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南京熊猫電子股份有限公司

Nanjing Panda Electronics Company Limited

2009 中期報告

(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

Interim Report

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I. IMPORTANT NOTICE

1. The board of directors (the "Board") and the supervisory committee (the "Supervisory Committee") and the directors ("Directors"), supervisors ("Supervisors"), senior management staff of Nanjing Panda Electronics Company Limited ("the Company") confirm that the information in the Company's 2009 interim report (the "Interim Report") does not contain any misrepresentation, misleading statements, or material omissions and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents.

2. Directors Mr. Li Anjian, Ms. Liu Ailian and Mr. Shi Qiusheng were engaged in other duties and therefore did not attend the Board meeting held on 26 August 2009, but appointed Mr. Xu Guofei to attend the meeting and to exercise the voting rights on their behalf.

3. The Company's interim financial statements for the six months ended 30 June 2009 (the "Reporting Period") were unaudited.

4. Mr. Li Anjian, Chairman of the Company, Mr. Shen Jianlong, Chief Accountant, and Ms. Wu Yuzhen, Manager of the Finance Department, have declared the truthfulness and completeness of these financial statements contained in the Interim Report.

II. BASIC COMPANY INFORMATION

(I) Company profile:

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

(II) Key financial data and indices

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

(Unit: RMB)

	End of the Reporting Period (30 June 2009)	End of last year (31 December 2008) After adjustment	End of last year (31 December 2008) Before adjustment	Change between the end of the Reporting Period and the end of last year *(%)*
Total assets	**2,440,750,080.53**	2,659,638,719.92	2,574,554,115.63	(8.23)
Owners' equity (or shareholders' equity)	**1,399,661,255.61**	1,571,618,390.51	1,493,301,420.76	(10.94)
Net asset value per share	**2.14**	2.40	2.28	(10.94)

	The Reporting Period (Jan to June 2009)	The corresponding period last year (Jan to June 2008) After adjustment	The corresponding period last year (Jan to June 2008) Before adjustment	Change between the Reporting Period and the same period last year *(%)*
Operating profit	**(47,487,053.84)**	16,158,371.09	25,340,736.93	(393.89)
Total profit	**(46,681,786.87)**	19,534,606.47	28,655,036.01	(338.97)
Net profit	**(49,967,934.90)**	18,617,747.05	25,315,789.25	(368.39)
Net profit after extraordinary items	**(50,468,307.44)**	16,141,344.19	22,652,790.60	(412.66)
Basic earnings per share	**(0.0763)**	0.0284	0.0386	(368.39)
Basic earnings per share after extraordinary items	**(0.0770)**	0.0246	0.0346	(412.66)
Diluted earnings per share	**(0.0763)**	0.0284	0.0386	(368.39)
Return on net assets *(%)*	**(3.57)**	1.20	1.77	Decreased by 4.77 percentage points
Net cash flow from operating activities	**(32,076,301.96)**	(186,786,321.25)	(136,717,020.11)	82.83
Net cash flow from operating activities per share	**(0.0490)**	(0.2852)	(0.2087)	82.83

Note: The adjustments to key financial data and indices for the same period in 2008 were mainly due to the inclusion of Nanjing Panda Technology Industrial Co., Ltd. into the scope of consolidation.

Notes: Items and amounts of extraordinary profit and loss

(Unit: RMB)

Item	**Amount**
Gains and losses from disposal of non-current assets	(779,844.20)
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	575,049.49
Other non-operating net income and expenses other than the aforesaid items	1,000,824.19
Impact on enterprise income tax	(140,457.69)
Net extraordinary profit and loss attributable to minority shareholders	(155,199.25)
Total	500,372.54

2. Key accounting and financial indices prepared under Hong Kong Financial Reporting Standards are set out on page 15 to page 28 of the financial report.

3. There is no difference between the interim financial statements prepared under Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises as applicable to net profit and net assets of the Company.

III. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

(I) Changes in share capital

As at 30 June 2009, there was no change in the total number of shares and shareholding structure of the Company.

(II) Information of shareholders

The total number of shareholders, the number of shares held by the top ten shareholders and top ten holders of circulating shares of the Company as at 30 June 2009 are as follows:

Unit: Share

Total number of shareholders at the end of the Reporting Period	25,015 shareholders, of which 24,959 were holders of A Shares and 56 were holders of H Shares

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders (state-owned or foreign shareholders)	Percentage of shareholding *(%)*	Total number of shares held	Number of shares subject to trading moratorium	Number of shares pledged or frozen
Panda Electronics Group Limited (hereafter referred to as "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
HKSCC (Nominees) Limited	Foreign shareholder	36.71	240,475,599	0	Unknown
Industrial and Commercial Bank of China-Penghua Quality Governance Securities Investment Fund (LOF) (中國工商銀行－鵬華優質治理股票型證券投資基金(LOF))	Others	0.537	3,515,123	0	Unknown
Agricultural Bank of China — Penghua Dynamic Growth Mixed Type Securities Investment Fund (LOF) (中國農業銀行－鵬華動力增長混合型證券投資基金(LOF))	Others	0.153	1,000,000	0	Unknown
Lin Huijun (林惠君)	Others	0.094	617,587	0	Unknown
Chen Xiaodong (陳曉東)	Others	0.076	500,000	0	Unknown
Shanghai Mingda Industry (Group) Company Limited (上海銘大實業(集團)有限公司)	Others	0.069	450,000	0	Unknown
Gong Fei (龔飛)	Others	0.065	423,722	0	Unknown
He Zengqi (何增奇)	Others	0.062	405,100	0	Unknown
Guo Mingbo (郭明波)	Others	0.058	380,000	0	Unknown

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

Name of shareholders	Number of shares not subject to trading moratorium	Class of share
HKSCC (Nominees) Limited	240,475,599	H
PEGL	65,501,500	A
Industrial and Commercial Bank of China-Penghua Quality Governance Securities Investment Fund (LOF) (中國工商銀行—鵬華優質治理股票型證券投資基金(LOF))	3,515,123	A
Agricultural Bank of China — Penghua Dynamic Growth Mixed Type Securities Investment Fund (LOF) (中國農業銀行—鵬華動力增長混合型證券投資基金(LOF))	1,000,000	A
Lin Huijun (林惠君)	617,587	A
Chen Xiaodong (陳曉東)	500,000	A
Shanghai Mingda Industry (Group) Company Limited (上海銘大實業(集團)有限公司)	450,000	A
Gong Fei (龔飛)	423,722	A
He Zengqi (何增奇)	405,100	A
Guo Mingbo (郭明波)	380,000	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 among 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, including 269,213,500 circulating shares subject to trading moratorium and 65,501,500 circulating shares not subject to trading moratorium. Among them, 67,350,000 shares were already pledged while 92,815,000 shares were judicially frozen, and 100,000,000 shares were both pledged and judicially frozen.

