,802,366.17	52,991,981.35
Including: Accounts receivable	3,728,352.27	3,274,422.49	192,044.72	—	192,044.72	6,810,730.04
Other accounts receivable	42,014,403.94	11,730,918.82	7,349,674.02	260,647.43	7,610,321.45	46,135,001.31
Prepayments	46,250.00	—	—	—	—	46,250.00
II. Total provision for impairment of inventories	241,132.62	9,015,618.22	213,852.16	—	213,852.16	9,042,898.68
Including: Raw materials	—	—	—	—	—	—
Stored commodities	85,874.94	9,015,618.22	64,543.60	—	64,543.60	9,036,949.56
Delivery of goods	155,257.68	—	149,308.56	—	149,308.56	5,949.12
III. Total provision for impairment of long term equity investment	17,330,000.00	1,531,944.58	—	—	—	18,861,944.58
IV. Total provision for impairment of fixed assets	3,996,759.95	—	—	516,898.50	516,898.50	3,479,861.45
Including: Housing, building	—	—	—	—	—	—
Machinery equipment	3,721,211.57	—	—	241,350.12	241,350.12	3,479,861.45
Electronic equipment	275,548.38	—	—	275,548.38	275,548.38	—
<b>Total</b>	<b>67,356,898.78</b>	<b>25,552,904.11</b>	<b>7,765,570.90</b>	<b>777,545.93</b>	<b>8,533,116.83</b>	<b>84,376,686.06</b>

7. Cash flow Supplementary Information

(1) Information on reconciliation of net profit to net cash flows from operating activities

Items	30 June 2008	30 June 2007
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>		
<b>Net profit</b>	<b>(4,691,339.91)</b>	29,782,296.45
Add: Provision for asset impairment	17,727,873.23	23,911,196.14
Depreciation of fixed assets	6,232,450.09	5,963,940.17
Amortisation of intangible assets	244,899.34	244,899.34
Amortisation of long term deferred expenses	—	—
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	76,221.20	—
Loss from fixed assets scrapped (gains are represented by "-")	—	—
Losses from change in fair value (gains are represented by "-")	—	—
Financial expense (gains are represented by "-")	24,328,103.84	24,160,049.37
Loss on investment (gains are represented by "-")	(74,934,293.66)	(139,548,962.71)
Decrease in deferred income tax assets (Increase is represented by "-")	—	—
Increase in deferred income tax assets (Decrease is represented by "-")	—	—
Decrease in inventories (Increase is represented by "-")	9,667,517.99	(94,640,531.52)
Decrease in trade debtors (Increase is represented by "-")	(118,253,676.27)	136,045,222.88
Increase in trade creditors (Decrease is represented by "-")	61,261,705.91	(21,724,655.06)
Others	—	—
<b>Net cash flows from operating activities</b>	<b>(78,340,538.24)</b>	<b>(35,806,544.94)</b>
<b>2. Material investment and financial activities not involving cash:</b>		
Debt capitalization	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance leases	—	—
<b>3. Net change in cash and cash equivalents:</b>		
Cash balance as at end of the year	124,416,870.15	365,614,264.08
Less: cash balance as at beginning of the year	246,370,810.95	518,982,179.29
Add: balance of cash equivalents as at the end of the year	—	—
Less: balance of cash equivalents as at the beginning of the year	—	—
<b>Net increase in cash and cash equivalents</b>	<b>(121,953,940.80)</b>	<b>(153,367,915.21)</b>

(2) Information on Cash and Cash Equivalents

Items	30 June 2008	30 June 2007
<b>I. Cash</b>		
Including: Cash on hand	96,490.83	137,396.20
Bank deposit available for payments on demand	124,320,379.32	75,166,365.62
Other cash and bank balances available for payments on demand	—	290,310,502.26
<b>II. Cash equivalents</b>		
Including: Bond investment due within three months	—	—
<b>III. Closing balance of cash and cash equivalents</b>		
Including: restricted cash and cash equivalents used by the Parent Company or subsidiaries of the Group	41,949,790.35	21,253,634.00

## X. Relationship and transactions with related parties

## (1) Related parties

## 1. Recognition standards for a related party

Recognition standards for a related party: In case a party controls, commonly controls or exerts significant influence over another party, or in case two or more parties are under exclusive control, common control or significant influence of the same party, they shall constitute related parties.

