

**PANDA**

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熊猫电子

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

**2008 年報**

(H股股份代號 H Share Stock Code : 0553)  
(A股股份代號 A Share Stock Code : 600775)

Communication

Electronics

Information-Technology

**Annual Report**

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## Important Notice

1. The board of directors (the "Board"), the supervisory committee (the "Supervisory Committee"), the directors ("Directors"), supervisors ("Supervisors") and senior management staff of the Company confirm that the information in this report (the "Annual 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. Directors Mr. Li Anjian, Mr. Shi Qiusheng and Mr. Lu Qing were engaged in other duties and unable to attend the Board meeting held on 26 March 2009. They appointed Mr. Xu Guofei to attend the meeting and to exercise the voting rights on their behalves.
3. Both UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. have prepared unqualified auditors' reports in accordance with Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises, respectively.
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 Annual Report.



## Definitions

*In this annual report, unless the content otherwise requires, the following expressions have the following meanings:*

Company	Nanjing Panda Electronics Company Limited (南京熊猫电子股份有限公司);
Group	Nanjing Panda Electronics Company Limited and its subsidiaries;
PEGL	Panda Electronics Group Limited (熊猫电子集团有限公司);
PEGL Group	Panda Electronics Group Limited and its subsidiaries;
CEC	China Electronics Corporation;
NEIIC	Nanjing Electronics Information Industrial Corporation (南京中电熊猫信息产业集团有限公司);
CSRC	China Securities Regulatory Commission;
Shanghai Stock Exchange	Shanghai Stock Exchange;
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited;
ENC	Nanjing Ericsson Panda Communication Co., Ltd.;
BMC	Beijing SE Putian Mobile Communication Co., Ltd.;
Hua Fei Company	Hua Fei Color Display Systems Company Limited.





## Corporate Basic Information

### (1) Corporate Basic Information

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 of the English Name : NPEC
2. Legal Representative of the Company : Li Anjian (Chairman)
3. Secretary of the Board : Shen Jianlong  
Securities Affairs Representative : Chen Yebao  
Correspondence Address : 301 Zhongshan Road East,  
Nanjing, the People's Republic of China  
Postal Code : 210002  
Telephone : (8625) 8480 1144  
Facsimile : (8625) 8482 0729  
Email Address : dms@panda.cn
4. Registered Address : Level 1-2, Block 5, North Wing,  
Nanjing High and  
New Technology Development Zone,  
Nanjing, the PRC  
Office and Correspondence Address : 301 Zhongshan Road East,  
Nanjing, the PRC  
Postal Code : 210002  
International Web Site : <http://www.panda.cn>
5. Designated Newspaper for  
Information Disclosure : Shanghai Securities News,  
China Securities Journal  
International Websites for  
the publication : Shanghai Stock Exchange  
<http://www.sse.com.cn>  
of the Company's Annual Report : The Stock Exchange of Hong Kong Limited  
<http://www.hkex.com.hk>  
Place for Inspection of the Company's  
Annual Report and documents : Office of Secretary of the Board of Directors  
available for inspection : 301 Zhongshan Road East,  
Nanjing, the PRC





### (1) Corporate Basic Information (Continued)

6.	Stock Exchange, Stock Abbreviation and Stock Codes		
	H Shares	:	The Stock Exchange of Hong Kong Limited
	Stock abbreviation	:	Nanjing Panda
	Stock code	:	0553
	A Shares	:	Shanghai Stock Exchange
	Stock abbreviation	:	Nanjing Panda
	Stock code	:	600775
	Share Registrars and Transfer Office	:	
	H Shares	:	Hong Kong Registrars Limited 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
	A Shares	:	China Securities Depository and Clearing Corporation Limited Shanghai Branch 36/F, China Insurance Building, 166 East Lu Jia Zui Road, Xin Qu, Pudong, Shanghai, the PRC
	Name of Custodian in respect of the Non-circulating Shares of the Company	:	China Securities Depository and Clearing Corporation Limited Shanghai Branch 36/F, China Insurance Building, 166 East Lu Jia Zui Road, Xin Qu, Pudong, Shanghai, the PRC
7.	First Registration Date and Place of the Company	:	29 April 1992 Nanjing, the PRC
	Date of Change in Registration and Place of the Company	:	16 February 2009 Nanjing, the PRC
	Legal Person Business License Registration Number of the Company	:	320100400008823
	Taxation Registration Number of the Company	:	320134134974572
	Organisation Code	:	13497457-2





### (1) Corporate Basic Information (Continued)

8. Principal Bankers : Industrial and Commercial Bank of China  
Bank of China  
Agricultural Bank of China  
China Construction Bank  
Bank of Communications
9. Auditors : Hong Kong:  
UHY Vocation HK CPA Limited  
3/F, Malaysia Building  
50 Gloucester Road  
Wanchai, Hong Kong
- The PRC:  
Vocation International Certified  
Public Accountants Co., Ltd.  
Room 208-210,  
No. 19 Chegongzhuang Road Yi  
Haidian District  
Beijing, the PRC
10. Legal Advisers : Hong Kong:  
Philip K. H. Wong, Kennedy  
Y. H. Wong & Co., Solicitors  
23rd Floor, Admiralty Centre Tower II,  
18 Harcourt Road,  
Queensway, Hong Kong
- The PRC:  
Jiangsu FD Yongheng Law Firm  
13/F, Changfa Science & Technology Building,  
222 Zhujiang Road, Nanjing, the PRC







### (2) Corporate Profile

Nanjing Panda Electronics Company Limited is a large integrated telecommunications company which is engaged in scientific research and development, production, sale and technological services. In April 1992, the Company was established, after the reorganization of the original Panda Electronics Group Company. The history of the Company can be traced back to 1936 and is the earliest electronics enterprise in the PRC. Shares of the Company were listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange on 2 May 1996 and 18 November 1996 respectively.

The Company is mainly engaged in developing, producing and selling the satellite communication, mobile communication, electromechanical, IT and electronics manufacturing. Its registered trademark is "PANDA" which is the first "well known trademark in the PRC" in the electronics information industry in the country.

The Company possesses solid research and development capabilities and owns 3 State-level engineering technology development centres. The level of its research and development holds a leading position in its industry in China. The Company obtains a ISO-9001 certification and has established a scientific quality management system and an advanced corporate management information system.

Leveraging the opportunities from economic globalization, the Company is proactively promoting international cooperation. Joint ventures have been established with multinational companies such as Ericsson (Sweden), which will become a new base for the Company's growth and a major source of profit, demonstrating an optimistic prospect of the Company.

The forth-coming development strategy of the Company is to thoroughly implement a scientific outlook on development, enhance sustainable development capability and achieve a sound and quick development. In terms of the Company's technological developments, the Company targets to achieve further autonomous innovation in its principal businesses by fully utilizing all available technology and gradually develop itself to be the largest base for the development and production of satellite communication as well as intelligent and environmentally-friendly products in the PRC. The Company also aims at becoming a major company in electromechanical, IT and electronics manufacturing industries and an integrated international hi-tech giant.



## A. Prepared in accordance with the PRC Accounting Standards for Business Enterprises

### 1. Profits of the Company during the year:

Unit: RMB'000

Items	Amount
Operating Profit	19,582.56
Total Profit	44,799.43
Net profit attributable to shareholders of the Company	37,201.26
Net profit attributable to shareholders of the Company after extraordinary items	17,929.68
Net cash flow from operations	(140,967.52)

### 2. Items and amounts after deduction of extraordinary items:

Unit: RMB'000

Items	Amount
Gains and losses from disposal of non-current assets	851.59
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	21,097.30
Debt restructuring profit and loss	4,579.59
Other non-operating net income and expenses other than the aforesaid items	(1,311.61)
Impact on enterprise income tax	(2,170.10)
Net extraordinary items attributable to minority shareholders	(1,954.47)
Total	19,271.58





# Accounting Information and Business Highlights



## A. Prepared in accordance with the PRC Accounting Standards for Business Enterprises (Continued)

### 3. Major accounting information and financial indicators for the three years ended 31 December 2008

#### 3.1 Major accounting information

Unit: RMB'000

	2008	2007		Percentage increase/ (decrease) over last year (%)	2006	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Operating income	<b>1,131,037.17</b>	1,009,935.66	1,009,935.66	11.99	911,166.86	911,166.86
Total profit	<b>44,799.43</b>	121,419.24	103,505.90	(63.10)	96,067.38	97,114.72
Net profit attributable to shareholders of the Company	<b>37,201.26</b>	107,006.05	89,092.71	(65.23)	85,561.98	86,609.32
Net profit attributable to shareholders of the Company after extraordinary items	<b>17,929.68</b>	109,597.93	91,684.59	(83.64)	86,063.25	87,110.59
Net cash flow from operating activities	<b>(140,967.52)</b>	(32,080.70)	(32,080.70)	(339.42)	249,248.59	249,248.59

	As of the end of 2008	As of the end of 2007		Percentage increase/ (decrease) over last year (%)	As of the end of 2006	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Total assets	<b>2,574,554.12</b>	2,643,294.81	2,589,635.75	(2.60)	2,807,293.91	2,771,548.19
Shareholders' equity	<b>1,493,301.42</b>	1,491,349.10	1,437,690.04	0.13	1,384,027.03	1,348,281.31



A. Prepared in accordance with the PRC Accounting Standards for Business Enterprises  
(Continued)

3. Major accounting information and financial indicators for the three years ended 31  
December 2008 (Continued)

3.2 Key financial indicators

Unit: RMB

	2008	2007		Percentage increase/ (decrease) over last year (%)	2006	
		After the adjustment	Before adjustment		After the adjustment	Before the adjustment
Basic earnings per share	<b>0.06</b>	0.16	0.14	(65.23)	0.13	0.13
Diluted earnings per share	<b>0.06</b>	0.16	0.14	(65.23)	0.13	0.13
Basic earnings per share after extraordinary items	<b>0.03</b>	0.17	0.14	(83.64)	0.13	0.13
Fully diluted rate of return on net assets (%)	<b>2.49</b>	7.18	6.20	Decreased by 4.69 percentage points	6.18	6.42
Weighted average rate of return on net assets (%)	<b>2.48</b>	7.44	6.40	Decreased by 4.96 percentage points	6.38	6.64
Fully diluted rate of return on net assets after extraordinary items (%)	<b>1.20</b>	7.35	6.38	Decreased by 6.15 percentage points	6.22	6.46
Weighted average rate of return on net assets after extraordinary items (%)	<b>1.20</b>	7.92	6.58	Decreased by 6.72 percentage points	6.42	6.68
Net cash flow from operating activities per share	<b>(0.22)</b>	(0.05)	(0.05)	(339.42)	0.38	0.38



# Accounting Information and Business Highlights



## A. Prepared in accordance with the PRC Accounting Standards for Business Enterprises (Continued)

### 3. Major accounting information and financial indicators for the three years ended 31 December 2008 (Continued)

#### 3.2 Key financial indicators (Continued)

	As of the end of 2008	As of the end of 2007 After the adjustment	Before adjustment	Percentage increase/ (decrease) over last year (%)	As of the end of 2006 After the adjustment	Before the adjustment
Net assets attributable to shareholders of the Company per share	2.28	2.28	2.19	0.13	2.11	2.06

Note: The total share capital of the Company remains unchanged in the year.

## B. Prepared in accordance with Hong Kong Financial Reporting Standards

The following is a summary of the consolidated results of the Group for each of the five years ended 31 December 2008 and the combined proforma results of the Group for the year ended 31 December 2007 prepared on the basis that the Group's structure had been in existence from the year ended 31 December 2003.

Unit: RMB'000

	2008	2007	2006	2005	2004 (restated)
Turnover	1,120,391	994,038	880,973	850,817	664,640
Operating loss	(112,296)	(64,333)	(68,214)	(113,556)	(33,024)
Share of results of associated companies	201,284	247,405	230,730	257,381	222,736
Profit before taxation	44,224	122,476	105,717	100,165	69,047
Taxation	(5,996)	(2,665)	(4,160)	(3,176)	(2,368)
Profit after taxation	38,228	119,811	101,557	96,989	66,679
Minority interests	(1,602)	(7,816)	(8,447)	(4,228)	(1,033)
Profit attributable to shareholders	36,626	111,995	93,110	92,761	65,646
Proposed final dividends	—	52,401	—	—	—



## B. Prepared in accordance with Hong Kong Financial Reporting Standards (Continued)

Summary of the total assets and liabilities for each of the five years ended 31 December 2008

Unit: RMB'000

	2008	2007	2006	2005	2004
Total assets	<b>2,574,554</b>	2,637,398	2,766,077	2,571,839	2,647,048
Total liabilities	<b>1,069,111</b>	1,099,806	1,346,112	1,245,511	1,416,523
Total net assets	<b>1,505,443</b>	1,537,592	1,419,965	1,326,328	1,230,525

## C. Differences of net profit between the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and the PRC Accounting Standards for Business Enterprises as applicable to the Group:

Unit: RMB'000

	2008	2007
Profit for the year attributable to equity holders of the Company per financial statements prepared under PRC accounting standards	<b>37,201</b>	107,006
Amortization of unrecognized intangible assets	<b>(575)</b>	200
Deferred tax assets recognized as prior year adjustment	—	4,562
Share of results of associates	—	601
Minority interests	—	(629)
Others	—	255
Profit for the year attributable to equity holders of the Company per financial statements prepared under Hong Kong Financial Reporting Standards	<b>36,626</b>	111,995



# Changes in Share Capital and Shareholders

## (1) Changes in shareholdings during the reporting period

Unit: Shares

	Before the change		Newly Issued shares	Increase/decrease from the change (+/-)			After the change	
	Amount	Percentage (%)		Bonus shares	Transfer	Others	Sub-total	Amount
I. Shares subject to trading moratorium								
1. State-owned legal person shares	334,715,000	51.10			(65,501,500)	(65,501,500)	269,213,500	41.10
II. Shares not subject to trading moratorium								
1. Renminbi ordinary shares	78,300,000	11.95			65,501,500	65,501,500	143,801,500	21.95
2. Overseas listed foreign shares	242,000,000	36.95					242,000,000	36.95
III. Total number of shares	655,015,000	100			0	0	655,015,000	100

Notes: (1) During the reporting period, there is no change in the total number of the Company's shares and the shareholding structure. The Company did not repurchase, sell or redeem its listed securities.

(2) As at 26 March 2009, the most practicable and recent date for the announcement of the Annual Report, the Company has complied with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to sufficient public float.

(3) During the reporting period, the Company, for the first time, arranged the listing of circulating shares subject to trading moratorium (limited to the shares involved in the share reform scheme) held by PEG. The number of circulating shares subject to trading moratorium listed amounted to 65,501,500 shares; and the listing of shares commenced on 12 September 2008.

Changes of Shares subject to trading moratorium:

Name of Shareholder	Number of shares subject to trading moratorium as at the beginning of the year	Number of shares released over the year	Increase in numbers of shares subject to trading moratorium over the year	Number of shares subject to trading moratorium as at the end of the year	Reason of trading moratorium	Date of release of trading moratorium
PEGL	334,715,000	65,501,500	0	269,213,500	Share Segregation Reform	11 September 2009
Total	334,715,000	65,501,500	0	269,213,500		





## Changes in Share Capital and Shareholders

### (2) Shares in issue and listings

#### 1. Shares in issue and listings

	H Shares	A Shares
Date of issue	1996.4.24 – 5.2	1996.11.7 – 11.18
Par value	RMB1.00 per share	RMB1.00 per share
Issue price	HK\$2.13 per share	RMB5.10 per share
Number of shares issued ( <i>share</i> )	242,000,000	23,000,000
Date of listing	1996.5.2	1996.11.18
Place of listing	Hong Kong	Shanghai
Aggregate number of shares permitted to be traded ( <i>share</i> )	242,000,000	413,015,000
Opening price on the first trading day of listing	HK\$2.05	RMB11.00
Opening price on the first trading day of the year	HK\$2.86	RMB10.95
Closing price on the last trading day of the year	HK\$1.02	RMB4.06
The highest price during the year	HK\$3.04	RMB12.88
The lowest price during the year	HK\$0.50	RMB2.86
Total transaction volume during the year ( <i>0'000 Shares</i> )	24,958.11	79,185.73

#### 2. Issue of shares during the past three years

During the past three years ended 31 December 2008, the Company did not issue new shares or place new shares for listing, etc.

#### 3. Existing internal employee's share

There was no internal employee's share at the end of the reporting period.





## Changes in Share Capital and Shareholders

### (3) Details of the Shareholders

The total number of shareholders, the number of shares held by the top ten shareholders and holders of shares not subject to trading moratorium of the Company as at 31 December 2008 are as follows:

Total number of shareholders as at the end of the reporting period: 25,129 shareholders, of which 25,071 were holders of A shares and 58 were holders of H shares

Shareholdings of the top ten shareholders

*Unit: Shares*

Name of shareholders	Type of shareholders (state-owned or foreign shareholders)	Percentage of shareholding (%)	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
PEGL	State-owned Shareholder	51.10	334,715,000	269,213,500	67,350,000 shares were pledged, 92,815,000 shares were judicially frozen and 100,000,000 shares were both pledged and judicially frozen (Note 1)
HKSCC (Nominees) Limited	Foreign Shareholder	36.73	240,607,599	0	Unknown (Note 2)
Chen Boyu 陳伯玉	Public Shareholder	0.412	2,695,800	0	Unknown
Huang Li 黃莉	Public Shareholder	0.156	1,020,490	0	Unknown
Zeng Hong 曾鴻	Public Shareholder	0.155	1,017,100	0	Unknown
Huang Xueliang 黃學良	Public Shareholder	0.096	630,370	0	Unknown
Chen Chaohui 陳朝暉	Public Shareholder	0.090	587,220	0	Unknown
Chen Cuimei 陳翠枚	Public Shareholder	0.083	544,800	0	Unknown
Gong Fei 龔飛	Public Shareholder	0.083	543,722	0	Unknown
Yu Hongyang 于弘洋	Public Shareholder	0.074	483,700	0	Unknown



## Changes in Share Capital and Shareholders

### (3) Details of the Shareholders (Continued)

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

Name of shareholders	Number of shares held not subject to trading moratorium	Class of shares
HKSCC (Nominees) Limited	240,607,599	H (Note 2)
PEGL	65,501,500	A
Chen Boyu 陳伯玉	2,695,800	A
Huang Li 黃 莉	1,020,490	A
Zeng Hong 曾 鴻	1,017,100	A
Huang Xueliang 黃學良	630,370	A
Chen Chaohui 陳朝暉	587,220	A
Chen Cuimei 陳翠枚	544,800	A
Gong Fei 龔 飛	543,722	A
Yu Hongyang 于弘洋	483,700	A

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

There is no connected relationship or party acting in concert between PEGL and other shareholders. The Company is not aware of any connected relationship or party acting in concert among other shareholders.

#### 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 (including 269,213,500 circulating shares subject to trading moratorium and 65,501,500 circulating shares not subject to trading moratorium). Among the shares held by PEGL, 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 240,607,599 H Shares, representing 36.73% 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.





#### (4) Details of the controlling shareholder and ultimate controller of the Company

During the reporting period, there was no change in the controlling shareholder and the ultimate controller of the Company, namely PEGL and 中國華融資產管理公司 (China Huarong Assets Management Company) (“China Huarong”) respectively. The basic condition was as follows:

PEGL held 334,715,000 shares of the Company, representing 51.10% of the issued share capital of the Company, including 269,213,500 circulating shares subject to trading moratorium and 65,501,500 circulating shares not subject to trading moratorium.

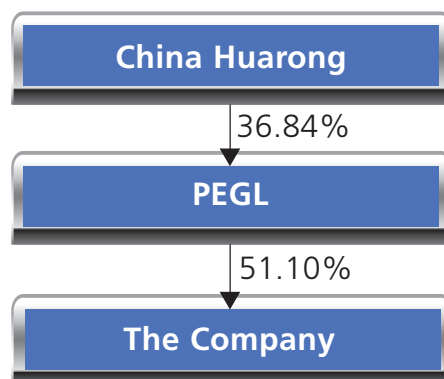
The predecessor of PEGL was established in 1936, which was converted into a limited company upon approval by the Nanjing Municipal Government on 5 July 1999 and subsequently completed the conversion of indebtedness into equity interests on 4 June 2003. The registered capital of PEGL is RMB1,266,060,000 and its shareholders include China Huarong, representing 36.84% of the share capital, 南京新港開發總公司 (Nanjing Xingang Development Corporation), representing 22.07% of the share capital, 江蘇省國信資產管理集團有限公司 (Jiangsu International Trust and Investment Corporation), representing 21.59% of the share capital, 中國建設銀行股份有限公司 (China Construction Bank Corporation), representing 8.21% of the share capital, 中國長城資產管理公司 (China Changcheng Assets Management Company), representing 6.31% of the share capital, 南京市國有資產經營(控股)有限公司 (Nanjing Municipal State-owned Assets Operation (Holding) Company), representing 4.32% of the share capital, and 中國信達資產管理公司 (China Cinda Assets Management Company), representing 0.66% of the share capital. PEGL’s legal representative was Mr. Li Anjian and since January 2009 has been changed to Mr. Xu Guofei. PEGL engages in the development, manufacture and sales of telecommunication equipment, computer and other electronic equipment, electrical machinery and apparatus, as well as selling and providing technical services for products developed and produced by the Company, etc.

China Huarong, the ultimate controller of the Company, was established on 1 November 1999, with a registered capital of RMB10 billion. Its legal representative is Ding Zhongchi. Its principal operations are acquisition and operation of the non-performing assets disposed of by Industrial and Commercial Bank of China, demand for the payment of debt, re-allocation, transfer and sales of assets, debt restructure and corporate restructure, debt-equity swap and phase by phase shareholdings, securitization of assets and other operations approved by financial regulatory authorities. It holds 36.84% of shares in PEGL through debt-equity swap.

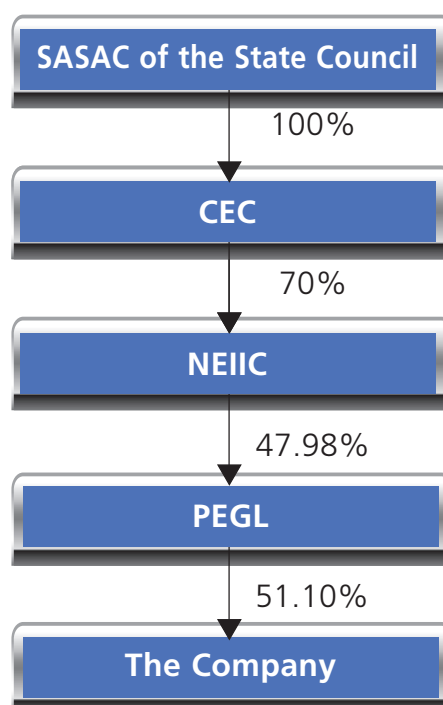


(4) Details of the controlling shareholder and ultimate controller of the Company (Continued)

The diagram of property rights and controlling relationship between the Company and the ultimate controller is as follows:



Note: During the reporting period, NEIIC, a company jointly invested and established by Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC"), 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") and CEC (of which CEC accounts for 70%, Nanjing SASAC and Guo Xin Group account for 15% each), progressed with the relevant approval procedures for the changes in equity interests pursuant to the regulations. Upon completion of the relevant approval procedures for the changes in equity interests, NEIIC will hold 47.98% equity interest in PEGL, hence becoming the largest shareholder of PEGL and the de facto controller of the Company. By then, the diagram of property rights and controlling relationship between the Company and the de facto controller shall become:



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

On 31 December 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") of the Hong Kong Stock Exchange 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, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2008.



### (1) Profiles of Directors, Supervisors, Senior Management Staff

#### 1. Executive Director

**Mr. LI Anjian**, born in 1953, is the Chairman and General Manager of the Company, Chairman of PEGL, a senior economist and a postgraduate. In 2004, he graduated from the Faculty of Administrative Cadre Management of Jiangsu Provincial Party Institute specializing in politics and economics. He was the Deputy General Manager of Nanjing Huadong Electronics Group Company, the Chairman and General Manager of Nanjing Changjiang Machinery Company Limited as well as the General Manager and Chairman of PEGL. He joined the Company in 1999, and has been serving as the Chairman of the Company for the past five years as of the reporting period. He has been working as a leader in electronic industrial enterprises for many years, and is familiar with the operation and management of electronic enterprises and the industrial development. He has strong competence in reform and innovation as well as extensive experience in operation and management.

#### 2. Non-executive Directors

**Mr. XU Guofei**, born in 1962, is the Vice Chairman of the Company and General Manager of PEGL. He is a senior engineer and holds a bachelor's degree. He joined the Company in 1981, and has been serving as the Director of the Company, Deputy General Manager and General Manager of PEGL for the past five years as of the reporting period. He graduated from the Southeast University specializing in radio technology in 1987. Mr. Xu has long been engaged in the development and management of communication technology, and has extensive professional knowledge about electronics and experience in management roles.

**Ms. LIU Ailian**, born in 1951, is the Director of the Company and Deputy General Manager of PEGL. She holds a postgraduate degree and is a senior accountant and a certified public accountant. Ms. Liu graduated from the Central Financial Management Cadre Institute in 1989, and Southeast University in 1998 specializing in financial management. She joined the Company in 1999, and has been serving as the Director of the Company and Deputy General Manager of PEGL for the past five years as of the reporting period. She was the Vice Chairman of Ministry of State-owned Assets Management of the Nanjing City. Ms. Liu has been serving in the finance and management sector for many years and has accumulated vast professional knowledge on finance and extensive experience in management roles.

**Mr. ZHU Lifeng**, born in 1964, is the Director of the Company and Deputy General Manager of PEGL and a postgraduate-grade senior engineer. He holds a master degree in engineering and a doctoral degree in management. Mr. Zhu graduated from Southeast University in 1986, specializing in electronic equipment and surveying technologies, and joined the Company in the same year. He has been serving as the Director of the Company and Deputy General Manager of PEGL for the past five years as of the reporting period. He graduated from Southeast University specializing in signal and information processing in 1996 as a postgraduate. In 2005, he obtained a Ph.D. degree in quality engineering from Nanjing University of Science and Technology. Mr. Zhu has been engaged in technological development and management roles for years, and possesses extensive knowledge about electronics and experience in operation and management.







## (1) Profiles of Directors, Supervisors, Senior Management Staff (Continued)

### 2. Non-executive Directors (Continued)

**Mr. SHI Qiusheng**, born in 1959, is the Director of the Company and the Chairman of the labour union of PEGL. He is a senior economist and holds a postgraduate degree. He graduated from Hangzhou Radio Industrial College, specializing in economics management, and joined the Company in 1980. He has been serving as the Deputy General Manager and Director of the Company and Chairman of the labour union of PEGL for the past five years as of the reporting period. He completed his studies at the Faculty of Arts in Nanjing Polytechnic University in 1997 and pursued his postgraduate studies of Business Administration (MBA) at the Nanjing Polytechnic University and Southeast University respectively. In July 2006, he graduated from Central Party College majoring in economic management as a postgraduate. Having engaged in corporate operation and management for a long time, Mr. Shi is knowledgeable about economics and has extensive experience in corporate management.

**Mr. LU Qing**, born in 1965, is the Director of the Company and an assistant to the General Manager of PEGL. (He has served as the Deputy General Manager of PEGL since January 2009.) He is a senior engineer and a bachelor degree holder. He joined PEGL in 1986. He has been serving as the General Manager of Nanjing Panda Handa Technology Co., Ltd., Director of the Company and Assistant to General Manager of PEGL for the past five years as of the reporting period. Mr. Lu graduated in 1993 from the Southeast University majoring in radio technology. He further took a postgraduate advancement course in scientific management and approaches of policy decision at Nanjing University from 2000 to 2002. Mr. Lu has long been engaged in the development and management of information technology, and has had extensive experience in the electronics profession and in operation management.

### 3. Independent Non-executive Directors

**Mr. MA Chung Lai, Lawrence**, born in 1954, has a bachelor degree and has been an Independent Non-executive Director of the Company since 2004. He graduated from London University in 1978 majoring in biological chemical. He is currently the General Manager of Hong Kong Taching Petroleum Co., Ltd., Standing Committee Member of The Tenth All-China Federation of Industry and Commerce, Standing Committee Member of Jiangsu Provincial Committee of the Tenth Chinese People's Political Consultative Conference and Standing Committee Member of The Chinese General Chamber of Commerce. Mr. Ma is very experienced in corporate operation and management due to the various roles he has held over the years.

**Mr. CAI Lianglin**, born in 1941, is a PRC Certified Public Accountant and senior auditor. He has served as an Independent Non-executive Director of the Company since 2004. He is currently the consultant of Jiangsu Tianye Certified Public Accountants Company Limited, and an adjunct professor of Nanjing Audit College. Mr. Cai has extensive experience in financial management and auditing, accumulated over the many years spent in such positions.



### (1) Profiles of Directors, Supervisors, Senior Management Staff *(Continued)*

#### 3. Independent Non-executive Directors *(Continued)*

**Mr. TANG Yousong**, born in 1951, is a senior economist and obtained a master degree in business administration in 2004 conferred by Macau University of Science and Technology. Since 2007, he has been serving as the Independent Non-executive Director of the Company. He is currently a senior researcher in the Sales Department of the Industrial and Commercial Bank of China, Jiangsu Province Branch. Mr. Tang has long been engaged in financial management work and has extensive experience in such matters.

#### 4. Supervisors

**Ms. ZHANG Zhengping**, born in 1956, is the Chairman of the Company's Supervisory Committee, Vice-secretary of the Communist Party Committee and the Secretary of the Disciplinary Check Committee of PEG. (She has served as the Secretary of the Communist Party Committee since January 2009.) She studied economics and joined the Company in 1979. She has been serving as the Chairman of the Company's Supervisory Committee and Deputy Secretary to Party Committee of PEG for the past five years as of the reporting period. She graduated from Nanjing Television University in 1987, specializing in the management of party politics. Ms. Zhang has been engaged in corporate management positions and the China Communist Party for years. She has extensive knowledge about electronic technology and experience in operation and management.

**Ms. TANG Min**, born in 1957, is the director of the auditing department of the Company. She holds a bachelor degree in accounting. She joined the Company in 1980 and has been serving as the Deputy Director of the finance department and the director of the auditing department of the Company for the past five years as of the reporting period. Ms. Tang graduated from Hangzhou Institute of Electronics Engineering majoring in industrial accounting in 1988, and from Central Party College majoring in economic management in 2004. She further completed a postgraduate course in Economic Management from Southeast University in the same year. Ms. Tang has been engaged in corporate finance management for a long time and has extensive experience in auditing in relation to corporate finance management. She was elected as the Supervisor of the Sixth Supervisory Committee by the representatives of employees of the Company.

**Mr. ZHOU Yuxin**, born in 1964, is currently the vice chairman of the labour union of the Company. He holds a bachelor degree in engineering. He graduated from the Nanjing Radio Industrial College (南京無線電工業學校) in 1984 and joined the Company in the same year. In 1991, he graduated from the Faculty of Industrial Automation at Tongji University. For the five years prior to the reporting period, he had served as the manager of Nanjing Zhen Hua Sound Equipment Plant. Since May 2008 he has served as the vice chairman of the labour union of the Company. Mr. Zhou has been engaged in corporate management over a long period of time and hence has strong experience in the field. In October 2008, he was elected as the Supervisor of the Sixth Supervisory Committee by the representatives of employees of the Company.





## (1) Profiles of Directors, Supervisors, Senior Management Staff (Continued)

### 5. Independent Supervisors

**Ms. SUN Suhua**, born in 1942, holds a tertiary degree and is a senior accountant. She became an Independent Supervisor of the Company in 2004. She has been the Head of the Finance Division in the Equipment Department of Jiangsu Iron and Steel Plant, Head of the Finance Division of Jiangsu Investment Company and Manager of the Finance Division in Jiangsu Province International Trust Investment Company. Ms. Sun has long been engaged in corporate accounting and possesses vast experience in finance management.

**Mr. WANG Fei**, born in 1959, holds a postgraduate degree and has held the position of Independent Supervisor of the Company since 31 December 2008. Mr. Wang is currently the associate professor, the secretary and the tutor for postgraduate students in the wealth management department of the Business School at Hehai University(河海大學商學院). In 1989, he graduated from the Shanghai University of Finance and Economics specializing in financial management. In 1997, he graduated from the Suzhou University as a postgraduate specializing in finance. Mr. Wang has been a researcher and lecturer of financial management, accounting, taxation and finance for many years. He has accumulated rich professional knowledge and experience in those fields.

### 6. Senior Management Staff

**Mr. LIU Kun**, born in 1966, is the Deputy General Manager of the Company. He is a senior engineer and holds a bachelor degree. He graduated from the Faculty of Electronic Engineering at Shanghai Jiaotong University and joined the Company in 1988. Mr. Liu has extensive experience in the development and management of electronics and precision machine technologies. He has been serving as the Deputy General Manager of the Company for the past five years as of the reporting period.

**Mr. SHEN Jianlong**, born in 1963, is the Chief Accountant and Secretary to the Board of the Company. He is a senior accountant. He joined the Company in 1982 and graduated in 1987 from the Southeast University majoring in industrial management and engineering. He further took a master course in business management (MBA) at the Southeast University from 2002 to 2004. Mr. Shen has long been engaged in corporate finance management, and possesses extensive experience in the finance profession and operation management. He has been serving as the Manager of the Finance Department, the Chief Accountant and the Secretary to the Board of the Company consecutively for the past five years as of the reporting period.

**Mr. XIA Dechuan**, born in 1970, is a senior engineer with a Master degree in Business Administration conferred by Southeast University in April 2005. He has held the position of Deputy General Manager of the Company since June 2008. Mr. Xia joined the Company in 1992. For the five years prior to the date of the announcement, he had served as the executive deputy general manager and general manager of Nanjing Panda Information Industry Co., Ltd.. Mr. Xia has long been engaged in the management of information technology industry, with a wealth of knowledge about the profession and experience in business management.



## Profiles of Directors, Supervisors, Senior Management and Staff

### (2) Shareholding and Remunerations of Directors, Supervisors and Senior Management Staff

As of 31 December 2008, interests of the Directors, Supervisors and senior management staff of the Company in the domestic shares of the Company which were required, pursuant to section 352 of the Securities and Futures Ordinance of the Stock Exchange (Chapter 571) ("SFO") of the Laws of Hong Kong, to be filed in the register are as follows (the nature of such interests is personal interest) :

Name	Position	Sex	Age	Term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB'000)	Whether received out of shareholdings or other connected parties
Li Anjian	Chairman, General Manager	M	55	2007.06.12-2010.06.12	0	0	—	30	No
Xu Guofei	Non-executive Director, Vice Chairman	M	46	2007.06.12-2010.06.12	2,546	2,546	—	30	No
Liu Ailian	Non-executive Director	F	57	2007.06.12-2010.06.12	0	0	—	24	No
Zhu Lifeng	Non-executive Director	M	44	2007.06.12-2010.06.12	4,378	4,378	—	24	No
Shi Qiusheng	Non-executive Director	M	49	2007.06.12-2010.06.12	5,940	5,940	—	24	No
Lu Qing	Non-executive Director	M	43	2007.06.12-2010.06.12	0	0	—	24	No
Cai Lianglin	Independent Non-executive Director	M	67	2007.06.12-2010.06.12	0	0	—	0	No
Tang Yousong	Independent Non-executive Director	M	57	2007.06.12-2010.06.12	0	0	—	0	No
Ma Chung Lai, Lawrence	Independent Non-executive Director	M	54	2007.06.12-2010.06.12	0	0	—	7.06 (Note 3)	No
Zhang Zhengping	Chairman of the Supervisory Committee	F	52	2007.06.12-2010.06.12	4,648	4,648	—	24	No
Tang Min	Supervisor	F	51	2007.06.12-2010.06.12	0	0	—	12	No
Zhou Yuxin	Supervisor	M	44	2008.10.28-2010.06.12	0	0	—	2 (Note 1)	No
Sun Suhua	Independent Supervisor	F	66	2007.06.12-2010.06.12	0	0	—	0	No
Wang Fei	Independent Supervisor	M	49	2008.12.31-2010.06.12	0	0	—	0	No
Liu Kun	Deputy General Manager	M	42	2007.06.12-2010.06.12	0	0	—	20	No
Shen Jianlong	Chief Accountant, Secretary to the Board	M	45	2007.06.12-2010.06.12	0	0	—	20	No
Xia Dechuan	Deputy General Manager	M	38	2008.06.30-2010.06.12	0	0	—	10 (Note 2)	No
Total					17,512	17,512		251.06 (Note 4)	



# Profiles of Directors, Supervisors, Senior Management and Staff



## (2) Shareholding and Remunerations of Directors, Supervisors and Senior Management Staff

(Continued)

- Notes:
- (1) Supervisor Mr. Zhou Yuxin took office in October 2008 and received the remuneration for November and December from the Company. Original Supervisor Mr. Zhong Youxiang resigned in October 2008 and received the remuneration for January to October 2008 of RMB100,000 from the Company.
  - (2) Deputy General Manager Mr. Xia Dechuan took office in June 2008 and original Deputy General Manager Mr. Wang Hongjin resigned in June 2008. Both of them received the remuneration for a half of the year of RMB100,000 from the Company. Original Deputy General Manager Mr. Wu Liulin resigned in September 2008 and received the remuneration for January to September 2008 of RMB150,000 from the Company.
  - (3) Independent Non-executive Director Mr. Ma Chung Lai, Lawrence received remuneration of HK\$80,000 (based on the conversion of HK\$1=RMB0.8819 as at 31 December 2008).
  - (4) During the reporting period, the total remuneration of Directors, Supervisors and senior management staff was RMB2,860,600 (including remuneration received by resigned staff).