(2) HKSCC (Nominees) Limited held 240,475,599 H Shares of the Company, representing 36.71% 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.

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

Unit: share

Name of holders of shares subject to trading moratorium	Number of shares subject to trading moratorium	Condition for shares subject to trading moratorium to be listed: Date of commencement of trading	Condition for shares subject to trading moratorium to be listed: Number of new tradable shares	Conditions of trading moratorium
PEGL	269,213,000	11 September 2009	269,213,000	PEGL made undertakings in the Share Segregation Reform not to trade or transfer the shares held by it within 24 months from the date of obtaining the right of listing and circulation.

(III) Changes of the controlling shareholder and the de facto controller

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

Note: During the reporting period, Nanjing Electronics Information Industrial Corporation (南京中電熊猫信息產業集團有限公司) ("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 China Electronics Corporation ("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. NEIIC is a potential de facto controller of the Company.

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

On 30 June 2009, 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; and (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, as at 30 June 2009, no other person has any interests or short positions in the shares or underlying shares of the Company which were required to be filed in the register required to be kept pursuant to section 336 of the SFO.

IV. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

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

There was no change of Directors, Supervisors and Senior Management during the Reporting Period.

V. REPORT OF THE BOARD OF DIRECTORS

(I) Principal operations during the Reporting Period:

1. Principal operations of the Company

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

In the first half of 2009, the Company insisted on sustainable development by continuing to strengthen its corporate reforms, optimizing the business structure, adjusting the industry, consolidating internal resources and utilizing its advantages on scientific research and development. Due to the subsequent impact of the global financial crisis in the first half of this year, the net profit of major sino-foreign joint ventures invested by the Company narrowed substantially, leading to a drop in investment gains of the Company. As both income and the gross profit margin of certain products from the principal operations also decreased, the profit from the Company's principal operations decreased.

Under the PRC Accounting Standards for Business Enterprises, operating income of the Company for January to June 2009 amounted to RMB399 million, representing a decrease of 35.16% as compared with the corresponding period last year; net profit was a loss of RMB49,967,900, representing a decrease of 368.39% as compared with the corresponding period last year. Under the Hong Kong Financial Reporting Standards, operating income of the Company for January to June 2009 amounted to RMB394 million, representing a decrease of 36% as compared with the corresponding period last year; profit attributable to shareholders of the Company was a loss of RMB49,967,900, representing a decrease of 245% as compared with the corresponding period last year.

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

Unit: RMB'000

Business or product	Income from principal business	Costs of principal business	Gross profit margin *(%)*	Income from principal business increased/(decreased) over last period *(%)*	Costs of principal business increased/(decreased) over last period *(%)*	Gross profit margin increased/(decreased) over last period *(%)*
Electronic manufacturing	149,448	131,654	11.91	(17.55)	(8.44)	(8.76)
Electronic information	70,691	59,141	16.34	(58.13)	(59.43)	2.67
Electromechanical	111,428	97,041	12.91	11.29	15.18	(2.94)
Satellite communications	35,000	32,960	5.83	(46.48)	(35.80)	(15.67)
Others	25,752	18,902	26.60	(71.24)	(76.04)	14.71
Total	392,318	339,699	13.41	(35.17)	(32.61)	(3.30)

Of which, the total transaction amount of the connected transactions of sales of products and the provision of service to controlling shareholders and its subsidiaries by the Company was RMB11,439,700 for the Reporting Period.

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, 26% by Ericsson (China), 20% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing Enterprise Company. ENC is mainly engaged in producing products, such as GSM, GPRS, CDMA mobile telecommunication system products and network communication systems. As one of the global logistic centres for Ericsson, it is also the largest supplier of GSM and GPRS equipment and one of the major CDMA equipment suppliers in the PRC. During the first half of 2009, ENC zealously explored markets and constantly enhanced the competitiveness of its products. However, operating income decreased and net profit plunged due to the subsequent effects of the international financial crisis. Under the International Accounting Standards, it recorded operating income of RMB6,144 million from January to June 2009, representing a decrease of 26.59% as compared with the corresponding period last year and recorded net profit of RMB48 million, representing a decrease of 85.41% as compared with the corresponding period last year.

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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited, 27% by China Potevio Co., Ltd. and 2% by Yung Shing. BMC is mainly engaged in manufacturing of mobile terminals (mobile phones) under the brand of Sony Ericsson, which is the most important base for manufacture and supply centre of Sony Ericsson mobile phones. In the first half of the year, BMC proactively counteracted the global financial crisis by ongoing implementation of various effective measures such as cost control endeavors, enhancement of the overall gross profit margin of products and boost of profitability. Under the International Accounting Standards, it recorded operating income of RMB11,331 million from January to June 2009, representing a decrease of 12.23% as compared with the corresponding period last year and recorded net profit of RMB211 million, representing an increase of 88.47% as compared to the corresponding period last year.

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

Hua Fei Company is held as to 25% by the Company, 20% by Nanjing Hua Dong Electronics Group Limited and 55% by LP Displays International Ltd. 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, it recorded sales revenue of RMB110 million in the PRC in the Reporting Period, representing a decrease of 80.47% as compared with the corresponding period last year and recorded revenue from exported sales of RMB219 million, representing a decrease of 59.37% as compared with the corresponding period last year. In the Reporting Period, it had a further loss of RMB190 million.