## 2. Parent Company of the Company

Name of the parent company	Code of Organization	Registered address	Nature of business	Registered capital	Shareholding percentage in the Company	Voting right percentage in the Company
Panda Electronics Group Limited	134883152	Nanjing economy and technology development zone	a company with limited liability	RMB1,266,060,000	51.10%	51.10%

As at the approved issue date of these financial statements, the ultimate controller of the Company is China Huarong Assets Management Company.

## 3. Subsidiaries of the Company

Name of subsidiaries	Code of Organization	Registered address	Nature of business	Registered capital	Total shareholding percentage of the Company	Total voting right percentage of the Company
Nanjing Panda Accurate Machinery Co.Ltd.	70416403-8	Nanjing	Manufacturing industry	RMB5,000,000	70%	70%
Nanjing Panda Technology Equipment Co., Ltd.	24981058-6	Nanjing	Manufacturing industry	RMB5,000,000	70%	70%
Nanjing Electronic Calibration Co., Ltd.	13487289-1	Nanjing	Manufacturing industry	RMB1,000,000	70%	70%
Nanjing Panda Power Supply Technology Co., Ltd.	76816539-8	Nanjing	Manufacturing industry	RMB11,000,000	79.55%	79.55%
Nanjing Panda Information Industry Co., Ltd.	60897073-4	Nanjing	Manufacturing industry	USD7,400,000	100%	100%
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	73316319-X	Nanjing	Manufacturing industry	RMB40,000,000	100%	100%
Nanjing Panda Appliance & Apparatus Co., Ltd.	72457423-7	Nanjing	Manufacturing industry, software industry	RMB1,000,000	70%	70%
Nanjing Panda International Telecommunication System Co., Ltd.	60892396-8	Nanjing	Manufacturing industry	USD1,240,000	72%	72%
Nanjing Panda Electronic Manufacturing Company Limited	76214780-7	Nanjing	Manufacturing industry	USD10,000,000	100%	100%
Nanjing Guanghua Electronics Plastic Casings Factory	13491197-7	Nanjing	Service industry	RMB11,497,600	100%	100%
Nanjing Panda Machinery Co., Ltd.	73317462-2	Nanjing	Manufacturing industry	RMB3,000,000	70%	70%
Panda Mechanical Manufacturing Co. Ltd.	71609764-9	Nanjing	Manufacturing industry	RMB5,000,000	78%	78%
Nanjing Panda Mechanical Engineering Plant	13506466-9	Nanjing	Service industry	RMB45,000,000	99.11%	100%
Nanjing Panda System Integration Co., Ltd.	74237045-7	Nanjing	Engineering software industry	RMB3,000,000	52.7%	52.7%
Shenzhen Panda Electronics Company Limited		Shenzhen	Manufacturing industry	RMB6,500,000	95%	95%
GALANT LIMITED	1006135	Hong Kong	Development of communication products	HKD10,000	100%	100%

4. Relating parties with non-controlling relationship

Name of related parties	Code of Organization	Relationship with the Company
Nanjing Panda Television Co. Ltd.	716223402	Subsidiary of the Group
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	738884666	Subsidiary of the Group
Nanjing Panda Technology Industrial Co., Ltd.	762131314	Subsidiary of the Group
Nanjing 22nd Century Electronic and Technology Square Company Limited (南京二十一世紀電子科技廣場有限公司)	71627148X	Subsidiary of the Group
Nanjing Panda Garden Property Management Centre (南京熊猫花园物業管理中心)	134961667	Subsidiary of the Group
Nanjing Panda Electronics Technology Development Company Limited (南京熊猫電子技術開發公司)	134870044	Subsidiary of the Group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the Group
Nanjing Panda Construction And Decoration Engineering Co., Ltd. (南京熊猫建筑装饰工程公司)	134941148	Subsidiary of the Group
Nanjing Panda Piezoelectric Technique Co., Ltd.	742394272	Subsidiary of the Group
Nanjing Zhen Hua Sound Equipment plant	13487319X	Subsidiary of the Group
Nanjing Lianhui Communication Technology Company Limited	777014380	Subsidiary of the Group
Nanjing Panda Electronic Import/Export Company	134850684	Subsidiary of the Group
Nanjing Panda Handa Technology Co., Ltd	79710227-3	Subsidiary of the Group
Nanjing Thales Panda Transportation System Company Limited	76819214-2	Associated enterprise of subsidiary

(II) Pricing policy

Pricing for transactions between the Company and related parties is based on fair price in the market.