Save as disclosed above, during the reporting period, none of the Directors, Supervisors and senior management staff of the Company had any interests or short positions which required to be filed in the register pursuant to section 352 of the SFO. In addition, none of them had been granted any share incentive.

Save as disclosed above, none of the Directors, Supervisors and senior management staff of the Company or their associates had any interest in the share of the Company or any of its associated corporation (as defined in Part XV of the SFO of the Hong Kong Stock Exchange) as of 31 December 2008, and none of the Directors or Supervisors or their spouses or children under the age of 18 had any right to subscribe for the interest in securities of the Company, or had exercised any such right.

## (3) Positions held by Directors and Supervisors in the Company's shareholders

Name	Name of the Company's shareholders	Position held in the Company's shareholders	Term of appointment	Whether receiving remuneration or allowance (Yes or No)
Li Anjian	PEGL	Chairman	From June 2004 to January 2009	No
Xu Guofei	PEGL	General Manager	From September 2004	No
Liu Ailian	PEGL	Deputy General Manager	From July 1999 to January 2009	No
Zhu Lifeng	PEGL	Deputy General Manager	From July 1999	No
Shi Qiusheng	PEGL	Chairman to Labour Union	From December 2004 to January 2009	No
Lu Qing	PEGL	Assistant to General Manager	From August 2004 to January 2009	No
Zhang Zhengping	PEGL	Deputy Secretary to Party Committee	From July 1999 to January 2009	No

Note: From January 2009, Mr. Li Anjian ceased to be the Chairman of PEGL. Ms. Zhang Zhengping serves as Secretary instead of Deputy-secretary to Party Committee of PEGL. Ms. Liu Ailian ceased to be the Deputy General Manager of PEGL. Mr. Shi Qiusheng ceased to be the Chairman to Labour Union of PEGL and Mr. Lu Qing serves as Deputy General Manager instead of Assistant to General Manager of PEGL.





## Profiles of Directors, Supervisors, Senior Management and Staff

### (4) Positions held by Directors and Supervisors in other units

Name	Name of other units	Position held	Term of appointment
Li Anjian	Nanjing Ericsson Panda Communication Co., Ltd. Beijing SE Putian Mobile Communication Co., Ltd.	Vice Chairman Vice Chairman	From 2000 From 2002
Tang Yousong	Industrial and Commercial Bank of China, Jiangsu Province Branch	Researcher	From 2007
Ma Chung Lai, Lawrence	Hong Kong Taching Petroleum Co., Ltd.	General Manager	From 1982
Wang Fei	Business School of Hehai University(河海大學商學院)	Associate Professor	From 1999

Note: From January 2009, Mr. Li Anjian serves as the Secretary to the Party Committee of NEIC. Mr. Shi Qiusheng serves as Secretary to the Party Committee of 南京三樂電子信息產業集團有限公司.

### (5) Remuneration of the Directors, Supervisors and Senior Management Staff of the Company

During the reporting period, Directors, Supervisors and senior management staff were paid based on their relevant positions and duties. Their remunerations were reviewed based on their performance. (Details of remunerations are set out under paragraph (2) of this section.)

Independent Non-executive Directors, Mr. Cai Lianglin and Mr. Tang Yousong, and Independent Supervisors, Ms. Sun Suhua and Mr. Wang Fei, did not receive any remuneration from the Company, its parent company or associated companies.

### (6) Changes in Directors, Supervisors and Senior Management Staff

During the reporting period:

1. On 26 June 2008, the Supervisory Committee of the Company accepted the resignation of Mr. Wu Shiyuan as an Independent Supervisor by reason of old age. On 13 November 2008, an extraordinary meeting of the Supervisory Committee was convened to nominate Mr. Wang Fei as the candidate of Independent Supervisor of the Sixth Supervisory Committee of the Company. As considered at the second extraordinary general meeting in 2008 held on 31 December 2008, Mr. Wang Fei was elected as an Independent Supervisor of the Sixth Supervisory Committee of the Company for a term until the expiry of the term of the Supervisory Committee.
2. On 28 October 2008, Mr. Zhong Youxiang, the Staff Representative Supervisor of the Supervisory Committee of the Company resigned from its position for reason of job relocation. Mr. Zhou Yuxin was elected as the Staff Representative Supervisor of the Sixth Supervisory Committee at the staff representatives meeting of the Company for a term until the expiry of the term of the Supervisory Committee.







### (6) Changes in Directors, Supervisors and Senior Management Staff *(Continued)*

3. The extraordinary meeting of 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 until the expiry of the term of the Board.
4. On 5 September 2008, the extraordinary meeting of the Board accepted the resignation of Mr. Wu Liulin as the deputy general manager and Qualified Accountant due to job relocation. Pursuant to Rule 3.24 of the Listing Rules of the Hong Kong Stock Exchange, chief accountant Mr. Shen Jianlong was appointed as the Qualified Accountant of the Company and Ms. Wong Wan Lung was continually appointed to assist Mr. Shen Jianlong in discharging his duties as the Qualified Accountant.

(Please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News and websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 27 June 2008, 1 July 2008, 8 September 2008, 29 October 2008 and 5 January 2009 for details.)

### (7) Company staff

As at 31 December 2008, the Company had a total of 3,262 employees: 1,523 of which were production staff, 989 were technical staff, 349 were marketing staff, 137 were financial staff and 264 were administrative and management staff. Of these employees, 1,579 were graduates of tertiary institutions or above and 50 held master degrees. The Company had 471 staff having retired and which the Company had to bear the related expenses.



## A. General Corporate Governance

During the reporting period, the Company has complied with the relevant laws and regulations including the Company Law and the Securities Law. In accordance with documents relating to corporate governance and proper operation issued by 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.

During the reporting period, the Company adopted and strived to comply with the Code of Corporate Governance Practice ("CGP Code") 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, the Company mainly carried out the following tasks in relation to corporate governance:

1. According to Notice on the Special Corporate Governance Campaign (No. [2008] 27) by CSRC, the Company convened an extraordinary Board meeting on 29 July 2008 to consider and approve Explanation on Rectification of Special Corporate Governance Campaign of Nanjing Panda Electronics Company Limited ("Explanation") and published the resolution announcement and the Explanation on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange. As stated in the Explanation, the Company conscientiously re-assessed the progress and effect of the rectifications of the special corporate governance campaigns launched by the Company in 2007, dug into deficiencies in governance and put forward remedial measures for future, aiming to reinforce the achievements in governance and enable the Company to further standardize operation and improve corporate governance.

(Please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News and the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange on 30 July 2008 for details.)

2. At the annual general meeting convened on 15 May 2008, Codes of Conduct for Controlling Shareholders, Rules of Procedures for Shareholders' General Meetings, Rules of Procedures for the Board Meetings and Rules of Procedures for the Supervisory Committee, all amended as required by the rectification of special corporate governance campaign, were considered and approved, thus systematically guaranteeing the standardized operation of the Company and avoiding non-operating capital transactions with the controlling shareholder and related parties.
3. According to relevant documents issued by CSRC, the Company clarified the legal obligations of Directors, Supervisors and senior management in safeguarding the Company's capital to prevent the appropriation of assets by controlling shareholder or de facto controller. Meanwhile, it amended its existing Articles of Association to further standardize its profit distribution, and the amendment was considered and approved at the extraordinary general meeting convened on 31 December 2008. (Please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News and the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 14 November 2008 for details.)





## A. General Corporate Governance (Continued)

During the reporting period, the Company mainly carried out the following tasks in relation to corporate governance: (Continued)

4. During the reporting period, the time spent by the Company on training Directors for compliance and corporate governance matters met the requirements of the Listing Committee of the Hong Kong Stock Exchange. So far, the Company has complied with the guidance of the Listing Committee of Hong Kong Stock Exchange stated in the press release dated 9 August 2007.
5. Mr. Li Anjian holds the positions of Chairman and General Manager (Chief Executive Officer) which is a deviation from the code provision A.2.1 of the CGP Code.
6. According to relevant regulatory requirements, the Company has established a comprehensive internal control system which is examined by the audit department of the Company regularly or from time to time. The audit committee, supervisory committee and independent directors of the Company review the implementation of internal control regularly. On 26 March 2009, the Board of the Company reviewed and passed the "Self-assessment Report on the Internal Control of the Company".

## B. Directors' Securities Transaction

During the reporting period, the Company adopted and applied the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in the Appendix 10 of the Listing Rules of the Hong Kong Stock Exchange in respect of securities transactions by the Directors.

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

## C. The Board

### 1. Board composition

During the reporting period, the sixth Board continued to hold office and its Board members were elected at the annual general meeting held on 12 June 2007. There was no change in the composition of the Board during the reporting period.

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



## C. The Board *(Continued)*

### 1. Board composition *(Continued)*

The Board members for the year ended 31 December 2008 and the brief biographies of each Director are set out in Section 5 headed "Profiles of Directors, Supervisors, Senior Management and Staff".

#### **Executive Director**

Mr. Li Anjian (*Chairman*)

#### **Non-executive Directors**

Mr. Xu Guofei (*Vice Chairman*)

Ms. Liu Ailian

Mr. Zhu Lifeng

Mr. Shi Qiusheng

Mr. Lu Qing

#### **Independent Non-executive Directors**

Mr. Cai Lianglin

Mr. Tang Yousong

Mr. Ma Chung Lai, Lawrence

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

### 2. Nomination of Directors

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

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

During the reporting period, the Nomination Committee convened two meetings in accordance with the Articles of Association and Rules of Procedures of Nomination Committee:

- (1) The first meeting in 2008 was held on 27 June 2008. All members of the Nomination Committee attended the meeting at which it was resolved to propose the nomination of Mr. Xia Dechuan as the candidate for the Deputy General Manager of the Company. The proposal was submitted to the Board for discussion.
- (2) The second meeting in 2008 was held on 4 September 2008. All members of the Nomination Committee attended the meeting at which it was resolved to propose the nomination of Mr. Shen Jianlong, the Company's Chief Accountant as the Company's Qualified Accountant and Ms. Wong Wan Lung to assist Mr. Shen to fulfill his obligation as Qualified Accountant. The proposal was submitted to the Board for discussion.





## C. The Board *(Continued)*

### 3. Chairman and Chief Executive Officer

The main duties of Chairman of the Board are to preside at the shareholder's meeting and convene the Board meetings, and to inspect the actual implementation of resolutions passed by the Board. (Details are set out in the Article 135 of Chapter 10 of the Articles of Association.)

General Manager (Chief Executive Officer) is responsible to the Board. His principal duties include to preside over the production, operation and management of the Company, to organize the implementation of resolutions of the Board, to organize the implementation of the annual operation plan and investment proposal. (Details were set out in the Article 153 of Chapter 12 of the Articles of Association.)

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

### 4. Board Practices

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

The Board is responsible to the shareholders. Its duties include to convene shareholders' meetings and to report the work to shareholders meetings, to implement resolutions of the shareholder's meeting, to decide the operation plan and investment proposal of the Company, to recruit and remove the General Manager and senior management of the Company. (Details are set out in the Article 127 of Chapter 10 of the Articles of Association of the Company.)

The Board held four meetings for the year ended 31 December 2008 (details are set out in Section 9 headed "Report of the Board" of the Annual Report) and the attendance of each director are as follows:

<b>Name of Directors</b>	<b>Required attendances at the Board meetings</b>	<b>Attending in person (times)</b>	<b>Attending by proxy (times)</b>	<b>Absence (times)</b>
Li Anjian	4	3	1	0
Xu Guofei	4	4	0	0
Liu Ailian	4	4	0	0
Zhu Lifeng	4	4	0	0
Shi Qiusheng	4	3	1	0
Lu Qing	4	3	1	0



## C. The Board (Continued)

### 5. Independent Directors and their duties

- (1) The Company diligently carried out their duties in accordance with the relevant laws, regulations and the Articles of Association. They participated in Board Meetings for the decision-making on material events. With their professional knowledge and experience, Independent Directors advised the Company on its operation and management; reviewed the impartiality and fairness of connected transactions and whether the Company has complied with the waiver conditions granted by the Hong Kong Stock Exchange in respect of its connected transactions, offer independent advice on significant events such as external guarantee, proposal for profit appropriation, appointment of senior management, assets acquisition and continuing connected transactions during the reporting period. They also participated in the work of audit committee to audit the Company's financial statements. During the preparation and disclosure of the Annual Report of the Company, independent Directors had fulfilled their duties and obligations with due diligence and listened to the reports regarding the Company's production and operation as well as the progress of significant events for the year by the management. On-site inspections of certain subsidiaries were conducted. They also had communications with certified public accountants for annual auditing and reviewed the relevant information. Advice and opinions were provided to the Company. Independent Directors have made contributions to protect the overall interests of the Company and the legitimate rights of shareholders as a whole and promote the development of the Company.
- (2) The Board held four meetings for the year ended 31 December 2008 and attendance of each Independent Director at the Board Meetings were as follows:

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

- (3) Dissenting opinions raised by Independent Directors on the relevant matters of the Company
- During the reporting period, the Independent Directors of the Company had not proposed any dissenting opinions to the resolutions of the Board and other meetings for the year.





## C. The Board *(Continued)*

### 6. Directors' Responsibility for the Financial Statements

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

### 7. Remuneration of Directors

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

Roles and functions of the Remuneration and Evaluation Committee include formulating and reviewing remuneration policies and proposal of Directors and the senior management and formulating relevant appraisal standards and conducting appraisals. The Remuneration and Evaluation Committee convened a meeting on 28 December 2008 during the reporting period. The meeting conducted appraisals of the Directors, Supervisors and the senior management of the Company and reviewed their remuneration. The remuneration of Directors, Supervisors and the senior management were set in accordance with the results of appraisals. The remuneration committee has not convened any meeting during the reporting period. The remuneration of Directors is set out in Section 5 headed "Profiles of Directors, Supervisors, Senior Management and Staff" in this Annual Report.

## D. Audit Committee

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

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

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

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

1. The first meeting of 2008 was convened on 25 March 2008. All members of the Audit Committee attended the meeting to review the Company's 2007 financial report and agreed to submit the report to the Board for review. The summary of the audited reports prepared by the accounting firms engaged in auditing this year was approved and submitted to the Board. The re-appointment of Zhongrui Yuehua Certified Public Accountants Company Limited and Shu Lun Pan Horwath Hong Kong CPA Limited as the domestic and international auditors of the Company for 2008 was agreed at the meeting.



### D. Audit Committee *(Continued)*

2. The second meeting of 2008 was convened on 19 August 2008. All members of the Audit Committee attended the meeting to review the interim financial report of 2008, and agreed to submit the report to the Board for discussion. At the meeting, the Board was required to improve the internal control systems so as to comply with the requirements of the regulatory authorities including CSRC, Shanghai Stock Exchange, Jiangsu Office of CSRC and the Hong Kong Stock Exchange.
3. The third meeting of 2008 was convened on 27 October 2008. All members of the Audit Committee attended the meeting to review the third quarterly financial report 2008 and agreed to submit it to the Board for discussion.

During the preparation and disclosure of the 2008 Annual Report of the Company, "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report" was established by the Audit Committee and various communications and meetings were conducted among the Audit Committee and the Company's certified public accountants for annual auditing. The Audit Committee reviewed and agreed with the "2008 Overall Audit Plan" submitted by the certified public accountants for annual auditing. Both parties negotiated and confirmed the schedule of the financial report for this year and requested full attention and diligent performance from the accountants and the finance department of the Company which were in charge of auditing, aspiring to prepare and audit the 2008 financial report in compliance with regulations of regulatory authorities and the new accounting standards. The financial conditions and operating results of the Company in 2008 were reflected in an objective and fair manner. The Audit Committee also advised and recommended significant audit issues that worth attention.

The Audit Committee convened a meeting on 26 March 2009. All members of the Audit Committee attended the meeting to review the 2008 financial reports and the summary report on annual audit by the accounting firms and agreed to submit such reports to the Board for review. The re-appointment of Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited as the Company's domestic and international auditors for 2009 was agreed in the meeting.

### E. Strategy Committee

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

Main functions of the Strategy Committee include studying the decisions on the Company's long-term development and material investment, financing and material capital restructuring and providing relevant suggestions. A Strategy Committee meeting was held on 18 December 2008 during the reporting period. The meeting discussed and studied the Company's development and recommended to the Board the need for the Company's further enhancement of development in its principal operations amid the international financial crisis. The meeting also suggested the Company strengthen the research and development of its core business, diligently develop products with intellectual property rights, facilitate on the development of joint venture companies and ensure sustainable growth of such business through further international cooperation.







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

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

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

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

## H. Auditor's Remunerations

Shu Lun Pan Horwath Hong Kong CPA Limited and Zhongrui Yuehua Certified Public Accountants Company Limited were appointed as the Company's international and PRC auditors respectively in 2008. Remunerations payable by the Company to the two Certified Public Accountants for their audit services for the annual report were RMB990,000 and RMB860,000 respectively, totaling RMB1,850,000 (2007: RMB2,020,900).

## I. General Meeting

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



## I. General Meeting *(Continued)*

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

During the reporting period, the Company had convened three general meetings, including the annual general meeting and two extraordinary general meetings. Details are set out in Section A under Part 7 “Shareholders’ General Meetings” in this Annual Report.

## J. Communication with Shareholders and Investor Relations

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

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

## K. Disclosure of the Board’s Self-Assessment Report on the Internal Control of the Company (“Internal Control Report”)

Please refer to the announcement dated 26 March 2009 published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange for the full text of the Internal Control Report.

No verification comments on the Internal Control Report have been made by the auditors.

## L. Disclosure of the Report on the Company’s Fulfilment of Social Responsibility (“Social Responsibility Report”)

Please refer to the announcement dated 26 March 2009 published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange for the full text of the Social Responsibility Report.





A. The Company convened the first 2008 Extraordinary General Meeting (“EGM”) at its headquarters on 11 March 2008. The notice of the EGM was published on the website of the Hong Kong Stock Exchange on 22 January 2008 and the China Securities Journal, Shanghai Securities News and the website of Shanghai Stock Exchange on 23 January 2008. A total of 22 shareholders of the Company or duly authorized proxies attended the meeting, representing 576,315,972 shares or 87.99% in the Company’s total share capital, which was in compliance with the regulations of the Company Law of the PRC and the Articles of Association.

1. The following resolutions were passed at the EGM as ordinary resolutions:

To appoint China Rightson Yuehua Certified Public Accountants Company Limited (中瑞岳華會計師事務所有限公司) as the domestic auditor of the Company for 2007, and authorize the Board to determine its remuneration.

2. The EGM was witnessed by Mr. Jing Zhong and Mr. Sun Xianchao of Jiangsu FD Yongheng Law Firm and a legal opinion was issued certifying the meeting was legally and validly held.

The announcement of the above resolutions was published on the China Securities Journal and Shanghai Securities News on 12 March 2008 and the websites of the Hong Kong Stock Exchange and Shanghai Stock Exchange on 11 March 2008.

B. The Company held its 2007 Annual General Meeting (“AGM”) on 15 May 2008 at its headquarters. The notice of the AGM was published in China Securities Journal and Shanghai Securities News on 28 March 2008, and websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 27 March 2008. A total of 14 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,863,797 shares or 87.92% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the People’s Republic of China and the Articles of Association of the Company.

1. The following resolutions were considered and approved at the AGM as ordinary resolutions:

- (1) To consider and approve the Report of the Board of the Company for the year 2007.
- (2) To consider and approve the Report of the Supervisory Committee of the Company for the year 2007.
- (3) To consider and approve the audited financial reports of the Company for the year 2007.



- B. The Company held its 2007 Annual General Meeting (“AGM”) on 15 May 2008 at its headquarters. The notice of the AGM was published in China Securities Journal and Shanghai Securities News on 28 March 2008, and websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 27 March 2008. A total of 14 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,863,797 shares or 87.92% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the People’s Republic of China and the Articles of Association of the Company.

*(Continued)*

1. The following resolutions were considered and approved at the AGM as ordinary resolutions:

*(Continued)*

- (4) To consider and approve the profit appropriation plan (after tax) for the financial year of 2007, that the Company resolved to take the aggregate share capital of 665,015,000 shares as of 31 December 2007 as the basis to declare a cash dividend of RMB0.08 per share (tax inclusive) to all shareholders and no capitalisation of capital reserve would be made.
- (5) To consider and approve the re-appointment of Shu Lun Pan Horwath Hong Kong CPA Limited (香港立信浩華會計師事務所有限公司) and Zhongrui Yuehua Certified Public Accountants Co., Ltd. (中瑞岳華會計師事務所有限公司) as the Company’s international and PRC auditors respectively for 2008, and authorize the Board to determine their remunerations.
- (6) To consider and approve the amended “Rules of Procedures for Shareholders’ General Meetings of Nanjing Panda Electronics Company Limited”.
- (7) To consider and approve the amended “Rules of Procedures for the Board Meetings of Nanjing Panda Electronics Company Limited”.
- (8) To consider and approve the amended “Rules of Procedures for the Supervisory Committee of Nanjing Panda Electronics Company Limited”.
- (9) To consider and approve the amended “Codes of Conduct for Controlling Shareholders of Nanjing Panda Electronics Company Limited”.

2. The AGM was witnessed by Mr. Jing Zhong and Mr. Sun Xianchao of Jiangsu FD Yongheng Law Firm that issued a legal opinion certifying the meeting was legally and validly held.

The announcement of the above resolutions was published on the China Securities Journal and Shanghai Securities News on 16 May 2008 and the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange on 15 May 2008.





C. The second extraordinary general meeting in 2008 (“second EGM”) was held at the Company’s headquarters on 31 December 2008. The notice of the second EGM was published in China Securities Journal and Shanghai Securities News on 15 November 2008 and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 14 November 2008. Altogether 23 Shareholders and proxies authorised by the Shareholders attended the second EGM, representing 575,307,962 shares in total or 87.83% in the Company’s total share capital, which was in compliance with relevant requirements of the Company Law of the People’s Republic of China and the Articles of Association.

1. The following resolutions were considered and approved at the second EGM as ordinary resolutions ((1) to (7)) and special resolution (8):

- (1) To consider and approve the Equity Transfer Agreement entered into between the Company and PEGL and Nanjing Panda Electronics Import and Export Company Limited on 5 November 2008 and authorize the Board to take all necessary steps to give effect to the Agreement.
- (2) To consider and approve the provision of guarantees in 2009 in respect of financing facilities of not more than RMB50 million in favour of Nanjing Panda Information Industry Co., Ltd., a controlling subsidiary of the Company.
- (3) To consider and approve the provision of guarantees in 2009 in respect of financing facilities of not more than RMB40 million in favour of Nanjing Panda Electronics Manufacturing Company Limited, a controlling subsidiary of the Company.
- (4) To consider and approve the provision of guarantees in 2009 in respect of financing facilities of not more than RMB40 million in favour of Nanjing Huage Appliance and Plastic Industrial Co., Ltd., a controlling subsidiary of the Company.
- (5) To consider and approve the provision of guarantees in 2009 in respect of financing facilities of not more than RMB5 million in favour of Nanjing Panda Mechanical Manufacturing Co., Ltd., a controlling subsidiary of the Company.
- (6) To elect Mr. Wang Fei as Independent Supervisor of the Sixth Supervisory Committee with a term until the expiry of the Sixth Supervisory Committee, and to authorize the Supervisory Committee to fix his remuneration to not more than RMB50,000.
- (7) To consider and approve the appointment of Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited as the Company’s domestic and international auditors in 2008 and to authorize the Board to fix their fees.
- (8) To consider and approve as special resolution the amendment to the “Articles of Association of Nanjing Panda Electronics Company Limited”.

2. The second EGM was witnessed by Mr. Liang Feng and Mr. Zhou Hao of Jiangsu FD Yongheng Law Firm that issued a legal opinion certifying the meeting was legally and validly held.

The announcement of the above resolutions was published on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 31 December 2008 and the China Securities Journal and Shanghai Securities News on 5 January 2009.





### A. Principal operating results of the Company during the reporting period

#### 1. Principal operations of the Company

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

In 2008, the Company further implemented the philosophy of scientific development, carried on innovation for growth, deepened its internal reform, enhanced its industrial structure, strengthened operation management, improved the internal control system, enhanced its ability to defend operating risks and improved operating quality, thus maintaining the smooth growth momentum. It made great strides in principal businesses such as satellite communication, electromechanical products, electronic information and electronic manufacturing. Meanwhile, the Company paid great attention to cooperation and communication with joint ventures, and helped finding solutions for joint ventures' rapid development. ENC, being a major joint venture, continued to achieve sustainable development to ensure stable income generated from the Company's investments. Due to the changing market conditions, the net profit of BMC substantially decreased and hence affected the Company's investment income.

According to the PRC Accounting Standards for Business Enterprises, revenue from operations of the Company for the year amounted to RMB1,131,037,200, representing an increase of 11.99% as compared with that of last year; profit of operations for the year amounted to RMB19,582,600, representing a decrease of 85.37% as compared with that of last year; net profit amounted to RMB37,201,300, representing a decrease of 65.23% as compared with that of last year. Under the Hong Kong Financial Reporting Standards ("HKFRS"), revenue from principal operations of the Company for the year amounted to RMB1,120,000,000, representing an increase of 13% as compared with that of last year; profit of principal operations amounted to RMB89,360,000, representing a decrease of 39% as compared with that of last year; net profit attributable to shareholders amounted to RMB36,630,000, representing a decrease of 67% as compared with that of last year.







A. Principal operating results of the Company during the reporting period *(Continued)*

2. Principal operating income and segmental information classified by businesses or products (prepared under the PRC Accounting Standards for Business Enterprises)

Unit: RMB'000

Business or product	Principal operating income	Principal operating costs	Principal operating gross profit margin (%)	Revenues from principal operation increase/decrease over last year	Principal operating costs increase/decrease over last year	Principal operating gross margin increase/decrease over last year
Electronic manufacturing	403,082	355,788	11.73	31.40	40.00	(5.42)
Electronic information	338,442	300,397	11.24	21.40	25.69	(3.03)
Electromechanical	206,616	173,234	16.16	11.31	14.82	(2.57)
Satellite communications	130,800	119,918	8.32	(33.73)	(20.27)	(15.48)
Others	34,039	26,903	20.96	19.91	(1.37)	17.05
<b>Total</b>	<b>1,112,979</b>	<b>976,239</b>	<b>12.29</b>	<b>11.64</b>	<b>18.81</b>	<b>(5.29)</b>



### A. Principal operating results of the Company during the reporting period *(Continued)*

#### 3. Principal operations by geographical regions

The principal operations of the Company mainly span across different regions in the PRC.

#### 4. 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 ("Ericsson"), 26% by Ericsson (China) Company Limited ("Ericsson (China)"), 20% by China PTIC Information Corporation ("China PTIC"), and 2% by Hong Kong Yung Shing Enterprise Company ("Yung Shing"). ENC is mainly engaged in producing products, such as GSM, GPRS, CDMA mobile telecommunication system products and network communication systems. ENC is one of the global logistic suppliers for Ericsson, the largest supplier of GSM, GPRS equipments in China and a major supplier of CDMA equipments. In 2008, ENC took initiative to explore markets, constantly enhanced the competitiveness of its products, seized opportunities from Beijing Olympic Games to expand market share, and successfully secured growth in domestic sales and exports. It achieved sustainable and steady growth in its production and operation.

Under the International Accounting Standards, operating revenue of ENC for 2008 amounted to RMB16,619,000,000, representing an increase of 61.65% as compared to the corresponding period of last year; net profits amounted to RMB601,000,000, representing an increase of 46.49% as compared to the corresponding period of last year.

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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited ("Sony Ericsson"), 27% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing. BMC is mainly engaged in mobile terminals (mobile phones) under the brand of Sony Ericsson and is the principal production base and supply centre of Sony Ericsson mobiles. Actively coping with the global financial crisis, BMC implemented plan revert, strengthened its management, expanded income while cutting expenditures, lowering cost, and minimizing the impact from external adverse factors to ensure the consistent performance of operating results in 2008. However, due to the impact of the global recession and changing market conditions, a substantial decrease was recorded in the net profit.

Under the International Accounting Standards, operating revenue of BMC for 2008 amounted to RMB28,327,000,000, representing a decrease of 13.48% as compared to the corresponding period of last year; net profits amounted to RMB464,000,000, representing a decrease of 39.23% as compared to the corresponding period of last year.







### A. Principal operating results of the Company during the reporting period *(Continued)*

#### 4. Operation of the principal controlling and investee Companies *(Continued)*

##### (3) Hua Fei Color 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 and 55% by LG Displays International Led. 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, sales income for 2008 amounted to RMB2,102,000,000, representing a decrease of 21.84% as compared to the corresponding period of last year. It continued to suffer a loss of RMB299,000,000 for the reporting period.

#### 5. Major suppliers and consumers

As at 31 December 2008, the aggregate turnover of the five major customers of the Company accounted for 45.33% of the turnover of the Company for the year, of which turnover from the largest customer accounted for 14.36% of turnover of the Company for the year.

The aggregate amount of purchase from the five major suppliers of the Company accounted for 19.47% of the total amount of purchase made by the Company for the year, of which the purchasing amount of the largest supplier accounted for 6.18% of the total amount of purchase made by the Company for the year.

During the year, none of the Directors, supervisors and their associates or shareholders had interests in the share capital of the Company's suppliers or customers mentioned above.



### A. Principal operating results of the Company during the reporting period *(Continued)*

#### 6. Outlook of the Company's Future Development

- (1) Development trend of the business which the Company is in and the market situation which the Company is facing

After business structure adjustment and business layout optimization in recent years, the Company has primarily set its development direction towards satellite communication, mobile communication, electromechanical business, electronic information, electronic manufacturing and gradually developing intelligent and green products.

The electronics industry covers a wide range of uses. It develops very rapidly and new electronic products are constantly emerging. The market has vast prospect and potential for development. Satellite communication has already become an emerging business and is a new economic growing point. The fusion of satellite communication with the Internet and land mobile network is taking satellite communication into a new realm. It serves as a supplement and backup for the national communication backbone network, playing an important role in emergency situations such as natural disasters, by ensuring the smooth operation of the national communication network. Mobile communication is gaining importance in the way society communicates, and has been the largest pillar and a strong growth driver in the telecommunication industry. In particular, the current attention magnet 3G has become the engine of telecom around the world. As China issues its 3G licenses, a telecom industry chain composing of 3G network construction, terminal equipments manufacture, operation and information servicing is going to take shape. This will in turn increase domestic demand and stimulate the economy. Electromechanical integration which utilises mechanics, electronics, optics, control tech, computer and information, is the global development trend in the research of neotechnic products. Its development and improvement depends on and contributes to the development of the individual technologies. Currently, it is on a development track of AI, network, green and system. The development of electronic information industry is evolving from traditional stimulation toward digital, network and AI. Tremendous demand from rising needs for information products and network services provides room for further development in the information product industry. Electronic manufacturing has become a pillar of the national economy and will continue to grow at a suitable speed over the next few years.

As electronic and information products rely heavily on technology, the life-span of such products is short, due to the constantly changing market trends and fierce competition among products. Regarding its future developments, the Company will face both excellent opportunities and huge challenges.





## A. Principal operating results of the Company during the reporting period *(Continued)*

### 6. Outlook of the Company's Future Development *(Continued)*

#### (2) Development strategy of the Company

The overall development strategy of the Company is to focus on technological research and effectively employ its resources, so as to achieve further innovation in its business and gradually develop the Company into a R&D and production base of satellite communication. At the same time, the Company aims to leap into a leading position in the country's electromechanical industry, information technology business, electronic manufacturing and gradual development of intelligent and green products, forging the Company onwards to become a comprehensive and international high technology enterprise.

#### (3) Risk factors

Due to the changes in the macro-economy and the possible long term impact of the global financial crisis on China's economy, there are increased uncertainties and risks to the economic development of the Company. We should therefore conduct systematic analysis in order to increase the awareness of the opportunities and risks that might arise, and to facilitate an efficient response to it.

Three main risk factors have been identified. First of all, despite the Government's domestic stimulus package and the relaxation of fiscal and monetary policy have provided a favorable environment to the Company, the Company still faces the ongoing impacts and potential risks due to the global financial crisis. Secondly, as the Company's core business does not stand out, its competitiveness is comparatively weak and it is facing market risks in the increasingly fierce market. Thirdly, as technology is pivotal in electronic production, the Company faces technological risks due to electronic products becoming old and fading out rapidly.



### A. Principal operating results of the Company during the reporting period *(Continued)*

#### 6. Outlook of the Company's Future Development *(Continued)*

##### (4) Development plans in the forth-coming year

2009 is a key year to the Company's rapid development. The Company will fully implement the philosophy of scientific development, to be open-minded and innovative in order to seize opportunities and deal with challenges. By ensuring sustainable growth, great development will be achieved in good time. The main tasks in the forth-coming year are as follows:

- (i) to strengthen internal reforms, adjust enterprise structures, optimize allocation of resources and enhance fundamental management, so as to upgrade the principal operations;
  - (ii) to enhance scientific research, complete research innovation system and incentive mechanism, so as to accelerate transformation of technological outcomes and replacement of products with new models;
  - (iii) to insist on market orientation, strengthen market construction, seize the opportunity brought by domestic demand stimulus and open up new sales channels, so as to increase market competitiveness;
  - (iv) to take proper measures to train and introduce high-end research talents and management personnel, so as to meet the demand of talent for the Company's development;
  - (v) to reinforce international collaboration, continue to focus on strategic cooperation with joint-ventures and partners, further reinforce management service of joint-venture corporations and facilitate continued rapid growth of joint-venture corporations, so as to increase income from investment.
- (5) The target operating revenue of the Company in 2009 is RMB1,130,000,000. The operating expenses during the period is expected to be RMB299,000,000 or below, out of which sales cost to be at RMB33,000,000, management cost RMB208,000,000 and financial cost RMB58,000,000.

### B. Conditions of investment of the Company

No funds were raised by the Company during the reporting period. For the year, the Company did not utilize any raised funds or continue any use thereof commencing from the previous periods. No material investment financed by other non-raised funds was made.