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

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

Unit: RMB

Items	January-June 2009	January-June 2008	Change (%)
Operating income	**399,068,260.69**	615,503,413.48	(35.16)
Operating costs	**347,599,488.51**	511,127,934.82	(31.99)
Selling expenses	**16,447,066.05**	25,404,159.55	(35.26)
Financial expenses	**19,982,230.42**	29,991,777.99	(33.37)
Assets impairment loss	**(4,485,162.75)**	29,026,520.11	(115.45)
Investment income	**12,089,630.96**	77,271,616.58	(84.35)
Operating profit	**(47,487,053.84)**	16,158,371.09	(393.89)
Non-operating income	**1,769,898.75**	4,469,215.30	(60.40)
Total Profit	**(46,681,786.87)**	19,534,606.47	(338.97)
Income tax expenses	**2,226,152.40**	206,209.34	979.56
Net Profit	**(49,967,934.90)**	18,617,747.05	(368.39)
Net cash flows from operating activities	**(32,076,301.96)**	(186,786,321.25)	82.83
Net cash flows from investment activities	**(153,592,923.20)**	(19,962,138.85)	(669.42)
Net cash flows from financing activities	**(14,822,814.05)**	123,300.10	(12,121.74)

Items	30 June 2009	31 December 2008	Change (%)
Cash and bank balances	**234,010,457.98**	445,495,453.00	(47.47)
Construction in progress	**48,048,535.58**	23,099,502.20	108.01
Bills payable	**20,056,966.44**	47,547,289.42	(57.82)
Taxes payable	**14,117,977.77**	25,353,403.80	(44.32)
Long term payables	**6,673,079.75**	12,713,607.51	(47.51)
Undistributed profits	**76,647,751.41**	126,615,686.31	(39.46)

Notes:

(1) The decrease in operating income during the Reporting Period was mainly attributable to less electronic information products sold under the impact of international market.

(2) The decrease in operating costs during the Reporting Period was mainly attributable to less electronic information products sold under the impact of international market.

(3) The decrease in selling expenses during the Reporting Period was mainly attributable to comparatively higher selling expenses for subsidiaries which were disposed of by subsidiaries of the Company last year.

(4) The decrease in financial expenses during the Reporting Period was mainly attributable to substantial drop in average loan interest rate from the same period last year.

(5) The decrease in assets impairment loss during the Reporting Period was mainly attributable to the partial collection of receivables against which provision for bad debts had been made.

(6) The decrease in investment income for the Reporting Period was mainly attributable to the decreased investment income from joint ventures.

(7) The decrease in operating profit during the Reporting Period was mainly attributable to substantial drop in investment income, reduction in income from certain principal business products, and lower gross profit margin.

(8) The decrease in non-operating income for the Reporting Period was mainly attributable to the decreased government subsidies received in the period.

(9) The decrease in total profit during the Reporting Period was mainly attributable to substantial drop in investment income, reduction in income of certain principal business products, and lower gross profit margin.

(10) The increase in income tax expenses for the Reporting Period was mainly attributable to the noticeable increase in deferred income tax assets for last period.

(11) The decrease in net profit during the Reporting Period was mainly attributable to substantial drop in investment income, reduction in income of certain principal business products, and lower gross profit margin.

(12) The increase in net cash flows from operating activities during the Reporting Period was mainly attributable to timely collection of sales revenue in the Reporting Period.

(13) The decrease in net cash flows from investment activities during the Reporting Period was mainly attributable to major cash outflow paid for acquisition of subsidiary in the period.

(14) The decrease in net cash flows from financing activities during the Reporting Period was mainly attributable to the increase in expired deposit in last period.

(15) The decrease in cash and bank balances during the Reporting Period was mainly attributable to acquisition of subsidiary and other long-term assets.

(16) The increase in construction in progress for the Reporting Period was mainly attributable to the increased construction cost for the Xingang project in the period.

(17) The decrease in bills payable during the Reporting Period was mainly attributable to the payment of bills upon expiry at the beginning of the period.

(18) The decrease in taxes payable during the Reporting Period was mainly attributable to a substantial payment of tax during the period.

(19) The decrease in long term payables for the Reporting Period was mainly attributable to the scheduled payment of financing lease.

(20) The decrease in undistributed profits as at the end of the Reporting Period was mainly attributable to a drop in the profit for the period.

2. Liquidity of asset

In accordance with the Hong Kong Financial Reporting Standards, as at 30 June 2009, the Company's consolidated gearing ratio (the ratio of total liability to total assets) was 42.10%; current net liabilities value was RMB144 million; liquidity ratio was 85.90; quick ratio was 51.70; bank deposits and cash were RMB212 million; total loan amounted to RMB616 million with a standard annual interest rate of 5.31%.

(III) Investments in the Reporting Period

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

(IV) Business plan for the second half of year 2009

The second half of year 2009 is crucial to the Company's development. The Company will continue to propel its adjustment for business structure. Besides further invigorating the drive for corporate development, the Company will continue to enforce its technological innovation to sharpen its edges in technical research and development. Further development of joint enterprise will be promoted through international cooperation. As a result, it ensured growth and investment income of the principal business, strengthened sustainable development and gathered impressive and rapid momentum.

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

(V) Employees of the Company

As at 30 June 2009, there were 3,520 employees in the Company, of which 1,829 were engaged in production, 956 in technology, 343 in sales, 135 in finance and 257 in administration and management. There were 447 retirees, for whom the Company undertook to pay retirement pension.

VI. SIGNIFICANT EVENTS

(I) Corporate governance

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

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

1. According to the relevant regulatory requirements, the Company has established a more comprehensive internal control system which is examined by the audit department of the Company regularly or from time to time. The supervisory committee, the Audit Committee of the Board and the independent Directors of the Company review the implementation of internal control regularly.

2. The "Self-assessment Report on the Internal Control of the Company" and the "Report on Performance of Social Responsibilities of the Company"(公司履行社會責任報告)were considered and passed at the eighth meeting of the sixth Board of the Company convened on 26 March 2009 and were disclosed simultaneously with the 2008 annual report.

   (For details, please refer to the announcements published on the websites of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited on 26 March 2009.)

3. The Company proactively arranged for its audit, finance and legal departments to participate in the "Conference of International Standards and Corporate Internal Control System"(「國際準則與企業內控制度研討會」), with a view to having a more in-depth understanding and knowledge of the relevant provisions of establishing an internal control system, optimizing its internal control system and promoting departmental awareness of bringing internal control system into fully play.