(III) Transactions with related parties

1. Purchase of goods

Name of related parties	30 June 2008	30 June 2007
Panda Electronics Group Limited	—	64,348.22
Nanjing Zhen Hua Sound Equipment Plant	1,216,840.70	899,794.65
Nanjing Panda Electronics Import/Export Co. Ltd.	3,966,952.49	3,714,595.21
Nanjing Panda Television Co. Ltd.	—	222,889.16
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	111,619.67	146,495.48
Nanjing Lianhui Communication Technology Co., Ltd.	475,027.00	350,899.16
<b>Total</b>	<b>5,770,439.86</b>	<b>5,399,021.88</b>

2. Receipt of services

Name of related parties	30 June 2008	30 June 2007
Panda Electronics Group Limited	1,778.39	221,366.19
Nanjing Panda Technology Industrial Co., Ltd.	1,698,191.66	5,234,459.68
<b>Total</b>	<b>1,699,970.05</b>	<b>5,455,825.87</b>

3. Sales of products

Name of related parties	30 June 2008	30 June 2007
Nanjing Panda Television Co. Ltd.	3,866,518.67	6,669,233.78
Panda Electronics Group Limited	—	14,581.20
Nanjing Ericsson Panda Communication Co., Ltd.	2,090,652.79	515,765.97
Nanjing Panda Electronics Import/Export Co. Ltd.	2,624,251.34	1,697,120.10
Nanjing Panda Technology Industrial Co., Ltd.	—	1,846.16
Nanjing Lianhui Communication Technology Co., Ltd.	149,444.44	152,401.71
Nanjing Huaxian High Technology Co., Ltd.	—	—
Nanjing Thales Panda Transportation System Company Limited	282,051.28	—
Nanjing Panda Electronmechancial Instruments Technology Co., Ltd.	19,837,055.57	2,410,493.70
Nanjing Panda Handa Technology Co., Ltd.	478,313.81	1,592,353.30
Nanjing Panda Handa Technology Co., Ltd.	443,310.33	—
<b>Total</b>	<b>29,771,598.23</b>	<b>13,053,795.92</b>



## 4. Provision of services

Name of related parties	30 June 2008	30 June 2007
Nanjing Panda Handa Technology Co., Ltd	7,366,380.55	9,180,134.39
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	1,378,366.95	
Nanjing Panda Electronics Import/Export Co. Ltd.	3,202,764.38	
Nanjing Ericsson Panda Communication Company Limited.	19,802,528.19	
Nanjing Panda Television Co. Ltd.	10,721,350.04	2,060,229.93
<b>Total</b>	<b>42,471,390.11</b>	<b>11,240,364.32</b>

## 5. Provision of guarantee

- (1) The Company provided a maximum amount guarantee for bank loan of RMB5,000,000 with term of 6 months granted to Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, from Nanjing Centre Subbranch of Nanjing Branch of Shenzhen Development Bank Co., Ltd. As at 30 June 2008, the loan amounted to RMB5,000,000.00 with a term from 16 April 2008 to 15 October 2008.
- (2) The Company provided a maximum amount guarantee for bank loan of RMB10,000,000 with term of 6 months granted to Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., a subsidiary of the Company, from Nanjing Centre Sub-branch of Nanjing Branch of Shenzhen Development Bank Co., Ltd. As at 30 June 2008, the Company provided a guarantee for the balance of bank acceptance bills of RMB15,700,000.00 after deduction of margin to Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., a subsidiary of the Company. The Company provided a maximum amount guarantee for borrowings of RMB20,000,000 granted to Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., a subsidiary of the Company, from Nanjing Branch of Citic Bank for the period from 4 January 2008 to 4 January 2009. As at 30 June 2008, details of borrowing of Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd. are as follows:

Name of companies	Name of bank	Amount of borrowing	Period
Nanjing Huage Appliance and Plastic Industrial Co. Ltd	Nanjing Branch of Citic Bank	7,000,000.00	2008.1.4-2009.1.4
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	Nanjing Branch of Citic Bank	5,000,000.00	2007.11.13-2008.11.13
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	Nanjing Branch of Citic Bank	5,000,000.00	2007.12.7-2008.12.7
<b>Total</b>		<b>17,000,000.00</b>	