## C. Analysis on financial status of the Company

### 1. Financial status

The Company had a satisfactory financial status. Changes in major financial indices according to the PRC Accounting Standards for Business Enterprises are as follows:

Unit: RMB'000

Item	2008	2007	Increase/ (decrease) (%)	Main Reasons
Bills receivable	<b>3,982.23</b>	2,131.70	86.81	Increase in bills received in ordinary course of business
Accounts receivable	<b>231,574.56</b>	159,234.16	45.43	Increase in sales revenue for the year and longer credit term for payment
Other receivables	<b>22,546.94</b>	57,076.37	(60.50)	Collection of RMB45,000,000 of receivables under fund raising project for buildings in the year
Construction in progress	<b>23,099.50</b>	10,257.70	125.19	Certain uncompleted infrastructure projects
Salaries payable	<b>44,944.23</b>	8,601.85	422.49	Accrued expenses for internally retired staff under the State's policy



## C. Analysis on financial status of the Company (Continued)

### 1. Financial status (Continued)

Unit: RMB'000

Item	2008	2007	Increase/ (decrease) (%)	Main Reasons
Taxes Payable	<b>25,246.34</b>	40,170.92	(37.15)	Payment of city maintenance construction tax outstanding in previous years
Long term payables	<b>3,546.06</b>	7,404.86	(52.11)	Due payment of obligations of finance lease
Minority interests	<b>12,141.27</b>	46,818.87	(74.07)	Acquisition of minority interests in certain subsidiaries
Selling expenses	<b>26,501.47</b>	18,282.26	44.96	Increase in revenue for the year
Total profit	<b>44,799.43</b>	121,419.24	(63.10)	Decrease in investment income and accrued expenses for internally retired staff in the year
Minority interests	<b>1,601.79</b>	7,186.18	(77.71)	Acquisition of minority interests in certain subsidiaries

### 2. Liquidity of capital

In accordance with the Hong Kong Financial Reporting Standards, the gearing ratio of the Company (the ratio between total liabilities and total assets), current liabilities, liquidity ratio and quick ratio were 41.5%, RMB20,000,000, 0.98 and 0.66 respectively as at 31 December 2008 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB380,000,000 as at 31 December 2008 as shown in the consolidated financial statements of the Company.

Loans: short-term bank loans amounted to RMB590,000,000 as at 31 December 2008 as shown in the consolidated financial statements of the Company and basic interest rate per annum during the reporting period, from January to September was 7.47%, from October to December was between 6.93% to 5.58% (the basic interest rate per annum was 5.31% since 23 December 2008).

The Board believed that the Company could maintain or enlarge its existing bank facilities to meet various financial obligations.





### D. Adjustment of relevant items in the balance sheet of the Company in early 2008 arising from adoption of the new PRC Accounting Standards for Business Enterprises

As a dual-listing A-H shares public company, the Company made retrospective adjustments to the reconciliation of its A share and H share financial statements for 2008 in accordance with the "Accounting Standards for Business Enterprises Interpretation No. 2" issued by the Ministry of Finance on 7 August 2008 and the "Notice of the Ministry of Finance concerning Preparation of 2008 Annual Report in accordance with Accounting Standards" issued on 26 December 2008. Details of the adjustments are as follows:

#### 1. Long-term Equity Investment

Adjustments were made to long-term equity investment under A share financial statements in accordance with "Accounting Standards for Business Enterprises Interpretation No. 2". Accordingly, long-term equity investment was increased by RMB53,659,059.15 and retained earnings were increased by RMB53,659,059.15 as at 1 January 2008.

#### 1. Long-term Equity Investment

According to the adjustment to long-term equity investment in accordance with "Accounting Standards for Business Enterprises Interpretation No. 2", a further provision of RMB5,365,905.92 was made to surplus reserve as at 1 January 2008, while retained earnings were decreased by RMB5,365,905.92.

**Li Anjian**  
*Chairman*

Nanjing, the PRC  
26 March 2009







The Board is pleased to submit its report together with the audited financial statements for the year ended 31 December 2008.

### Day-to-day Operation of the Board

**1. During the reporting period, the Board held four Board meetings to consider and approve the following issues:**

- (1) On 27 March 2008, the Company held the Fourth Meeting of the Sixth Board at its headquarters. The meeting approved the 2007 annual report and the summary thereof, report of the Board, 2007 financial statements as audited respectively by the international and domestic auditors and the profit appropriation plan for 2007. It was approved that Shu Lun Pan Horwath Hong Kong CPA Limited and Zhongrui Yuehua Certified Public Accountants Company Limited be reappointed respectively as the international and domestic auditors of the Company for 2008. The resolution on “adjustments to the opening balance of relevant items in the balance sheet for the year 2007 after implementation of New Accounting Standards” was considered and approved. The relevant resolutions proposed at the 2007 Annual General Meeting were passed.

(The announcement of the aforesaid resolutions passed by the Board was published in the Shanghai Securities News, China Securities Journal, and websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 28 March 2008.)

- (2) On 28 April 2008, the Company held the Fifth Meeting of the Sixth Board with approved written resolutions. The meeting approved the 2008 First Quarterly Report of the Company.
  - (3) On 19 August 2008, the Company held the Sixth Meeting of the Sixth Board at its headquarters. The meeting approved the 2008 Interim Report and its summary.
  - (4) On 28 October 2008, the Company held the Seventh Meeting of the Sixth Board with approved written resolutions. The meeting approved the 2008 Third Quarterly Report of the Company.
- 2. During the reporting period, the Board strictly complied with the resolutions approved at the general meetings and will diligently and honestly work for the best interest of the Company and shareholders.**







## Press and Websites for Information Disclosure

During the reporting period, information of the Company was published on China Securities Journal and Shanghai Securities News as well as the websites of the Shanghai Stock Exchange (<http://www.sse.com.cn>) and the Hong Kong Stock Exchange (<http://www.hkex.com.hk>).

## Principal Activities

The principal activities of the Group are the development, production and sale of satellite communication products, mobile communication products, electromechanical products, electronic information products and electronic manufacturing business, etc.

## Turnover and Contribution by Business Segment

An analysis of consolidated turnover by business segments and their contribution to profit (loss) of the Group under Hong Kong Financial Reporting Standards is as follows:

Type of products	Turnover <i>RMB'000</i>	Contribution to the Group's operating profit/(loss) <i>RMB'000</i>
Electronic manufacturing products	407,647	24,071
Satellite communication products	131,982	13,572
Electromechanical products	213,320	(42,256)
Electronic information products	339,192	2,739
Others products	28,250	(6,288)
Unallocated expenses		(104,134)
Interest income		9,692
Operating loss		(102,604)
Finance costs		(54,456)
Share of results of associates		201,284
Profit before taxation		44,224

## Financial Summary

A summary of the Group's results and assets and liabilities for the last five financial years, prepared in accordance with Hong Kong Financial Reporting Standards, is set out on "II. Accounting Figures and Financial Highlights".



### Net Assets Per Share

The details of the net assets per share at the balance sheet date for each of the three years ended 31 December 2008 are as follows:

(1) As prepared in accordance with Hong Kong Financial Reporting Standards:

	2008	2007	2006
Net assets per share (Net assets/Total number of shares) (Unit: RMB)	2.28	2.28	2.10
Rate of increase	—	8.57%	7.14%

(2) As prepared in accordance with PRC Accounting Standards for Business Enterprises:

	2008	2007	2006
Net assets per share (Net assets/Total number of shares) (Unit: RMB)	2.28	2.28	2.11
Rate of increase	0.13	8.06%	9.90%

### Purchase, Sale or Redemption of the Listed Securities of the Company

The Group has not purchased, sold or redeemed any of the Company's listed securities during the reporting period.

### Pre-emptive Rights

There is no provision for pre-emptive rights according to the relevant laws of the PRC and the Articles of Association.

### Directors' and Supervisors' Remuneration

During the year, the aggregate remuneration of the Directors and Supervisors amounted to RMB1,630,600 and RMB480,000 respectively, exclusive of their pension scheme contributions. Save as disclosed above, the Company did not offer other remuneration, allowances, or bonuses to the Directors and Supervisors.

The remuneration paid or payable by the Company to each of the Directors and Supervisors was less than RMB300,000. The pension scheme for Executive Directors and Supervisors was included as part of the staff pension scheme of the Company as there was no other special arrangement.





### Highest Paid Individuals

The five highest paid individuals of the Company during the year were technology specialists of the Company.

### Arrangements to Purchase Shares or Debentures by Directors, Supervisors and Senior Management Staff

At no time during the year 2008 had the Company become a party to any arrangements to enable the Directors, Supervisors or senior management staff or any of their spouses or children under 18 to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other corporate bodies.

### Directors', Supervisors' and Senior Management Staff's Interests in Contracts

There had been no contract of significance at any time during the year to which the Company or its subsidiaries was a party and in which a director, supervisor or senior management staff of the Company had a material interest.

### Service Agreements for Directors and Supervisors

Service agreements have been signed between the Company and all Directors and Supervisors. The term of service of each agreement was for a term of three years.

None of the Directors or Supervisors has entered into any contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

### Privileges of Directors, Supervisors and Senior Management Staff

During the reporting period, no privileges were enjoyed by the Directors, Supervisors or senior management staff of the Company.



### Material Contracts with PEGL Group

The Group entered into the following agreements under the New Continuing Connected Transactions conducted from 2007 to 2009 with the PEGL Group:

1. An agreement on provision of sub-contracting services and composite services by the Group to the PEGL Group signed on 8 November 2006;
2. An agreement on provision of sub-contracting services and composite services by the PEGL Group to the Group signed on 8 November 2006;
3. An agreement on sale of materials and components and parts by the Group to the PEGL Group signed on 8 November 2006;
4. An agreement on sale of materials and components and parts by the PEGL Group to the Group signed on 8 November 2006;
5. An agreement on import and export agency services provided by the PEGL Group to the Group signed on 27 November 2006;
6. An agreement on licensing of PANDA Trademarks by the Group to the PEGL Group signed on 27 November 2006;
7. An agreement on lease of factory premises by the Group to the PEGL Group signed on 8 November 2006;
8. An agreement on lease of factory premises and land use right by the PEGL Group to the Group signed on 8 November 2006.

(Details of the aforesaid agreements were published in the China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 12 December 2006 and in the circular of the first extraordinary general meeting of 2007 held on 3 April 2007.)

The aforesaid agreements were approved by the independent shareholders as continuing connected transactions at the extraordinary general meeting held on 3 April 2007 and came into effect.

### Convertible Securities, Options, Warrants or Similar Rights

The Company had not issued or granted any convertible securities, options, warrants or similar rights as at 31 December 2008.





### Pension Scheme

The Company participated in a pension scheme established by the government. In accordance with the terms of the scheme, the annual contribution should be equivalent to around 20% of the salary of the employees. According to the said scheme, the pension of present and retired employees of the Company is protected by the Nanjing Social Labour Insurance System Co-ordinating Committee.

Except for the annual contribution, the Company has no further obligation in this regard.

### Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the Company's business were entered into by the Company or existed during the year.

### Results and Profit Distribution

The results of the Group for the year ended 31 December 2008 and the financial status of the Company and the Group on that date are set out in the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and the PRC accounting standards.

After being audited by Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited, the Company realized a net profit after taxation of RMB37,201,260 in 2008 under the PRC Accounting Standards for Business Enterprises; the Company realized net profit attributable to shareholders of RMB36,626,000 in 2008 under Hong Kong Financial Reporting Standards.

Under the relevant accounting policies and the Articles of Association, the withdrawal from the statutory common fund was RMB416,400. In addition, the undistributed profit for 2007 was RMB156,031,040. Hence the actual profit attributable to shareholders in this year amounted to RMB140,414,700.

In view of the actual situations of the Company, the Board resolved not to distribute any final dividends as at 31 December 2008 in order to cater for the need to finance production and operation for sustainable development of the Company. The earnings for the year were used as supplementary working capital. The remaining distributable profit is to be carried forward to next year.

The Company resolved that capitalization of capital reserve would not be made.

The aforesaid profit distribution proposal is subject to the shareholders' approval at the 2008 annual general meeting.



### Distribution of the last three years of the Company

Unit: RMB'000

Year	Cash Dividend (tax inclusive)	Net Profit of the Year	Ratio (%)
2005	0	76,311.42	—
2006	0	86,609.32	—
2007	52,401.20	89,092.71	58.82

### Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group, as of 31 December 2008, are set out in the notes to the financial statements prepared under Hong Kong Financial Reporting Standards.

Interest which was capitalized during the year is set out in the notes to the financial statements prepared under Hong Kong Financial Reporting Standards.

### Reserves

The changes in the reserves of the Group for the year are set out in the Consolidated Statement of Changes in Equity prepared under Hong Kong Financial Reporting Standards and the notes to the financial statements prepared under PRC accounting standards.

### Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in the financial statements prepared under Hong Kong Financial Reporting Standards and the notes to the financial statements prepared under the PRC accounting standards.

### Subsidiaries

Information on the subsidiaries of the Company is set out in the notes to the financial statements prepared under Hong Kong Financial Reporting Standards.

### Code of Corporate Governance Practices and Model Code

Please refer to Corporate Governance Report for details of compliance with the CGP Code and the Model Code in Part 6 "Corporate Governance Report" of this annual report.





### Confirmation by Independent Non-executive Directors on Connected Transactions

The Independent Non-executive Directors of the Company have, in such capacity, reviewed the connected transactions referred to in the financial statements prepared under Hong Kong Financial Reporting Standards and Note 8 to the financial statements prepared under the PRC accounting standards and confirmed that:

1. such transactions have been entered into by the Company in the ordinary and usual course of its business;
2. the transactions have been entered into either (1) on normal commercial terms; or (2) where there is no available comparison, on terms no less favourable to the Company than terms available to or from independent third parties; and
3. such transactions have been entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### Annual General Meeting

The Board intends to convene the annual general meeting on 15 May 2009. Please refer to the relevant announcement for details of the meeting.

By Order of the Board  
**Li Anjian**  
*Chairman*

Nanjing, the PRC  
26 March 2009



### To all shareholders,

During the reporting period, all the members of the Supervisory Committee of the Company have, in accordance with the provisions of the Company Law, Securities Law, the Articles of Association, other PRC laws and rules of domestic and international securities regulatory bodies, based on the principles of acting in good faith, performed faithfully their duties prescribed in laws and regulations concerned and in the Articles of Association to protect the interests of the Company and its shareholders.

During the reporting period, the Supervisory Committee held four meetings and proposed several resolutions. The details are as follows:

- (1) On 27 March 2008, the Sixth Supervisory Committee held its third meeting at the Company's conference room. At the meeting, the Supervisory Committee passed the 2007 report of the Supervisory Committee, reviewed 2007 audited financial statements and 2007 Annual Report and its summary, considered and approved the review opinions on 2007 Annual Report prepared by the Board, and passed the summary of Supervisory Committee work for 2008.
- (2) On 18 August 2008, the fourth meeting of the Sixth Supervisory Committee was held at the Company's conference room. At the meeting, the Supervisory Committee reviewed the 2008 Interim Report and its summary, and considered and approved the review opinions on the 2008 Interim Report prepared by the Board.
- (3) On 27 October 2008, the Sixth Supervisory Committee held its fifth meeting at the Company's conference room at which the Committee reviewed the 2008 Third Quarterly Report, and considered and approved the review opinion on the 2008 Third Quarterly Report prepared by the Board.
- (4) On 12 November 2008, an extraordinary meeting of the Supervisory Committee was convened by written resolutions, at which the Supervisory Committee considered and approved the nomination of Mr. Wang Fei as a candidate for independent supervisor of the Sixth Supervisory Committee of the Company, and submitted such proposal to the extraordinary general meeting for consideration and approval.

During the reporting period, all supervisors attended all board meetings, and provided effective supervision to ensure that all decisions were made by the Board according to laws and regulations and the Articles of Association, were in line with the Company's development and prospects and were in accordance with shareholders' interests. The Supervisory Committee actively participated in production operation, technological renovation and investment projects of the Company, and provided many good proposals.

In the opinion of the Supervisory Committee, the Directors and the senior management staff of the Company had performed their duties as provided in the Articles of Association and as required by the relevant laws and regulations. None of the Directors, managers and other senior management staff violated any PRC laws and regulations or the Articles of Association. They had neither abused their office nor act illegally to harm the interests of the Company or its shareholders and staff.

During the reporting period, the Company did not utilize any proceeds raised in the reporting period or the previous period.







During the reporting period, the Company entered into an equity transfer agreement with PEGL and the Import & Export Company in relation to the acquisition of entire equity interest in Nanjing Panda Technology Industrial Co., Ltd on 5 November 2008. The transaction constituted a connected transaction. The consideration was determined after arms' length negotiations between both parties on the basis of appraised assets value and conducted on normal commercial terms. It was fair and reasonable and in the interests of the Company and shareholders as a whole. The transaction was considered and approved at the 2008 second EGM held on 31 December 2008.

During the reporting period, connected transactions of the Company were made on a fair and reasonable basis and were confirmed by Independent Non-executive Directors of the Company. No acts detrimental to the interests of the Company were found.

During the reporting period, PEGL, the controlling shareholder of the Company, continued to perform its undertakings in the Share Segregation Reform.

The financial statements as of 31 December 2008 were audited by UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd, in accordance with international and domestic accounting standards respectively. They issued unqualified Auditors' Report of the Company. The 2008 financial statements fairly reflected the financial and operating situation of the Company.

During the reporting period, the Company continued to carry out special corporate governance campaigns. In accordance with relevant requirements from the "Notice on Announcement of Special Corporate Governance Campaign" ([2008] No. 27) issued by China Securities Regulatory Commission, the Company conscientiously re-assessed the progress and effect of the rectifications of the special corporate governance campaigns launched by the Company in 2007, dug into deficiencies in governance and put forward remedial measures for future, aiming to reinforce the achievements in governance and enable the Company to further standardize operation and improve corporate governance.

The Supervisory Committee wishes to further reinforce the achievements of special corporate governance campaigns and practically implement each measure for rectification, and through supervision and management enhancement on holding subsidiaries, further improve the internal control system, especially for capital utilization and guarantee to outside parties, as so to effectively control any risk that may go beyond control of the Company.

The Supervisory Committee is satisfied with the performance of the Board for the year and has great confidence in the future development of the Company.

By Order of the Supervisory Committee  
**Zhang Zhengping**  
*Chairman*

Nanjing, the PRC  
26 March 2009



1. During the reporting period, the Company did not have material litigation and arbitration.
2. On 5 November 2008, the Company entered into an equity transfer agreement with PEGL and Nanjing Panda Electronics Import and Export Company (the “Import & Export Company”) in relation to the acquisition of equity interests in Nanjing Panda Technology Industrial Co., Ltd (“Panda Technology”). Pursuant to the agreement, the Company agreed to acquire 99% and 1% equity interests in Panda Technology from PEGL and the Import & Export Company respectively for an aggregate consideration of RMB121,000,000 (approximately HK\$136,730,000). The Consideration shall be paid in cash by the Company to PEGL and the Import & Export Company within 30 days upon the signing of the agreement. Upon completion of the acquisition, the Company will hold 100% equity interest in Panda Technology.

The Board was of the opinion that the acquisition of equity interests in Panda Technology was made to meet the development of the Company’s core business, reduce related party transactions, help the Company to unify industry layout and enhance its independence. It was beneficial to the company’s long term development and in the interest of the Company and shareholders as a whole.

The transaction constitutes a connected transaction of the Company. The consideration was determined after arms’ length negotiation between both parties on the basis of appraised assets value and conducted on normal commercial terms, and was fair and reasonable.

The transaction was approved by independent shareholders at the 2008 second EGM held on 31 December 2008.

(For details please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News and the website of the Shanghai Stock Exchange on 8 November 2008 and 5 January 2009 as well as announcements published on the website of the Hong Kong Stock Exchange on 7 November 2008, 16 November 2008 and 31 December 2008)

During the reporting period, other than the aforesaid acquisition, the Company did not have other material asset acquisition and disposal and merger.





### 3. Connected transactions:

- (1) During the reporting period, other than the 2007-2009 New Continuing Connected Transactions of the Company which had obtained independent shareholders' approval at the EGM held on 3 April 2007 and the connected transaction relating to the aforesaid acquisition of equity interests in Panda Technology, the Company did not have other material connected transactions and asset reorganization.

In 2008, the continuing connected transactions of the Company were entered into in the usual course of business and on normal commercial terms, audited by auditors (Details of which are set out in the Auditor's Report), and had not exceeded their respective annual caps. During the reporting period, details of each of the continuing connected transactions are set out as follows:

Connected Transactions	Pricing Principle	Price	Amount (RMB'000)
(a) Provision of sub-contracting services and composite services by the Group to the PEGL Group		at prices no less favourable to the Company than terms available to an independent third party	20,902
(b) Provision of sub-contracting services and composite services by the PEGL Group to the Group	Market price / at prices no less favourable to the Company than terms available to or from independent third parties	at prices no less favourable to the Company than terms available from an independent third party	4,854
(c) Sale of materials and components and parts by the Group to the PEGL Group		Market price	23,236
(d) Sale of materials and components and parts by the PEGL Group to the Group		Market price	11,773
(e) Import and export agency services provided by the PEGL Group to the Group		at prices no less favourable to the Company than terms available from an independent third party	—



### 3. Connected transactions: (Continued)

- (1) During the reporting period, other than the 2007-2009 New Continuing Connected Transactions of the Company which had obtained independent shareholders' approval at the EGM held on 3 April 2007 and the connected transaction relating to the aforesaid acquisition of equity interests in Panda Technology, the Company did not have other material connected transactions and asset reorganization. (Continued)

Connected Transactions	Pricing Principle	Price	Amount (RMB'000)
(f) Licensing of PANDA Trademarks by the Group to the PEGL Group	Market price/at prices no less favourable to the Company than terms available to or from independent third parties	at prices no less favourable to the Company than terms available to an independent third party	192
(g) Lease of factory premises by the Group to the PEGL Group		Market price	101
(h) Lease of factory premises and land use right by the PEGL Group to the Group		Market price	3,213

- (2) During the reporting period, the transactions amount of sale of product and provision of service by the Company to related parties was RMB133,100,700, among which the connected transaction for sale of products and provision of services to the controlling shareholder and its subsidiaries amounted to RMB44,137,800; the transaction for purchase of products and acceptance of service from related parties amounted to RMB20,713,600.
- (3) During the reporting period, the actual amount of the provision of fund by the Company to related parties was RMB(32,000) and the balance was RMB1,736,200, amongst which the actual amount provided to the controlling shareholders and its subsidiaries was RMB0 and the balance was RMB0; the actual amount of the provision of fund by related parties to the Company was RMB(1,273,700) and the balance was RMB9,225,900.
- (4) There were no non-operating funds supplied by the Company to its controlling shareholder PEGL.





4. During the reporting period, the Company had no entrustment, contracting and lease of assets from other companies nor any entrusted custody of funds.

5. **Material guarantee**

During the reporting period, the amount guaranteed by the Company for its subsidiaries amounted to RMB57,386,200 and the balance amounted to RMB52,386,200, the details of which are as follows:

As of 31 December 2008, the Company granted guarantees to bank loan of RMB1,000,000, bank acceptance bills of RMB11,953,600 and letter of credit of RMB3,866,000 to its controlling subsidiaries Nanjing Panda Information Industry Co., Ltd., bank loan of RMB17,000,000 and obligations under finance leases amounted to RMB3,085,000 to Nanjing Panda Hua Ge Electronic Plastic Co., Ltd., as well as bank loan of RMB5,000,000 and obligations under finance leases amounted to RMB10,481,600 to Nanjing Panda Electronic Manufacturing Company Limited.

The said guarantees totalling RMB52,386,200, representing 3.51% of the Company's net assets, are provided to controlling subsidiaries. The gearing ratio of the above subsidiaries receiving guarantees was below 70%.

The Company did not provide any guarantee to any independent third parties other than its subsidiaries, nor to any controlling shareholder, ultimate controller or its connected parties.

6. **Undertakings of shareholders in the Share Segregation Reform and their performance:**

In the process of the Share Segregation Reform, PEGL, the controlling shareholder of the Company undertook to comply with the requirements of relevant laws, regulations and rules and observe statutory commitments and obligations. In addition, PEGL also made the following special undertakings:

- (1) PEGL would not trade or transfer any of the originally non-circulating shares it held which obtained listing status for 24 months from the date on which listing status was obtained.
- (2) PEGL undertook not to increase the appropriation of the non-operating capital of the Company from the date of the implementation of Share Segregation Reform Proposal, and to settle the appropriation of the non-operating capital of the Company by the PEGL by the end of 2006 by means of cash repayment and using assets to discharge a debt.
- (3) PEGL undertook to bear all the expenses arising from the Share Segregation Reform.

As at 11 September 2008, PEGL, the holder of shares of the Company subject to trading moratorium, had strictly fulfilled all the above undertaking.



### 6. Undertakings of shareholders in the Share Segregation Reform and their performance: *(Continued)*

During the reporting period, the Company, for the first time, arranged the listing of circulating shares subject to trading moratorium (limited to the shares involved in the share reform scheme) held by PEG.L. Number of circulating shares subject to trading moratorium listed amounted to 65,501,500 shares. The date of listing of shares was 12 September 2008.

(Details were set out in the relevant announcements published in China Securities Journal, Shanghai Securities News on 9 September 2008 and the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange on 8 September 2008.)

### 7. Change in Auditors

At the Company's annual general meeting on 15 May 2008, the proposal for reappointment of Zhongrui Yuehua Certified Public Accountants Co., Ltd and Shu Lun Pan Horwath Hong Kong CPA Limited as the PRC and international auditors of the Company respectively for the year 2008 was considered and approved.

At the 2008 second extraordinary general meeting on 31 December 2008, the proposal for appointment of Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited as the PRC and international auditors of the Company respectively for the year 2008 was considered and approved.

(For details, please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News, the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 23 and 25 January 2008, 20 February 2008, 14 November 2008, 31 December 2008, and 5 January 2009.)

UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. were appointed for the first time to provide audit services for the Company.

For the remuneration paid by the Company to certified public accountants for the year, please refer to Section H under Part 6 "Corporate Governance Report" in this Annual Report.





8. The Company, the Board and its Directors didn't suffer any administrative penalty or public criticism by regulatory authorities during the reporting period.
9. During the reporting period, the Company did not hold equities and securities issued by other listed companies or hold shares of unlisted financial enterprises.
10. Other Events

- (1) Tax Policies

The Company is registered in High and New Technology Development Zone in Nanjing which is approved by the State Council as a national high and new technology zone. In 1995, the Company had been approved by the Jiangsu Provincial Technological Commission as a high and new technology enterprise, which, with reference to relevant provisions, was entitled to the preferential enterprise income tax treatment of 15%. In 2008, the Company has been recognised as a high and new technology enterprise by Jiangsu Science and Technology Department and is entitled to the preferential enterprise income tax treatment

- (2) Basic medical insurance for employees

The Company acted pursuant to the Provisional Regulations on Basic Medical Insurance for Employees in Nanjing Municipality (the "Regulations") and implemented a medical insurance scheme for its employees since 1 January 2001. The Company pays the premiums for such basic medical insurance scheme which are equivalent to 9% of the verified fee of all of the existing employees of the Company and provides subsidy to employees who have serious illness and whose medical expenses are covered under the medical scheme. The total allowance given in 2008 was less than RMB2.9 million. Save for the aforesaid premiums, the Company is not responsible for other medical expenses.



# Independent Auditor's Report

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF NANJING PANDA ELECTRONICS COMPANY LIMITED

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

We have audited the consolidated financial statements of Nanjing Panda Electronics Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 122, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Directors' responsibility for the financial statements

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

#### Auditor's responsibility

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

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

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

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





# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **UHY VOCATION HK CPA LIMITED**

*Certified Public Accountants*

David Tze Kin Ng, Auditor  
Practising Certificate Number P553

Hong Kong, 25 March 2009



# Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>Turnover</b>	5	<b>1,120,391</b>	994,038
Cost of sales	8	<b>(1,031,032)</b>	(848,399)
<b>Gross profit</b>		<b>89,359</b>	145,639
Other income	6	<b>33,319</b>	21,952
Other loss — net		<b>(2,597)</b>	(3,913)
Distribution costs	8	<b>(26,501)</b>	(18,282)
Administrative expenses	8	<b>(205,876)</b>	(215,284)
<b>Operating loss</b>		<b>(112,296)</b>	(69,888)
Finance income	7	<b>9,692</b>	3,413
Finance costs	7	<b>(54,456)</b>	(58,454)
Finance costs — net	7	<b>(44,764)</b>	(55,041)
Share of profit of associates		<b>201,284</b>	247,405
<b>Profit before income tax</b>		<b>44,224</b>	122,476
Income tax expense	10	<b>(5,996)</b>	(2,665)
<b>Profit for the year</b>		<b>38,228</b>	119,811
<b>Attributable to:</b>			
Equity holders of the Company		<b>36,626</b>	111,995
Minority interest		<b>1,602</b>	7,816
		<b>38,228</b>	119,811
<b>Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in Renminbi per share)</b>	12	<b>0.06</b>	0.17
<b>Dividends</b>	13	<b>—</b>	52,401

The notes on pages 74 to 122 are an integral part of these financial statements.



# Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	14	49,253	48,805
Property, plant and equipment	15	534,621	503,479
Investments in associates	17	937,585	1,030,034
Deferred income tax assets	18	5,950	5,204
		<u>1,527,409</u>	<u>1,587,522</u>
<b>Current assets</b>			
Inventories	19	341,847	305,991
Trade and bills receivables	20	214,211	103,474
Deposits, prepayments and other receivables	21	78,704	108,204
Amounts due from fellow subsidiaries, associates and related companies	31(e)	28,708	48,508
Amount due from the ultimate holding company	31(g)	21	—
Pledged bank deposits		33,259	92,015
Cash and cash equivalents	22	350,395	391,684
		<u>1,047,145</u>	<u>1,049,876</u>
<b>Total assets</b>		<u><u>2,574,554</u></u>	<u><u>2,637,398</u></u>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	26	655,015	655,015
Share premium and reserves		838,287	835,666
		<u>1,493,302</u>	<u>1,490,681</u>
<b>Minority interest in equity</b>		<u>12,141</u>	<u>46,911</u>
<b>Total equity</b>		<u><u>1,505,443</u></u>	<u><u>1,537,592</u></u>

The notes on pages 74 to 122 are an integral part of these financial statements.



# Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Finance lease obligations — non-current portion	25	3,546	7,387
<b>Current liabilities</b>			
Borrowings	23	643,047	711,335
Trade payables	24	189,251	162,123
Accruals and other payables		169,817	172,477
Amounts due to fellow subsidiaries, associates and related companies	31(e)	18,381	20,531
Amount due to the ultimate holding company	31(g)	10,656	11,402
Finance lease obligations — current portion	25	9,167	10,534
Current income tax liabilities		25,246	4,017
		<u>1,065,565</u>	<u>1,092,419</u>
<b>Total liabilities</b>		<u>1,069,111</u>	<u>1,099,806</u>
<b>Total equity and liabilities</b>		<u>2,574,554</u>	<u>2,637,398</u>
<b>Net current liabilities</b>		<u>(18,420)</u>	<u>(42,543)</u>
<b>Total assets less current liabilities</b>		<u>1,508,989</u>	<u>1,544,979</u>

LI Anjian  
Director

LIU Ailian  
Director

The notes on pages 74 to 122 are an integral part of these financial statements.



# Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	14	12,148	10,945
Property, plant and equipment	15	303,548	296,618
Investments in subsidiaries	16	343,717	295,992
Investments in associates	17	576,975	576,975
		<u>1,236,388</u>	<u>1,180,530</u>
<b>Current assets</b>			
Inventories	19	167,188	152,122
Trade receivables	20	87,272	5,413
Deposits, prepayments and other receivables	21	26,525	61,984
Dividend receivable		3,609	2,082
Amounts due from fellow subsidiaries, associates and related companies	31(e)	2,253	164
Amount due from the ultimate holding company	31(g)	2	—
Pledged bank deposits		1,860	80,200
Cash and cash equivalents	22	227,578	246,371
		<u>516,287</u>	<u>548,336</u>
<b>Total assets</b>		<u><u>1,752,675</u></u>	<u><u>1,728,866</u></u>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	26	655,015	655,015
Share premium and reserves	27	389,692	309,774
<b>Total equity</b>		<u><u>1,044,707</u></u>	<u><u>964,789</u></u>

The notes on pages 74 to 122 are an integral part of these financial statements.



# Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	23	<b>567,500</b>	653,000
Trade payables	24	<b>20,933</b>	15,612
Accruals and other payables		<b>102,858</b>	87,947
Amounts due to fellow subsidiaries, associates and related companies	31(e)	<b>7,027</b>	2,934
Amount due to the ultimate holding company	31(g)	<b>9,650</b>	4,584
<b>Total liability</b>		<b>707,968</b>	764,077
<b>Total equity and liabilities</b>		<b>1,752,675</b>	1,728,866
<b>Net current liabilities</b>		<b>(191,681)</b>	(215,741)
<b>Total assets less current liabilities</b>		<b>1,044,707</b>	964,789

**LI Anjian**  
Director

**LIU Ailian**  
Director

The notes on pages 74 to 122 are an integral part of these financial statements.



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory common funds RMB'000	Asset revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total RMB'000
As 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 year	—	—	—	—	—	111,995	111,995	7,816	119,811
Dividends paid to minority interest	—	—	—	—	—	—	—	(2,123)	(2,123)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(61)	(61)
Adjustment to profit appropriation in prior years	—	—	—	(1,505)	—	1,505	—	—	—
Profit appropriations	—	—	—	5,049	—	(5,049)	—	—	—
As at 31 December 2007	<u>655,015</u>	<u>389,338</u>	<u>4,020</u>	<u>196,440</u>	<u>35,688</u>	<u>210,180</u>	<u>1,490,681</u>	<u>46,911</u>	<u>1,537,592</u>
As at 1 January 2008	655,015	389,338	4,020	196,440	35,688	210,180	1,490,681	46,911	1,537,592
Profit for the year	—	—	—	—	—	36,626	36,626	1,602	38,228
Dividends paid	—	—	—	—	—	(52,401)	(52,401)	—	(52,401)
Acquisition of additional interest in a subsidiary	—	—	18,396	—	—	—	18,396	(36,372)	(17,976)
Adjustment to profit appropriations in prior years	—	—	—	5,366	—	(5,366)	—	—	—
Profit appropriations	—	—	—	416	—	(416)	—	—	—
As at 31 December 2008	<u>655,015</u>	<u>389,338</u>	<u>22,416</u>	<u>202,222</u>	<u>35,688</u>	<u>188,623</u>	<u>1,493,302</u>	<u>12,141</u>	<u>1,505,443</u>

The notes on pages 74 to 122 are an integral part of these financial statements.



# Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>Cash flows from operating activities</b>			
Cash (used in)/generated from operations	28	(136,567)	28,889
Interest paid		(52,939)	(56,072)
Finance lease interest paid		(1,517)	(2,382)
PRC enterprise income tax paid		(3,280)	(4,635)
Net cash used in operating activities		(194,303)	(34,200)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(80,735)	(49,548)
Purchase of land use rights		(1,559)	(38,288)
Acquisition of additional interest in subsidiaries		(1,692)	(61)
Proceeds from disposal of an associate		—	6,322
Proceeds from disposal of property, plant and equipment		—	4,769
Decrease/(increase) in pledged bank deposits		69,571	(47,239)
Interest received		9,692	3,413
Dividends received from associates		293,732	179,018
Net cash generated from investing activities		289,009	58,386
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		703,500	1,076,536
Repayments of borrowings		(779,603)	(1,255,301)
Decrease in amount due to the ultimate holding company		(767)	(5,737)
Guarantee fund withdrawn by the ultimate holding company		—	(31,600)
Inception of finance lease		7,113	—
Repayment of obligations under finance leases		(13,837)	(21,595)
Dividends paid		(52,401)	(2,123)
Net cash used in financing activities		(135,995)	(239,820)
Net decrease in cash and cash equivalents		(41,289)	(215,634)
Cash and cash equivalents at beginning of the year		391,684	607,318
Cash and cash equivalents at end of the year	22	350,395	391,684

The notes on pages 74 to 122 are an integral part of these financial statements.