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

(II) During the Reporting Period, the Company did not make any profit appropriation, transfer of public reserves to increase share capital and plans for new issue which were recommended in the previous period and implemented in the Reporting Period

The Company did not make profit distribution and did not increase its share capital by transfer from capital reserve in the first half year of 2009.

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

(IV) Acquisition, disposal of assets or asset reorganization which was material to the Company that occurred during the Reporting Period or occurred in the previous period but subsisted during the Reporting Period:

1. There was no acquisition, disposal of assets or asset reorganization which was material to the Company occurred during the Reporting Period or occurred in the previous period but subsisted during the Reporting Period.

2. The Company signed an equity transfer agreement (the "Agreement") with PEGL, the controlling shareholder, on 10 July 2009, pursuant to which the Company agreed to acquire 70% equity interest in Nanjing Panda Electromechanical Instruments Technology Co., Ltd. (南京熊猫機電儀技術有限公司) ("PEIT") held by PEGL at a consideration of RMB2,643,700 (approximately HK$2,987,381), which shall be satisfied in cash by the Company to PEGL. Upon completion of the acquisition, the Company will hold 70% equity interest in PEIT.

   The Board considered that in anticipation of a surging demand for domestic financial and taxation control products, and given that PEIT is currently expanding its core business in the manufacture and sale of financial and taxation control products, the acquisition of the equity interest of PEIT will satisfy the Company's development needs in that business, which is in the interests of the Company and the shareholders as a whole.

   This transaction constitutes a connected transaction of the Company. The transaction price is determined by the parties with reference to the appraised value of all equity interests of PEIT, on normal commercial terms and on an arm's length basis. Pursuant to relevant regulations, this transaction is exempted from independent shareholders' approval requirement.

   (For details, please refer to the relevant announcements published on China Securities Journal and Shanghai Securities News on 11 July 2009 and those published on the websites of Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the Company on 10 July 2009).

3. On 10 August 2009, Nanjing Huage Appliance and Plastic Industrial Company Limited ("Huage Appliance"), a controlling subsidiary of the Company, and Nanjing Panda Handa Technology Company Limited ("Handa Technology"), a subsidiary of PEGL, entered into a state-owned land use right transfer agreement, pursuant to which the Company agreed Huage Appliance's transfer of the state-owned land use rights of 70,231.9 square metres to Handa Technology at the consideration of RMB52,953,800 (approximately HK$59,837,794) payable in cash.

   The Board is of the opinion that the transaction is beneficial to a centralised management and operation of the subsidiaries by the Company, helps reduce costs, improve assets utilization and facilitate the future development of the Company, which is in the interest of the Company and shareholders as a whole.

   The transaction constituted a connected transaction of the Company. The consideration for transaction was determined by both parties with reference to the land valuation results set out in the valuation report issued by the valuer, on normal commercial terms and on a fair, reasonable and objective basis. According to the relevant regulations, the connected transaction is subject to approval by the independent shareholders at an extraordinary general meeting.

   (Please refer to the announcements dated 11 August 2009 on China Securities Journal and Shanghai Securities News, and the announcements dated 10 August 2009 on the websites of Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the Company for details.)

(V) Material Connected Transaction

1. During the Reporting Period, the Company had no material connected transactions save and except for the 2007-2009 continuing connected transactions (i.e. the continuing connected transactions which were conducted in the ordinary course of business and on normal commercial terms) which were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 3 April 2007.

   During the Reporting Period, the connected transactions relating to sale of products and provision of services to the controlling shareholder and its subsidiaries by the Company amounted to RMB11,439,700 (Please refer to the section headed "Relationship and transactions with related parties" set out in Notes to the Financial Statements).

2. Transactions relating to creditor's rights and debt

Unit: RMB

Related parties	Provision of funds to related parties Amount of transaction	Balance	Provision of funds to the Company by related parties Amount of transaction	Balance
Panda Electronics Group Limited	0	0	(5,580,181.60)	4,062,367.49
Nanjing Thales Panda Transportation System Company Limited	0	0	0.00	349,754.00
Panda Electronics (Kunshan) Co., Ltd.	955,063.45	2,591,284.39	(118,403.99)	181,596.01
Total	955,063.45	2,591,284.39	(5,698,585.59)	4,593,717.50

Of which: During the Reporting Period, the appropriated capital provided by the Company to the controlling shareholder and its subsidiaries was nil and the balance amounted to RMB0. (Please refer to the section headed "Relationship and transactions with related parties" set out in Notes to the Financial Statements)

(VI) Material contracts

1. During the Reporting Period or in the previous period and subsisting during the Reporting Period, the Company did not hold any trust, contract and lease of assets of other companies nor did other companies hold any trust, contract and lease of assets of the Company.

2. Material guarantee

   During the Reporting Period, the amount guaranteed by the Company for the controlling subsidiaries amounted to RMB22,056,200, the remaining amounted to RMB49,157,400. The details of which are as follows:

   As at 30 June 2009, the Company provided guarantees to secure the following: bank loan of RMB5,000,000 for Nanjing Panda Mechanical Manufacturing Co., Ltd., a controlling subsidiary of the Company; bank loan of RMB1,000,000, acceptance bills of RMB3,528,500, letter of credit of RMB527,700 and performance bond of RMB3,893,900 for Nanjing Panda Information Industry Co., Ltd.; bank loan of RMB17,000,000, acceptance bills of RMB1,000,000 and financing lease of RMB1,660,400 for Nanjing Huage Appliance and Plastic Industrial Company Limited; and bank loan of RMB5,000,000, acceptance bills of RMB5,000,000 and financing lease of RMB5,546,900 for Nanjing Panda Electronics Manufacturing Co., Ltd.

   The guarantees above were granted to its controlling subsidiaries, totaling RMB49,157,400 and representing 3.51% of net asset value of the Company. Among the guaranteed parties above, the gearing ratio of Nanjing Panda Mechanical Manufacturing Co., Ltd. and Nanjing Panda Information Industry Co., Ltd. were over 70%, while that of other units did not exceed 70%.

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

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

(VII) During the Reporting Period or in the previous period and subsisting in the Reporting Period, shareholders holding 5% or more of the issued share capital of the Company had no matters of undertaking that might affect the Company's operating results and financial position, nor did they increase the number of shares subject to trading moratorium undertakings.