- (3) The Company provided an irrevocable letter of guarantee with maximum amount for Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, for its borrowings of RMB5,000,000 from Nanjing Branch of China Merchants Bank, As at 30 June 2008, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 3 March 2008 to 12 November 2008.
- (4) the Company provided an irrevocable letter of guarantee with maximum amount for borrowings of RMB25,000,000 from Nanjing Branch of China Merchants Bank granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company, and provided guarantee for the loan granted to Nanjing Panda Information Industry Co. Ltd. during the credit period, from 27 November 2007 to 12 November 2008. As at 30 June 2008, the amount of borrowing amounted to US\$1,000,000.00 with a loan term from 3 December 2007 to 3 December 2008. As at 30 June 2008, the Company provided a guarantee for bank acceptance bills with an amount of RMB12,014,965.89 and for letter of credit with an amount of RMB5,398,931.60 for Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company.

- (5) The Company provided finance leasing guarantees for Nanjing Panda Electronic Manufacturing Company Limited and Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., subsidiaries of the Company, details of which are as follows

No. of Leasing Contract	Lessor	Lessee	Warrantor	Leasing Period	Amount of contract	Unpaid amount as at 30 June 2008
00070	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.9-2009.8	12,613,120.00	4,032,000.00
0070-1	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.9-2009.9	11,816,400.00	3,592,500.00
Su Zu [2006] Zu Lin Zhi No.73	Jiangsu Financial Leasing Co., Ltd.	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.10-2008.7	7,980,784.00	816,098.00
00105	Siemens Finance and Leasing Ltd	Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	The Company	2006.12-2009.11	13,163,800.00	4,900,609.12
<b>Total</b>					<u>45,574,104.00</u>	<u>13,341,207.12</u>

6. Acceptance of guarantee

- (1) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount irrevocable letter of guarantee with Chengdong Sub-branch of Nanjing Branch of China Merchants Bank in December 2007, providing guarantee for credit facilities of RMB120,000,000 granted to the Company from Chengdong Branch of Nanjing Branch of China Merchants Bank during the credit period, from 10 December 2007 to 12 November 2008. As at 30 June 2008, details of unpaid borrowings under the guarantee contract are as follows:

Name of borrowers	Name of bank	Amount of Borrowing	Period
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	20,000,000.00	2007.12.10-2008.12.10
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	20,000,000.00	2008.02.02-2009.02.02
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	10,000,000.00	2008.03.03-2009.03.03
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	15,000,000.00	2008.03.14-2009.03.14
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	15,000,000.00	2008.03.18-2009.03.18
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2008.05.05-2009.05.05
<b>Total</b>		<u>120,000,000.00</u>	

- (2) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Chengdong Subbranch of Bank of Nanjing Co., Ltd., providing guarantee for borrowings of the Company from Chengdong Subbranch of Bank of Nanjing Co., Ltd.. As at 30 June 2008, the details of guarantee are as follows:

Name of borrowers	Name of bank	Amount of Borrowing	Period
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	28,000,000.00	2007.8.23-2008.7.23
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	20,000,000.00	2007.11.14-2008.11.14
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	30,000,000.00	2007.8.22-2008.8.22
<b>Total</b>		<u><b>78,000,000.00</b></u>	

- (3) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Nanjing Chengdong Subbranch of Guangdong Development Bank Co.,Ltd. in July 2007, providing guarantee for borrowings of RMB40,000,000.00 granted to the Company from Nanjing Chengdong Subbranch of Guangdong Development Bank Co.,Ltd. with the loan term from 21 August 2007 to 20 August 2008.

- (4) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Citic Bank in December 2007, providing guarantee for borrowing amount granted by Nanjing Branch of Citic Bank to the Company during 4 December 2007 to 5 December 2008 with guarantee amount of RMB80,000,000.00. As at 30 June 2008, the details of borrowings are as follows:

Name of borrowers	Name of bank	Amount of Borrowing	Period
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	50,000,000.00	2007.12.5-2008.12.5
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	30,000,000.00	2007.12.4-2008.12.4
<b>Total</b>		<u><b>80,000,000.00</b></u>	

- (5) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Hua Xia Bank in March 2007, providing guarantee for borrowings of RMB50,000,000.00 granted to the Company from Nanjing Branch of Hua Xia Bank with the loan term from 28 March 2008 to 27 September 2008.