# Notes To The Financial Statements

## 1. General information

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

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

The address of its registered office is Level 1-2, Block 5, North Wing, Nanjing High and New Technology Development Zone, Nanjing, the PRC.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements here been approved for issue by the Board of Directors on 25 March 2009.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of Nanjing Panda Electronics Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments and interpretations effective in 2008

HKAS 39	Financial instruments: Recognition and measurement
HK(IFRIC) — Int 11	Group and treasury share transactions
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

- (b) Interpretations effective in 2008 but not relevant to the Group

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

HK(IFRIC) — Int 12                      Service Concession arrangements

- (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

HKFRS 8	Operating segments
HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 (Amendment)	Financial instruments: Presentation and HKAS 1 (Amendment), Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation
HKFRS 1 (Amendment)	First time adoption of HKFRS and HKAS 27 Consolidated and separate financial statements
HKFRS 2 (Amendment)	Share-based payment
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) - Int 16	Hedges of a net investment in a foreign operation
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 19 (Amendment)	Employee benefits
HKAS 23 (Amendment)	Borrowing costs



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

- (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

HKAS 28 (Amendment)	Investments in associates (and consequential amendments to HKAS 32 Financial instruments: Presentation and HKFRS 7 Financial instruments: Disclosures)
HKAS 36 (Amendment)	Impairment of assets
HKAS 38 (Amendment)	Intangible assets
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement
HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations (and consequential amendment to HKFRS 1, First-time adoption)

There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

- (d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — Eligible hedged items
HK(IFRIC) — Int 13	Customer loyalty programmes
HK(IFRIC) — Int 15	Agreements for construction of real estates



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

- (d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

HK(IFRIC) — Int 17	Distributions of non-cash assets to owners'
HKAS 16 (Amendment)	Property, plant and equipment (and consequential amendment to HKAS 7, Statement of cash flows)
HKAS 20 (Amendment)	Accounting for government grants and disclosure of government assistance
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 28 (Amendment)	Investments in associates (and consequential amendments to HKAS 32, Financial Instruments: Presentation and HKFRS 7 Financial Instruments: Disclosures)
HKAS 29 (Amendment)	Financial reporting in hyperinflationary economies
HKAS 31 (Amendment)	Interests in joint ventures (and consequential amendments to HKAS 32 Financial Instruments: Presentation and HKFRS 7, Financial Instruments: Disclosures)
HKAS 38 (Amendment)	Intangible assets
HKAS 40 (Amendment)	Investment property (and consequential amendments to HKAS 16)
HKAS 41 (Amendment)	Agriculture



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

#### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

#### (b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.2 Basis of consolidation *(Continued)*

#### (c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. See Note 2.8 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.8). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management. The management is responsible for all allocating resources and assessing performance of the operating segments of the Group.



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

### 2.5 Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost or valuation less accumulated depreciation and accumulated impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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



# Notes To The Financial Statements

## 2. Summary of significant accounting policies (Continued)

### 2.5 Property, plant and equipment (Continued)

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

Construction in progress represents the buildings and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings, the costs of machinery, installation, testing and other direct costs. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the cost are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statements. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

### 2.6 Land use rights

The up-front prepayment made for land use rights are accounted for as operating leases. They are expenses in the consolidated income statement on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is expenses in the consolidated income statement.





# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### 2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.9 Financial Assets

The Group's financial assets are mainly loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and bills receivables' and 'deposits, prepayments and other receivables' in the balance sheet.

Loans and receivables are carried at amortised cost using the effective interest method. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

### 2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 2.13 Share capital

Ordinary shares are classified as equity.

### 2.14 Trade payables

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



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.17 Leases

#### (i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

#### (ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### 2.18 Provisions

Provisions are recognised when: the Group has a present (legal or constructive) obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of the time is recognised as interest expense.



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.19 Recognition of income

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

- (i) Revenue from the sale of products is recognised when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.
- (ii) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.
- (iii) Interest income is recognised on a timely basis using the effective interest method.
- (iv) Rental income from operating leases is recognised on a straight-line basis over the lease term.
- (v) Revenue for providing technology services is recognised to the extent of services rendered and according to the terms of the agreement.

### 2.20 Borrowings costs

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

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

### 2.21 Retirement benefit scheme

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



# Notes To The Financial Statements

## 2. Summary of significant accounting policies *(Continued)*

### 2.22 Research and development costs

Research costs are expenses incurred.

Development costs relating to the design and testing of new or improved products and reassessment of production procedures for cost efficiency purposes are expensed as incurred as the directors consider that the related economic benefits generated from these developments have very limited useful life.

### 2.23 Government grants

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

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

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

### 2.24 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.



# Notes To The Financial Statements

## 3. Financial Risk Management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign risk arising from various currency exposures, primarily with respect to United States Dollars ("USD") mainly. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Foreign exchange risk also arises from certain financial liabilities which are denominated in USD. The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2008, if RMB had weakened/strengthened by 5 percent against USD with all the variables held constant, post-tax profit for the year would have been approximately RMB1,831,000 (2007: RMB1,625,000) lower/higher, mainly as a result of foreign exchange gains on translation of USD-denominated monetary assets and liabilities.

(ii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from bank borrowings. As at 31 December 2008, a portion of borrowings were at floating rates.

As at 31 December 2008, if interest rates on RMB denominated borrowings have been 100 basis point higher/lower with all other variables held constant, profit for the year would have been RMB3,551,000 (2007: RMB3,613,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.



# Notes To The Financial Statements

## 3. Financial Risk Management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (b) Credit risk

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

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

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

The credit risk for cash and cash equivalents and pledged bank deposits is considered by the Group to be minimal as such amounts are generally placed with banks with good ratings.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. See Note 20 for further disclosure on credit risk.

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities. The Group aims to maintain flexibility in funding by keeping credit lines available at all time.





# Notes To The Financial Statements

## 3. Financial Risk Management (Continued)

### 3.1 Financial risk factors (Continued)

#### (c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
2008				
Borrowings	633,257	—	—	633,257
Trade payables	189,251	—	—	189,251
Accruals and other payables	173,435	—	—	173,435
Amounts due to fellow subsidiaries, associates and related companies	18,381	—	—	18,381
Amount due to the ultimated holding company	13,852	—	—	13,852
Finance lease obligations	9,942	2,616	1,204	13,762
	1,038,118	2,616	1,204	1,041,938
2007				
Borrowings	739,747	—	—	739,747
Trade payables	162,123	—	—	162,123
Accruals and other payables	172,477	—	—	172,477
Amounts due to fellow subsidiaries, associates and related companies	20,531	—	—	20,531
Amount due to the ultimated holding company	11,402	—	—	11,402
Finance lease obligations	11,715	7,500	204	19,419
	1,117,995	7,500	204	1,125,699



# Notes To The Financial Statements

## 3. Financial Risk Management (Continued)

### 3.1 Financial risk factors (Continued)

#### (c) Liquidity risk (Continued)

The Company	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
2008				
Borrowings	603,279	—	—	603,279
Trade payables	20,933	—	—	20,933
Accruals and other payables	102,858	—	—	102,858
Amounts due to fellow subsidiaries, associates and related companies	7,027	—	—	7,027
Amount due to the ultimated holding company	9,650	—	—	9,650
	<u>743,747</u>	<u>—</u>	<u>—</u>	<u>743,747</u>
2007				
Borrowings	685,164	—	—	685,164
Trade payables	15,612	—	—	15,612
Accruals and other payables	87,947	—	—	87,947
Amounts due to fellow subsidiaries, associates and related companies	2,934	—	—	2,934
Amount due to the ultimated holding company	4,584	—	—	4,584
	<u>796,241</u>	<u>—</u>	<u>—</u>	<u>796,241</u>



# Notes To The Financial Statements

## 3. Financial Risk Management (Continued)

### 3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's policy is to borrow centrally, using short-term borrowing facilities, to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are on-lent or contributed as equity to certain subsidiaries.

The gearing ratios as at 31 December 2008 and 2007 were as follows:

	<b>2008</b> <b>RMB'000</b>	2007 <i>RMB'000</i>
Total borrowings	<b>655,760</b>	729,256
Less: Cash and cash equivalents (Note 22)	<b>(361,210)</b>	(391,684)
Net debt	<b>294,550</b>	337,572
Total equity (excluding minority interest)	<b>1,493,302</b>	1,490,681
Total capital	<b>1,787,852</b>	1,828,253
Gearing ratio	<b>16%</b>	18%



# Notes To The Financial Statements

## 3. Financial Risk Management (Continued)

### 3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing or material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (i) Useful lives of property, plant and equipment

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

### (ii) Impairment of trade and other receivables

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



# Notes To The Financial Statements

## 4. Critical accounting estimates and judgements *(Continued)*

### (iii) Provision for obsolete inventories

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

## 5. Segmental information

### a) Primary reporting format — business segments

As at 31 December 2008, the Group is currently organised into four operating businesses. The principal activities of the businesses are as follows:

- |     |  |  |
|-----|--|--|
| (1) | Electronic manufacturing products:     | Development, production and sale of electronic manufacturing products                    |
| (2) | Electromechanical products:            | Development, production and sale of electromechanical products, equipment and appliances |
| (3) | Satellite telecommunications products: | Development, manufacture and sale of satellite telecommunication products                |
| (4) | Electronic information products:       | Development, manufacture and sale of electronic information products                     |

The segment results for the year ended 31 December 2008 are as follows:



# Notes To The Financial Statements

## 5. Segmental information (Continued)

### a) Primary reporting format — business segments (Continued)

The following tables provide an analysis of the Group's revenue, results and certain assets, liabilities and expenditure information by business segments for the years ended 31 December 2008 and 2007:

#### For the year ended 31 December 2008

	Electronic manufacturing products <i>RMB'000</i>	Electro- mechanical Products <i>RMB'000</i>	Satellite telecom- munication products <i>RMB'000</i>	Electronic information products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>						
External sales	407,647	213,320	131,982	339,192	28,250	1,120,391
<b>Segment result</b>						
	24,071	(42,256)	13,572	2,739	(6,288)	(8,162)
Unallocated corporate expenses						(104,134)
Interest income						9,692
Interest expenses						(54,456)
Share of results of associates						201,284
Income tax expense						(5,996)
Profit for the year						38,228
<b>Assets</b>						
Segment assets	419,312	180,314	313,429	242,056	33,519	1,188,630
Investments in associates						937,585
Unallocated corporate assets						448,339
Consolidated total assets						2,574,554
<b>Liabilities</b>						
Segment liabilities	156,869	79,585	5,537	129,445	11,551	382,987
Unallocated corporate liabilities						686,578
Consolidated total liabilities						1,069,565
<b>Other information</b>						
Capital expenditure	59,488	1,476	—	527	1,000	
Depreciation	24,884	4,093	—	653	293	



# Notes To The Financial Statements

## 5. Segmental information (Continued)

### a) Primary reporting format — business segments (Continued)

For the year ended 31 December 2007

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



# Notes To The Financial Statements

## 5. Segmental information (Continued)

### b) Secondary reporting format — geographical segments

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

## 6. Other income

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Rental income	5,889	5,877
Technology licence income	—	4,642
Written off of trade and other payable	4,580	—
Gain on disposal of an associate	—	1,937
Government subsidies	21,097	3,038
Compensation income (Note)	—	5,200
Sundry income	1,753	1,258
	<u>33,319</u>	<u>21,952</u>

Note: In 2007, the Group received a compensation income of RMB5.2 million from the PRC government for having to evacuate its properties constructed on the land the government had taken over.

## 7. Finance income and costs

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Interest expense:		
— Bank and other borrowings wholly repayable within five years	(52,939)	(56,072)
— Finance lease interest	(1,517)	(2,382)
Finance costs	<u>(54,456)</u>	<u>(58,454)</u>
Finance income		
— Interest income on short-term deposits	9,692	3,413
Net finance costs	<u>(44,764)</u>	<u>(55,041)</u>





# Notes To The Financial Statements

## 8. Expenses by nature

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Changes in inventories of finished goods and work in progress	37,365	57,804
Raw materials as consumables used	559,964	500,559
Depreciation of property, plant and equipment ( <i>Note 15</i> )	40,452	43,095
Amortisation of land use rights ( <i>Note 14</i> )	1,111	762
Impairment loss/(reversed) on		
— Trade receivable	7,169	4,417
— Other receivables	(11,008)	38,295
— Amounts due from related companies	6,361	5,862
Impairment loss on property, plant and equipment	2,031	—
Research and development expenses	16,770	33,316
Staff costs (excluding directors' and supervisors' emoluments)		
Salaries, bonuses and allowances	201,340	57,285
Retirement benefit scheme contributions	26,343	8,945
Auditors' remuneration	1,850	2,021
Operating lease rentals in respect of land and buildings	18,817	3,386
Gain on disposal of property, plant and equipment	(852)	(2,788)
Others	355,696	329,006
Total cost of sales, distribution costs and administrative expenses	<u>1,263,409</u>	<u>1,081,965</u>



# Notes To The Financial Statements

## 9. Directors', Supervisors' and senior management's emoluments

### (a) Directors' and supervisors' emoluments

The emoluments paid or payable to each of the sixteen (2007: fifteen) Directors and Supervisors were as follows:

#### Year ended 31 December 2008

Name	Fees RMB'000	Basic salaries, housing allowances, other allowances and benefits in kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Director:				
Li Anjian	—	300	20	320
Non-executive Directors:				
Liu Ailian	240	—	—	240
Zhu Lifeng	240	—	—	240
Xu Guofei	300	—	—	300
Shi Qiusheng	240	—	—	240
Lu Qing	240	—	—	240
	1,260	—	—	1,260
Independent Non-executive Directors:				
Tang Yousong	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	71	—	—	71
	71	—	—	71
Supervisors:				
Zhang Zhengping	—	240	20	260
Zhong Youxiang (Note 1)	—	100	17	117
Tang Min	—	120	20	140
Zhou Youxin (Note 2)	—	20	—	20
	—	480	57	537
Independent Supervisors:				
Wu Shiyuan (Note 3)	—	—	—	—
Sun Suhua	—	—	—	—
Wang Fei (Note 4)	—	—	—	—
Total	1,331	780	77	2,188

#### Notes:

- (1) Resigned on 28 October 2008.
- (2) Appointed on 28 October 2008.
- (3) Resigned on 26 June 2008.
- (4) Appointed on 31 December 2008.



# Notes To The Financial Statements

## 9. Directors', Supervisors' and senior management's emoluments (Continued)

### (a) Directors' and supervisors' emoluments (Continued)

Year ended 31 December 2007

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



# Notes To The Financial Statements

## 9. Directors', Supervisors' and senior management's emoluments (Continued)

### (a) Directors' and supervisors' emoluments (Continued)

Notes:

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

### (b) The five highest paid individuals:

	<b>2008</b>	2007
	<b>Number of</b>	Number of
	<b>Individuals</b>	Individuals
Five highest paid individuals		
Directors	—	—
Supervisors	—	—
Employees	<b>5</b>	5
	<b>5</b>	5

All of the five individuals with highest emoluments in the Group were employees of the Company each with emoluments during the relevant periods under HKD1,000,000. The aggregate emoluments of these five individuals during the relevant periods were as follows:

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Salaries and other benefits	<b>2,643</b>	2,422
Retirement benefits scheme contributions	<b>107</b>	98
	<b>2,750</b>	2,520



# Notes To The Financial Statements

## 10. Income tax expense

### (a) Income tax expense in the consolidated income statement represents:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Current tax		
— PRC enterprise income tax	<u>6,688</u>	<u>7,869</u>
Deferred tax		
— attributable to the origination and reversal of temporary differences	<u>(606)</u>	(6,590)
— resulting from a change in tax rate	<u>(86)</u>	<u>1,386</u>
	<u>(692)</u>	(5,204)
	<u><u>5,996</u></u>	<u><u>2,665</u></u>

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

All subsidiaries of the Company pay PRC enterprise income tax at the rates between 15% and 25%.

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Profit before income tax	44,224	122,476
Tax calculated at the statutory PRC tax rate of 25% (2007: 33%)	11,056	40,417
Exemption/reduction of income tax under preferential tax treatment	(6,762)	(6,818)
Tax effect of:		
Share of results of associates	(31,735)	(81,644)
Income not subject to tax	(2,274)	(6,085)
Expenses not deductible for tax purposes	32,003	11,054
Tax losses for which no deferred income tax was recognised, net	5,819	53,506
Effect of change in tax rate	(86)	1,386
Utilisation of previously unrecognised tax losses	(1,446)	(4,706)
Recognition of deferred income tax assets previously unrecognised	(235)	(4,562)
Others	(344)	117
Tax charge	<u><u>5,996</u></u>	<u><u>2,665</u></u>



# Notes To The Financial Statements

## 11. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB113,923,000 (2007: loss of RMB79,005,000).

## 12. Earnings per share

The calculation of the earnings per share is based on profit attributable to equity holders of the Company of RMB36,626,000 (2007: RMB111,995,000) and 655,015,000 shares in issue throughout 2008 and 2007.

No diluted earnings per share for the years ended 31 December 2008 and 2007 has been presented as there were no dilutive potential ordinary shares in issue as at 31 December 2008 and 2007.

## 13. Dividend

The Board do not recommend the payment of a final dividend in respect of the year ended 31 December 2008 (2007: RMB52,401,000).

## 14. Land use rights

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Net book value:				
At 1 January	<b>48,805</b>	11,279	<b>10,945</b>	11,279
Additions	<b>1,559</b>	38,288	<b>1,538</b>	—
Amortisation	<b>(1,111)</b>	(762)	<b>(335)</b>	(334)
As at 31 December	<b>49,253</b>	48,805	<b>12,148</b>	10,945

The Group and the Company's land use rights are located in the PRC under medium term leases. The costs of the Group's and the Company's land use rights as at 31 December 2008 are RMB51,669,000 (2007: RMB50,110,000) and RMB13,360,000 (2007: RMB11,822,000) respectively.



# Notes To The Financial Statements

## 15. Property, plant and equipment

The Group	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Transportation equipment and motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost or valuation:</b>					
As at 1 January 2007	362,596	272,379	7,525	10,022	652,522
Additions	10,511	20,939	1,116	21,507	54,073
Transfers	15,648	6,222	—	(21,870)	—
Disposals	(659)	(10,618)	(860)	—	(12,137)
As at 31 December 2007 and 1 January 2008	388,096	288,922	7,781	9,659	694,458
Reclassification	(16)	(218)	234	—	—
Additions	18,901	27,864	1,540	32,430	80,735
Transfers	2,660	16,329	—	(18,989)	—
Disposals	(1,705)	(34,498)	(779)	—	(36,982)
As at 31 December 2008	407,936	298,399	8,776	23,100	738,211
<b>Accumulated depreciation:</b>					
As at 1 January 2007	57,943	95,887	4,210	—	158,040
Charge for the year	14,602	28,330	163	—	43,095
Impairment loss reversed	—	(3,857)	—	—	(3,857)
Written back on disposal	(627)	(4,944)	(728)	—	(6,299)
As at 31 December 2007 and 1 January 2008	71,918	115,416	3,645	—	190,979
Reclassification	(2)	(368)	370	—	—
Charge for the year	35,805	3,882	765	—	40,452
Impairment loss (recognised)/reversed	2,031	(1,789)	—	—	242
Written back on disposal	(1,503)	(25,836)	(744)	—	(28,083)
As at 31 December 2008	108,249	91,305	4,036	—	203,590
<b>Net book value:</b>					
As at 31 December 2008	299,687	207,094	4,740	23,100	534,621
As at 31 December 2007	316,178	173,506	4,136	9,659	503,479



# Notes To The Financial Statements

## 15. Property, plant and equipment (Continued)

The Company	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost or valuation:</b>					
As at 1 January 2007	322,919	49,969	1,024	7,633	381,545
Additions	5,866	1,185	558	15,120	22,729
Transfers	14,498	626	—	(15,124)	—
Disposals	—	(1,512)	—	—	(1,512)
As at 31 December 2007 and 1 January 2008	343,283	50,268	1,582	7,629	402,762
Additions	1,371	9,708	410	15,350	26,839
Disposals	(1,626)	(24,222)	(15)	—	(25,863)
As at 31 December 2008	343,028	35,754	1,977	22,979	403,738
<b>Accumulated depreciation:</b>					
As at 1 January 2007	51,240	42,990	485	—	94,715
Charge for the year	11,054	1,545	105	—	12,704
Written back on disposal	—	(1,275)	—	—	(1,275)
As at 31 December 2007 and 1 January 2008	62,294	43,260	590	—	106,144
Charge for the year	12,380	4,748	225	—	17,353
Written back on disposal	(97)	(23,196)	(14)	—	(23,307)
As at 31 December 2008	74,577	24,812	801	—	100,190
<b>Net book value:</b>					
As at 31 December 2008	268,451	10,942	1,176	22,979	303,548
As at 31 December 2007	280,989	7,008	992	7,629	296,618

- (a) All the Group's and the Company's buildings are located in the PRC.
- (b) Included in buildings of the Group and the Company as at 31 December 2008 were properties with total carrying amount of approximately RMB81,960,000 (2007: RMB85,672,000), which were located on land held by PEGCL. No rental was paid during the year. The rest of the buildings were located on land under land use rights of the Group.





# Notes To The Financial Statements

## 15. Property, plant and equipment (Continued)

- (c) The Group leases production plant and machinery under finance leases expiring from 1 to 3 years. None of the leases includes contingent rentals.

During the year, additions to plant and machinery of the Group financed by new finance leases were RMB6,912,000 (2007: RMB4,386,000). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was RMB51,539,000 (2007: RMB50,148,000). The related depreciation charge for the year was RMB5,521,000 (2007: RMB5,215,000).

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

- (e) Construction in progress does not include any capitalisation of interest paid.

## 16. Investments in subsidiaries

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Unlisted equity securities, at cost	<b>216,793</b>	196,705
Less: Impairment loss recognised	<b>(27,612)</b>	(56,855)
	<b>189,181</b>	139,850
Amounts due from subsidiaries	<b>157,930</b>	162,759
Amounts due to subsidiaries	<b>(3,394)</b>	(6,617)
	<b>343,717</b>	295,992



# Notes To The Financial Statements

## 16. Investments in subsidiaries (Continued)

Particulars of the subsidiaries as at 31 December 2008 were as follows:

Name	Place of Incorporation/ establishment and kind of legal entity	Registered capital	Interest held		Principal activities and place of operations
			directly	indirectly	
Shenzhen Panda Electronics Company	PRC, limited liability	RMB6,500,000	95%	—	Trading of electronic products and components/PRC
Nanjing Panda Technology Equipment Co., Ltd.	PRC, limited liability	RMB5,000,000	100%	—	Manufacture and sale of equipment for production of television sets/PRC
Nanjing Panda Information Industry Co., Ltd.	PRC, limited liability	US\$7,400,000	100%	—	Development, production and sale of electronics information products/PRC
Panda International Telecommunication Systems Company Limited, Nanjing	PRC, limited liability	US\$1,240,000	72%	—	Sale and distribution of cellular mobile telephones and pagers/PRC
Nanjing Guanghua Electronics Plastic Casings Factory	PRC, limited liability	RMB11,497,600	100%	—	Manufacture and sale of plastic and spare parts /PRC
Nanjing Panda Mechanical Engineering Plant	PRC, limited liability	RMB45,000,000	99.11%	—	Manufacture and sale of communication and electronic equipment/PRC
Nanjing Panda Accurate Machinery Co., Ltd.	PRC, limited liability	RMB5,000,000	70%	—	Manufacture and sale of specialized electronic equipment/PRC



# Notes To The Financial Statements

## 16. Investments in subsidiaries (Continued)

Name	Place of Incorporation/ establishment and kind of legal entity	Registered capital	Interest held		Principal activities and place of operations
			directly	indirectly	
Nanjing Panda Appliance & Apparatus Co., Ltd.	PRC, limited liability	RMB1,000,000	70%	—	Development and production of electromechanical products and installation of electronic communication systems/PRC
Nanjing Panda Mechanical Manufacturing Co., Ltd.	PRC, limited liability	RMB5,000,000	70%	—	Manufacture of raw materials, components and parts for production/PRC
Nanjing Panda Hua Ge Electronic Plastics Co., Ltd.	PRC, limited liability	RMB30,000,000	100%	—	Manufacture and sale of plastic products and spare parts/PRC
Nanjing Panda Mechanical Co., Ltd.	PRC, limited liability	RMB3,000,000	70%	—	Manufacture and subcontracting of Mechanical parts/PRC
Nanjing Electronic Calibration Co., Ltd.	PRC, limited liability	RMB1,000,000	70%	—	Inspection of electromechanical products/PRC
Nanjing Panda System Integration Co., Ltd.	PRC, limited liability	RMB3,000,000	51%	1.7%	Development and sale of computer software/PRC
Nanjing Panda Power Supply Technology Co., Ltd.	PRC, limited liability	RMB11,000,000	79.55%	—	Design, manufacture and sale of UPS and special power supply systems and Converters/PRC
Nanjing Panda Electronic Manufacture Co., Ltd.	PRC, limited liability	US\$10,000,000	100%	—	Development and production of electronic components /PRC
Galant Limited	Hong Kong, limited liability	HK\$1	100%	—	Research and development of communication products/ Hong Kong



# Notes To The Financial Statements

## 17. Investments in associates

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	—	—	<b>690,987</b>	690,987
Less: Impairment loss recognised	—	—	<b>(114,012)</b>	(114,012)
Share of net assets	<b>934,142</b>	1,026,591	—	—
Goodwill	<b>3,443</b>	3,443	—	—
	<b>937,585</b>	1,030,034	<b>576,975</b>	576,975

Particulars of the principal associates of the Group as at 31 December 2008 are as follows:

Name	Place of Incorporation/ establishment and kind of legal entity	Interest held	Principal activities and place of operations
Nanjing Ericsson Panda Communication Company Limited ("ENC")	PRC, limited liability	27%	Manufacture and sale of cellular mobile telephone system products and digital switching System products/PRC
Shenzhen Jinghua Electronic Company Limited	PRC, limited liability	38.03%	Development, manufacture and sale of communication equipment and electronic Equipment/PRC
Panda Electronics (Kunshan) Co., Ltd.	PRC, limited liability	40%	Manufacture of electronic equipment/PRC
Intenna (Nanjing) Company Ltd.	PRC, limited liability	35%	Manufacture of electronic equipment/PRC
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	PRC, limited liability	20%	Manufacture and sale of mobile communication products/PRC
Nanjing Thales Panda Transportation System Company Limited	PRC, limited liability	40%	Design, research and development and production of electronic equipment of auto billing systems/PRC
Nanjing Huaxian High Technology Company Limited	PRC, limited liability	20%	Not yet commenced business/PRC
Hua Fei Color Display Systems Co., Ltd. ("Hua Fei")	PRC, limited liability	25%	Design, research and development and production of color display systems/PRC



## Notes To The Financial Statements

### 17. Investments in associates (Continued)

ENC, BMC and Hua Fei are the most significant associates of the Group. The details as set out below were extracted from the 2008 audited financial statements of these companies.

	2008			2007		
	ENC RMB'000	BMC RMB'000	Hua Fei RMB'000	ENC RMB'000	BMC RMB'000	Hua Fei RMB'000
Turnover	<u>16,619,497</u>	<u>28,326,864</u>	<u>2,102,050</u>	<u>15,654,457</u>	<u>32,642,388</u>	<u>2,689,272</u>
Profit/(loss) before income tax	<u>818,676</u>	<u>485,262</u>	<u>(242,148)</u>	571,418	887,010	(428,857)
Tax credit/(charge)	<u>(217,944)</u>	<u>(21,385)</u>	<u>(145)</u>	2,628	(123,717)	(91)
Profit/(loss) for the year	<u>600,732</u>	<u>463,877</u>	<u>(242,293)</u>	<u>574,046</u>	<u>763,293</u>	<u>(428,948)</u>
Profit/(loss) for the year attributable to the Group	<u>162,198</u>	<u>92,573</u>	<u>(60,573)</u>	<u>154,992</u>	<u>152,659</u>	<u>(71,583)</u>
Financial position						
Non-current assets	<u>638,465</u>	<u>453,926</u>	<u>2,005,224</u>	1,288,061	498,188	2,285,078
Current assets	<u>7,200,842</u>	<u>3,929,470</u>	<u>445,514</u>	6,395,281	4,371,014	890,612
Current liabilities	<u>(6,596,430)</u>	<u>(3,257,637)</u>	<u>(1,407,790)</u>	(6,522,101)	(3,461,320)	(1,819,662)
Net assets	<u>1,242,877</u>	<u>1,125,759</u>	<u>1,042,948</u>	<u>1,161,241</u>	<u>1,407,882</u>	<u>1,356,028</u>
Net assets attributable to the Group	<u>335,575</u>	<u>228,595</u>	<u>260,737</u>	<u>313,535</u>	<u>281,576</u>	<u>321,310</u>



# Notes To The Financial Statements

## 18. Deferred income tax assets

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

	Impairment losses on							Total RMB'000
	Receivables RMB'000	Inventories RMB'000	Property, plant and equipment RMB'000	Recognition of deferred income RMB'000	Available tax losses RMB'000	Trade & other payable RMB'000	Others RMB'000	
As at 1 January 2007	—	—	—	—	—	—	—	—
Deferred income tax credited to the consolidated income instatement	4,617	1,224	160	198	391	—	—	6,590
Effect of change in tax rate	(1,007)	(197)	(39)	(48)	(95)	—	—	(1,386)
As at 31 December 2007 and 1 January 2008	<u>3,610</u>	<u>1,027</u>	<u>121</u>	<u>150</u>	<u>296</u>	<u>—</u>	<u>—</u>	<u>5,204</u>
Deferred income tax (charged)/ credited to the consolidated income statements	(45)	91	73	(120)	(296)	873	84	660
Effect of change in tax rate	117	(1)	—	(30)	—	—	—	86
As at 31 December 2008	<u>3,682</u>	<u>1,117</u>	<u>194</u>	<u>—</u>	<u>—</u>	<u>873</u>	<u>84</u>	<u>5,950</u>

As at 31 December 2008, the Group has unused tax losses of RMB16,722,000 (2007: RMB8,851,000) available for offset against future profits. In 2007, a deferred income tax asset has been recognised in respect of RMB1,184,000 of such losses. No deferred income tax asset has been recognised in respect of the remaining RMB7,667,000 due to the unpredictability of future profit streams.

Such tax losses will expire within five years.



# Notes To The Financial Statements

## 19. Inventories, at cost

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	92,917	117,464	31,465	14,456
Work in progress	186,179	147,001	124,456	89,209
Finished goods	62,223	40,940	11,267	48,457
Spare parts and consumables	528	586	—	—
	<u>341,847</u>	<u>305,991</u>	<u>167,188</u>	<u>152,122</u>

The cost of inventories recognised as expenses and included in cost of sales amounted to approximately RMB559,964,000 (2007: RMB500,559,000).

## 20. Trade and bills receivables

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	230,167	114,339	89,502	6,389
Bills receivable	3,982	2,132	—	—
Less: Provision for bad and doubtful debts	<u>(19,938)</u>	<u>(12,997)</u>	<u>(2,230)</u>	<u>(976)</u>
	<u>214,211</u>	<u>103,474</u>	<u>87,272</u>	<u>5,413</u>

- (a) The carrying amounts of the trade and bills receivables approximate to their fair values.
- (b) The Group allows a credit period ranging from 30 to 180 days to its trade customers.
- (c) The following is the ageing analysis of trade and bills receivables net of provision for bad and doubtful debts as at 31 December 2008 and 2007:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	208,653	98,165	86,392	4,665
1 to 2 years	5,036	4,038	880	455
2 to 3 years	310	913	—	284
Over 3 years	212	358	—	9
	<u>214,211</u>	<u>103,474</u>	<u>87,272</u>	<u>5,413</u>



# Notes To The Financial Statements

## 20. Trade and bills receivables (Continued)

(d) Ageing analysis of trade and bills receivables past due but not impaired is as follows:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 3 months	<b>5,944</b>	2,871	<b>3,929</b>	1,874
Over 3 months	<b>3,289</b>	1,589	<b>2,098</b>	1,037
	<b>9,233</b>	4,460	<b>6,027</b>	2,911

(e) The movements in the provision for bad and doubtful debts during the year, were as follows:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	<b>12,997</b>	19,663	<b>976</b>	1,562
Impairment loss recognised/ (reversed)	<b>7,169</b>	4,417	<b>1,448</b>	(81)
Uncollectible amounts written off	<b>(228)</b>	(11,083)	<b>(194)</b>	(505)
At end of the year	<b>19,938</b>	12,997	<b>2,230</b>	976

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

(f) The carrying amounts of trade and bills receivables were denominated in the following currencies:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	<b>201,223</b>	110,856	<b>89,502</b>	6,389
USD	<b>32,926</b>	5,615	<b>—</b>	—
	<b>234,149</b>	116,471	<b>89,502</b>	6,389





# Notes To The Financial Statements

## 21. Deposits, prepayments and other receivables

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	40,072	95,154	9,798	88,589
Less: Provision for doubtful debts	(18,258)	(38,630)	(5,643)	(38,867)
	21,814	56,524	4,155	49,722
Deposits and prepayments	56,890	51,680	22,370	12,262
	78,704	108,204	26,525	61,984

The carrying amounts of deposits, prepayments and other receivables approximate to their fair values.

## 22. Cash and cash equivalents

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	349,395	385,184	227,578	246,371
Short-term bank deposits	1,000	6,500	—	—
	350,395	391,684	225,578	246,371

(a) The effective interest rate on short-term bank deposits was 3.33% (2007: 2.95%) per annum where these deposits have average maturity of 25 days (2007: 141 days)

(b) The cash and cash equivalents were denominated in the following currencies:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	340,189	389,277	217,372	243,964
USD	10,057	2,400	10,057	2,400
Euro dollar	148	5	148	5
HKD	1	2	1	2
	350,395	391,684	227,578	246,371



# Notes To The Financial Statements

## 23. Borrowings

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings				
— Short term bank loans				
— unsecured	<b>406,000</b>	402,305	<b>378,000</b>	368,000
— secured (i)	<b>189,500</b>	255,000	<b>189,500</b>	255,000
— Bills payable (ii)	<b>47,547</b>	54,030	—	30,000
	<b>643,047</b>	711,335	<b>567,500</b>	653,000

- (i) The above borrowings are secured by the Group's land and buildings with a net book value of approximately RMB132,204,000 (2007: RMB138,331,000) but no bank deposits are secured in the current year (2007: RMB50,000,000) as at the balance sheet date.
- (ii) Bills payable were issued with a term of 3 to 6 months and no bank balances are pledged (2007: RMB42,015,000) as at the balance sheet date.
- (iii) The effective interest rates at the balance sheet date is 7.44% (2007: 7.23%) per annum.
- (iv) The carrying amounts of the borrowings approximate to their fair values and they denominated in RMB.

## 24. Trade payables

The following is an ageing analysis of trade payables as at 31 December 2008:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	<b>151,906</b>	129,080	<b>11,526</b>	5,590
1 to 2 years	<b>16,618</b>	12,653	—	2,865
2 to 3 years	<b>2,436</b>	11,450	<b>512</b>	6,665
Over 3 years	<b>18,291</b>	8,940	<b>8,895</b>	492
	<b>189,251</b>	162,123	<b>20,933</b>	15,612



## Notes To The Financial Statements

### 24. Trade payables (Continued)

The carrying amounts of trade payables approximate to their fair values and they were denominated in the following currencies:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
RMB	<b>186,727</b>	158,984	<b>20,933</b>	15,612
USD	<b>2,524</b>	3,139	—	—
	<b>189,251</b>	162,123	<b>20,933</b>	15,612

### 25. Obligations under finance leases

	The Group	
	2008 RMB'000	2007 RMB'000
Within one year	<b>9,942</b>	11,715
In the second year	<b>2,616</b>	7,500
In the third year	<b>1,204</b>	204
Total minimum finance lease payments	<b>13,762</b>	19,419
Future finance charges	<b>(1,049)</b>	(1,498)
Present value of finance lease obligations	<b>12,713</b>	17,921
The present value of finance lease obligations is as follows:		
Within one year	<b>9,167</b>	10,534
In the second year	<b>2,376</b>	7,186
In the third year	<b>1,170</b>	201
	<b>12,713</b>	17,921

The carrying amounts of finance lease obligations were denominated in RMB and they bear interest rates ranging from 6.12% to 10.30% (2007: 6.12% to 10.30%) per annum.