(VIII) During the Reporting Period, the Company did not hold stocks and securities issued by other listed companies and did not hold equities of unlisted financial enterprises.

(IX) It was resolved at the Annual General Meeting held on 15 May 2009 that Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited were reappointed as domestic and international auditors of the Company for 2009 respectively.

(X) The Company, the Board and its Directors are not subject to administrative penalty or public criticism by CSRC or stock exchanges during the Reporting Period.

(XI) The Audit Committee and the senior management have reviewed the accounting principles and accounting standards and methods adopted by the Company, studied the matters relating to internal control. During the Reporting Period, "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report" was established by the Audit Committee and various communications and coordination were conducted among the Audit Committee and the Company's certified public accountants for annual auditing.

The Audit Committee convened a meeting on 26 March 2009. All members of the Audit Committee attended the meeting to review the 2008 financial report and the summary report on the 2008 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 at the meeting.

The unaudited financial report for the six months ended 30 June 2009 was reviewed by the Audit Committee. The Audit Committee is of the view that the financial report is in compliance with the applicable accounting standards, laws and legal regulations and proper disclosure has been made.

(XII) Other Matters:

1. Income tax

The Company is registered in Nanjing High and New Technology Development Zone which is approved by the State Council as a national grade high and new technology industry development zone. The Company was approved by Jiangsu Provincial Technological Commission as a high and new technology enterprise in 1995, which is entitled to a preferential enterprise income tax rate of 15% as per the requirement of the relevant policies. 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 15% enterprise income tax treatment.

2. Purchase, sale and redemption of listed securities of the Company

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

3. Pre-emptive rights

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

4. Compliance with the Code of Corporate Governance Practices

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

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

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

VII. INTERIM FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS) (UNAUDITED)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months ended	
	Notes	**30 June 2009 (unaudited) *RMB'000***	30 June 2008 (unaudited) *RMB'000* (Restated)
Turnover	4	**393,752**	615,249
Cost of sales		**(347,433)**	(513,662)
Gross profit		**46,319**	101,587
Other income		**4,098**	15,534
Other losses — net		**(1,956)**	(6,227)
Distribution costs		**(16,447)**	(25,404)
Administrative expenses		**(73,460)**	(101,257)
Operating loss		**(41,446)**	(15,767)
Finance income		**1,166**	3,975
Finance costs		**(18,492)**	(28,669)
Finance costs — net		**(17,326)**	(24,694)
Share of profit of associates		**12,090**	75,828
(Loss)/Profit before income tax		**(46,682)**	35,367
Income tax expenses	6	**(2,226)**	(206)
(Loss)/Profit for the period		**(48,908)**	35,161
Other comprehensive income			
Profit on disposal of subsidiaries under common control	16	**—**	12,031
Currency translation differences		**—**	1,513
Other comprehensive income for the period, net of tax		**—**	13,544
Total comprehensive (losses)/income for the period		**(48,908)**	48,705
(Loss)/Profit for the period attributable to:			
Equity holders of the Company		**(49,968)**	34,445
Minority interests		**1,060**	716
		(48,908)	35,161
Total comprehensive (losses)/income attributable to:			
Equity holders of the Company		**(49,968)**	47,989
Minority interests		**1,060**	716
		(48,908)	48,705
(Loss)/Profit per share for (loss)/profit attributable to the equity holders of the Company for the period (expressed in Renminbi per share)	7	**(0.076)**	0.053
Dividends	8	**—**	—

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

	Notes	30 June 2009 (unaudited) RMB'000	31 December 2008 (unaudited) RMB'000 (Restated)
ASSETS			
Non-current assets			
Land use right		61,125	61,850
Property, plant and equipment	10	542,234	534,687
Investments in associates	11	949,675	937,585
Deferred income tax assets		6,364	6,665
		1,559,398	1,540,787
Current assets			
Inventories		350,865	341,847
Trade and bills receivables	12	180,274	226,115
Deposits, prepayments and other receivables		91,064	79,040
Amounts due from fellow subsidiaries, associates and related companies		24,917	26,355
Amount due from the ultimate holding company		—	21
Pledged bank deposits		22,292	33,259
Cash and cash equivalents		211,718	412,236
		881,130	1,118,873
Total assets		2,440,528	2,659,660
Equity			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	17	655,015	655,015
Share premium and reserves		744,646	916,603
		1,399,661	1,571,618
Minority interest		13,201	12,141
Total equity		1,412,862	1,583,759
LIABILITIES			
Non-current liabilities			
Finance lease obligations — non-current portion		2,362	3,546
Current liabilities			
Borrowings	14	615,557	643,047
Trade payables	13	180,046	190,444
Accruals and other payables		191,140	174,557
Amounts due to fellow subsidiaries, associates and related companies		12,502	18,381
Amount due to the ultimate holding company		7,630	11,406
Finance lease obligations — current portion		4,311	9,167
Tax payables		14,118	25,353
		1,025,304	1,072,355
Total liabilities		1,027,666	1,075,901
Total equity and liabilities		2,440,528	2,659,660
Net current (liabilities)/assets		(144,174)	46,518
Total assets less current liabilities		1,415,224	1,587,305

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Share capital	Share premium	Capital reserve	Statutory common funds	Asset revaluation reserve	Exchange reserve	Retained earnings	Attributable to equity holders of the Company	Minority interest	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
Adjustment for business combination of an entity under common control	–	–	80,082	–	–	–	(15,513)	64,569	12,327	76,896
As at 1 January 2008, restated	615,015	389,338	84,102	196,440	35,688	–	194,667	1,555,250	59,238	1,614,488
Profit for the period	–	–	–	–	–	–	34,445	34,445	716	35,161
Exchange difference arising on translation of overseas operation recognised in equity directly	–	–	–	–	–	1,513	–	1,513	–	1,513
Disposal of subsidiaries under common control *(Note 16)*	–	–	12,031	–	–	–	–	12,031	(12,506)	(475)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(34,663)	(34,663)
Dividends paid	–	–	–	–	–	–	(52,401)	(52,401)	–	(52,401)
As at 30 June 2008, restated	655,015	389,338	96,133	196,440	35,688	1,513	176,711	1,550,838	12,785	1,563,623
As at 1 January 2009	655,015	389,338	22,416	202,222	35,688	–	188,623	1,493,302	12,141	1,505,443
Adjustment for business combination of an entity under common control	–	–	80,082	–	–	–	(13,797)	66,285	–	66,285
Disposal of subsidiaries under common control *(Note 16)*	–	–	12,031	–	–	–	–	12,031	–	12,031
As at 1 January 2009, restated	655,015	389,338	114,529	202,222	35,688	–	174,826	1,571,618	12,141	1,583,759
Loss for the period	–	–	–	–	–	–	(49,968)	(49,968)	1,060	(48,908)
Acquisition of a subsidiary under common control *(Note 15)*	–	–	(121,989)	–	–	–	–	(121,989)	–	(121,989)
As at 30 June 2009	655,015	389,338	(7,460)	202,222	35,688	–	124,858	1,399,661	13,201	1,412,862