- (6) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of China Merchants Bank in August 2008, providing guarantee for borrowings of RMB50,000,000.00 granted to the Company from Xuanwu Sub-branch of Bank of Communications with the loan term from 3 January 2008 to 28 November 2008.

7. Asset leased

Name of related parties	Jan-Jun 2008 Amount	Jan-Jun 2007 Amount
Panda Electronics Group Limited	115,407.20	242,432.36
Nanjing Panda Technology Industrial Co., Ltd.	1,577,388.20	375,254.99
<b>Total</b>	<u><b>1,692,795.40</b></u>	<u><b>617,687.35</b></u>

8. Lease of assets

Name of related parties	Jan-Jun 2008 Amount	Jan-Jun 2007 Amount
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	—	24,948.00
Nanjing Panda Huaxin Technology Industrial Co. Ltd.	52,320.00	—
<b>Total</b>	<u><b>52,320.00</b></u>	<u><b>24,948.00</b></u>

9. Balance of due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Receive or provide guarantee
<b>Bills receivable</b>				
Nanjing Panda Television Co. Ltd.	828,000.00	—		
<b>Total</b>	<b>828,000.00</b>	<b>—</b>		
<b>Accounts receivable</b>				
Panda Electronics Group Limited	63,538.10	—		
Nanjing Panda Television Co. Ltd.	18,506,954.94	15,458,159.76		
Nanjing Ericsson Panda Communication Company Limited	14,471,078.57	2,735,641.79		
Nanjing Panda Electronics Import/Export Co. Ltd.	885,745.76	693,485.12		
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	526,032.62	526,032.62		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	1,148,987.07	586,243.75		
Panda Electronics (Kun Shan) Co. Ltd.	833,125.14	797,275.14		
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	78,214.00	218,214.00		
Nanjing Panda Handa Technology Co., Ltd	40,765,332.49	46,625,678.56		
Nanjing Thales Panda Transportation System Company Limited	—	768,658.14		
<b>Total</b>	<b>77,279,008.69</b>	<b>68,409,388.88</b>		
<b>Accounts receivable-provision for bad debt</b>				
Panda Electronics Group Limited	3,176.91	—		
Nanjing Panda Television Co. Ltd.	4,598,540.48	3,073,326.29		
Nanjing Ericsson Panda Communication Co., Ltd	723,553.93	169,525.71		
Nanjing Panda Electronics Import/Export Co. Ltd.	44,287.29	34,909.16		
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	526,032.62	526,032.62		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	57,449.35	26,687.19		
Panda Electronics (Kun Shan) Co. Ltd.	799,067.64	797,275.14		
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	3,910.70	93,647.20		
Nanjing Panda Handa Technology Co., Ltd	2,038,266.63	2,331,918.78		
Nanjing Thales Panda Transportation System Company Limited	—	38,432.91		
<b>Total</b>	<b>8,794,285.55</b>	<b>7,091,755.00</b>		
<b>Other receivables</b>				
Panda Electronics (Kunshan) Co. Ltd	2,686,220.94	1,768,220.94		
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd	1,950,000.00	1,950,000.00		
<b>Total</b>	<b>4,636,220.94</b>	<b>3,718,220.94</b>		
<b>Other receivables-provision for bad debt</b>				
Panda Electronics (Kun Shan) Co. Ltd.	1,751,420.94	1,705,520.94		
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	1,950,000.00	1,950,000.00		
<b>Total</b>	<b>3,701,420.94</b>	<b>3,655,520.94</b>		

**Payables**

Panda Electronics Group Limited	1,395,816.19	—
Nanjing Panda Television Co. Ltd.	3,584,727.58	4,188,527.58
Nanjing Panda Electronics Import/Export Co. Ltd.	3,681,796.68	2,411,668.64
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	67,697.74	285,447.24
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	158,543.32	158,543.32
Nanjing Zhen Hua Sound Equipment Plant	1,192,025.73	1,502,966.68
Nanjing Thales Panda Transportation System Company Limited	16,410.02	16,410.02
Nanjing Wei Chuang Li Terminal Co. Ltd.	—	2,548,591.15
Nanjing Panda Technology Industrial Co., Ltd.	2,747,716.65	1,503,978.55
Nanjing Le Jin Panda Electrical Appliance Co., Ltd.	—	992,191.43
<b>Total</b>	<b>12,844,733.91</b>	<b>13,608,324.61</b>