# Notes To The Financial Statements

## 26. Share capital

	State-owned legal person shares <i>RMB'000</i>	A shares (held by PRC public investors) <i>RMB'000</i>	H share <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2007, 31 December 2007 and 2008	<u>334,715</u>	<u>78,300</u>	<u>242,000</u>	<u>655,015</u>

As at 31 December 2008, PEGCL, the controlling shareholder which is holding 344,715,000 State-owned legal person shares of the Company, representing 51.10% of its total share capital, had a total of 92,815,000 shares, representing 14.17% of total share capital of the Company being judicially frozen owing to contractual disputes between the Company and certain bankers. PEGCL had also pledged 167,350,000 shares, representing 25.55% of the total issued share capital to banks and the pledged shares were judicially frozen by the banks.

## 27. Share premium and reserves

The Company	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory common funds (Note) <i>RMB'000</i>	Asset revaluation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2007	389,338	3	181,468	26,381	(208,411)	388,779
Loss for the year	—	—	—	—	(79,005)	(79,005)
As at 31 December 2007 and 1 January 2008	<u>389,338</u>	<u>3</u>	<u>181,468</u>	<u>26,381</u>	<u>(287,416)</u>	<u>309,774</u>
Profit for the year	—	—	—	—	113,923	113,923
Dividend paid for the year	—	—	—	—	(52,401)	(52,401)
Acquisition of additional interest in subsidiaries	—	18,396	—	—	—	18,396
As at 31 December 2008	<u>389,338</u>	<u>18,399</u>	<u>181,468</u>	<u>26,381</u>	<u>(225,894)</u>	<u>389,692</u>



# Notes To The Financial Statements

## 27. Share premium and reserves (Continued)

Note:

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

In accordance with the Company's Articles of Association, the profit available for distribution is the lesser of the profit determined in accordance with PRC accounting standards and profit determined in accordance with Hong Kong Financial Reporting Standards. There was no distributable reserve as at 31 December 2008 and 2007.

## 28. Cash generated from operations

Reconciliation of profit before income tax to net cash generated from operations:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Profit before income tax	44,224	122,476
Adjustments for:		
Share of results of associates	(201,284)	(247,405)
Interest income	(9,692)	(3,413)
Interest expense	52,939	56,072
Finance lease interest	1,517	2,382
Provision of impairment in property, plant and equipment	242	—
Depreciation and amortisation	41,563	43,857
Loss/(gain) on disposal of property, plant and equipment, net	8,899	(2,788)
Gain on disposal of an associate	—	(1,937)
Operating cash flows before changes in working capital	<u>(61,592)</u>	<u>(30,756)</u>
Changes in working capital:		
Increase in inventories	(35,856)	(69,153)
(Increase)/decrease in trade and bills receivables, deposits, prepayments and other receivables and amounts due from related parties	(61,437)	145,166
Increase/(decrease) in trade payables, accruals and other payables and amounts due to related companies	22,318	(16,368)
Net cash (used in)/generated from operations	<u>(136,567)</u>	<u>28,889</u>



# Notes To The Financial Statements

## 29. Contingent liabilities

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

	The Company	
	2008	2007
	RMB'000	RMB'000
Guarantees given in respect of banking and other facilities made available to subsidiaries	<u>95,511</u>	<u>112,589</u>

The maximum liability of the Company at the balance sheet date under the guarantee is the amount of facilities drawn down by all the subsidiaries that are covered by guarantee, being RMB52,386,000 (2007: RMB65,738,000).

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

## 30. Commitments

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

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for				
— property, plant and equipment	<u>22,266</u>	23,788	<u>22,266</u>	23,788
— investments in subsidiaries	<u>121,000</u>	—	<u>121,000</u>	21,840
	<u>143,266</u>	<u>23,788</u>	<u>143,266</u>	<u>45,628</u>
Approved but not contracted for				
— investments in subsidiaries	<u>—</u>	—	<u>33,490</u>	<u>69,160</u>



# Notes To The Financial Statements

## 31. Related party transactions

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

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

	Fellow subsidiaries		Associates		The ultimate holding company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Sale of components and parts (Note 1)	<b>23,198</b>	24,031	<b>35,816</b>	27,378	<b>38</b>	40
Purchase of components and parts (Note 1)	<b>11,773</b>	6,580	<b>4,088</b>	2,840	—	918
Fees paid for welfare, support and sub-contracting services (Note 2)	<b>3,834</b>	9,611	—	2,350	<b>1,020</b>	5,174
Income for welfare, support, and sub-contracting services (Note 2)	<b>20,902</b>	14,405	<b>53,147</b>	—	—	—
Rental income (Note 1)	<b>101</b>	720	—	—	—	290
Rental expenses (Note 1)	<b>3,213</b>	3,639	—	—	<b>198</b>	—
Import and export agency services (Note 2)	—	180	—	—	—	—
Trademark income (Note 2)	<b>192</b>	133	—	—	—	—

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

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

- (b) As at balance sheet date, the Company had acceptance of guarantees provided by the ultimate holding company and its fellow subsidiary in the amount of RMB378,000,000 (2007: RMB378,000,000).
- (c) As at the balance sheet date, the Company had provided guarantees to its subsidiaries in the amount of RMB95,511,000 (2007 : RMB112,589,000).



# Notes To The Financial Statements

## 31. Related party transactions (Continued)

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Salaries and other short term benefits	5,506	4,823
Retirement benefit scheme contributions	385	337
	<u>5,891</u>	<u>5,160</u>

- (e) The amount due from/(to) fellow subsidiaries, associates and related companies are unsecured, interest free and repayable on demand. Provision for bad and doubtful debts amounting to RMB9,247,000 (2007: RMB2,886,000) was made in respect of these amounts and the movements in the provision for bad and doubtful debts during the year were as follows:

	The Group		The Company	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
At beginning of the year	2,886	2,736	1,178	1,691
Impairment loss recognised/(reversed)	6,361	5,862	4,534	3,863
Uncollectible amounts written off	—	(5,712)	(5,295)	(4,376)
At end of the year	<u>9,247</u>	<u>2,886</u>	<u>417</u>	<u>1,178</u>

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

- (f) The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.
- (g) The amounts due from/(to) the ultimate holding company are unsecured, interest free and repayable on demand.





# Notes To The Financial Statements

## 32. Difference between Hong Kong Financial Reporting Standards and PRC accounting standards as applicable to the Group

The financial statements prepared under Hong Kong Financial Reporting Standards and those prepared under PRC accounting standards have the following major differences:

### Impact on the consolidated income statements

	2008 RMB'000	2007 RMB'000 (Revised)
Profit for the year attributable to equity holders of the Company per financial statements prepared under Hong Kong Financial Reporting Standards	<b>36,626</b>	111,995
Deferred income tax assets recognised as prior year adjustment	—	(4,562)
Amortisation of unrecognised intangible assets	<b>575</b>	(200)
Share of results of associates	—	(601)
Minority interest	—	629
Others	—	(255)
Profit for the year attributable to equity holders of the Company per financial statements prepared under PRC accounting standards	<b>37,201</b>	107,006

### Impact on the consolidated balance sheet

	2008 RMB'000	2007 RMB'000
Equity attributable to equity holders of the Company per financial statements prepared under Hong Kong Financial Reporting Standards during the year	<b>1,493,302</b>	1,490,681
Unrecognised intangible assets	—	520
Goodwill	—	—
Share of reserves of associates	—	—
Minority interest	—	92
Others	—	56
Equity attributable to equity holders of the Company per financial statements prepared under PRC accounting standards during the year	<b>1,493,302</b>	1,491,349

## 33. Comparative figures

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



# Report of the Auditors

TZ Hu Shen Zi (2009) No. 759

## **To All Shareholders of Nanjing Panda Electronics Company Limited:**

We have audited the accompanying financial statements of Nanjing Panda Electronics Company Limited (hereinafter referred to as "Nanjing Panda"), which comprise the Balance Sheets and Consolidated Balance Sheet as at 31 December 2008, Income Statement, Consolidated Income Statement, Statement of Change in Equity, Consolidated Statement of Changes in Equity, Cash Flow Statement, Consolidated Cash Flow Statement for the year ended 31 December 2008, and notes to the financial statements.

### **1. Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises lies with Nanjing Panda. This responsibility includes: 1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 2) selecting and applying appropriate accounting policies; 3) and making accounting estimates that are reasonable in the circumstances.

### **2. Auditor's Responsibility**

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

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

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



# Report of the Auditors

## 3. Audit Opinion

In our opinion, Nanjing Panda's financial statements are prepared in conformity with the "Accounting Standards for Business Enterprises", and in all material respects, present fairly the financial position of the Company as at 31 December 2008 and the results of its operations and cash flow for the year then ended.

Vocation International CPAs Limited Company

Chinese Certified

Public Accountant: Hu Jian Jun

Beijing, the People's Republic of China

Chinese Certified

Public Accountant : Wang Chuan Bang

26 March 2009



# Consolidated Balance Sheet

## Consolidated Balance Sheet

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	31-Dec-08	31-Dec-07
<b>Current assets:</b>			
Cash and bank	VIII.1	383,654,043.46	483,699,275.19
Trading financial assets		—	—
Bills receivable	VIII.2	3,982,227.80	2,131,704.70
Accounts receivable	VIII.3	231,574,558.65	159,234,159.78
Prepayments	VIII.4	62,914,228.74	51,028,779.49
Interest receivable		—	—
Other receivables	VIII.5	22,546,938.93	57,076,371.78
Stocks	VIII.6	341,847,590.96	305,991,561.56
Non-current assets due within one year		—	—
Other current assets		—	—
<b>Total current assets</b>		<b>1,046,519,588.54</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 investment	VIII.7	937,585,276.41	1,030,034,159.14
Investment properties		—	—
Fixed assets	VIII.8	506,218,194.21	489,982,056.01
Construction in progress	VIII.9	23,099,502.20	10,257,698.23
Construction supplies		—	—
Clearance of fixed assets		—	—
Biological assets for production		—	—
Gas assets		—	—
Intangible assets	VIII.10	51,975,865.45	44,556,461.90
Development expenses		—	—
Goodwill		—	—
Long term deferred expenses	VIII.11	3,205,958.49	4,098,976.61
Deferred income tax assets	VIII.12	5,949,730.33	5,203,608.70
Other non-current assets		—	—
<b>Total non-current assets</b>		<b>1,528,034,527.09</b>	<b>1,584,132,960.59</b>
<b>Total assets</b>		<b>2,574,554,115.63</b>	<b>2,643,294,813.09</b>

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Consolidated Balance Sheet

## Consolidated Balance Sheet (Continued)

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Liabilities and shareholders' equity	Notes	31-Dec-08	31-Dec-07
<b>Current liabilities</b>			
Short term loans	VIII.14	595,500,000.00	657,304,600.00
Trading financial liabilities		—	—
Bills payable	VIII.15	47,547,289.42	54,029,931.78
Accounts payable	VIII.16	202,664,303.95	181,425,207.53
Advances from customers	VIII.17	46,008,729.30	49,445,588.77
Salaries payable	VIII.18	44,944,231.10	8,601,850.13
Taxes payable	VIII.19	25,246,344.27	40,170,918.76
Interest payable	VIII.20	1,155,400.00	1,306,732.50
Other payables	VIII.21	93,331,520.70	94,920,919.32
Non-current liabilities due within one year		9,167,543.14	10,516,236.20
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>1,065,565,361.88</b>	<b>1,097,721,984.99</b>
<b>Non-current liabilities:</b>			
Long term loans		—	—
Bonds payables		—	—
Long term payables	VIII.22	3,546,064.37	7,404,861.06
Specific payables		—	—
Accrued liabilities		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		—	—
<b>Total non-current liabilities</b>		<b>3,546,064.37</b>	<b>7,404,861.06</b>
<b>Total liabilities</b>		<b>1,069,111,426.25</b>	<b>1,105,126,846.05</b>
<b>Shareholders' equity:</b>			
Share capital	VIII.23	655,015,000.00	655,015,000.00
Capital reserve	VIII.24	497,361,298.42	480,209,034.37
Less: treasury stock		—	—
Surplus reserve	VIII.25	200,510,421.29	200,094,023.38
Undistributed profits	VIII.26	140,414,701.05	156,031,038.14
Discounted spread in foreign currency statement		—	—
Sub-total of equity attributable to shareholders of the parent company		1,493,301,420.76	1,491,349,095.89
Minority interests		12,141,268.62	46,818,871.15
<b>Total shareholders' equity</b>		<b>1,505,442,689.38</b>	<b>1,538,167,967.04</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,574,554,115.63</b>	<b>2,643,294,813.09</b>

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Consolidated Profit and Loss Statement

## Consolidated Profit and Loss Statement

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2008	2007
<b>1. Total operating income</b>		<b>1,131,037,172.79</b>	1,009,935,655.50
Include: Operating income	VIII.27	<b>1,131,037,172.79</b>	1,009,935,655.50
<b>2. Total operating cost</b>		<b>1,312,738,132.88</b>	1,124,510,135.77
Include: Operating cost	VIII.27	<b>989,407,424.18</b>	835,578,728.39
Business taxes and surcharge	VIII.28	<b>4,756,085.04</b>	5,378,267.58
Selling expenses		<b>26,501,473.82</b>	18,282,260.22
Administrative expenses		<b>207,561,960.72</b>	165,622,102.97
Financial expenses	VIII.29	<b>48,699,363.35</b>	61,196,960.25
Loss in assets impairment	VIII.30	<b>35,811,825.77</b>	38,451,816.36
Add: Income from change in fair value (losses are represented by “—”)		—	—
Investment income (losses are represented by “—”)	VIII.31	<b>201,283,518.47</b>	248,425,054.00
Include: Investment income of associates and joint ventures		<b>201,283,518.47</b>	248,425,054.00
<b>3. Operating profit (losses are represented by “—”)</b>		<b>19,582,558.38</b>	133,850,573.73
Add: Non-operating income	VIII.32	<b>29,305,349.01</b>	9,496,291.64
Less: Non-operating expenses	VIII.33	<b>4,088,476.11</b>	21,927,628.07
Include: Loss from the disposal of non-current assets		<b>1,027,440.71</b>	586,530.85
<b>4. Total Profit (losses are represented by “—”)</b>		<b>44,799,431.28</b>	121,419,237.30
Less: Income tax	VIII.34	<b>5,996,381.02</b>	7,227,004.04
<b>5. Net Profit (losses are represented by “—”)</b>		<b>38,803,050.26</b>	114,192,233.26
Profit attributable to the equity shareholders of the Parent		<b>37,201,260.82</b>	107,006,048.69
Minority interest		<b>1,601,789.44</b>	7,186,184.57
Net profit of the combined party in enterprise combination under the same control realized before the combining date		—	—
<b>6. Earnings per share:</b>			
(1) Basic earnings per share	VIII.35	<b>0.06</b>	0.16
(2) Diluted earnings per share	VIII.35	<b>0.06</b>	0.16

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Consolidated Cash flow statement

## Consolidated Cash flow statement

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2008	2007
<b>1. Cash flows from operating activities</b>			
Cash received from the sale of goods and services provided		<b>1,146,768,180.79</b>	1,153,011,796.16
Return of tax payment		<b>9,414,070.13</b>	5,062,502.65
Other cash received relating to operating activities	VIII.36	<b>75,289,253.67</b>	1,332,368,675.89
<b>Sub-total of cash inflows from operating activities</b>		<b>1,231,471,504.59</b>	2,490,442,974.70
Cash paid on purchase of goods and services		<b>1,017,322,436.56</b>	833,250,717.55
Cash paid to staff and paid on behalf of staff		<b>191,341,137.41</b>	167,558,882.10
Taxes paid		<b>85,194,871.91</b>	52,998,273.44
Cash paid relating to other operating activities	VIII.37	<b>78,580,580.58</b>	1,468,715,800.97
<b>Sub-total of cash outflows from operating activities</b>		<b>1,372,439,026.46</b>	2,522,523,674.06
<b>Net cash flows from operating activities</b>		<b>(140,967,521.87)</b>	(32,080,699.36)
<b>2. Cash flows from investment activities:</b>			
Cash received from investment recovered		—	6,322,470.00
Cash received from investment income		<b>293,732,401.20</b>	179,017,802.40
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		<b>3,986,649.00</b>	591,400.00
Cash received from disposal of subsidiaries and other business units		—	—
Cash received relating to other operating activities		—	—
<b>Sub-total of cash inflows from investment activities</b>		<b>297,719,050.20</b>	185,931,672.40
Cash paid on purchase of fixed assets, intangible assets and other long term assets		<b>74,385,252.75</b>	94,291,589.07
Cash paid for investment		—	—
Net cash paid on acquisition of subsidiaries and other business units		—	—
Cash paid on other investment activities		—	—
<b>Sub-total of cash outflows from investment activities</b>		<b>74,385,252.75</b>	94,291,589.07
<b>Net cash flows from investment activities</b>		<b>223,333,797.45</b>	91,640,083.33



# Consolidated Cash flow statement

## Consolidated Cash flow statement (Continued) 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2008	2007
<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		<b>703,500,000.00</b>	1,092,305,000.00
Cash received from other financing activities	VIII.38	<b>70,811,321.18</b>	360,071,906.85
<b>Sub-total of cash inflows from financing activities</b>		<b>774,311,321.18</b>	1,452,376,906.85
Cash paid on repayment of debts		<b>764,861,500.00</b>	1,271,462,479.05
Cash paid on distribution of dividends or profits, or interest repayment		<b>106,617,963.48</b>	58,106,856.53
Including: bonus and profit paid to minority shareholders by subsidiaries		<b>73,426.74</b>	2,054,697.80
Cash paid on other financing activities	VIII.39	<b>15,040,434.28</b>	408,628,060.51
<b>Sub-total of cash outflows from financing activities</b>		<b>886,519,897.76</b>	1,738,197,396.09
<b>Net cash flows from financing activities</b>		<b>(112,208,576.58)</b>	(285,820,489.24)
<b>4. Effect on cash and cash equivalents due to foreign currency exchange</b>		<b>(585,040.05)</b>	(234,632.26)
<b>5. Net increase in cash and cash equivalents</b>		<b>(30,427,341.05)</b>	(226,495,737.53)
Add: balance of cash and cash equivalents at the beginning of the year		<b>380,822,357.69</b>	607,318,095.22
<b>6. Balance of cash and cash equivalents at the end of the year</b>		<b>350,395,016.64</b>	380,822,357.69

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

## Consolidated Statement of Change of Shareholders' equity 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit:RMB

Items	2008								2007							
	Equity attributable to shareholders of the parent company								Equity attributable to shareholders of the parent company							
	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
<b>1. Balance of last year</b>	655,015,000.00	480,209,034.37	—	194,728,117.46	107,737,884.91	—	46,818,871.15	1,484,508,907.89	655,015,000.00	479,893,017.24	—	189,678,673.13	23,694,619.36	—	41,844,379.42	1,390,125,689.15
Add: change in accounting policies	—	—	—	5,365,905.92	48,293,153.23	—	—	53,659,059.15	—	—	—	3,574,572.04	32,171,148.30	—	—	35,745,720.34
Correction of prior errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>2. Balance at the beginning of this year</b>	655,015,000.00	480,209,034.37	—	200,094,023.38	156,031,038.14	—	46,818,871.15	1,538,167,967.04	655,015,000.00	479,893,017.24	—	193,253,245.17	55,865,767.66	—	41,844,379.42	1,425,871,409.49
<b>3. Change of this year</b>																
(a decrease is represented by"—")	—	17,152,264.05	—	416,397.91	(15,616,337.09)	—	(34,677,602.53)	(32,725,277.66)	—	316,017.13	—	6,840,778.21	100,165,270.48	—	4,974,491.73	112,296,557.55
(1) Net profit	—	—	—	—	37,201,260.82	—	1,601,789.44	38,803,050.26	—	—	—	—	107,006,048.69	—	7,186,184.57	114,192,233.26
(2) Profit and loss directly accounted for in shareholders' equity	—	17,152,264.05	—	—	—	—	—	17,152,264.05	—	316,017.13	—	—	—	—	—	316,017.13
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	—	—	—	—	—	—	—	—	—	316,017.13	—	—	—	—	—	316,017.13
3. Effect of income tax in relation to items referred at equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	17,152,264.05	—	—	—	—	—	17,152,264.05	—	—	—	—	—	—	—	—
Subtotal of item(1) and (2) above	—	17,152,264.05	—	—	37,201,260.82	—	1,601,789.44	55,955,314.31	—	316,017.13	—	—	107,006,048.69	—	7,186,184.57	114,508,250.39
(3) Contribution and reduction of capital by shareholders	—	—	—	—	—	—	(36,205,965.23)	(36,205,965.23)	—	—	—	—	—	—	(59,386.24)	(59,386.24)
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(59,386.24)	(59,386.24)
2. Amount settled by shares for amount accounted for in shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	(36,205,965.23)	(36,205,965.23)	—	—	—	—	—	—	—	—
(4) Profit distribution	—	—	—	416,397.91	(52,817,597.91)	—	(73,426.74)	(52,474,626.74)	—	—	—	6,840,778.21	(6,840,778.21)	—	(2,152,306.60)	(2,152,306.60)
1. Transfer from surplus reserves	—	—	—	416,397.91	(416,397.91)	—	—	—	—	—	—	6,840,778.21	(6,840,778.21)	—	—	—
2. Distribution to shareholders	—	—	—	—	(52,401,200.00)	—	(73,426.74)	(52,474,626.74)	—	—	—	—	—	—	(2,152,306.60)	(2,152,306.60)
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	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>4. Balance at the end of the year</b>	655,015,000.00	497,361,298.42	—	200,510,421.29	140,414,701.05	—	12,141,288.62	1,505,442,689.38	655,015,000.00	480,209,034.37	—	200,094,023.38	156,031,038.14	—	46,818,871.15	1,538,167,967.04

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Balance Sheet

## Balance Sheet

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	31-Dec-08	31-Dec-07
<b>Current assets:</b>			
Cash and bank		229,438,462.74	326,570,810.95
Trading financial assets		—	—
Bills receivable		—	—
Accounts receivable	IX.1	89,150,124.91	49,241,785.93
Prepayments		22,505,935.65	11,663,438.53
Interest receivable		—	—
Dividends receivable		3,609,034.16	2,081,925.44
Other receivables	IX.2	162,326,061.32	170,638,217.62
Stocks		167,188,463.35	151,880,667.77
Non-current assets due within one year		—	—
Other current assets		—	—
<b>Total current assets</b>		<b>674,218,082.13</b>	<b>712,076,846.24</b>
<b>Non-current assets:</b>			
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	IX.3	1,114,870,454.47	1,193,927,231.65
Investment properties		—	—
Fixed assets		278,091,577.34	288,419,814.81
Construction in progress		22,979,502.20	8,227,280.23
Construction supplies		—	—
Clearance of fixed assets		—	—
Biological assets for production		—	—
Gas assets		—	—
Intangible assets		14,625,312.85	11,522,711.12
Development expenses		—	—
Goodwill		—	—
Long term deferred expenses		—	—
Deferred tax asset		—	—
Other non-current assets		—	—
<b>Total non-current assets</b>		<b>1,430,566,846.86</b>	<b>1,502,097,037.81</b>
<b>Total assets</b>		<b>2,104,784,928.99</b>	<b>2,214,173,884.05</b>

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Balance Sheet

## Balance Sheet (Continued)

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	31-Dec-08	31-Dec-07
<b>Current liabilities:</b>			
Short term loans		567,500,000.00	623,000,000.00
Trading financial liabilities		—	—
Bills payable		—	30,000,000.00
Accounts payable		28,478,983.45	22,687,564.60
Advances from customers		1,507,273.51	4,864,497.42
Salaries payable		30,365,579.33	1,201,428.09
Taxes payable		20,210,067.21	34,576,451.40
Interest payable		1,155,400.00	1,306,732.50
Dividends payable		—	—
Other payables		62,146,080.30	54,878,443.93
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>711,363,383.80</b>	<b>772,515,117.94</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>—</b>	<b>—</b>
<b>Total liabilities</b>		<b>711,363,383.80</b>	<b>772,515,117.94</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		200,510,421.29	200,094,023.38
Undistributed profits		58,954,708.76	107,608,327.59
<b>Total shareholders' equity</b>		<b>1,393,421,545.19</b>	<b>1,441,658,766.11</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,104,784,928.99</b>	<b>2,214,173,884.05</b>

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Profit statement

## Profit statement

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2008	2007
<b>1. Operating income</b>	IX.4	<b>202,237,264.92</b>	252,127,077.59
Less: Operating cost	IX.4	<b>193,329,335.44</b>	198,368,735.39
Business taxes and surcharge		<b>241,696.17</b>	528,868.24
Selling expenses		<b>6,932,135.03</b>	2,435,077.38
Administrative expenses		<b>150,774,409.47</b>	120,209,616.27
Financial expenses		<b>44,003,300.13</b>	51,246,513.72
Impairment loss on assets		<b>23,146,786.79</b>	42,185,486.48
Add: Income from change in fair value (losses are represented by “—”)		—	—
Investment income (losses are represented by “—”)	IX.5	<b>211,566,659.58</b>	252,201,093.78
Include: Investment income of associates and joint ventures		<b>200,567,259.44</b>	247,921,897.57
<b>2. Operating Profit (losses are represented by “—”)</b>		<b>(4,623,738.53)</b>	89,353,873.89
Add: Non-operating income		<b>11,583,864.18</b>	388,385.00
Less: Non-operating expenses		<b>2,796,146.57</b>	21,334,476.75
Include: Loss from the disposal of non-current assets		<b>952,377.23</b>	224,532.66
<b>3. Total Profit (losses are presented by “—”)</b>		<b>4,163,979.08</b>	68,407,782.14
Less: Income tax		—	—
<b>4. Net profit (net losses are represented by “—”)</b>		<b>4,163,979.08</b>	68,407,782.14
<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



# Cash flow statement

## Cash flow statement

2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2008	2007
<b>1. Cash flows from operating activities</b>			
Cash received from the sale of goods and services provided		171,408,325.84	348,162,243.79
Return of tax payment		—	—
Other cash received relating to operating activities		48,832,039.95	1,098,366,625.02
<b>Sub-total of cash inflows from operating activities</b>		<b>220,240,365.79</b>	<b>1,446,528,868.81</b>
Cash paid on purchase of goods and services		283,882,101.56	219,020,048.78
Cash paid to staff and paid on behalf of staff		61,587,163.81	82,724,208.22
Taxes paid		17,788,115.25	7,400,292.70
Cash paid relating to other operating activities		55,703,467.98	1,285,263,329.14
<b>Sub-total of cash outflows from operating activities</b>		<b>418,960,848.60</b>	<b>1,594,407,878.84</b>
<b>Net cash flows from operating activities</b>		<b>(198,720,482.81)</b>	<b>(147,879,010.03)</b>
<b>2. Cash flows from investment activities:</b>			
Cash received from investment recovered		—	6,322,470.00
Cash received from investment income		302,439,165.09	182,892,367.57
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		45,200.00	391,900.00
Cash received from disposal of subsidiaries and other business units		—	—
Cash received relating to other operating activities		—	—
<b>Sub-total of cash inflows from investment activities</b>		<b>302,484,365.09</b>	<b>189,606,737.57</b>
Cash paid on purchase of fixed assets, intangible assets and other long term assets		21,726,678.77	16,078,237.78
Cash paid on investment		22,858,363.58	32,709,921.63
Net cash paid on acquisition of subsidiaries and other business units		—	—
Cash paid on other investment activities		—	—
<b>Sub-total of cash outflows from investment activities</b>		<b>44,585,042.35</b>	<b>48,788,159.41</b>
<b>Net cash flows from investment activities</b>		<b>257,899,322.74</b>	<b>140,818,578.16</b>



# Cash flow statement

## Cash flow statement (Continued) 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2008	2007
<b>3. Cash flows from financing activities:</b>			
Cash received from investment		—	—
Cash received from borrowings		677,500,000.00	1,047,000,000.00
Cash received from other financing activities		80,000,000.00	50,589,234.00
<b>Sub-total of cash inflows from financing activities</b>		<b>757,500,000.00</b>	<b>1,097,589,234.00</b>
Cash paid on repayment of debts		733,000,000.00	1,230,153,779.05
Cash paid on distribution of dividends or profits, or interest repayment		101,266,030.80	52,257,314.49
Cash paid on other financing activities		1,203,333.32	80,664,400.00
<b>Sub-total of cash outflows from financing activities</b>		<b>835,469,364.12</b>	<b>1,363,075,493.54</b>
<b>Net cash flows from financing activities</b>		<b>(77,969,364.12)</b>	<b>(265,486,259.54)</b>
<b>4. Effect on cash due to foreign currency exchange</b>		<b>(1,824.02)</b>	<b>(64,676.93)</b>
<b>5. Net increase in cash and cash equivalents</b>		<b>(18,792,348.21)</b>	<b>(272,611,368.34)</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>227,578,462.74</b>	<b>246,370,810.95</b>

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Statement of Change of Shareholders' equity

## Statement of Change of Shareholders' equity 2008

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	2008					2007						
	Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Total shareholders' equity	Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance of last year	655,015,000.00	478,941,415.14	—	194,728,117.46	59,315,174.36	1,387,999,706.96	655,015,000.00	478,625,398.01	—	189,678,673.13	13,870,175.36	1,337,189,246.50
Add: change in accounting policies	—	—	—	5,365,905.92	48,293,153.23	53,659,059.15	—	—	—	3,574,572.04	32,171,148.30	35,745,720.34
Correction of prior errors	—	—	—	—	—	—	—	—	—	—	—	—
2. Balance at the beginning of this year	655,015,000.00	478,941,415.14	—	200,094,023.38	107,608,327.59	1,441,658,766.11	655,015,000.00	478,625,398.01	—	193,253,245.17	46,041,323.66	1,372,934,966.84
3. Change of this year (a decrease is represented by"—")	—	—	—	416,397.91	(48,653,618.83)	(48,237,220.92)	—	316,017.13	—	6,840,778.21	61,567,003.93	68,723,799.27
(1) Net profit	—	—	—	—	4,163,979.08	4,163,979.08	—	—	—	—	68,407,782.14	68,407,782.14
(2) Profit and loss directly accounted for in shareholders' equity	—	—	—	—	—	—	—	316,017.13	—	—	—	316,017.13
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	—	—	—	—	—	—	—	316,017.13	—	—	—	316,017.13
3. Effect of income tax in relation to items referred at equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal of item(1) and (2) above	—	—	—	—	4,163,979.08	4,163,979.08	—	316,017.13	—	—	68,407,782.14	68,723,799.27
(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	—	—	—	416,397.91	(52,817,597.91)	(52,401,200.00)	—	—	—	6,840,778.21	(6,840,778.21)	—
1. Transfer from surplus reserves	—	—	—	416,397.91	(416,397.91)	—	—	—	—	6,840,778.21	(6,840,778.21)	—
2. Distribution to shareholders	—	—	—	—	(52,401,200.00)	(52,401,200.00)	—	—	—	—	—	—
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 the year	655,015,000.00	478,941,415.14	—	200,510,421.29	58,954,708.76	1,393,421,545.19	655,015,000.00	478,941,415.14	—	200,094,023.38	107,608,327.59	1,441,658,766.11

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



# Notes To The Financial Statements

*(All amounts in RMB unless otherwise stated)*

## 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 PEGL 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 SASAC 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 Hong Kong Stock Exchange on 2 May 1996.





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## I. Introduction to the Company (Continued)

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 Stock Exchange at 18 November 1996. The 35,000,000 internal employee's shares including 5,000,000 shares originally planned to be a source of financing was also listed after completion of issuing shares. Another 30,000,000 shares were listed and started circulating in 1999.

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 on 18 April 1997. Its registered capital was RMB655,015,000. The approved scope of business includes research and development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching systems, electronic component parts, apparatus, machinery and equipment, industrial moulds and other equipment, computers and system engineering. The registered address is Level 1-2, Block 5, North Wing, Nanjing High and New Technology Development Zone. The parent of the Company is Panda Electronics Group Limited.

The Financial Statements of the Company were approved by the Board of the Company on 25 March 2009.

## 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 announced on 15 February 2006 by the Ministry of Finance, reflecting the Company's financial positions, operating results, cash flows and other relevant information on a true and fair basis.

## III. Basis of preparation of financial statements

The Company's financial statements are prepared in accordance with the Basic Principle and 38 specific standards of Accounting Standards for Business Enterprises issued by Ministry of Finance on 15 February 2006, Application Guidance of Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereafter referred to as "the Accounting Standards for Business Enterprises", "China Accounting Standards"), as well as "Interpretation II to China Accounting Standards" issued on 7 August 2008 by the Ministry of Finance and "Notice on better Implementation of annual reports of 2008 for enterprises adopting China Accounting Standards by Ministry of Finance" issued on 26 December 2008.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 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 1 January to 31 December.

### 2. Measurement currency

The Company uses Renminbi as its currency for recording transactions.

The subsidiaries and associates of the Company decide their own recording currency according to their individual major economic environment. The currency will be converted to RMB in preparation of consolidated financial statements.

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

The book-keeping of the Company's account is prepared on an accrual 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) Foreign currency transaction

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot exchange rate at the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated at the balance sheet date using the spot exchange rate at the date of the transaction. The effect of changes in exchange rate on cash should be regarded as reconciling item and presented separately in the cash flow statement.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 5. Foreign Currency businesses (Continued)

#### (2) Translation of Financial Statements Dominated in Foreign Currency

The asset and liability denominated in foreign currency 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 foreign income and expense items in the income statements shall be translated at the spot exchange rate of the transaction date. The difference 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, available for sale financial assets, 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 available for sale financial assets 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 6. Financial Assets and Financial Liabilities (Continued)

#### (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 Standards 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 6. Financial Assets and Financial Liabilities (Continued)

#### (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;



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 6. Financial Assets and Financial Liabilities (Continued)

#### (5) Impairment of Financial Assets (Continued)

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

- 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 7. Receivables

Receivables comprise of accounts receivable and prepayments, etc. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value by the Group in accordance with the consideration receivable from the buyer under contract or agreement. Receivables are presented at amortised cost using the effective interest method net of provision for bad debts.

Receivables that are individually significant are subject to individual impairment assessment (the criteria of individually significant refers to the single amount accounting for 5% or more of the closing balances or the amount over RMB5 million). If there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for impairment of the receivable is established at the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

Receivables that are not individually significant together with those receivables that have been individually evaluated for impairment and found not to be impaired are grouped on the basis of similar credit risk characteristics. The impairment losses for the current year are determined, considering the current conditions, on the basis of historical loss experience for the groups of receivables with the similar credit risk characteristics.

When the Group transfers the accounts receivable to financial institutions without recourse, the difference between proceeds derived from the transaction, net of the carrying amounts of the accounts receivable and relevant taxes is recognised in profit or loss for the current period.

### 8. Inventories

#### (1) Classification of Inventories

Inventories of the Company include raw materials, packaging materials, low-value consumables, work in progress, commodities, sub-contracting materials, consigned commodities and delivered commodities.

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

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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 8. Inventories (Continued)

- (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.





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 9. Long-term equity investment (Continued)

#### (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;



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 9. Long-term equity investment (Continued)

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

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

(1) 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.

(2) 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 9. Long-term equity investment (Continued)

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

(2) (Continued)

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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 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

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

(2) 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.

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

(4) 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 Standards 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 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.

- (1) 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.

- (2) 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.
- (3) 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.
- (4) 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 recognized 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 11. Fixed Assets (Continued)

(2) Initial measurement of fixed asset

(5) 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

(1) 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 11. Fixed Assets (Continued)

#### (4) Depreciation of Fixed assets (Continued)

- (2) 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 repair expense, renovation expense, repair costs, decoration expenses 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.