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Notes	Six months ended 30 June 2009 (unaudited) RMB'000	30 June 2008 (unaudited) RMB'000 (Restated)
Net cash used in operating activities		**(117,847)**	(165,198)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(31,626)**	(43,343)
Proceeds from disposal of property, plant and equipment		**1,064**	717
Acquisition of additional interest in a subsidiary		**—**	(18,350)
Payment for acquisition of the subsidiary, net of cash and cash equivalents acquired	15	**(58,202)**	—
Disposal of subsidiaries	16	**—**	(26,783)
Interest received		**1,166**	3,975
Dividends received from associates		**—**	50,000
Net cash used in investing activities		**(87,598)**	(33,784)
Cash flows from financing activities			
Proceeds from borrowings		**162,000**	217,000
Repayment of borrowings		**(162,000)**	(212,443)
Repayment of obligations under finance leases		**(6,040)**	(4,889)
Decrease in pledged bank deposits		**10,967**	19,781
Dividends paid		**—**	(42,401)
Net cash generated from/(used in) financing activities		**4,927**	(22,952)
Decrease in cash and cash equivalents		**(200,518)**	(221,934)
Cash and cash equivalents at beginning of the period		**412,236**	414,608
Cash and cash equivalents at end of the period		**211,718**	192,674
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**234,010**	264,908
Less: Pledged bank deposits		**(22,292)**	(72,234)
		211,718	192,674

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" ("PEGL") 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.

In November 2008, the Group acquired the 99% and 1% equity interests in Nanjing Panda Technology Industrial Co., Ltd. ("Panda Technology Industrial") from Panda Electronics Group Company Limited ("PEGL") and Nanjing Panda Electronic Import/Export Company (the "Import/Export Company") respectively. PEGL is also the holding company of Import/Export Company. The acquisition has been approved in the second provisional general meeting of shareholders held on 31 December 2008 and also been approved by Jiangsu Provincial State-owned Information Asset Management Group Company Limited on 9 February 2009. As PEGL is the holding company of the Group, the acquisition is regarded as business combination under common control. As a result of the common control business combinations, restatements have been made for the comparative figures of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 26 August 2009.

These condensed consolidated interim financial statements have not been audited.

2. Basis of preparation

The interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" and the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. Principal accounting policies

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

Except as disclosed below, the accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2008.

Business combination under common control

The interim financial information of the Group has been accounted for as a combination of business under common control by applying the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

In applying merger accounting, financial statements items of the combining entities or businesses for the reporting period are presented in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party. Accordingly, the interim financial information of the Group has been prepared as if the acquired company has always been the subsidiary of the Group.

The condensed consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, whichever is shorter, regardless of the date of the common control combination.

The comparative amounts in the condensed consolidated financial statement are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

The net assets of the combining entities or businesses are consolidated by using the existing book values from the controlling parties' perspective. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

Where the enterprises involved in the merger are under the ultimate control of the same party or parties before and after the merger and the control is not temporary, it shall be considered as merger of enterprises under common control. 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. Capital reserve shall be adjusted if difference arises between the book value of net assets acquired by the Company and that of the merger consideration.

Subsidiaries are fully de-consolidated from the date when control ceases, the profit or loss arising from disposal of subsidiaries to the third parties will be recognised in the statement of comprehensive income. Under common control, the profit or loss arising from the disposal of subsidiaries to the party of common control will be recognised in the statement of comprehensive income if the consideration is assessed to be on fair value terms. Otherwise, if the consideration is assessed not to be on fair value terms, such profit or loss derived will be recognised in the capital reserve.

The Group has adopted the following new and revised HKFRSs for the first time for the interim financial statements. Except in certain cases, where new and revised accounting policies applied and additional disclosures are required, the adoption of these new and revised standards and interpretations has no material effect on these financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8 (Amendment)	Operating Segments
HK(IFRIC) — Int 9 and HKAS 39 (Amendment)	Reassessment of Embedded Derivative and Financial Instrument: Recognition and measurement
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation

Impact of HKFRSs issued but not yet effective

HKAS 17 (Amendment)	Leases[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 36 (Amendment)	Impairment of Assets[3]
HKAS 38 (Amendment)	Intangible Assets[2]
HKAS 39 (Amendment)	Eligible hedged items[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[2]
HKFRS 2 (Amendment)	Share-based payment — Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 5 (Amendment)	Non-current Assets held for sale and Discontinued Operations[3]
HK(IFRIC) — Int 9 & HKAS 39 (Amendment)	Reassessment of Embedded Derivative and Financial Instrument: Recognition and measurement[1]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[2]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[2]

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

1 Effective for annual periods ending on or after June 30, 2009
2 Effective for annual periods beginning on or after July 1, 2009
3 Effective for annual periods beginning on or after January 1, 2010

4. Turnover

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

5. **Depreciation**

During the period, depreciation of RMB22,235,000 (six months ended 30 June 2008: RMB19,633,000) was charged in respect of the Group's property, plant and equipment.

6. **Income tax expenses**

Income tax expenses comprise:

	Six months ended	
	30 June 2009	30 June 2008
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
		(Restated)
PRC income tax	**(1,925)**	(3,340)
Deferred taxation	**(301)**	3,134
Income tax expenses	**(2,226)**	(206)

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 per cent 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 per cent.

7. **(Loss)/Earnings per share**

The calculation of (loss)/earnings per share is based on the loss attributable to equity holders for the six months ended 30 June 2009 of RMB49,968,000 (six months ended 30 June 2008: profit of RMB34,445,000) and on 655,015,000 shares in issue throughout the period.