**Advances from customers**

Panda Electronics Group Limited	24,220.60	—
Nanjing Panda Television Co., Ltd.	82,887.19	—
Panda Electronic (Hong Kong) Co. Ltd.	—	933,130.00
Nanjing Thales Panda Transportation System Company Limited	9,000,144.3	8,144,710.89
Nanjing Panda Handa Technology Co., Ltd	1,326,874.81	3,035,961.41
<b>Total</b>	<b>10,434,126.90</b>	<b>12,113,802.30</b>

**Other payables**

Panda Electronics Group Limited	2,496,750.95	5,657,115.50
Nanjing Panda Television Co. Ltd.	1,137,335.14	1,137,335.14
Nanjing Panda Electronmechanical Instruments Technology Co., Ltd.	2,000,969.29	—
Nanjing Panda Electronics Import/Export Co., Ltd.	249,246.05	—
Intenna (Nanjing) Co. Ltd.	65,777.57	2,933,808.67
Nanjing Panda Technology Industrial Co., Ltd.	—	771,524.27
<b>Total</b>	<b>5,950,079.00</b>	<b>10,499,783.58</b>

**XI. CONTINGENCIES**

1. Please refer to note X. (III) 5 for the guarantees provided by the Company for bank borrowings of its subsidiaries.
2. As at 30 June 2008, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

**XII. COMMITMENTS**

As at 30 June 2008, there were no any other material commitments to be disclosed by the Company.

**XIII. POST BALANCE SHEET EVENTS**

As at the approved date of this report, there were no material balance sheet to be disclosed by the Company.

## XIV. OTHER SIGNIFICANT EVENTS

- On 9 April 2007, the Company received the notice issued by Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC") that Nanjing SASAC signed an agreement with China Electronics Corporation ("CEC") and Jiangsu Provincial Guo Xin Asset Management Group Company Limited (江蘇省國信資產管理集團有限公司) ("Guo Xin Group") to jointly establish Nanjing Electronics Information Industrial Corporation (南京中電熊貓信息產業有限公司) ("NEIIC") with their respective equity interests in Panda Electronics Group Limited. The registered capital of NEIIC is RMB1 billion, of which CEC accounts for 70%, Guo Xin Group accounts for 15% and Nanjing SASAC accounts for 15%. The effective of the agreement is subject to the reporting to and approval of Jiangsu Provincial People's Government and Nanjing Municipal People's Government. If it is approved and become effective, NEIDC will hold 47.98% equity interests in Panda Electronics Group Limited and become the largest shareholder of Panda Electronics Group Limited and the ultimate controlling shareholder of the Company.
- As at 30 June 2008, in the State-owned legal person share of the Company held by Panda Electronics Group Ltd., the controlling shareholder of the Company, 192,815,000 shares were frozen due to the disputes of contract, which account for 29.44% of the total shares in the Company, and account for 57.61% of the total shares it holds in the Company; 167,350,000 shares were pledged to the bank, which account for 25.55% of the total shares in the Company, and account for 50% of the total shares it holds in the Company.
- As approved by the Company's Annual General Meeting of 2007, the Company is to take the aggregate share capital as at 31 December 2007 of 665,015,000 shares as the basis to declare a cash dividend of RMB0.08 per share (tax inclusive) to all shareholders. The total amount of cash dividend amounts to RMB52,401,200.00

## 4. Lease

- (1) Finance lease of the Company during the reporting period are as follows:

Items	Closing amount	Opening amount
<b>Fixed assets, at cost</b>		
Machinery and equipment	<u>48,836,609.97</u>	<u>56,957,484.77</u>
<b>Total</b>	<u><b>48,836,609.97</b></u>	<u><b>56,957,484.77</b></u>
<b>Accumulated depreciation</b>		
Machinery and equipment	<u>9,414,433.14</u>	<u>6,809,280.12</u>
<b>Total</b>	<u><b>9,414,433.14</b></u>	<u><b>6,809,280.12</b></u>
<b>Accumulated amount of provision for impairment</b>		
Machinery and equipment	<u>—</u>	<u>—</u>
<b>Total</b>	<u><b>—</b></u>	<u><b>—</b></u>
<b>Carring value</b>		
Machinery and equipment	<u>39,422,176.83</u>	<u>50,148,204.65</u>
<b>Total</b>	<u><b>39,422,176.83</b></u>	<u><b>50,148,204.65</b></u>

Minimum lease payments in the following years

Remaining lease term	Minimum lease payments
Within 1 year (including 1 year)	9,711,031.76
1-2 years (including 2 years)	3,630,175.36
2-3 years (including 3 years)	—
Above 3 years	—
<b>Total</b>	<u><b>13,341,207.12</b></u>

As at 30 June 2008, the balance of unrecognized financing expenses amounted to RMB833,857.60, which was amortised by the effective interest method.