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 11. Fixed Assets (Continued)

#### (6) Fixed assets acquired under finance leases

##### (1) 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 11. Fixed Assets (Continued)

#### (6) Fixed assets acquired under finance leases (Continued)

##### (2) 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 11. Fixed Assets (Continued)

(6) Fixed assets acquired under finance leases (Continued)

(3) 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

Construction in progress is categorized by projects and measured at actual cost. The actual cost comprises construction costs and other costs necessarily incurred to bring construction to get ready for its intended use. Borrowing costs that are eligible for capitalisation are capitalised as part of the cost of assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 13. Intangible assets (Continued)

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

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

- (1) 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.
- (2) 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.
- (3) 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:



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 13. Intangible assets (Continued)

#### (2) Initial measurement of intangible assets (Continued)

##### (3) The cost of self-developed intangible assets (Continued)

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.

(4) 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 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;



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 16. Impairment of Assets (Continued)

#### (2) Recognition of Assets with Potential Impairment (Continued)

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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 16. Impairment of Assets (Continued)

- (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.





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 17. Borrowing Costs (Continued)

- (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 effective interest rate 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 18. Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds, compensation for employee dismissal and other expenditures incurred in exchange for service rendered by employees. Same as above, the Company has no other significant employee benefits commitment.

Employee benefits are recognised as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

### 19. 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 19. Share-based Payments (Continued)

#### (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.

### 20. Provisions

Provisions for product warranties, onerous contracts are recognised when the Company has a present obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency such as the risks, uncertainties and the time value of money shall be taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 21. 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 21. Revenue (Continued)

- (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.

### 22. 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 22. Construction Contract (Continued)

- (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.

### 23. 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 be 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 24. 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.





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

(Continued)

### 25. 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 25. Debt Restructuring (Continued)

#### (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 shall he include it in the book value of the restructured debt.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 26. 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 useful 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 26. Leases (Continued)

#### (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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 26. Leases (Continued)

#### (3) Main accounting treatment of finance lease (Continued)

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.

### 27. 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 27. Income Taxes (Continued)

#### (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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period (Continued)

### 27. Income Taxes (Continued)

#### (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 expected 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 1. Statement of change in accounting policy

According to "Interpretation II to China Accounting Standards" issued on 7 August 2008 by the Ministry of Finance and "Notice on better Implementation of annual reports of 2008 for enterprises adopting China Accounting Standards by Ministry of Finance" issued on 26 December 2008, the Company made retrospective adjustments to eliminate difference in the financial statements between A shares and H shares.

Retrospective adjustments have been made to increase undistributed profits as at 1 January 2007 by RMB32,171,148.30 and 1 January 2008 by RMB48,293,153.23, increase long-term equity investment and surplus reserve as at 31 December 2007 by RMB53,659,059.15 and RMB5,365,905.92 respectively and increase investment income by RMB17,913,338.81 for year 2007. Such retrospective adjustments had no effect on minority interests as at the end of 2007.

The influence of the retrospective adjustments arising from aforesaid changes in accounting policy on the comparative figures of year 2007 have been summarized as follows:

	Original Value	Corrected value addition	Restated value
Undistributed profit as at 1 January 2007	23,694,619.36	32,171,148.30	55,865,767.66
Undistributed profit as at 31 December 2007	107,737,884.91	48,293,153.23	156,031,038.14
Long-term equity investment	976,375,099.99	53,659,059.15	1,030,034,159.14
Surplus reserve	194,728,117.46	5,365,905.92	200,094,023.38
investment income	230,511,715.19	17,913,338.81	248,425,054.00

The aforesaid retrospective adjustments increased the net profits by RMB17,913,338.81 for 2007, which was wholly attributable to the shareholders of parent company.

### 2. Change in Accounting Estimate and Correction of Previous Errors

During the year, there was no change in accounting estimate and correction of previous errors of the Company.





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## 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, and the refund tax rate for export is 13%.

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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VI. Tax (Continued)

### 4. Enterprise income tax

The Company is recognized by Jiangsu Provincial Science and Technology Commission as a high-tech enterprise on 21 October 2008 with the effective period for 3 years. Accordingly, it enjoys a preferential policy of income tax and has paid income taxes as per 15% of taxable income since 1 January 2008.

The applicable enterprise income rates for subsidiaries of the Company are from 15% to 25%. Nanjing Panda Information Industry Co., Ltd, a subsidiary of the Company, is registered in Jiangning Economic and Technological Development District. As a foreign invested enterprise, it is entitled to a two year exemption from income taxes followed by three years of a 50% tax reduction. The year 2008 is the first year of income tax exemption.

Nanjing Panda Appliance & Apparatus Co. Ltd, a subsidiary of the Company, is recognized by Jiangsu Provincial Science and Technology Commission as a high-tech enterprise on 21 October 2008 with the effective period for 3 years. Accordingly, it paid income taxes by 15% of taxable income since 1 January 2008.

Pursuant to the approval from the tax bureau of Nanjing Economics and Technology Development District, Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, has an income tax rate of 18%, 20%, 22%, 24% and 25% respectively from 2008 to 2012. It enjoys a 50% tax deduction in year 2008 and 2009, and shall not enjoy such preferential income tax policy starting from 2010.

### 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 1. Merger of enterprises (Continued)

#### (1) Merger of enterprises under same control (Continued)

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 by 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 1. Merger of enterprises (Continued)

#### (2) Merger of enterprises not under same control (Continued)

##### 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 the 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 1. Merger of enterprises (Continued)

#### (2) Merger of enterprises not under same control (Continued)

##### 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 (acquirees)

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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 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 2008:

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



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

Major subsidiaries and determination of consolidation scope for 2008: (Continued)

Company name	Registration address	Nature of business	Registered capital: (RMB'0000)	Business scope
<b>II. The subsidiaries acquired otherwise</b> (Continued)				
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	USD1,000	development and production of new models of electronic products
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	Nanjing	Industry	4,000	plastic product & accessories





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

Major subsidiaries and determination of consolidation scope for 2008: (Continued)

Company name	Registration address	Nature of business	Registered capital: (RMB'0000)	Business scope
<b>II. The subsidiaries acquired otherwise</b> (Continued)				
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	USD124	development, production sale of telephone and telecommunication system
Shenzhen Panda Electronic Co., Ltd	Shenzhen	Industry	650	Home appliance telecommunication equipment and appliance and apparatus
Galant Limited	Hong Kong	R&D	HKD1	R&D of communication products



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

Company name	The Company's	Balance of	Shareholding	Percentage of	Whether to
	Actual investment	net investment			
	(RMB'0000)	in substance in subsidiaries (RMB'0000)	(%)	(%)	
<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 Machinery Co., Ltd.	210	210	70	70	Yes
Nanjing Panda Information Industry Co., Ltd.	5,966.92	5,966.92	100	100	Yes
Nanjing Panda System Integration Co., Ltd.	158.02	158.02	52.7	52.7	Yes



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

Company name	The Company's	Balance of	Shareholding	Percentage of	Whether to
	Actual investment	net investment			
	(RMB'0000)	in substance in subsidiaries (RMB'0000)	(%)	(%)	
<b>II. The subsidiaries acquired otherwise</b>					
<i>(Continued)</i>					
Nanjing Panda Electronics Manufacturing Co., Ltd.	7,826.01	7,826.01	100	100	Yes
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	2,462.28	2,462.28	100	100	Yes
Nanjing Panda Power Sources Technology Co., Ltd.	875	875	79.55	79.55	Yes
Nanjing Guanghua Electronics Co. Ltd	827.11	827.11	100	100	Yes
Nanjing Panda International Telecommunication System Co., Ltd	765.50	765.50	72	72	Yes
Shenzhen Panda Electronic Co., Ltd	617.50	617.50	95	95	Yes
Galant Limited	HKD1	HKD1	100	100	Yes



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (2) Preparation method of consolidated financial statements

##### (1) 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (2) Preparation method of consolidated financial statements (Continued)

##### (1) Basic preparation method of consolidated financial statements (Continued)

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.	<b>313,567.87</b>	388,169.47
Nanjing Panda Appliance & Apparatus Co. Ltd.	<b>1,082,098.72</b>	799,915.63
Nanjing Panda Mechanical Manufacturing Co. Ltd.	<b>4,496,419.85</b>	3,344,921.17
Nanjing Panda Accurate Machinery Co., Ltd.	<b>3,944,325.13</b>	3,264,835.99
Nanjing Panda Technology Equipment Co., Ltd.	—	—
Nanjing Panda Mechanical Co., Ltd.	<b>1,042,320.01</b>	876,510.91
Nanjing Panda Mechanical Engineering Plant	—	—
Nanjing Panda Information Industry Co., Ltd.	—	4,798,597.88
Nanjing Panda System Integration Co., Ltd.	<b>1,262,537.04</b>	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.	—	1,596,269.78
Nanjing Guanghua Electronic Plastic Casting Factory	—	8,406,160.29
Nanjing Panda International Telecommunication System Co., Ltd.	—	—
Shenzhen Panda Electronics Company Limited	—	110,079.03
Total	<b>12,141,268.62</b>	46,818,871.15



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (3) Minority interests (Continued)

Additional loss borne by the Company

<b>Company name</b>	<b>2008</b>	<b>2007</b>
Nanjing Panda Technology Equipment Co., Ltd.	<b>5,027,407.23</b>	4,651,622.27
Nanjing Panda International Telecommunication System Co., Ltd.	<b>9,901,325.62</b>	11,790,518.70
Nanjing Panda Power Supply Technology Co., Ltd.	<b>4,564,988.74</b>	—
Total	<b>19,493,721.59</b>	16,442,140.97

## 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 31 December 2008 respectively, and the terms “last year” and “the year” refer to year 2007 and year 2008 respectively.

### 1. Cash and Bank Balances

	<b>Closing balance</b>	<b>Opening balance</b>
Cash	<b>504,095.31</b>	538,704.29
Bank balances	<b>349,890,921.33</b>	380,283,653.40
Other cash and bank balances	<b>33,259,026.82</b>	102,876,917.50
	<b>383,654,043.46</b>	483,699,275.19



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 1. Cash and Bank Balances (Continued)

Cash and bank balances includes the following foreign currencies:

	Closing balance			Opening balance		
	Amount in original currency	Exchange rate	Equivalent amount in Renminbi	Amount in original currency	Exchange rate	Equivalent amount in Renminbi
US dollar	1,471,530.94	6.8346	10,057,325.33	328,559.18	7.3046	2,399,993.38
HK dollar	1,627.63	0.8819	1,435.41	1,623.47	0.9364	1,520.18
Euro	15,373.13	9.6590	148,489.06	424.10	10.6669	4,523.83
			<u>10,207,249.80</u>			<u>2,406,037.39</u>

- (1) The closing balance of restricted other cash and bank balances amounting to RMB33,259,026.82 at the year end (the opening balance: RMB102,876,917.50) mainly included bid deposits and bank acceptance deposits.
- (2) The Company's bank balances included call deposits totaling RMB142,065,618.78 (the opening balance: RMB47,093,413.18).
- (3) The closing balance of cash and bank balances decreased by 20.68% from the opening balance, mainly due to repayment of certain bank borrowings and payment of common stock dividends.

### 2. Bills Receivable

- (1) Details of bills receivable

Types of Bills	Closing balance	Opening balance
Bank acceptance notes	2,918,227.80	2,131,704.70
Trade acceptance	1,064,000.00	—
Total	<u>3,982,227.80</u>	<u>2,131,704.70</u>

- (2) The closing balance of bills receivable included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (3) The year-end bills receivable had no pledge or security.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable

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

Items	Balance	Closing balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable	170,100,442.03	63.97	17,831,127.05	10.48
Other unsubstantial amount of accounts receivable	95,792,811.49	36.03	16,487,567.82	17.21
<b>Total</b>	<b>265,893,253.52</b>	<b>100.00</b>	<b>34,318,694.87</b>	<b>12.91</b>

Items	Balance	Opening balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable	101,274,999.32	55.33	7,118,861.00	7.03
Other unsubstantial amount of accounts receivable	81,767,961.14	44.67	16,689,939.68	20.41
<b>Total</b>	<b>183,042,960.46</b>	<b>100.00</b>	<b>23,808,800.68</b>	<b>13.01</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.





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable (Continued)

#### (2) Ageing analysis of accounts receivable

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	provision for bad debts	Percentage of Provision for bad debt %	Amount	Percentage %	provision for bad debts	Percentage of Provision for bad debt %
Within 1 year	237,171,954.55	89.20	11,433,705.76	4.82	162,175,600.43	88.60	10,103,143.11	6.23
1-2 years	13,800,991.08	5.19	8,634,797.17	62.57	8,567,430.55	4.68	3,237,598.88	37.79
2-3 years	4,678,065.33	1.76	4,220,715.15	90.22	4,163,470.21	2.27	2,826,867.00	67.90
3-5 years	6,958,990.40	2.62	6,746,224.63	96.94	6,025,808.76	3.30	5,530,541.18	91.78
More than 5 years	3,283,252.16	1.23	3,283,252.16	100.00	2,110,650.51	1.15	2,110,650.51	100.00
Total	265,893,253.52	100.00	34,318,694.87	12.91	183,042,960.46	100.00	23,808,800.68	13.01

#### (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 Group	65,400,000.00	24.59	Within 1 year
PACIC DIGIT CORP	27,360,839.86	10.29	Within 1 year
Nanjing Sharp Electronics Co., Ltd.	26,934,915.27	10.13	Within 1 year
Nanjing Ericsson Panda Communication Company Limited	18,244,937.03	6.86	Within 1 year
Nanjing Panda Television Co. Ltd.	12,219,417.70	4.60	Within 1 year, 1-2 years
Total	150,160,109.86	56.47	



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable (Continued)

- (4) The closing balance of accounts receivable included RMB135,709.19 due from Panda Electronics Group Limited, the shareholder holding 51.10% shares of the Company.
- (5) The closing balance of accounts receivable increased by 45.26% from the opening balance, mainly due to the increase of sales and the extension of credit term of accounts receivable.
- (6) The closing balance of accounts receivable includes RMB35,015,189.41 (the opening balance: RMB68,467,528.10) the opening balance due from related parties, representing 13.17% of the total accounts receivable (the opening balance: 37.41%). Please refer to Note X (III) 10 for disclosure of relevant related transactions.

### 4. Prepayment

- (1) Details of prepayment

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	provision for bad debts	Percentage of Provision for bad debt %	Amount	Percentage %	provision for bad debts	Percentage of Provision for bad debt %
Within 1 year	54,054,853.74	80.03	1,847,051.18	3.42	41,365,683.61	79.32	265,366.89	0.64
1-2 years	8,751,454.77	12.95	227,003.28	2.59	9,559,549.97	18.33	368,193.92	3.85
2-3 years	4,212,973.03	6.24	2,183,322.14	51.82	779,867.22	1.50	207,764.50	26.64
3-5 years	280,869.00	0.42	128,545.20	45.77	335,908.97	0.64	170,904.97	50.88
More than 5 years	241,115.77	0.36	241,115.77	100.00	107,289.51	0.21	107,289.51	100.00
<b>Total</b>	<b>67,541,266.31</b>	<b>100.00</b>	<b>4,627,037.57</b>	<b>6.85</b>	<b>52,148,299.28</b>	<b>100.00</b>	<b>1,119,519.79</b>	<b>2.15</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 4. Prepayment (Continued)

- (2) Prepayment with ageing more than one year mainly consisted of research costs and construction payment which were not settled.

Client	Amount	Not settled more than 1 year
Nanjing Anjing Technology Industry Co., Ltd	3,670,000.00	Project not completed
The 39th Institute of China Electronics and Technology Group Ltd	1,880,000.00	Technical contract, which cost more than one year
Nanjing Shenye Intelligence System Engineering Co., Ltd	1,236,918.18	Project not completed
Nanjing Operational Technology Co., Ltd	799,915.00	Project not completed
AISLE INTERNATIONAL CO., LTD	624,955.82	Change of purchase term, unsettled
Total	<u>8,211,789.00</u>	

- (3) The closing balance of prepayment included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (4) The closing balance of prepayment includes RMB7,175,918.35 due from related parties (the opening balance: nil), accounting for 10.62% of the total prepayment (the opening balance: nil). Please refer to Note X (III) 10 for disclosure of relevant related transactions.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 5. Other Receivables

(1) Break-down of other receivables by categories

Items	Balance	Closing balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables	4,067,998.56	9.68	2,722,000.00	66.91
Other unsubstantial amount of other receivables	37,950,036.19	90.32	16,749,095.82	44.13
<b>Total</b>	<b>42,018,034.75</b>	<b>100.00</b>	<b>19,471,095.82</b>	<b>46.34</b>

Items	Balance	Opening balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables	52,267,128.98	52.58	25,078,049.19	47.98
Other unsubstantial amount of other receivables	47,137,299.36	47.42	17,250,007.37	36.60
<b>Total</b>	<b>99,404,428.34</b>	<b>100.00</b>	<b>42,328,056.56</b>	<b>42.58</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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 5. Other Receivables (Continued)

#### (2) Ageing analysis of other receivables

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	provision for bad debts	Percentage of Provision for bad debt %	Amount	Percentage %	provision for bad debts	Percentage of Provision for bad debt %
Within 1 year	17,181,059.64	40.89	930,780.24	5.42	26,682,111.56	26.84	1,705,245.28	6.39
1-2 years	8,676,085.15	20.64	3,272,892.49	37.72	5,350,599.45	5.38	1,481,030.77	27.68
2-3 years	2,317,800.67	5.52	1,548,679.98	66.82	51,848,168.46	52.16	24,669,537.00	47.58
3-5 years	4,626,205.13	11.01	4,501,858.95	97.31	5,797,179.77	5.84	4,745,874.41	81.87
More than 5 years	9,216,884.16	21.94	9,216,884.16	100.00	9,726,369.10	9.78	9,726,369.10	100.00
<b>Total</b>	<b>42,018,034.75</b>	<b>100.00</b>	<b>19,471,095.82</b>	<b>46.34</b>	<b>99,404,428.34</b>	<b>100.00</b>	<b>42,328,056.56</b>	<b>42.58</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 Digital Technology Development Co., Ltd.	4,067,998.56	9.68	Within 1 year, 1-2 years, 2-3 years, more than 5 years
Panda Electronics (Kunshan) Co. Ltd.	1,736,220.94	4.13	Within 1 year, 1-2 years, more than 5 years
PICC Life Insurance Co., Ltd.	1,009,794.44	2.40	Within 1 year
Suzhou Construction Engineering Trade Center	800,000.00	1.91	Within 1 year
Nanjing Broadcast & television Network Co., Ltd.	600,000.00	1.43	Within 1 year, 1-2 years
<b>Total</b>	<b>8,214,013.94</b>	<b>19.55</b>	



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 5. Other Receivables (Continued)

- (4) The closing balance of other receivables included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (5) The closing balance of other receivables included RMB1,736,220.94 due from related parties (the opening balance: RMB1,768,220.94), representing 4.13% of the total other receivables (the opening balance: 1.78%). Please refer to Note X (III) 10 for disclosure of relevant related transactions.
- (6) The closing balance of other receivables decreased by 57.73% from the opening balance, mainly due to the receipts of the prepayment for house building fund amounting to 45 million.

### 6. Inventories

- (1) Details of inventories

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Raw materials	68,957,954.96	704,326,543.52	678,871,905.41	<b>94,412,593.07</b>
Packaging materials	25,383.33	324,432.78	308,617.02	<b>41,199.09</b>
Low-value consumables	585,956.72	3,850,266.89	3,907,828.86	<b>528,394.75</b>
Work in progress	149,941,549.31	1,038,530,199.78	1,000,327,782.95	<b>188,143,966.14</b>
Stored commodities	87,068,309.75	655,419,971.85	656,257,760.58	<b>86,230,521.02</b>
Sub-contracting materials	6,074,105.73	88,129,098.29	90,147,771.98	<b>4,055,432.04</b>
Consigned commodities	113,653.38	2,976,900.61	3,090,553.99	—
Delivered commodities	2,888,516.24	35,433,932.00	31,381,345.16	<b>6,941,103.08</b>
Total	<u>315,655,429.42</u>	<u>2,528,991,345.72</u>	<u>2,464,293,565.95</u>	<u><b>380,353,209.19</b></u>

- (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	5,223,605.66	107,291.48	2,114,199.28	2,221,490.76	<b>5,591,838.76</b>
Work in progress	2,340,658.65	1,274,579.58	1,579,993.31	69,974.97	1,649,968.28	<b>1,965,269.95</b>
Stored commodities	4,571,464.19	39,429,413.40	3,572,133.49	10,594,773.53	14,166,907.02	<b>29,833,970.57</b>
Delivered commodities	162,021.16	1,105,888.02	149,308.56	4,061.67	153,370.23	<b>1,114,538.95</b>
Total	<u>9,663,867.86</u>	<u>47,033,486.66</u>	<u>5,408,726.84</u>	<u>12,783,009.45</u>	<u>18,191,736.29</u>	<u><b>38,505,618.23</b></u>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 6. Inventories (Continued)

#### (2) Provision for diminution in value of inventories (Continued)

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 realizable value, and provision for diminution in value of inventories is made based on the surplus of cost over net realizable 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 20.50% from the opening balance, mainly due to increase in inventories necessary for production.

### 7. 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	1,032,990,796.01	201,283,518.47	293,732,401.20	<b>940,541,913.28</b>
Less: provision for impairment of long term investment	2,956,636.87	—	—	<b>2,956,636.87</b>
Total	<u>1,030,034,159.14</u>	<u>201,283,518.47</u>	<u>293,732,401.20</u>	<u><b>937,585,276.41</b></u>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 7. Long-term equity investment (Continued)

- (2) Details of investment in associated companies and major financial data of the associated companies this year

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putin Mobile Communications Co., Ltd	285,041,883.61	92,753,310.99	149,200,000.00	228,595,194.60	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	10,000,000.00	(3,709,187.29)	—	6,290,812.71	Nanjing	Technology Development
Hua Fei Colour Display Systems Company Limited	321,310,048.42	(60,573,231.89)	—	260,736,816.53	Nanjing	Manufacture
Tamura Electronics (Nanjing) Co., Ltd.	—	—	—	—	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.	—	—	—	—	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	313,533,290.00	162,197,640.00	140,156,000.00	335,574,930.00	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	86,779,408.14	10,417,895.79	4,376,401.20	92,820,902.73	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	2,189,350.13	(519,168.16)	—	1,670,181.97	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	—	—	—	—	Nanjing	Manufacture





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 7. Long-term equity investment (Continued)

- (2) Details of investment in associated companies and major financial data of the associated companies this year (Continued)

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Nanjing Electronics (Kunshan) Co. Ltd.	2,649,770.49	(43,850.38)	—	2,605,920.11	Kunshan	Manufacture
Nanjing Panda Medical Electronics Co. Ltd.	200,111.87	—	—	200,111.87	Nanjing	Manufacture
Nanjing Thales Panda Transportation System Company Limited	8,530,408.35	760,109.41	—	9,290,517.76	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00	—	—	2,756,525.00	Korea	—
<b>Total</b>	<u>1,032,990,796.01</u>	<u>201,283,518.47</u>	<u>293,732,401.20</u>	<u>940,541,913.28</u>		

Name of investee	The Company's shareholding percentage %	The Company's percentage in voting rights of the investee %	Total net assets at the end of the period	Total revenue from operations for the year	Net profit for the year
Associated companies					
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	1,125,759,000.00	28,326,864,000.00	463,877,000.00
Hua Fei Colour Display Systems Company Limited	25	25	1,042,947,266.10	2,102,049,848.25	(242,292,927.58)
Nanjing Ericsson Panda Communication Company Limited	27	27	1,242,877,000.00	16,619,497,000.00	600,732,000.00
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	244,135,278.46	370,646,079.41	27,172,465.33
Intenna (Nanjing) Co. Ltd.	35	35	4,771,948.48	—	(1,483,337.61)
Nanjing Thales Panda Transportation System Company Limited	40	40	23,595,551.96	74,359,141.44	2,359,479.80
Nanjing Electronics (Kunshan) Co. Ltd.	40	40	6,514,800.16	42,029,307.87	9,796.79
Nanjing Huaxian High Technology Company Limited	20	20	31,454,063.53	1,067,094.01	(18,545,936.47)



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 7. Long-term equity investment (Continued)

#### (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	285,041,883.61	—	92,753,310.99	149,200,000.00	<b>228,595,194.60</b>
Nanjing Huaxian High Technology Company Limited	10,000,000.00	10,000,000.00	—	(3,709,187.29)	—	<b>6,290,812.71</b>
Hua Fei Colour Display Systems Company Limited	392,892,722.42	321,310,048.42	—	(60,573,231.89)	—	<b>260,736,816.53</b>
Tamura Electronics (Nanjing) Co., Ltd.	3,310,800.00	—	—	—	—	—
Power Batteries (Nanjing) Ltd.	4,200,000.00	—	—	—	—	—
amura Electronics (Nanjing) Co., Ltd.	60,863,279.60	313,533,290.00	—	162,197,640.00	140,156,000.00	<b>335,574,930.00</b>
MPOWER Batteries (Nanjing) Ltd.	69,687,437.75	86,779,408.14	—	10,417,895.79	4,376,401.20	<b>92,820,902.73</b>
Nanjing Ericsson Panda communication Company Limited	1,750,000.00	2,189,350.13	—	(519,168.16)	—	<b>1,670,181.97</b>
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00	—	—	—	—	—
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.88	2,649,770.49	—	(43,850.38)	—	<b>2,605,920.11</b>
Nanjing Panda Medical Electronics Co. Ltd.	500,000.00	200,111.87	—	—	—	<b>200,111.87</b>
Nanjing Thales Panda Transportation System Company Limited	8,626,600.00	8,530,408.35	—	760,109.41	—	<b>9,290,517.76</b>
Panda Korea Chen Xi Joint Venture Company Limited	3,494,075.00	2,756,525.00	—	—	—	<b>2,756,525.00</b>
<b>Total</b>	<b>642,213,558.33</b>	<b>1,032,990,796.01</b>	<b>—</b>	<b>201,283,518.47</b>	<b>293,732,401.20</b>	<b>940,541,913.28</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 7. Long-term equity investment (Continued)

#### (4) Impairment for the Long-term equity investment

Items	Opening balance	provision during in the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
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
Total	2,956,636.87	—	—	—	—	2,956,636.87



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 8. Fixed Assets

#### (1) Details of fixed assets

	Buildings	Machinery and equipment	Transportation equipment	Electronic equipment	Other equipment	Total
<b>Original cost</b>						
Opening balance	406,422,783.17	297,301,766.61	7,781,638.15	10,603,267.54	21,884,718.20	743,994,173.67
Construction in progress						
transferred to fixed assets	2,660,270.70	13,479,359.97	—	2,431,785.57	418,300.00	18,989,716.24
Other current year additions	573,717.70	35,839,200.66	1,539,842.46	2,862,551.59	4,567,352.60	45,382,665.01
Reclassification	(15,516.30)	(33,459,215.88)	233,705.00	37,086,250.78	(3,845,223.60)	—
Current year disposals	(1,704,815.22)	(5,738,338.88)	(778,798.50)	(24,713,467.77)	(3,094,048.30)	(36,029,468.67)
<b>Closing balance</b>	<b>407,936,440.05</b>	<b>307,422,772.48</b>	<b>8,776,387.11</b>	<b>28,270,387.71</b>	<b>19,931,098.90</b>	<b>772,337,086.25</b>
<b>Accumulated depreciation</b>						
Opening balance	93,121,298.64	138,156,179.77	3,646,355.56	6,163,365.13	8,642,802.45	249,730,001.55
Current year depreciation	12,985,250.12	21,048,540.52	765,921.42	3,691,072.79	2,317,714.64	40,808,499.49
Reclassification	(2,322.43)	(29,874,257.88)	250,455.96	31,787,751.91	(2,161,627.56)	—
Current year disposals	(171,971.37)	(5,247,938.45)	(744,570.35)	(21,960,415.48)	(819,183.43)	(28,944,079.08)
<b>Closing balance</b>	<b>105,932,254.96</b>	<b>124,082,523.96</b>	<b>3,918,162.59</b>	<b>19,681,774.35</b>	<b>7,979,706.10</b>	<b>261,594,421.96</b>
<b>Impairment provision</b>						
Opening balance	285,356.16	3,721,211.57	—	275,548.38	—	4,282,116.11
Increase in the year	2,031,510.20	—	—	—	—	2,031,510.20
Reclassification	—	(1,521,635.35)	—	1,521,635.35	—	—
Decrease in the year	—	(1,619,128.43)	—	(170,027.80)	—	(1,789,156.23)
<b>Closing balance</b>	<b>2,316,866.36</b>	<b>580,447.79</b>	<b>—</b>	<b>1,627,155.93</b>	<b>—</b>	<b>4,524,470.08</b>
<b>Net book value</b>						
Closing balance	299,687,318.73	182,759,800.73	4,858,224.52	6,961,457.43	11,951,392.80	506,218,194.21
<b>Opening balance</b>	<b>313,016,128.37</b>	<b>155,424,375.27</b>	<b>4,135,282.59</b>	<b>4,164,354.03</b>	<b>13,241,915.75</b>	<b>489,982,056.01</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 8. Fixed Assets (Continued)

#### (2) Fixed assets acquired under finance leases

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	63,869,759.77	12,330,638.56	—	51,539,121.21
<b>Total</b>	<b>63,869,759.77</b>	<b>12,330,638.56</b>	<b>—</b>	<b>51,539,121.21</b>

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

Items	Original book value	Accumulated depreciation	Book value	Remarks
Buildings	212,396,071.41	66,374,439.39	146,021,632.02	—
<b>Total</b>	<b>212,396,071.41</b>	<b>66,374,439.39</b>	<b>146,021,632.02</b>	<b>—</b>

#### (4) Fixed assets without certificate

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	160,078,519.57	38,275,910.33	—	121,802,609.24
<b>Total</b>	<b>160,078,519.57</b>	<b>38,275,910.33</b>	<b>—</b>	<b>121,802,609.24</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 8. Fixed Assets (Continued)

#### (5) Fixed assets used for pledge

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	193,082,652.14	60,878,656.21	—	132,203,995.93
<b>Total</b>	<b>193,082,652.14</b>	<b>60,878,656.21</b>	<b>—</b>	<b>132,203,995.93</b>

#### (6) Impairment provision of fixed assets

Items	Opening balance	Provision in the year	Decrease in the year			Closing balance
			Reversal	Write-off	Total	
Buildings	285,356.16	2,031,510.20	—	—	—	<b>2,316,866.36</b>
Machinery and equipment	2,199,576.22	—	—	1,619,128.43	1,619,128.43	<b>580,447.79</b>
Electronic equipment	1,797,183.73	—	—	170,027.80	170,027.80	<b>1,627,155.93</b>
<b>Total</b>	<b>4,282,116.11</b>	<b>2,031,510.20</b>	<b>—</b>	<b>1,789,156.23</b>	<b>1,789,156.23</b>	<b>4,524,470.08</b>

The Company wrote off fixed assets of RMB4,202,235.41 for the year (accumulated depreciation: RMB2,413,079.18), for which impairment provision of RMB1,789,156.23 had been made.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 9. Construction in progress

#### (1) Details of Construction in progress

Name of project	Budget	Opening balance	Increase in the year	Transferred to	Other decrease	Closing balance	% of budget	Resource of fund
				fixed assets in the year				
Xingang No. 4 and 5 plant project	RMB55 million	—	3,642,033.76	—	—	3,642,033.76	6.62	Internal capital
Xingang No.3 plant project	RMB9.04 million	—	7,274,189.54	—	—	7,274,189.54	80.47	Internal capital
Machinery and equipment	—	—	15,911,145.54	15,911,145.54	—	—	—	Internal capital
Xingang project No. 1 and 2 plant, No. 9 and 10 canteen)	RMB120 million	8,227,280.23	3,835,998.67	—	—	12,063,278.90	10.05	Internal capital
Reconstruction of commercial houses, Compensation newly built wall and sewer	RMB0.3 million	270,418.00	30,182.90	300,600.90	—	—	100.00	Compensation for removal of Urban Construction & Development Company
Newly built offices	RMB2.37 million	1,730,000.00	629,669.80	2,359,669.80	—	—	99.57	Compensation for removal of Urban Construction & Development Company
Mould		30,000.00	508,300.00	418,300.00	—	120,000.00		Internal capital
Total		10,257,698.23	31,831,520.21	18,989,716.24	—	23,099,502.20		

(2) The company has no capitalization of borrowing costs for the year. The company made no impairment provision for construction in progress as there is no indication of impairment.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 10. 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	Closing balance
						amortization in the year	
Land use rights	51,741,807.22	43,360,210.64	7,058,900.41	—	1,165,641.55	2,488,337.72	<b>49,253,469.50</b>
Trademark use right	158,540,000.00	729,975.65	—	—	519,975.65	158,330,000.00	<b>210,000.00</b>
Others	3,278,899.00	676,275.61	2,345,000.00	—	298,879.66	556,503.05	<b>2,722,395.95</b>
Total	213,560,706.22	44,766,461.90	9,403,900.41	—	1,984,496.86	161,374,840.77	<b>52,185,865.45</b>

The increase in land use right was due to the payment by Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd. for the land situated at No. 3 Lianhecun, Shimenkan, Baixia District, Nanjing (land area 77,565.60 square meters in total) amounting to RMB5,530,000.00 and the reclassification of land use right with the book value amounting to RMB1,528,900.41 (original cost: RMB1,625,946.42) from building in fixed assets to intangible assets.