No diluted earnings per share for the six months ended 30 June 2009 and 2008 has been presented as there were no dilutive potential ordinary shares in issue as at 30 June 2009 and 2008.

8. **Dividends**

No final dividend in respect of the previous year was approved and declared during the period.

The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 June 2008: Nil).

9. **Segment reporting**

(a) Business segment

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

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

Electromechanical products: Development, production and sale of electromechanical products, equipment and appliances

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

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

For the six months ended 30 June 2009

	Electronic manufacturing products (Unaudited) *RMB'000*	Electro-mechanical products (Unaudited) *RMB'000*	Satellite telecom-munication products (Unaudited) *RMB'000*	Electronic information products (Unaudited) *RMB'000*	Other operations (Unaudited) *RMB'000*	Elimination (Unaudited) *RMB'000*	Consolidated (Unaudited) *RMB'000*
Revenue							
External sales	149,083	112,295	35,000	71,595	25,779	—	393,752
Internal sales	3,198	3,111	—	16,518	9,481	(32,308)	—
Total	152,281	115,406	35,000	88,113	35,260	(32,308)	393,752
Results							
Segment results	8,384	1,816	3,513	(1,698)	(2,467)	—	9,548
Unallocated corporate expenses							(50,994)
Interest income							1,166
Interest expenses							(18,492)
Share of results of associates							12,090
Income tax expenses							(2,226)
Loss for the period							(48,908)

At 30 June 2009

	Electronic manufacturing products (Unaudited) *RMB'000*	Electro-mechanical products (Unaudited) *RMB'000*	Satellite telecom-munication products (Unaudited) *RMB'000*	Electronic information products (Unaudited) *RMB'000*	Other operations (Unaudited) *RMB'000*	Elimination (Unaudited) *RMB'000*	Consolidated (Unaudited) *RMB'000*
Assets							
Segment assets	374,879	178,712	266,366	240,151	98,217	—	1,158,325
Investments in associates							949,675
Unallocated corporate assets							332,528
Consolidated total assets							2,440,528
Liabilities							
Segment liabilities	109,246	75,816	5,265	130,363	21,742	—	342,432
Unallocated corporate liabilities							685,234
Consolidated total liabilities							1,027,666
Other information							
Depreciation	12,985	2,098	—	775	121		

For the six months ended 30 June 2008

	Electronic manufacturing products (Unaudited) *RMB'000* (Restated)	Electro-mechanical products (Unaudited) *RMB'000* (Restated)	Satellite telecom-munication products (Unaudited) *RMB'000* (Restated)	Electronic information products (Unaudited) *RMB'000* (Restated)	Other operations (Unaudited) *RMB'000* (Restated)	Elimination (Unaudited) *RMB'000* (Restated)	Consolidated (Unaudited) *RMB'000* (Restated)
Revenue							
External sales	173,305	100,167	65,978	175,518	100,281	—	615,249
Internal sales	3,232	3,184	—	6,399	3,276	(16,091)	—
Total	176,537	103,351	65,978	181,917	103,557	(16,091)	615,249
Results							
Segment results	21,391	5,076	14,717	8,581	(7,958)	—	41,807
Unallocated corporate expenses							(57,574)
Interest income							3,975
Interest expenses							(28,669)
Share of results of associates							75,828
Income tax expenses							(206)
Profit for the period							35,161

At 31 December 2008

	Electronic manufacturing products (Unaudited) *RMB'000* Restated)	Electro-mechanical products (Unaudited) *RMB'000* (Restated)	Satellite telecom-munication products (Unaudited) *RMB'000* (Restated)	Electronic information products (Unaudited) *RMB'000* (Restated)	Other operations (Unaudited) *RMB'000* (Restated)	Elimination (Unaudited) *RMB'000* (Restated)	Consolidated (Unaudited) *RMB'000* (Restated)
Assets							
Segment assets	416,121	180,314	313,429	242,056	121,816	—	1,273,736
Investments in associates							937,585
Unallocated corporate assets							448,339
Consolidated total assets							2,659,660
Liabilities							
Segment liabilities	160,076	79,585	5,537	129,445	18,680	—	393,323
Unallocated corporate liabilities							682,578
Consolidated total liabilities							1,075,901
Other information							
Depreciation	24,884	4,093	—	653	369		

(b) *Geographical segment*

For the six months ended 30 June 2009 and 2008, over 90% of sales of the Group is generated from sales in the PRC.

10. Additions to property, plant and equipment

During the period, the Group spent approximately RMB31,626,000 (six months ended 30 June 2008: RMB43,343,000) on acquisition of property, plant and equipment.

11. Investments in associates

	30 June 2009 (unaudited) *RMB'000*	31 December 2008 (unaudited) *RMB'000*
Share of net assets	**946,232**	934,142
Premium on acquisition	**3,443**	3,443
	949,675	937,585

12. Trade and bills receivables

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

The following is an ageing analysis of trade and bill receivables debtors net of provision for bad and doubtful debts as at 30 June 2009:

	30 June 2009 (unaudited) *RMB'000*	31 December 2008 (unaudited) *RMB'000* (Restated)
Within 1 year	**174,654**	220,557
1 to 2 years	**4,678**	5,036
2 to 3 years	**676**	310
Over 3 years	**266**	212
	180,274	226,115

13. Trade payables

The following is an ageing analysis of trade payables as at 30 June 2009:

	30 June 2009 (unaudited) *RMB'000*	31 December 2008 (unaudited) *RMB'000* (Restated)
Within 1 year	**149,961**	153,099
1 to 2 years	**7,659**	16,618
2 to 3 years	**3,887**	2,436
Over 3 years	**18,539**	18,291
	180,046	190,444

14. **Borrowings**

	30 June 2009 (unaudited) RMB'000	31 December 2008 (unaudited) RMB'000
Bank borrowings		
— Short term loans		
— unsecured	**406,000**	406,000
— secured	**189,500**	189,500
— Bills payable	**20,057**	47,547
	615,557	643,047

15. **Business combination under common control**

On 5 November 2008, the Company entered into an equity transfer agreement with Panda Electronics Group Company Limited ("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 Industrial").

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 at an aggregate consideration of RMB121,000,000.