- (2) Details of operating lease of the Company during the reporting period are as follows:

Categories of assets leased out	Closing balance	Opening balance
Buildings, machinery and equipment	135,267,742.51	138,331,489.09
<b>Total</b>	<b>135,267,742.51</b>	<b>138,331,489.09</b>

## SUPPLEMENTARY INFORMATION

### I. Related financial indicators

	Reporting period	Return on net assets		Earnings per share (RMB/share)	
		Fully diluted	Weighted average	Basic earning per share	Diluted earnings per share
<b>Profit during reporting period</b>					
Net profit attributable to holders of ordinary shares of the Company	Jan-Jun 2008	1.77%	1.77%	0.04	0.04
	Jan-Jun 2007	2.34%	2.37%	0.05	0.05
Net profit attributable to holders of ordinary shares after extraordinary items	Jan-Jun 2008	1.59%	1.58%	0.03	0.03
	Jan-Jun 2007	3.09%	3.13%	0.07	0.07

Note: Return on net assets and earnings per share are calculated as follows:

- (1) Fully diluted return on net assets

$$\text{Fully diluted return on net assets} = P \div E$$

Including, P represents net profit attributable to holders of ordinary shares of the Company or the net profit attributable to holders of ordinary shares of the Company after deducting extraordinary items; E represents the net assets attributable to holders of ordinary shares of the Company at the end of the reporting period.

In preparation and disclosure of consolidated statement, "Net profit attributable to holders of ordinary shares of the Company" excludes the amount of minority interests; based on the consolidated net profits after deducting minority interests, "net profit attributable to holders of ordinary shares of the Company after extraordinary items" is deducted with the shares attributable to holders of ordinary shares of the Parent Company from the Parent Company's extraordinary items (impact of income tax shall be considered) and the non-recurring profit and loss of subsidiaries (impact of income tax shall be considered); "the net assets attributable to holders of ordinary shares of the Company at the end of the reporting period" excludes the amount of minority interests.

- (2) Weighted average return on net assets

$$\text{Weighted average return on net assets} = P / (E_0 + NP \div 2 + E_1 \times M_1 \div M_0 - E_1 \times M_1 \div M_0 \pm E_1 \times M_1 \div M_0)$$

Including: "P" respectively represents net profit attributable to holders of ordinary shares of the Company and the net profit attributable to holders of ordinary shares of the Company after extraordinary items; "NP" represents net profit attributable to holders of ordinary shares of the Company; "E<sub>0</sub>" represents net assets attributable to holders of ordinary shares of the Company at the beginning of the reporting period; "E<sub>1</sub>" represents net assets attributable to holders of ordinary shares of the Company, arising from the new issue of shares or debt for equity swap during the reporting period; "E" represents net assets attributable to holders of ordinary shares of the Company, reduced from repurchase or cash dividend during the reporting period; "M<sub>0</sub>" represents the months in reporting period and "M" represents the months from the next month of the increase of assets to the end of the reporting period; "M<sub>1</sub>" represents the months from the next month of the decrease of assets to the end of the reporting period; "E<sub>1</sub>" represents the increase or decrease of net assets arising from other transactions or matters; "M<sub>1</sub>" represents the months from the next month of the increase or decrease of other assets to the end of the reporting period.

- (3) Basic earning per share

$$\text{Basic earning per share} = P \div S$$

$$S = S_0 + S_1 + S_2 \times M_1 \div M_0 - S_2 \times M_1 \div M_0 - S_2$$

Including: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company; "S" represents the weighted average of outstanding ordinary shares; "S<sub>0</sub>" represents total number of shares at the beginning of the reporting period; "S<sub>1</sub>" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S<sub>2</sub>" represents shares increased from issue of new shares or debt to equity during the reporting period; "S<sub>3</sub>" represents the reduced shares arising from repurchase during reporting period; "S<sub>4</sub>" represents the number of reduced shares during the reporting period; "M<sub>0</sub>" represents months in the reporting period; "M<sub>1</sub>" represents the months from the next month of the increase of shares to the end of the reporting period; "M<sub>2</sub>" represents the months from the next month of the decrease of shares to the end of the reporting period.