#### (2) Impairment provision for intangible assets

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





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 11. Long-term Deferred Expenses

Items	Original amount	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Closing balance
Fitment expenses	3,587,722.56	3,161,476.61	—	—	580,518.12	<b>2,580,958.49</b>
Operating lease fee	1,250,000.00	937,500.00	—	—	312,500.00	<b>625,000.00</b>
Total	<u>4,837,722.56</u>	<u>4,098,976.61</u>	<u>—</u>	<u>—</u>	<u>893,018.12</u>	<u><b>3,205,958.49</b></u>

### 12. Deferred Income Tax Assets

(1) Details of deferred income tax assets

	Closing balance		Opening balance	
	Deferred income tax assets	deductible temporary difference	Deferred income tax assets	deductible temporary difference
Provision for asset impairment	<b>4,993,133.11</b>	<b>26,987,860.23</b>	4,636,778.08	23,436,324.73
Depreciation of fixed assets	—	—	120,817.48	483,269.93
Intangible assets amortization	<b>92,675.06</b>	<b>423,167.16</b>	—	—
Unrecovered losses	—	—	296,013.14	1,184,052.55
Deferred income	—	—	150,000.00	600,000.00
Accounts payable	<b>176,464.34</b>	<b>1,176,428.91</b>	—	—
Long-term payables	<b>60,155.76</b>	<b>601,557.60</b>	—	—
Salaries payable	<b>627,302.06</b>	<b>3,292,192.56</b>	—	—
Total	<u><b>5,949,730.33</b></u>	<u><b>32,481,206.46</b></u>	<u>5,203,608.70</u>	<u>25,703,647.21</u>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 13. Details of Provision for Impairment of Assets

Items	Opening balance	Provision in the year	Decrease in the year			Closing balance
			Reversal	Write-off	Total	
1. Total provision for bad debt	67,256,377.03	28,130,500.47	35,974,944.72	995,104.52	36,970,049.24	<b>58,416,828.26</b>
Including: Accounts receivable	23,808,800.68	14,372,919.90	3,635,103.26	227,922.45	3,863,025.71	<b>34,318,694.87</b>
Other receivables	42,328,056.56	8,313,548.09	30,403,326.76	767,182.07	31,170,508.83	<b>19,471,095.82</b>
Prepayment	1,119,519.79	5,444,032.48	1,936,514.70	—	1,936,514.70	<b>4,627,037.57</b>
2. Total provision for impairment of inventories	9,663,867.86	47,033,486.66	5,408,726.84	12,783,009.45	18,191,736.29	<b>38,505,618.23</b>
Including: Raw materials	2,589,723.86	5,223,605.66	107,291.48	2,114,199.28	2,221,490.76	<b>5,591,838.76</b>
Work in progress	2,340,658.65	1,274,579.58	1,579,993.31	69,974.97	1,649,968.28	<b>1,965,269.95</b>
Commodity inventories	4,571,464.19	39,429,413.40	3,572,133.49	10,594,773.53	14,166,907.02	<b>29,833,970.57</b>
Delivered commodities	162,021.16	1,105,888.02	149,308.56	4,061.67	153,370.23	<b>1,114,538.95</b>
3. Total provision for impairment of long term equity investment	2,956,636.87	—	—	—	—	<b>2,956,636.87</b>
4. Total provision for impairment of fixed assets	4,282,116.11	2,031,510.20	—	1,789,156.23	1,789,156.23	<b>4,524,470.08</b>
Including: Buildings	285,356.16	2,031,510.20	—	—	—	<b>2,316,866.36</b>
Machinery and equipment	2,199,576.22	—	—	1,619,128.43	1,619,128.43	<b>580,447.79</b>
Electronic equipment	1,797,183.73	—	—	170,027.80	170,027.80	<b>1,627,155.93</b>
5. Provision for impairment of construction in progress	—	—	—	—	—	—
6. Provision for impairment of intangible assets	210,000.00	—	—	—	—	<b>210,000.00</b>
Including: Trademark	210,000.00	—	—	—	—	<b>210,000.00</b>
<b>Total</b>	<b>84,368,997.87</b>	<b>77,195,497.33</b>	<b>41,383,671.56</b>	<b>15,567,270.20</b>	<b>56,950,941.76</b>	<b>104,613,553.44</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 14. Short Term Loans

- (1) Details of Short term loans

Type of loan	Closing balance	Opening balance
Collateral loan	189,500,000.00	210,000,000.00
Guaranteed loan	401,000,000.00	402,304,600.00
Pledge loan	—	45,000,000.00
Credit loan	5,000,000.00	—
Total	595,500,000.00	657,304,600.00

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

- (3) The Company pledged buildings (please refer to Note VIII 5) with book value of RMB132,203,995.93 (original cost: RMB193,082,652.14) with assessed value of RMB336,560,000.00 for loans amounting to RMB189,500,000.00 (2007 year end: RMB210,000,000.00) from Nanjing Han Fu Branch of Industrial and Commercial Bank of China with the detailed breakdown of loans as follows:

Name of Borrower	Amount	Period
Nanjing Panda Electronics Company Limited	70,000,000.00	2008.11.24-2009.09.23
Nanjing Panda Electronics Company Limited	75,000,000.00	2008.12.04-2009.11.25
Nanjing Panda Electronics Company Limited	25,000,000.00	2008.12.15-2009.08.10
Nanjing Panda Electronics Company Limited	19,500,000.00	2008.11.13-2009.07.20
Total	189,500,000.00	

Panda Electronics Group Limited, the controlling shareholder of the Company, provided guarantee for the company with properties located at 301 Zhongshan Road East, 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 mentioned above.

- (4) Details of guaranteed loans of the Company and its subsidiaries, please refer to Note X (III) 5 and 6.
- (5) The weighted average interest rate of the short term loans for the year is 7.44% (year 2007: 7.23%).



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 15. Bills payable

Types of Bills	Closing balance	Opening balance	Amount due in the next accounting period
Bank acceptance notes	<b>47,547,289.42</b>	54,029,931.78	47,547,289.42
Total	<b>47,547,289.42</b>	54,029,931.78	47,547,289.42

### 16. Accounts payable

#### (1) Details of accounts payable

Aging	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	<b>157,266,972.47</b>	<b>77.60</b>	137,824,514.65	75.97
1-2 years	<b>16,749,506.37</b>	<b>8.26</b>	13,012,255.57	7.17
2-3 years	<b>2,593,780.91</b>	<b>1.28</b>	12,317,635.00	6.79
More than 3 years	<b>26,054,044.20</b>	<b>12.86</b>	18,270,802.31	10.07
Total	<b>202,664,303.95</b>	<b>100.00</b>	181,425,207.53	100.00

(2) The closing balance of accounts payable includes RMB1,896,495.19 due to Panda Electronics Group Limited, the shareholder with 51.10% of shareholding with voting power in the Company.

(3) The closing balance of accounts payable included RMB13,176,309.43 (the opening balance: RMB14,375,051.42) due to related parties. Please refer to Note X (III) 10 for disclosure of relevant related transactions.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 16. Accounts payable (Continued)

- (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
Nanjing Runkai Technical & Trade Co., Ltd.	1,924,303.54	Unable to contact the other party	No
THALES CO. LTD	1,376,184.37	Payment term not due	No
Shaoxing Four Dimension Plastic Engineering Co., Ltd.	1,111,131.92	Unable to contact the other party	No
Nanjing Yuanxiang Communications Engineering & Technical Co., Ltd.	766,868.83	Project not finished yet	No
Total	<u>7,727,079.81</u>		

### 17. Advances from customers

- (1) Details of Advances from customers

Aging	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	36,253,497.75	78.80	40,574,034.56	82.06
1-2 years	8,703,826.68	18.92	3,215,553.61	6.50
2-3 years	526,669.93	1.14	275,334.98	0.56
More than 3 years	524,734.94	1.14	5,380,665.62	10.88
Total	<u>46,008,729.30</u>	<u>100.00</u>	<u>49,445,588.77</u>	<u>100.00</u>

- (2) The closing balance of advances from customers includes RMB183,009.80 due to Panda Electronics Group Limited, the shareholder with 51.10% of shareholding with voting power in the Company.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 17. Advances from customers (Continued)

- (3) The closing balance of advances from customers includes RMB6,150,937.87 (the opening balance: RMB11,180,672.30) due to related parties. Please refer to Note X (III) 10 for disclosure of relevant related transactions.
- (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.

### 18. Salaries payable

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Salaries and bonus	3,601,879.58	136,025,258.88	136,540,322.98	<b>3,086,815.48</b>
Expenses for employee benefits	—	13,491,349.61	13,491,349.61	—
Expenses for social security	1,580,988.41	32,428,197.00	32,063,311.72	<b>1,945,873.69</b>
Including: Medical insurance	165,996.77	3,073,570.09	3,045,855.92	<b>193,710.94</b>
Pension fund	663,243.74	26,343,333.46	26,087,434.14	<b>919,143.06</b>
Unemployment insurance	(24,016.54)	1,935,041.23	1,889,556.68	<b>21,468.01</b>
Injury insurance	259,983.65	444,856.34	433,052.59	<b>271,787.40</b>
Maternity insurance	515,780.79	631,395.88	607,412.39	<b>539,764.28</b>
Housing reserve fund	532,997.03	6,705,751.01	6,462,266.88	<b>776,481.16</b>
Trade union funds and employee education fund	2,777,985.11	2,534,617.09	2,328,233.08	<b>2,984,369.12</b>
Compensation for employment termination	108,000.00	376,843.50	322,345.50	<b>162,498.00</b>
Laid-off benefits	—	35,979,873.65	—	<b>35,979,873.65</b>
Others	—	141,627.64	133,307.64	<b>8,320.00</b>
Total	<u>8,601,850.13</u>	<u>227,683,518.38</u>	<u>191,341,137.41</u>	<u><b>44,944,231.10</b></u>

According to the Company's No 36-50 Notice issued by Human Resources Department of the Company in December 2008, the total accrued expenses of laid-off staff from 1 January 2009 to retirement date amounting to RMB35,979,873.65, including the unrecognized financing expenses amounting to RMB7,623,326.59, which was amortized by the effective interest method.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 19. Taxes payable

Items	Tax rate	Closing balance	Opening balance
Value-added tax*	Refer to Note VI: Taxation	<b>16,374,702.28</b>	17,594,621.32
Business tax	Refer to Note VI: Taxation	<b>159,298.21</b>	147,140.74
City maintenance tax*	Refer to Note VI: Taxation	<b>424,523.02</b>	13,622,670.66
Education surcharges	Refer to Note VI: Taxation	<b>4,236,534.53</b>	4,325,871.73
Enterprise income tax	Refer to Note VI: Taxation	<b>3,788,009.78</b>	4,017,392.53
Individual income tax	—	<b>254,974.87</b>	229,572.79
Fund for flood control	—	—	131,692.10
Others	—	<b>8,301.58</b>	101,956.89
Total		<b>25,246,344.27</b>	40,170,918.76

\* This item is the outstanding tax accumulated from the previous years. The closing balance of taxes payable decreased by 37.15% from the opening balance, mainly due to the payment of prior-year accumulated outstanding city maintenance tax in current year.

### 20. Interest Payable

Item	Closing balance	Opening balance
Short-term loan interest	<b>1,155,400.00</b>	1,306,732.50
Total	<b>1,155,400.00</b>	1,306,732.50

### 21. Other payables

Aging	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	<b>34,139,641.04</b>	<b>36.58</b>	30,020,266.46	31.63
1-2 years	<b>3,947,560.80</b>	<b>4.23</b>	13,805,627.83	14.54
2-3 years	<b>11,516,268.98</b>	<b>12.34</b>	9,082,767.83	9.57
More than 3 years	<b>43,728,049.88</b>	<b>46.85</b>	42,012,257.20	44.26
Total	<b>93,331,520.70</b>	<b>100.00</b>	94,920,919.32	100.00



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 21. Other payables (Continued)

- (1) The closing balance of other payables included RMB8,576,155.98 payables to Panda Electronics Group Limited, the shareholder with 51.10% of shareholding with voting power in the Company.
- (2) The closing balance of other payables includes RMB9,225,909.98 payable to related parties (the opening balance: RMB10,499,783.58). Please refer to Note X (III) 10 for disclosure of relevant related transactions.
- (3) Other payables in large amount

Name of creditor	Amount	Nature (or content)
Panda Electronics Group Limited	8,576,155.98	Property management fee, social insurance fee
Guanghua Road	3,500,000.00	Land compensation fee
Financial Bureau of Baixia District	1,958,386.67	Government subsidy which has not recognized as revenue
Nanjing Pengda Labour Consulting Services Co., Ltd.	1,119,558.91	Labour cost payables
Shanghai Yuceng International Transportation of Commodities Deputy Co., Ltd.	601,233.10	Traffic fee payables
Total	<u>10,633,476.38</u>	

### 22. Long Term Payables

	Closing balance	Opening balance
Finance lease payables	12,713,607.51	17,921,097.26
Less: Fiance lease payables due within 1 year	<u>9,167,543.14</u>	<u>10,516,236.20</u>
Total	<u>3,546,064.37</u>	<u>7,404,861.06</u>

Analysis of due date of long term payables:

	Closing balance	Opening balance
Within 1 year	9,167,543.14	10,516,236.20
1-2 years	2,376,463.46	7,200,894.20
2-5 years	<u>1,169,600.91</u>	<u>203,966.86</u>
Total	<u>12,713,607.51</u>	<u>17,921,097.26</u>





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 23. Share Capital

	Opening balance	Increase in the year	Decrease in the year	Closing balance
Shares subject to trading moratorium-				
State owned shares	—	—	—	—
State-owned legal person shares	334,715,000.00	—	65,501,500.00	<b>269,213,500.00</b>
Other domestic shares	—	—	—	—
Foreign shares	—	—	—	—
Subtotal	<u>334,715,000.00</u>	<u>—</u>	<u>65,501,500.00</u>	<u><b>269,213,500.00</b></u>
Shares not subject to trading moratorium-				
RMB denominated ordinary shares	78,300,000.00	65,501,500.00	—	<b>143,801,500.00</b>
Overseas-listed foreign shares	242,000,000.00	—	—	<b>242,000,000.00</b>
Others	—	—	—	—
Subtotal	<u>320,300,000.00</u>	<u>65,501,500.00</u>	<u>—</u>	<u><b>385,801,500.00</b></u>
Total	<u>655,015,000.00</u>	<u>65,501,500.00</u>	<u>65,501,500.00</u>	<u><b>655,015,000.00</b></u>

Pursuant to the "Approval of state-owned share administration for share distribution and circulation reform of Nanjing Panda Electronics Company Limited" issued by Jiangsu Provincial State-owned Assets Supervision and Administration Commission of the PRC ("Jiangsu SASAC") (Suguo Zifu No. 123[2006]) on 21 July 2006, the shareholders' resolution of the Company held on 28 July 2006 on the reform of share distribution and circulation, and the "Approval of transfer of shares of Nanjing Panda Electronics Company Limited" issued by Ministry of Commerce (Shang Zi Pi No. 1711[2006]) on 24 August 2006, the Company's sole non-circulating shareholder, Panda Electronics Group Limited ("PEGL"), paid shares to shareholders of circulating A shares, and acquired the right to circulate its non-circulating shares. PEGL paid 20.3 million shares to shareholders of circulating A shares, i.e. 3.5 shares per 10 circulating A shares.

PEGL committed that its non-trading shares shall not be traded or transferred within 24 months since the effective date of share distribution and circulation reform (11 September 2006). Within 12 months after the expiration of the aforesaid stipulation, the shares sold through Shanghai Securities Exchange shall not exceed 10% of total shares owned. As at 31 December 2008, 65,501,500 shares subject to trading moratorium are allowed to be circulated, while they were still held by the controlling shareholder of the Company, PEGL.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 24. Capital Reserve

	Opening balance	Increase in the year	Decrease in the year	Closing balance
Capital premium	477,875,089.49	—	—	<b>477,875,089.49</b>
Other capital reserve	2,333,944.88	17,152,264.05	—	<b>19,486,208.93</b>
Total	480,209,034.37	17,152,264.05	—	<b>497,361,298.42</b>

In this year, the Company acquired the minority interests of Nanjing Panda Technology Equipment Co., Ltd., Nanjing Guanghua Electronics Plastic Casings Factory, Nanjing Panda Electronic Manufacturing Company Limited and Nanjing Panda Information Industry Co., Ltd. The amount RMB17,152,264.05, which was less than the value of minority interests, was recorded in capital reserve for the year.

### 25. Surplus Reserve

Items	Opening balance (restated)	Increase in the year	Decrease in the year	Closing balance
Statutory surplus reserve	129,717,382.05	416,397.91	—	<b>130,133,779.96</b>
Discretionary surplus reserve	70,376,641.33	—	—	<b>70,376,641.33</b>
Total	200,094,023.38	416,397.91	—	<b>200,510,421.29</b>

According to “the Company law of the PRC”, the Company’s Articles of Association and a resolution at the Board of Directors, the Company appropriates 10% of net profit net profits of the year to statutory surplus reserve. The Company shall not appropriate statutory surplus reserve when it reaches above 50% of the total share capital. The statutory surplus reserve could be used to recover loss or increase share capital. The Company appropriated statutory surplus reserve amounting to RMB416,397.91 for the year (year 2007: RMB6,840,778.21).



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 26. Undistributed Profit

Items	2008	2007 (restated)
<b>Closing balance of previous year</b>	<b>107,737,884.91</b>	23,694,619.36
Add: Changes in accounting policies	<b>48,293,153.23</b>	32,171,148.30
Correction of previous errors	—	—
<b>Opening balance of the year</b>	<b>156,031,038.14</b>	55,865,767.66
Add: Consolidated net profit attributable to parent company	<b>37,201,260.82</b>	107,006,048.69
Compensation of loss from surplus reserve	—	—
Other transfer-in	—	—
Less: Transfer to statutory surplus reserve	<b>416,397.91</b>	6,840,778.21
Transfer to discretionary surplus reserve	—	—
Distribution to shareholders	<b>52,401,200.00</b>	—
<b>Closing balance of the year</b>	<b>140,414,701.05</b>	156,031,038.14

- (1) The statutory surplus reserve of the Company was appropriated based on 10% of profits after tax.
- (2) Pursuant to the Annual Profit Distribution Proposal for year 2007 passed at shareholders' general meeting of the Company held on 15 May 2008, based on the total share capital of 655,015,000 shares at the end of the reporting period, the Company distributed a cash dividend of RMB0.08 (tax inclusive) for every 10 shares to shareholders, totaling RMB52,401,200.00. The dividend payment date was 24 June 2008.
- (3) Pursuant to the Annual Profit Distribution Proposal for 2008 passed at the eighth meeting of the sixth Board, the Company decided not to distribute profits for the year 2008.

### 27. Operating Income and Costs

- (1) Income from principal activities and other activities

Items	2008	2007
Income from principal activities	<b>1,112,978,572.86</b>	996,910,349.00
Income from other activities	<b>18,058,599.93</b>	13,025,306.50
<b>Total operating income</b>	<b>1,131,037,172.79</b>	1,009,935,655.50
Cost of principal activities	<b>976,238,679.95</b>	821,679,187.18
Cost of other activities	<b>13,168,744.23</b>	13,899,541.21
<b>Total operating cost</b>	<b>989,407,424.18</b>	835,578,728.39



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 27. Operating Income and Costs (Continued)

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

Business segment	2008		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	403,081,780.26	355,787,595.94	47,294,184.32
Electronic information products	338,442,099.99	300,397,249.49	38,044,850.50
Electrometrical products	206,616,150.69	173,233,720.40	33,382,430.29
Satellite telecommunication products	130,800,000.00	119,917,604.00	10,882,396.00
Others	34,038,541.92	26,902,510.12	7,136,031.80
Sub-total	<u>1,112,978,572.86</u>	<u>976,238,679.95</u>	<u>136,739,892.91</u>
Less: inter-segment offset	—	—	—
Total	<u>1,112,978,572.86</u>	<u>976,238,679.95</u>	<u>136,739,892.91</u>
Business segment	2007		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	306,753,022.68	254,131,934.83	52,621,087.85
Electronic information products	278,775,469.06	239,001,896.53	39,773,572.53
Electrometrical products	185,625,854.46	150,871,224.53	34,754,629.93
Satellite telecommunication products	197,370,000.00	150,399,144.96	46,970,855.04
Others	28,386,002.80	27,274,986.33	1,111,016.47
Sub-total	<u>996,910,349.00</u>	<u>821,679,187.18</u>	<u>175,231,161.82</u>
Less: inter-segment offset	—	—	—
Total	<u>996,910,349.00</u>	<u>821,679,187.18</u>	<u>175,231,161.82</u>

(3) Sales revenue from the largest five customers totaled RMB512,727,706.38 (year 2007: RMB502,968,122.79), accounting for 45.33% of total sales revenue for the year (year 2007: 49.80%).



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 28. Sales tax and surcharges

Items	2008		2007	
	Calculation basis	Amount	Calculation basis	Amount
Business tax	5% of lease income and others	2,451,385.99	5% of lease income and others	3,406,553.50
City maintenance tax	7% of turnover tax	1,435,822.24	7% of turnover tax	1,213,935.17
Education surcharges	4% of turnover tax	868,876.81	4% of turnover tax	757,778.91
Total		<u>4,756,085.04</u>		<u>5,378,267.58</u>

### 29. Financial costs

Items	2008	2007
Interest expenses	52,938,721.30	56,071,928.02
Less: Interest income	9,691,991.86	3,413,275.18
Exchange loss	6,870,386.79	4,740,723.26
Less: Exchange gain	4,273,527.56	827,399.11
Bank charges	721,135.45	297,312.63
Unrecognized financing expenses	1,516,600.51	2,781,072.92
Others	618,038.72	1,546,597.71
Total	<u>48,699,363.35</u>	<u>61,196,960.25</u>

### 30. Assets Impairment Loss

Items	2008	2007
Bad debt losses	(7,844,444.25)	27,011,225.89
Loss from inventory impairment	41,624,759.82	11,440,590.47
Fixed asset impairments loss	2,031,510.20	—
Total	<u>35,811,825.77</u>	<u>38,451,816.36</u>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 31. Investment Income

Name of investee	2008	2007 (restated)	Remarks
Nanjing Ericsson Panda Communication Company Limited	<b>162,197,640.00</b>	154,994,262.91	(1)
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	<b>92,753,310.99</b>	152,261,208.52	(1)
Hua Fei Colour Display Systems Company Limited	<b>(60,573,231.89)</b>	(71,657,292.72)	(2)
Nanjing Panda Hitachi Techno Co., Ltd.	—	1,937,765.20	—
Shenzhen Jingwah Electronics Co., Ltd	<b>10,417,895.79</b>	10,914,429.05	—
Intenna (Nanjing) Co. Ltd.	<b>(519,168.16)</b>	(528,475.39)	—
Nanjing Thales Panda Transportation System Company Limited	<b>760,109.41</b>	240,682.32	—
Nanjing Electronics (Kunshan) Co. Ltd	<b>(43,850.38)</b>	262,474.11	—
Nanjing Huaxian High Technology Company Limited	<b>(3,709,187.29)</b>	—	—
<b>Total</b>	<b>201,283,518.47</b>	248,425,054.00	

- (1) The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2008, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
- (2) The financial statement of Hua Fei Colour Display Systems Company Limited in 2008, an associated company of the Company, was audited by Jiangsu Talent CPA and a standard unqualified audited report was issued.
- (3) Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company; ii) there was no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs offset between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit. The investment income or loss was recognized based on the share of profit or loss of investees under equity method of accounting.
- (4) There was no material restriction on the remittance of the investment income to the Company.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 32. Non-operating Income

#### (1) Details of Non-operating income

Items	2008	2007
Gains from disposal of non-current assets	1,879,035.41	634,266.75
Including: Gains from disposal of fixed assets	1,879,035.41	564,486.46
Gains from disposal of other non-current fixed assets	—	69,780.29
Profits from debt restructuring	5,008,499.57	1,813.00
Governmental subsidy	21,097,301.73	8,237,724.07
Net gain from fine payments	163,952.45	5,500.00
Asset inventory surplus	—	9,524.50
Others	1,156,559.85	607,463.32
Total	29,305,349.01	9,496,291.64

#### (2) Government subsidy

Items	2008		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	1,820,717.51	1,820,717.51	580,768.50	580,768.50
Financial subsidy and financial grant	19,276,584.22	19,276,584.22	2,456,955.57	2,456,955.57
Compensation for removal	—	—	5,200,000.00	5,200,000.00
Total	21,097,301.73	21,097,301.73	8,237,724.07	8,237,724.07

(3) Non-operating income for year 2008 increased by 208.60% over 2007, mainly due to the receipt of government subsidy and gain from debt restructuring.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 33. Non-operating Expenses

Items	2008	2007
Loss from the disposal of non-current assets	1,027,440.71	586,530.85
Including: loss from disposal of fixed assets	1,027,440.71	297,610.72
Loss from the disposal of other non-current assets	—	288,920.13
Loss from debt restructuring	428,904.84	18,907,277.58
Donation expenses	1,903,600.00	122,000.00
Fine payment expenses	252,087.93	—
Compensation expenses	220,889.31	1,700,000.00
Others	255,553.32	611,819.64
Total	4,088,476.11	21,927,628.07

Non-operating expense for year 2008 decreased by 81.35% over 2007, mainly due to that there was no material debt restructure loss for the year.

### 34. Income Tax Expenses

Composition of income tax expenses (gains)

Items	2008	2007
Income tax expense in the period	6,742,502.65	7,868,354.71
Deferred income tax expense	(746,121.63)	(641,350.67)
	5,996,381.02	7,227,004.04

### 35. Basic Earnings per Share and Diluted Earnings per Share

Items	2008	2007
Basic earnings per share	0.06	0.16
Diluted earnings per share	0.06	0.16





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 35. Basic Earnings per Share and Diluted Earnings per Share (Continued)

Note:

- (1) Calculation of basic earning per share

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

The weighted average of outstanding ordinary shares =  $S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$

Including: "S0" represents total number of shares at the beginning of the period;

"S1" represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period;

"Si" represents shares increased from issue of new shares or debt to equity during reporting period;

"Sj" represents the reduced shares arising from repurchase during reporting period;

"Sk" represents the number of reduced shares during the reporting period;

"M0" represents months in the reporting period;

"Mi" represents the months from the next month of the increase of shares to the end of the reporting period;

"Mj" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 35. Basic Earnings per Share and Diluted Earnings per Share (Continued)

Note: (Continued)

(2) Calculation of diluted earnings 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)  $\times$  (1-Income tax ratio) /  $(S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{The weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond})$ .

Including: "S0" represents total number of shares at the beginning of the reporting period;

"S1" represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period;

"Si" represents shares increased from issue of new shares or debt to equity during reporting period;

"Sj" represents the reduced shares arising from repurchase during reporting period;

"Sk" represents the number of reduced shares during the reporting period;

"M0" represents months in the reporting period;

"Mi" represents the months from the next month of the increase of shares to the end of the reporting period;

"Mj" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 36. Cash Received Relating to Other Operating Activities

Among the “cash received relating to other operating activities”, the items with large amount are listed as follows:

Items	2008	2007
The receipts of prepayment of house building fund	45,153,340.74	—
Government subsidy	15,069,536.18	—
Research fund received from China Electronics Corporation research funds	4,500,000.00	—
Capital flows with Panda Electronics Group Limited	—	1,241,233,580.00
Capital flows with Nanjing Panda Television Co., Ltd.	—	47,805,694.00
Nanjing Panda Handa Technology Co., Ltd.	—	28,092,760.00
Others	10,566,376.75	15,236,641.89
Total	75,289,253.67	1,332,368,675.89

### 37. Cash Paid Relating to Other Operating Activities

Among the “Cash Paid Relating to Other Operating Activities”, the items with large amount are listed as follows:

Items	2008	2007
Operating fee	18,209,383.80	10,889,224.21
Technology development fee	16,770,393.00	33,315,638.22
Entertainment expenses	8,697,445.79	9,287,669.04
Travelling expenses	4,763,461.80	4,699,463.38
Deposit savings	1,240,000.00	—
Capital flows with Panda Electronics Group Limited	—	1,240,370,757.33
Capital flows with Nanjing Panda Television Co., Ltd.	—	46,767,854.00
Nanjing Panda Handa Technology Co., Ltd.	—	28,092,760.00
Others	28,899,896.19	95,292,434.79
Total	78,580,580.58	1,468,715,800.97



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 38. Cash Received from other Financing Activities

Among the "Cash Received from other Financing Activities", the items with large amount are listed as follows:

Items	2008	2007
Receipt of time deposit pledged for bank loans	50,000,000.00	—
Deposits as margin	20,811,321.18	44,775,934.49
Discounted bill amount for Nanjing Panda Television Co., Ltd.	—	281,200,900.00
Discounted bill amount	—	29,535,600.00
Commissioned collection of amount under finance lease	—	4,524,900.00
Others	—	34,572.36
<b>Total</b>	<b>70,811,321.18</b>	<b>360,071,906.85</b>

### 39. Cash Paid Relating to Other Financing Activities

Among the "Cash Paid Relating to Other Financing Activities", the items with large amount are listed as follows:

Items	2008	2007
Payment of amount under finance lease	13,837,100.96	19,750,176.00
Payment of discount interest	1,203,333.32	464,400.00
Discounted bill amount for Nanjing Panda Television Co., Ltd.	—	281,200,900.00
Deposit as margin	—	102,876,917.50
Commissioned payment of amount under finance lease	—	3,790,301.67
Others	—	545,365.34
<b>Total</b>	<b>15,040,434.28</b>	<b>408,628,060.51</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 40. Supplemental Information of Cash Flow Statements

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

Items	2008	2007
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>		
<b>Net profit</b>	<b>38,803,050.26</b>	114,192,233.26
Add: Provision for asset impairment	<b>35,811,825.77</b>	38,451,816.36
Depreciation of fixed assets	<b>40,808,499.49</b>	39,344,532.30
Amortization of intangible assets	<b>1,984,496.86</b>	1,118,036.97
Amortization of long term deferred expenses	<b>893,018.12</b>	738,745.95
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	<b>(851,594.70)</b>	11,588,254.34
Loss from fixed assets scrapped (gains are represented by "-")	—	191,551.16
Losses from change in fair value (gains are represented by "-")	—	—
Financial expense (gains are represented by "-")	<b>56,268,838.07</b>	57,360,422.75
Loss on investment (gains are represented by "-")	<b>(201,283,518.47)</b>	(248,425,054.00)
Decrease in deferred income tax assets (Increase is represented by "-")	<b>(746,121.63)</b>	(641,350.67)
Increase in deferred income tax liabilities (decrease is represented by "-")	—	—
Decrease in inventories (increase is represented by "-")	<b>(77,480,789.22)</b>	(59,573,240.80)
Decrease in trade receivables (Increase is represented by "-")	<b>(62,762,385.75)</b>	127,032,479.38
Increase in trade payables (Decrease is represented by "-")	<b>27,587,159.33</b>	(113,459,126.36)
Others	—	—
<b>Net cash flow from operating activities</b>	<b>(140,967,521.87)</b>	(32,080,699.36)
<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>7,113,010.70</b>	—
<b>3. Net change in cash and cash equivalents:</b>		
Cash balance as at end of the year	<b>350,395,016.64</b>	380,822,357.69
Less: cash balance as at beginning of the year	<b>380,822,357.69</b>	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>(30,427,341.05)</b>	(226,495,737.53)



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 40. Supplemental Information of Cash Flow Statements (Continued)

#### (2) Information on cash and cash equivalents

Items	2008	2007
<b>I. Cash</b>	<b>350,395,016.64</b>	380,822,357.69
Including: Cash on hand	504,095.31	538,704.29
Bank deposit available for payment at any time	349,890,921.33	380,283,653.40
Other cash fund available for payment at any time	—	—
<b>II. Cash equivalents</b>		
Including: Bond investment due within three months	—	—
<b>III. Closing balance of cash and cash equivalents</b>	<b>350,395,016.64</b>	380,822,357.69

### 41. Segment Report

Primary reporting format - business segments

#### (1) Segment information as at and for the year is as follows:

	Electronic Manufacture products	Electrometrical products	Satellite telecommunication products	Electronic information products	Others	Total
Segment revenue						
Income from principal activities	403,081,780.26	206,616,150.69	130,800,000.00	338,442,099.99	34,038,541.92	1,112,978,572.86
Income from other activities	4,565,456.37	6,704,175.77	1,182,027.36	750,151.51	4,856,788.92	18,058,599.93
Segment profit	24,070,758.41	(42,255,625.26)	13,572,279.54	2,738,539.27	(6,287,960.16)	(8,162,008.20)
Unallocated expenses						(130,292,222.45)
Interest income						9,691,991.86
Interest expense						(52,938,721.30)
Investment income						201,283,518.47
Non-operating income						29,305,349.01
Non-operating expense						(4,088,476.11)
Income tax expense						(5,996,381.02)
Net profit						38,803,050.26
Segment assets						
Assets	419,312,442.38	180,313,924.41	313,428,903.48	242,056,041.42	33,518,616.16	1,188,629,927.85
Long-term equity investment						937,585,276.41
Unallocated assets						448,338,911.37
Segment liabilities						
Liabilities	156,868,614.33	79,585,363.93	5,537,882.86	129,444,550.73	11,097,027.41	382,533,439.26
Unallocated liabilities						686,577,986.99
Other expense						
Capital expenditure	59,487,690.39	1,476,553.46	—	526,700.00	1,000,000.00	
Depreciation and amortization expense	24,884,007.95	4,093,139.16	—	652,664.01	293,037.94	



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 41. Segment Report (Continued)

Primary reporting format - business segments (Continued)

(2) Segment information as at and for the last year is as follows:

	Electronic Manufacture products	Electrometrical products	Satellite telecommunication products	Electronic information products	Others	Total
Segment revenue						
Income from principal activities	308,351,253.16	184,847,044.22	197,370,000.00	279,569,069.44	26,772,982.18	996,910,349.00
Income from other activities	2,118,012.75	4,011,967.26	1,479,770.05	21,482.00	5,394,074.44	13,025,306.50
Segment profit	25,937,608.54	7,615,315.74	29,140,774.33	5,713,975.47	3,025,549.58	71,433,223.66
Unallocated expenses						(133,349,051.09)
Interest income						3,413,275.18
Interest expense						(56,071,928.02)
Investment income						248,425,054.00
Non-operating income						9,496,291.64
Non-operating expense						(21,927,628.07)
Income tax expense						(7,227,004.04)
Net profit						114,192,233.26
Segment assets						
Assets	376,657,682.05	199,713,003.87	300,933,262.79	190,247,791.52	48,819,654.85	1,116,371,395.08
Long-term equity investment						1,030,034,159.14
Unallocated assets						496,889,258.87
Segment liabilities						
Liabilities	133,834,168.73	66,675,007.63	5,256,563.22	136,088,506.79	38,965,460.63	380,819,707.00
Unallocated liabilities						724,307,139.05
Other expense						
Capital expenditure	19,644,910.00	1,750,553.46	—	526,700.00	—	
Depreciation and amortization expense	20,812,933.07	4,093,139.16	—	652,664.01	1,147,000.00	

The Company's major business is in Nanjing.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## 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		
		Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Substantial amount of single accounts receivable	80,770,425.75	87.99	1,263,806.47	1.56
Other unsubstantial amount of accounts receivable	11,026,674.68	12.01	1,383,169.05	12.54
<b>Total</b>	<b>91,797,100.43</b>	<b>100.00</b>	<b>2,646,975.52</b>	<b>2.88</b>

Items	Balance	Opening balance		
		Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Substantial amount of single accounts receivable	49,026,348.46	92.55	2,389,925.49	4.87
Other unsubstantial amount of accounts receivable	3,943,789.74	7.45	1,338,426.78	33.94
<b>Total</b>	<b>52,970,138.20</b>	<b>100.00</b>	<b>3,728,352.27</b>	<b>7.04</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	Closing balance				Opening balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts%	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts%
Within 1 year	89,473,960.43	97.47	1,203,698.02	1.35	51,034,549.05	96.35	2,569,040.14	5.03
1-2 years	977,625.00	1.06	97,762.50	10.00	536,627.80	1.01	53,662.78	10.00
2-3 years	122.00	122.00	100.00	1,204,493.00	2.27	920,651.00	76.43	—
3-5 years	1,345,393.00	1.47	1,345,393.00	100.00	47,350.00	0.09	37,880.00	80.00
More than 5 years	—	—	—	—	47,118.35	0.28	147,118.35	100.00
<b>Total</b>	<b>91,797,100.43</b>	<b>100.00</b>	<b>2,646,975.52</b>	<b>2.88</b>	<b>52,970,138.20</b>	<b>100.00</b>	<b>3,728,352.27</b>	<b>7.04</b>





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 1. Accounts Receivable (Continued)

(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 Group Ltd.	65,400,000.00	71.24	Within 1 year
Yancheng Electronics & Information Development Co., Ltd	7,949,100.00	8.66	Within 1 year
Nanjing Broadcasting Network Inc	7,421,325.75	8.09	Within 1 year
Nanjing Panda Handa Technology Co., Ltd.	1,571,061.63	1.71	Within 1 year
Binhai County Broadcasting & Television Bureau	1,482,000.00	1.61	Within 1 year
Total	83,823,487.38	91.31	

### 2. Other Receivables

(1) Break-down of other receivables by categories

Items	Balance	Closing balance		
		Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Substantial amount of single other receivables	161,257,486.77	85.80	16,623,537.71	10.31
Other unsubstantial amount of other receivables	26,680,602.16	14.20	8,988,489.90	33.69
Total	187,938,088.93	100.00	25,612,027.61	13.63

Items	Balance	Opening balance		
		Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Substantial amount of single other receivables	192,107,933.67	90.34	35,435,919.57	18.45
Other unsubstantial amount of other receivables	20,544,687.89	9.66	6,578,484.37	32.02
Total	212,652,621.56	100.00	42,014,403.94	19.76

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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 2. Other Receivables (Continued)

#### (2) Ageing analysis of other receivables

Ageing	Closing balance				Opening balance			
	Amount	%	Bad debt	Percentage of	Amount	%	Provision for	Percentage of
				provision for				provision for
				bad debts%			Bad debt	bad debts%
Within 1 year	94,966,578.48	50.53	4,615,348.37	4.86	136,301,478.75	64.10	5,031,123.31	3.69
1-2 years	78,760,765.48	41.90	8,230,018.16	10.45	3,690,904.43	1.74	679,406.54	18.41
2-3 years	2,267,092.93	1.21	1,133,546.47	50.00	55,119,907.19	25.92	22,641,450.65	41.08
3-5 years	827,087.15	0.44	516,549.72	62.45	11,588,110.22	5.44	7,710,202.47	66.54
More than 5 years	1,116,564.89	5.92	11,116,564.89	100.00	5,952,220.97	2.80	5,952,220.97	100.00
Total	187,938,088.93	100.00	25,612,027.61	13.63	212,652,621.56	100.00	42,014,403.94	19.76

#### (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 Huage Electronics & Automobile Plastic Industry Co., Ltd.	46,087,911.37	24.52	Within 1 year, 1-2 years
Nanjing Panda Information Industry Co., Ltd. Galant Limited	34,483,169.64	18.35	Within 1 year, 1-2 years
Nanjing Panda International Telecommunication System Co., Ltd.	31,439,160.00	16.73	Within 1 year
Nanjing Panda Accurate Machinery Co. Ltd.	6,242,012.26	13.96	Within 1 year, 1-2 years
	9,680,378.72	5.15	
Total	147,932,631.99	78.71	



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 3. Long-term Equity Investment

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

Items	Opening balance (restated)	Increase in the year	Decrease in the year	Closing balance
Investment in subsidiaries	192,403,251.35	24,390,309.16	—	<b>216,793,560.51</b>
Investment in associated companies	1,018,853,980.30	200,567,259.44	293,732,401.20	<b>925,688,838.54</b>
Less: provision for impairment of long term investment	17,330,000.00	10,281,944.58	—	<b>27,611,944.58</b>
Total	<u>1,193,927,231.65</u>	<u>214,675,624.02</u>	<u>293,732,401.20</u>	<u><b>1,114,870,454.47</b></u>

#### (2) Details of investment in associated companies and major financial data of the associated companies this year

Name of investee	Opening balance (restated)	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Associated company						
Beijing SE Putian Mobile Communications Co., Ltd	285,041,883.61	92,753,310.99	149,200,000.00	<b>228,595,194.60</b>	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	10,000,000.00	(3,709,187.29)	—	<b>6,290,812.71</b>	Nanjing	Technology Development
Hua Fei Colour Display Systems Company Limited	321,310,048.42	(60,573,231.89)	—	<b>260,736,816.53</b>	Nanjing	Manufacture
Tamura Electronics (Nanjing) Co., Ltd.	—	—	—	—	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.	—	—	—	—	Nanjing	Manufacture
Nanjin Ericsson Panda Communication Company Limited	313,533,290.00	162,197,640.00	140,156,000.00	<b>335,574,930.00</b>	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	86,779,408.14	10,417,895.79	4,376,401.20	<b>92,820,902.73</b>	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	2,189,350.13	(519,168.16)	—	<b>1,670,181.97</b>	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	—	—	—	—	Nanjing	Manufacture
Total	<u>1,018,853,980.30</u>	<u>200,567,259.44</u>	<u>293,732,401.20</u>	<u><b>925,688,838.54</b></u>		



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 3. Long-term Equity Investment (Continued)

- (2) Details of investment in associated companies and major financial data of the associated companies this year (Continued)

Name of investee	The Company's shareholding percentage%	The Company's percentage in voting rights of the investee%	Total net assets at the end of the period	Total operating income for the year	Net profit for the year /(loss)
Associated companies					
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	1,125,759,000.00	28,326,864,000.00	463,877,000.00
Hua Fei Colour Display Systems Company Limited	25	25	1,042,947,266.10	2,102,049,848.25	(242,292,927.58)
Nanjing Ericsson Panda Communication Company Limited	27	27	1,242,877,000.00	16,619,497,000.00	600,732,000.00
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	244,135,278.46	370,646,079.41	27,172,465.33
Intenna (Nanjing) Co. Ltd.	35	35	4,771,948.48	—	(1,483,337.61)
Nanjing Huaxian High Technology Company Limited	20	20	31,454,063.53	1,067,094.01	(18,545,936.47)

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

Name of investee	Initial investment (restated)	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	285,041,883.61	—	92,753,310.99	149,200,000.00	<b>228,595,194.60</b>
Nanjing Huaxian High Technology Company Limited	10,000,000.00	10,000,000.00	—	(3,709,187.29)	—	<b>6,290,812.71</b>
Hua Fei Colour Display Systems Company Limited	392,892,722.42	321,310,048.42	—	(60,573,231.89)	—	<b>260,736,816.53</b>
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	313,533,290.00	—	162,197,640.00	140,156,000.00	<b>335,574,930.00</b>
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	86,779,408.14	—	10,417,895.79	4,376,401.20	<b>92,820,902.73</b>
Intenna (Nanjing) Co. Ltd.	1,750,000.00	2,189,350.13	—	(519,168.16)	—	<b>1,670,181.97</b>
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00	—	—	—	—	—
<b>Total</b>	<b>627,834,977.45</b>	<b>1,018,853,980.30</b>	<b>—</b>	<b>200,567,259.44</b>	<b>293,732,401.20</b>	<b>925,688,838.54</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 3. Long-term Equity Investment (Continued)

#### (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.	34,622,830.35	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>192,915,007.96</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 during the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
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
Nanjing Panda Power Supply Technology Co., Ltd.	8,750,000.00	—	—	—	—	8,750,000.00
<b>Total</b>	<b>17,330,000.00</b>	<b>10,281,944.58</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>27,611,944.58</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 4. Operating Income and Operating Cost

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

Items	2008	2007
Income from principal business	195,552,771.39	243,334,382.04
Income from other business	6,684,493.53	8,792,695.55
<b>Total income from operation</b>	<b>202,237,264.92</b>	<b>252,127,077.59</b>
Cost of principal business	188,726,764.00	193,268,467.49
Cost of other business	4,602,571.44	5,100,267.90
<b>Total operating cost</b>	<b>193,329,335.44</b>	<b>198,368,735.39</b>

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

Business segments	2008		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacturing products	—	—	—
Electronic information products	29,203,396.02	24,794,528.16	4,408,867.86
Electromechanical products	15,642,361.68	24,281,681.05	(8,639,319.37)
Satellite telecommunications products	130,800,000.00	119,917,604.00	10,882,396.00
Other	19,907,013.69	19,732,950.79	174,062.90
<b>Total</b>	<b>195,552,771.39</b>	<b>188,726,764.00</b>	<b>6,826,007.39</b>
Business segments	2007		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacturing products	—	—	—
Electronic information products	37,274,693.68	33,307,994.82	3,966,698.86
Electromechanical products	7,773,203.72	9,560,016.28	(1,786,812.56)
Satellite telecommunications products	197,370,000.00	150,399,144.96	46,970,855.04
Other	916,484.64	1,311.43	915,173.21
<b>Total</b>	<b>243,334,382.04</b>	<b>193,268,467.49</b>	<b>50,065,914.55</b>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 5. Investment Income

Name of invested unit	2008	2007 (restated)	Remarks
Nanjing Ericsson Panda Communication Company Limited	162,197,640.00	154,994,262.91	(1)
Beijing SE Putian Mobile Communication Co. Limited	92,753,310.99	152,261,208.52	(2)
Hua Fei Colour Display Systems Company Limited	(60,573,231.89)	(71,657,292.72)	(3)
Nanjing Panda Hitachi Technology Co. Ltd	—	1,937,765.20	—
Shenzhen Jinghua Electronic Company Limited	10,417,895.79	10,914,429.05	—
Intenna (Nanjing) Co. Ltd.	(519,168.16)	(528,475.39)	—
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	—	—	—
Nanjing Huaxian High Technology Company	(3,709,187.29)	—	—
Nanjing Electronic Calibration Co., Ltd.	104,256.89	165,672.57	—
Nanjing Panda Appliance & Apparatus Co. Ltd.	—	1,214,183.80	—
Nanjing Panda Mechanical Manufacturing Co. Ltd	—	2,379,748.84	—
Nanjing Panda System Integration Co., Ltd.	30,993.77	519,591.00	—
Nanjing Panda Electronic Manufacturing Company Limited	8,155,115.32	—	—
GALANT LIMITED	2,709,034.16	—	—
Total	211,566,659.58	252,201,093.78	—

- (1) The financial statement of Nanjing Ericsson Panda Communication Co. Ltd in 2008, an associated company of the Company, was audited by PricewaterhouseCoopers Zhong Tian Accountants Limited Company and a standard unqualified audited report was given.
- (2) The 2008 financial statement of Hua Fei Colour Display Systems Company Limited, an associated company of the Company, was audited by Jiangsu Talent Certified Public Accountants and a standard unqualified audited report was issued.
- (3) Since i) there is no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company in accordance with the latter; ii) there is no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) here was no unrecognized internal profit that needs offset between the investee and the Company. The Company recognized investment income based on the investee's book value of net profit. The investment income or loss was recognized based on the share of profit or loss of investees under equity method of accounting.
- (4) There are no significant limitations on remittance of investments income to the Company.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 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	14,857,268.81	30,155,536.53	228,537.45	30,384,073.98	<b>30,262,201.04</b>
Including: Accounts receivable	3,728,352.27	1,442,994.30	2,330,024.70	194,346.35	2,524,371.05	<b>2,646,975.52</b>
Other receivables	42,014,403.94	11,457,326.60	27,825,511.83	34,191.10	27,859,702.93	<b>25,612,027.61</b>
Prepayments	46,250.00	1,956,947.91	—	—	—	<b>2,003,197.91</b>
II. Total provision for impairment of inventories	241,132.62	28,376,962.09	213,852.16	10,524,430.00	10,738,282.16	<b>17,879,812.55</b>
Including: Raw materials	—	—	—	—	—	—
Stored commodities	85,874.94	28,290,906.64	64,543.60	10,524,430.00	10,588,973.60	<b>17,787,807.98</b>
Delivery of goods	155,257.68	86,055.45	149,308.56	—	149,308.56	<b>92,004.57</b>
III. Total provision for impairment of long term equity investment	17,330,000.00	10,281,944.58	—	—	—	<b>27,611,944.58</b>
IV. Total provision for impairment of fixed assets	3,996,759.95	—	—	1,789,156.23	1,789,156.23	<b>2,207,603.72</b>
Including: Housing	—	—	—	—	—	—
Building Machinery	3,721,211.57	—	—	1,619,128.43	1,619,128.43	<b>2,102,083.14</b>
Electronic equipment	275,548.38	—	—	170,027.80	170,027.80	<b>105,520.58</b>
V. Provision for construction supplies impairment	—	—	—	—	—	—
VI. Provision for construction in progress impairment	—	—	—	—	—	—
<b>Total</b>	<b>67,356,898.78</b>	<b>53,516,175.48</b>	<b>30,369,388.69</b>	<b>12,542,123.68</b>	<b>42,911,512.37</b>	<b>77,961,561.89</b>





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 7. Cash flow Supplementary Information

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

Items	2008	2007 (restated)
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>		
<b>Net profit</b>	<b>4,163,979.08</b>	68,407,782.14
Add: Provision for asset impairment	<b>23,146,786.79</b>	42,185,486.48
Depreciation of fixed assets	<b>12,651,967.18</b>	12,497,176.92
Amortisation of intangible assets	<b>591,298.68</b>	489,798.68
Amortisation of long term deferred expenses	—	—
Loss arising from disposal of fixed assets, intangible assets and other long term assets	<b>952,377.23</b>	16,825,797.19
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 "-")	<b>49,502,257.73</b>	52,326,448.90
Loss on investment (gains are represented by "-")	<b>(211,566,659.58)</b>	(252,201,093.78)
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 "-")	<b>(43,470,905.51)</b>	(21,783,294.24)
Decrease in trade debtors (Increase is represented by "-")	<b>(29,221,261.42)</b>	68,999,003.71
Increase in trade creditors (Decrease is represented by "-")	<b>(5,470,322.99)</b>	(135,626,116.03)
Others	—	—
<b>Net cash flows from operating activities</b>	<b>(198,720,482.81)</b>	(147,879,010.03)
<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 the end of the year	<b>227,578,462.74</b>	246,370,810.95
Less: cash balance as at the beginning of the year	<b>246,370,810.95</b>	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>(18,792,348.21)</b>	(272,611,368.34)



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

### 7. Cash flow Supplementary Information (Continued)

#### (2) Information on Cash and Cash Equivalents

Items	2008	2007
<b>I. Cash</b>	<b>227,578,462.74</b>	246,370,810.95
Including: Cash on hand	<b>73,103.39</b>	101,547.59
Bank deposit available for payments at any time	<b>227,505,359.35</b>	246,269,263.36
Other cash fund available for payment at any time	—	—
<b>II. Cash equivalents</b>		
Including: Bond investment due within three months	—	—
<b>III. Closing balance of cash and cash equivalents</b>	<b>227,578,462.74</b>	246,370,810.95

## 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. Recognition standards for a related party in 2006: During the financial and business decision-makings, in case that a party is able to directly or indirectly control, commonly control over another party or exerts significant influence over another party or in case two or more parties are under exclusive control, the Company deem it as a related party.

#### 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 Ltd.	134883152	Nanjing economy and technology development zone	a company with limited liabilities	RMB 1,266,060,000	51.10	51.10



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (1) Related parties (Continued)

#### 3. Subsidiaries of the Company

Name of subsidiaries	Code of Organization	Registered address	Nature of business	Registered capital of the Company	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 Technolog Equipment Co., Ltd.	24981058-6	Nanjing	Manufacturing industry	RMB5,000,000	100	100
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.	60892596-8	Nanjing	Manufacturing industry	USD1,240,000	72	72
Nanjing Panda Electronic Manufacturing Company Limited	76214760-7	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	70	70
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	HKD1	100	100



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (1) Related parties (Continued)

#### 4. Related 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 21st Century Electronic and Technology Square Company Limited	71627148X	Subsidiary of the Group
Nanjing Panda Garden Property Management	134961667	Subsidiary of the Group
Nanjing Panda Electronics Technology Development Company Limited	134870044	Subsidiary of the Group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the Group
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	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 Panda Huaxin Technology Industrial Co., Ltd.	79712003-3	Subsidiary of the Group
Panda (Beijing) International Information Technology Co., Ltd	765031909	Subsidiary of the Group
Panda Electronics Material Usage Co., Ltd.	134888156	Subsidiary of the Group
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	608977514	Associated company
Nanjing Electronics(Kunshan) Co. Ltd.	718679729	Associated enterprise of subsidiary
Nanjin Ericsson Panda communication Company Limited	60891684-2	Associated company
Nanjing Huaxian High Technology Company	78711237-1	Associated company
Intenna (Nanjing) Co. Ltd.	60898216-1	Associated company
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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties

#### 1. Purchase of goods

Name of related parties	2008	2007
Nanjing Panda Electronics Import/Export Co. Ltd.	7,936,600.86	1,448,638.61
Nanjing Electronics (Kunshan) Co. Ltd.	4,087,905.98	2,429,374.57
Nanjing Zhen Hua Sound Equipment Plant	3,375,291.78	2,807,534.42
Nanjing Lianhui Communication Technology Company Limited	406,005.98	—
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	41,453.00	285,404.50
Nanjing Panda Piezoelectric Technique Co., Ltd.	13,230.77	—
Nanjing Panda Television Co. Ltd.	—	2,038,370.79
Panda Electronics Group Ltd.	—	918,424.35
Nanjing Thales Panda Transportation System Company Limited	—	410,552.02
Total	<u>15,860,488.37</u>	<u>10,338,299.26</u>

#### 2. Receipt of services

Name of related parties	2008	2007
Nanjing Panda Technology Industrial Co., Ltd.	3,055,961.00	9,610,894.45
Panda Electronics Group Ltd.	1,019,707.21	5,174,071.66
Nanjing Panda Garden Property Management Centre	446,913.59	—
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	171,289.74	—
Nanjing Panda Electronics Transportation Company	102,000.00	—
Nanjing Zhen Hua Sound Equipment Plant	57,301.45	—
Nanjing Thales Panda Transportation System Company Limited	—	2,349,754.00
Total	<u>4,853,172.99</u>	<u>17,134,720.11</u>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 3. Sales of products

Name of related parties	2008	2007
Nanjing Thales Panda Transportation System Company Limited	28,997,762.57	16,931,739.25
Nanjing Panda Television Co. Ltd.	7,281,825.06	11,039,458.75
Nanjing Ericsson Panda Communications Co. Ltd	6,517,091.69	10,446,263.94
Nanjing Panda Handa Technology Co., Ltd	4,441,205.05	—
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	4,378,319.17	2,895,708.36
Nanjing Panda Electronics Import/Export Co. Ltd.	3,507,584.62	7,740,045.89
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	3,310,936.34	—
Nanjing Huaxian High Technology Company	301,529.92	—
Nanjing Lianhui Communication Technology Company Limited	277,965.81	—
Panda Electronics Group Ltd.	37,897.43	39,880.36
Panda (Beijing) International Information Technology Co., Ltd	—	2,355,351.32
Total	59,052,117.66	51,448,447.87

#### 4. Provision of services

Name of related parties	2008	2007
Nanjing Ericsson Panda Communications Co. Ltd	48,304,917.61	—
Nanjing Panda Electronics Import/Export Co. Ltd.	8,801,930.45	—
Nanjing Panda Handa Technology Co., Ltd	8,344,483.42	14,240,427.69
Panda Electronic (Kun Shan) Co. Ltd.	4,749,600.00	—
Nanjing Panda Television Co. Ltd.	2,226,113.65	—
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	1,305,439.31	—
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	163,205.01	164,278.99
Nanjing Thales Panda Transportation System Company Limited	92,000.00	—
Nanjing Lianhui Communication Technology Company Limited	47,025.36	—
Nanjing Panda Piezoelectric Technique Co., Ltd.	8,300.00	—
Panda Electronics Material Usage Co., Ltd.	5,555.56	—
Total	74,048,570.37	14,404,706.68

#### 5. Provision of guarantee

- (1) The Company provided a maximum amount guarantee for bank loan of RMB5,000,000 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 31 December 2008, the loan amounted to RMB5,000,000.00 with a term from 1 December 2008 to 1 December 2009.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 5. Provision of guarantee (Continued)

- (2) 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 with a term from 1 January 2008 to 31 December 2008. As at 31 December 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 Electronics & Automobile Plastic Industry Co., Ltd	Nanjing Branch of Citic Bank	7,000,000.00	2008.01.04-2009.01.04
Nanjing Huage Electronics & Automobile Plastic Industry Co.	Nanjing Branch of Citic Bank	5,000,000.00	2008.11.13-2009.11.13
Nanjing Huage Electronics & Automobile Plastic Industry Co.	Nanjing Branch of Citic Bank	5,000,000.00	2008.12.17-2009.12.17
Total		17,000,000.00	

- (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 during the credit period from 3 March 2008 to 12 November 2008. As at 31 December 2008, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 3 March 2008 to 3 March 2009. The borrowing belonged to credit loan at the year end and had no guarantee after 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 5 November 2008 to 11 September 2009. As at 31 December 2008, the amount of borrowing amounted to RMB1,000,000.00 with a loan term from 12 December 2008 to 12 December 2009. As at 31 December 2008, the Company provided a guarantee for bank acceptance bills with an amount of RMB11,953,644.71 and for letter of credit with an amount of RMB3,865,985.55 for Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 5. Provision of guarantee (Continued)

- (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 31 December 2008
00070	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.09-2009.08	12,613,120.00	2,304,000.00
0070-1	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.10-2009.10	11,816,400.00	2,155,500.00
201010	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2008.07-2011.07	7,917,712.70	6,022,071.00
00105	Siemens Finance and Leasing Ltd	Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	The Company	2006.12-2009.11	13,163,800.00	3,085,022.93
Total					<u>45,511,032.70</u>	<u>13,566,593.93</u>

As at 31 December 2008, the Company provided guarantee to its subsidiaries with an amount of RMB52,386,224.19 (year 2007: RMB62,916,390.94).





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 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 September 2008, 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 26 September 2008 to 11 September 2009. As at 31 December 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	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
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	20,000,000.00	2008.12.11-2009.12.11
Total		120,000,000.00	



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 6. Acceptance of guarantee (Continued)

- (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 31 December 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	2008.08.05-2009.08.04
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	20,000,000.00	2008.11.13-2009.11.13
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	30,000,000.00	2008.08.29-2009.08.29
Total		78,000,000.00	

- (3) 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 2008, providing guarantee for borrowing amount granted by Nanjing Branch of Citic Bank to the Company during 2 December 2008 to 2 December 2009 with guarantee amount of RMB80,000,000.00. As at 31 December 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	2008.12.02-2009.12.02
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	30,000,000.00	2008.12.04-2009.12.04
Total		80,000,000.00	

- (4) 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 September 2008, 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 24 September 2008 to 24 March 2009.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 6. Acceptance of guarantee (Continued)

- (5) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Bank of Communications in November 2008, providing guarantee for borrowings of RMB50,000,000.00 granted to the Company from Nanjing Branch of Bank of Communications with the loan term from 28 November 2008 to 27 November 2009.

As at 31 December 2008, the Company had acceptance of guarantee provided by Panda Electronics Group Limited, the controlling shareholder of the Company with an amount of RMB378,000,000.00 (Year 2007: RMB378,000,000.00).

#### 7. Asset leased

Name of related parties	2008 Amount	2007 Amount
Nanjing Panda Technology Industrial Co., Ltd.	3,212,951.48	3,639,371.00
Panda Electronics Group Limited	198,119.36	—
Total	3,411,070.84	3,639,371.00

#### 8. Lease of assets

Name of related parties	2008 Amount	2007 Amount
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	83,160.00	—
Nanjing Panda Garden Property Management Centre	18,225.74	—
Nanjing Panda Television Co. Ltd.	—	719,598.00
Panda Electronics Group Ltd.	—	290,790.66
Total	101,385.74	1,010,388.66



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 9. Remuneration of key management

During the reporting period, total annual remuneration for directors, supervisors and senior management received from the Company was RMB2,860,600, details of which are as follows:

Position	Total annual remuneration	Number of person
Director	Below RMB100,000	1
	From RMB200,000 to RMB300,000	6
Sub-total	RMB1,630,600	7
Supervisor	Below RMB100,000	1
	From RMB100,000 to RMB200,000	2
	From RMB200,000 to RMB300,000	1
Sub-total	RMB480,000	4
Senior management	From RMB100,000 to RMB200,000	5
Sub-total	RMB750,000	5
Total	RMB2,860,600	16



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 10. Balance of due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
<b>Accounts receivable</b>				
Nanjing Ericsson Panda Communications Co. Ltd	<b>18,244,937.03</b>	2,735,641.79		
Nanjing Panda Television Co. Ltd.	<b>12,219,417.70</b>	15,458,159.76		
Nanjing Panda Handa Technology Co., Ltd	<b>1,710,249.80</b>	46,625,678.56		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	<b>1,532,848.47</b>	—		
Panda Electronic (Kun Shan) Co. Ltd.	<b>547,579.80</b>	797,275.14		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	<b>434,107.86</b>	586,243.75		
Panda Electronics Group Co. Ltd.	<b>135,709.19</b>	802,385.84		
Nanjing Panda Electronics Import/Export Co. Ltd.	<b>130,339.56</b>	693,485.12		
Nanjing Lianhui Communication Technology Company Limited	<b>60,000.00</b>	—		
Nanjing Thales Panda Transportation System Company Limited	—	768,658.14		
<b>Total</b>	<b>35,015,189.41</b>	<b>68,467,528.10</b>		



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
<b>Accounts receivable-provision for bad debt</b>				
Nanjing Ericsson Panda Communications Co. Ltd	912,648.84	169,525.71		
Nanjing Panda Television Co. Ltd.	12,199,116.50	3,073,326.29		
Nanjing Panda Handa T echnology Co., Ltd	85,743.04	2,331,918.78		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	76,642.42	—		
Panda Electronic (Kun Shan) Co. Ltd.	364,990.34	797,275.14		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	21,694.00	26,687.19		
Panda Electronics Group Co. Ltd.	132,286.69	255,537.11		
Nanjing Panda Electronics Import/Export Co. Ltd.	17,262.16	34,909.16		
Nanjing Lianhui Communication Technology Company Limited	3,000.00	—		
Nanjing Thales Panda Transportation System Company Limited	—	38,432.91		
Total	13,813,383.99	6,727,612.29		
<b>Prepayments</b>				
Nanjing Panda Technology Industrial Co., Ltd.	3,359,274.35	—		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	2,500,000.00	—		
Nanjing Lianhui Communication Technology Company Limited	871,644.00	—		
Nanjing Panda Electronics Import/Export Co. Ltd.	445,000.00	—		
Total	7,175,918.35	—		



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
<b>Prepayments-provision for bad debt</b>				
Nanjing Panda Technology Industrial Co., Ltd.	167,963.72	—		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	125,000.00	—		
Nanjing Lianhui Communication Technology Company Limited	355,822.00	—		
Nanjing Panda Electronics Import/Export Co. Ltd.	13,875.11	—		
Total	662,660.83	—		
<b>Other receivables</b>				
Panda Electronic (Kun Shan) Co. Ltd.	1,736,220.94	1,768,220.94		
Total	1,736,220.94	1,768,220.94		
<b>Other receivables-provision for bad debt</b>				
Panda Electronic (Kun Shan) Co. Ltd.	1,184,720.94	1,705,520.94		
Total	1,184,720.94	1,705,520.94		



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
<b>Accounts payable</b>				
Nanjing Panda Electronics Import/Export Co. Ltd.	4,972,745.84	2,411,668.64		
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	2,548,591.15	2,548,591.15		
Nanjing Panda Handa Technology Co., Ltd.	2,231,132.00	—		
Panda Electronic Group Co. Ltd.	1,896,495.19	1,933,871.58		
Nanjing Zhen Hua Sound Equipment Plant	1,038,090.18	1,502,966.68		
Nanjing Panda Technology Industrial Co., Ltd.	338,755.06	1,503,978.55		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	150,500.01	285,447.24		
Nanjing Panda Television Co. Ltd.	—	4,188,527.58		
Total	13,176,309.43	14,375,051.42		
<b>Advances from customers</b>				
Nanjing Thales Panda Transportation System Company Limited	3,606,729.23	8,144,710.89		
Nanjing Panda Handa Technology Co., Ltd.	2,361,198.84	3,035,961.41		
Panda Electronics Group Ltd.	183,009.80	—		
Total	6,150,937.87	11,180,672.30		
<b>Other payables</b>				
Panda Electronics Group Ltd.	8,576,155.98	5,657,115.50		
Nanjing Thales Panda Transportation System Company Limited	349,754.00	—		
Panda Electronic (Kun Shan) Co. Ltd.	300,000.00	—		
Intenna (Nanjing) Co. Ltd.	—	2,933,808.67		
Nanjing Panda Television Co. Ltd.	—	1,137,335.14		
Nanjing Panda Technology Industrial Co., Ltd.	—	771,524.27		
Total	9,225,909.98	10,499,783.58		





# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### (III) Transactions with related parties (Continued)

#### 11. Trademark licensing

Name of related parties	2008 Amount	2007 Amount
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	192,020.00	—
Nanjing Panda Television Co., Ltd.	—	132,944.00
Total	192,020.00	132,944.00

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

## XI. Contingencies

- Please refer to Note X (III) 5 for the guarantees provided by the Company for bank borrowings of its subsidiaries.
- As at 31 December 2008, the Company did not have any material contingent issues required to be disclosed other than the aforesaid.

## XII. Commitments

### 1. Capital expenditure commitment

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	2008	2007
Buildings	22,265,610.32	23,787,630.38

### 2. Expenses for contracted material external investment

- According to the agreement signed on 5 November 2008 between the Company and Panda Electronics Group Limited, the Company is committed to acquire 99% equity interests in Nanjing Panda Technology Industrial Co., Ltd owned by Panda Electronics Group Ltd and 1% equity interest in Nanjing Panda Technology Industrial Co., Ltd owned by Nanjing Panda Electronic Import/Export Company at a consideration of RMB121.99 million. As at 31 December 2008, the Company has not paid the aforesaid amount.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## XII. Commitments (Continued)

### 2. Expenses for contracted material external investment (Continued)

- (2) As approved by the provisional board meeting of the Company, the Company decided to invest and establish a wholly-owned subsidiary known as "GALANT LIMITED" in Hong Kong with its total investment of US\$9.5 million. Its scope of operation is research and development of joint venture projects including communication products and investment in electronics information and electronmechanical industry. The Company has invested US\$4.93 million to GALANT LIMITED for the year.
- (3) Same as the above commitments, as of 31 December 2008, the Company did not have any other material commitments discloseable.

## XIII. Post Balance Sheet Events

1. Pursuant to the second provisional general meeting of stockholders for 2008, the Company passed the resolution that the Company will provide a maximum amount guarantee for borrowings of RMB50 million for year 2009 granted to Nanjing Panda Information Industry Co., Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB 40 million for year 2009 granted to Nanjing Panda Electronic Manufacturing Co., Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB40 million for year 2009 granted to Nanjing Huage Electrical Appliance & Plastic Co., Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB5 million for year 2009 granted to Nanjing Panda Mechanical Manufacturing Co. Ltd, a subsidiary of the Company.
2. Same as above, there were no discloseable material post balance sheet events in the Company as at the date when the financial report was approved for issue.

## XIV. Other Significant Events

1. 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 State-owned Information Asset Management Group Company Limited ("Provincial State-owned Information") to jointly establish Nanjing Electronics Information Industrial Corporation ("NEIDC") with their respective equity interests in Panda Electronics Group Limited. The registered capital of NEIDC is RMB1 billion, of which CEC accounts for 70%, Provincial State-owned Information accounts for 15% and Nanjing SASAC accounts for 15%. The effectiveness 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.
2. As at 31 December 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.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## XIV. Other Significant Events (Continued)

### 3. 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>63,869,759.77</u>	<u>56,957,484.77</u>
Total	<u><u>63,869,759.77</u></u>	<u><u>56,957,484.77</u></u>
<b>Accumulated depreciation</b>		
Machinery and equipment	<u>12,330,638.56</u>	<u>6,809,280.12</u>
Total	<u><u>12,330,638.56</u></u>	<u><u>6,809,280.12</u></u>
<b>Accumulated amount of provision for impairment</b>		
Machinery and equipment	<u>—</u>	<u>—</u>
Total	<u><u>—</u></u>	<u><u>—</u></u>
<b>Carring value</b>		
Machinery and equipment	<u>51,539,121.21</u>	<u>50,148,204.65</u>
Total	<u><u>51,539,121.21</u></u>	<u><u>50,148,204.65</u></u>

1 Minimum lease payments in the following years

Remaining lease term	Minimum lease payments
Within 1 year (including 1 year)	9,941,996.92
1-2 years (including 2 years)	2,615,662.96
2-3 years (including 3 years)	1,204,414.20
More than 3 years	<u>—</u>
Total	<u><u>13,762,074.08</u></u>

2 As at 31 December 2008, the balance of unrecognized financing expenses amounted to RMB1,048,466.57, which was amortised using the effective interest method.



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## XIV. Other Significant Events (Continued)

### 3. Lease (Continued)

(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	<u>146,021,632.02</u>	<u>138,331,489.09</u>
Total	<u>146,021,632.02</u>	<u>138,331,489.09</u>

## XV. Reconciliation of Hong Kong and PRC Accounting Standards Differences (Unit: RMB'000)

### (1) Net assets

Items	2008	2007
Equity attributable to the shareholders of parent company under accounting principles generally accepted in Hong Kong during the year	<u>1,493,302</u>	<u>1,490,681</u>
Unrecognized intangible assets	—	520
Minority interests	—	92
Others	—	56
Total differences	<u>—</u>	<u>668</u>
Equity attributable to the shareholders of parent company under PRC accounting standards during the year	<u>1,493,302</u>	<u>1,491,349</u>



# Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

## XV. Reconciliation of Hong Kong and PRC Accounting Standards Differences (Unit: RMB'000)

(Continued)

### (2) Net profit

Items	2008	2007
Net profit attributable to the shareholders of parent company under accounting principles generally accepted in Hong Kong	36,626	111,995
Deferred tax assets recognized as prior year adjustments	—	(4,562)
Amortization of unrecognized intangible assets	575	(200)
Share of results of associates	—	(601)
Minority interests	—	629
Others	—	(255)
Total differences	575	(4,989)
Net profit attributable to the shareholders of parent company under PRC accounting standards	37,201	107,006

## XVI. Comparative figure

Some comparative figures have been reclassified in accordance with the current year presentation, and retrospective adjustments are made as stated in Note V 1.



# Supplementary Information

## I. Related financial indicators

Profit during reporting period	Reporting period	Return on net assets (%)		Earnings per share (RMB/share)	
		Fully diluted	Weighted average	Basic earning per share	Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	2008	2.49	2.48	0.06	0.06
	2007	7.18	7.44	0.16	0.16
Net profit attributable to holders of ordinary shares after extraordinary items	2008	1.20	1.20	0.03	0.03
	2007	7.35	7.92	0.17	0.17

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

### (1) Fully diluted return on net assets

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

Weighted average return on net assets =  $P / (E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0 \pm E_k \times M_k \div M_0)$

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>i</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<sub>i</sub>" 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<sub>i</sub>" represents the months from the next month of the increase of assets to the end of the reporting period; "M<sub>j</sub>" represents the months from the next month of the decrease of assets to the end of the reporting period; "E<sub>k</sub>" represents the increase or decrease of net assets arising from other transactions or matters; "M<sub>k</sub>" represents the months from the next month of the increase or decrease of other assets to the end of the reporting period;



# Supplementary Information

## I. Related financial indicators (Continued)

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

### (3) Basic earnings per share

Basic earning per share =  $P \div S$

$S = S_0 + S_1 + S_i \times Mi \div M_0 - S_j \times Mj \div M_0 - S_k$

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>i</sub>" represents shares increased from issue of new shares or debt to equity during the reporting period; "S<sub>j</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; "Mi" represents the months from the next month of the increase of shares to the end of the reporting period; "Mj" 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 =  $P + (\text{The interests of the diluted potential ordinary shares determined to be expenses in the current period} - \text{Conversion expenses}) \times (1 - \text{Income tax ratio}) / (S_0 + S_1 + S_i \times Mi \div M_0 - S_j \times Mj \div M_0 - S_k + \text{The weighted average number of ordinary shares, increased from subscription warrant}^{\circ} \text{Bshare option and convertible bond})$

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>i</sub>" represents shares increased from reporting period issue of new shares or debt to equity, etc; "S<sub>j</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; "Mi" represents the months from the next month of the increase of shares to the end of the reporting period; "Mj" 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.



## Supplementary Information

### II. Statement of extraordinary items

*Unit: RMB*

Item	2008	2007
Profit and loss of disposal of non-current assets	851,594.70	1,985,501.10
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)	19,276,584.22	8,237,724.07
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	4,579,594.73	(18,905,464.58)
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	(1,311,618.26)	(1,811,331.82)
Other non-recurring profit and loss items recognized by CSRC	—	9,122,555.11
<b>Sub-total</b>	<b>23,396,155.39</b>	<b>(1,371,016.12)</b>
Less: the impact from income tax	2,170,098.17	893,145.50
Net non-recurring profit and loss	21,226,057.22	(2,264,161.62)
Net non-recurring profit and loss attributable to minority shareholders	1,954,475.93	327,715.24
Net non-recurring profit and loss attributable to ordinary shareholders of the Company	19,271,581.29	(2,591,876.86)
Net profit attributable to holders of ordinary shares of the Company after deducting extraordinary items	17,929,679.53	109,597,925.55
Impact of net non-recurring profit and loss on net profit	54.70%	(1.98%)

“+” represents increase in net profit, “-” represents decrease in net profit.





## Documents Available for Inspection



1. Original financial statement signed and sealed under the hand of the Legal Representative, Chief Accountant and the person in charge of the accounting matters of the Company.
2. Original copy of the auditors' report with the auditing firms' chop affixed, signed and sealed by certified public accountants.
3. Original copies of all documents and text announcements of the Company publicly disclosed in newspapers designated by CSRC during the reporting period.
4. Annual reports (in Chinese and English) published on the Hong Kong Stock Exchange.
5. This report has been prepared in both Chinese and English. Should there be any discrepancies between the two versions, the Chinese version shall prevail.





**PANDA**

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