(4) Diluted earnings per share

Diluted earnings per share =  $P + (\text{The interests of the diluted potential ordinary shares determined to be expenses in the current period} - \text{Conversion expenses}) \times (1 - \text{Income tax ratio}) / (S_0 + S_1 + S_2 \times M_1 + M_0 - S_3 \times M_2 + M_3 - S_4 \times M_4 + \text{The weighted average number of ordinary shares, increased from subscription warrant} + \text{Bshare option and convertible bond})$

Including, "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company, "S<sub>0</sub>" represents total number of shares at the beginning of the reporting period; "S<sub>1</sub>" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S<sub>2</sub>" represents shares increased from reporting period issue of new shares or debt to equity, etc; "S<sub>3</sub>" represents the reduced shares arising from repurchase during reporting period; "S<sub>4</sub>" represents the number of reduced shares during the reporting period; "M<sub>1</sub>" represents months in the reporting period; "M<sub>2</sub>" represents the months from the next month of the increase of shares to the end of the reporting period; "M<sub>3</sub>" represents the months from the next month of the decrease of shares to the end of the reporting period. In calculating diluted earnings per share, the company takes into consideration of influence from all diluted potential ordinary shares till diluted earnings per share become minimized.

II. Statement of extraordinary items

Item	Unit: RMB	
	30 June 2008	30 June 2007
Profit and loss of disposal of non-current assets	611,682.06	5,185.43
Tax rebate or tax reduction through approval beyond authorities or without official approval document	—	—
Government subsidiaries accounted for as current profit and loss, (excluding those closely related to the enterprise's business and enjoyed according to the State's standard quote or quantity)	2,276,677.35	526,418.49
Capital occupation fee received from non- financial enterprises and recorded into the current gains and losses, (excluding capital occupation fee received from non- financial enterprises by financial institute with operation qualification approved and established by the relevant authorities of the State)	—	—
Profit and loss incurred when cost of merger of enterprises are less than the fair value of the identifiable net assets of acquirees attributable to the Company during merger	—	—
Profit and loss from exchange of non-monetary assets	—	—
Profit and loss from entrusted investment	—	—
Provision for assets impairment due to force majeure including natural disasters	—	—
Profit and loss from debt restructuring	1,514.27	(18,907,277.58)
Expenses of enterprise restructuring	—	—
Loss and profit exceeding fair value of transaction with unfair consideration	—	—
Net profits and losses of the current period of subsidiaries under same control arising for merger of enterprise from the beginning of period to the date of merger.	—	—
Loss and profit from accrued liabilities having no relation with principal business of the Company	—	—
Other net non-operating income/expenses other than the above items	424,425.40	192,818.37
Other non-recurring profit and loss items recognized by CSRC	—	9,122,555.11
<b>Sub-total</b>	<b>3,314,299.08</b>	<b>(9,060,300.18)</b>
Less: the impact from income tax	311,782.26	1,056,387.48
Net non-recurring profit and loss	3,002,516.82	(10,116,687.66)
Net non-recurring profit and loss attributable to minority shareholders	339,518.17	225,371.77
Net non-recurring profit and loss attributable to ordinary shareholders of the Company	2,662,998.65	(10,342,059.43)
Net profit attributable to holders of ordinary shares of the Company after deducting extraordinary items	22,652,790.60	42,674,744.38
Impact of net non-recurring profit and loss on net profit	10.52%	(31.99%)

Note: "+" represents profit and income, "-" represents loss or expense.

Other non-recurring profit and loss items recognized by CSRC in Jan-June 2007 is the amount of welfare expenses payable used for offsetting administrative costs.



**IX. DOCUMENTS AVAILABLE FOR INSPECTION**

1. The 2008 Interim Report signed by the Chairman;
2. The financial statements signed and sealed by the legal representative, officer in charge of accounting work and officer in charge of accounting department of the Company;
3. The announcements published in Shanghai Securities News, China Securities Journal, and on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange during the Reporting Period;
4. The articles of association of the Company;
5. The 2008 Interim Report published in Hong Kong and Shanghai securities market.

The Board of Directors of  
**Nanjing Panda Electronics Company Limited**  
19 August 2008



**PANDA**

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