On 9 February 2009, Jiangsu Provincial State-owned Information Asset Management Group Company approved the acquisition and required that the aggregate consideration should not be less than the fair value of Panda Technology Industrial according to the valuation report. In accordance with the valuation report of Panda Technology Industrial, the valuation amount of Panda Technology Industrial as at 30 June 2008 was RMB 121,989,200. As a result, the Group has signed the supplementary equity transfer agreement subsequently with PEGL and the Import & Export Company in which the Group agreed to pay RMB 120,769,300 and RMB 1,219,900 for acquisition of the equity interests from PEGL and the Import & Export Company in Panda Technology Industrial respectively. The consideration has been paid up in April 2009.

The Group regarded the date of acquisition of Panda Technology Industrial to be on 30 April 2009 at which the Group obtained the ultimate control.

The acquisition has been approved by the independent shareholders in the second provisional general meeting of shareholders 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.

The assets and liabilities of Panda Technology Industrial as at 30 April 2009, the date of acquisition and 30 June 2008, the date of valuation, are as follows:

	Date of acquisition 30 April 2009 RMB'000	Date of valuation 30 June 2008 RMB'000
Land use rights	**12,596**	12,723
Property, plant and equipment	**72**	78
Deferred income tax assets	**91**	3,650
Trade and bills receivables	**10,092**	5,650
Deposits, prepayments and other receivables	**1,268**	64,011
Cash and cash equivalents	**63,787**	9,523
Trade payables	**(1,654)**	(1,592)
Accruals and other payables	**(8,857)**	(24,609)
Net assets	**77,395**	69,434

Such acquisition is regarded as a business acquisition under common control. The 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.

The operating results previously reported by the Group for the period ended 30 June 2008 have been restated to include the operating results of the acquired company as set out below:

	The Group (As previously reported) RMB'000	Acquired company under common control RMB'000	Total RMB'000	Consolidation adjustment RMB'000	The Group (Restated) RMB'000
Operating results:					
Turnover	526,538	91,987	618,525	(3,276)	615,249
Profit/(loss) before income tax	45,417	(9,579)	35,838	(471)	35,367
Profit/(loss) for the period	42,609	(6,977)	35,632	(471)	35,161

The financial position previously reported by the Group at 31 December 2008 has been restated to include the assets and liabilities of the acquired company as set out below:

	The Group (As previously reported) RMB'000	Acquired company under common control RMB'000	Total RMB'000	Consolidation adjustment RMB'000	The Group (Restated) RMB'000
Financial position:					
Non-current assets	1,527,409	13,378	1,540,787	—	1,540,787
Current assets	1,047,145	75,766	1,122,911	(4,038)	1,118,873
Current liabilities	1,065,565	10,975	1,076,540	(4,185)	1,072,355
Non-current liabilities	3,546	—	3,546	—	3,546
Equity	1,505,443	78,169	1,583,612	147	1,583,759

The cash flow in relation to the above acquisition is as follows:

	RMB'000
Cash and cash equivalents acquired from the acquisition	63,787
Less: Cash consideration paid	(121,989)
Net cash outflow arising from acquisition	(58,202)

16. Disposal of equity interests in subsidiaries

On 30 April 2008, Panda Technology Industrial disposed the equity interests in its two subsidiaries to the controlling shareholder, PEGL, including the 100% equity interest in Nanjing Panda Huaxin Technology Industrial Co. Ltd. ("Nanjing Panda Huaxin") and 74.51% equity interest in Nanjing Yinquan Communications Technology Co. Ltd. ("Nanjing Yinquan"), which resulted in profits on disposal of RMB13,475,000.

As disclosed in note 15, the Group acquired Panda Technology Industrial on 30 April 2009 and such acquisition is regarded as a business combination under common control. These condensed consolidated interim financial statements has been prepared as if Panda Technology Industrial has always been the subsidiary of the Group and restatements have been made for the comparative figures on the financial statements. As a result, the above profits derived from disposal of subsidiaries by Panda Technology Industrial would be included in the Group's consolidated financial statements as if such disposal was conducted by the Group.

As the equity interests of the aforesaid subsidiaries were disposed to the same party in control, the profits resulted will be recognized in accordance with the accounting policies of the Group. For the six months ended 30 June 2008, the Group has recognized the profit on disposal of Nanjing Panda Huaxin and Nanjing Yinquan of RMB12,031,000 and RMB1,444,000 respectively in capital reserve and statement of comprehensive income.

The cash outflow on disposal of subsidiaries for the Group for the six months ended 30 June 2008 amounted to RMB26,783,000.

17. Share capital

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

18. Contingent liabilities

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

19. Capital commitments

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

	30 June 2009 (unaudited) ***RMB'000***	31 December 2008 (unaudited) *RMB'000* (Restated)
Contracted but not provided for		
— Property, plant and equipment	**79,861**	22,266
— Investments in subsidiaries	**—**	121,000
	79,861	143,266

20. Related party transactions

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

	Fellow subsidiaries, associates and related companies Six months ended		**Ultimate holding company Six months ended**	
	30 June 2009 (unaudited) ***RMB'000***	30 June 2008 (unaudited) *RMB'000* (Restated)	**30 June 2009 (unaudited)** ***RMB'000***	30 June 2008 (unaudited) *RMB'000* (Restated)
Sales of components and parts	**14,352**	7,561	**66**	—
Purchases of components and parts	**1,316**	5,770	**193**	—
Fees paid for welfare, support and sub-contracting services	**263**	1,698	**87**	141
Income for welfare, support and sub-contracting services	**28,797**	22,944	**3**	—
Rental income	**198**	52	**—**	—
Rental expenses	**138**	—	**—**	—

21. **Significant post balance sheet events**

The Company has entered into an equity transfer agreement with the controlling shareholder, Panda Electronics Group Company Limited, on 10 July 2009 in relation to the acquisition of 70% equity interests in Nanjing Panda Electromechanical Instruments Technology Co Ltd. for an aggregate consideration of RMB2,643,700. Such consideration shall be satisfied in cash by internal resources of the Group. Please refer to the announcement on the Stock Exchange of Hong Kong Limited website dated 10 July 2009.

A wholly-owned subsidiary of the Company, Nanjing Huage Appliance and Plastic Industrial Company Limited ("Nanjing Huage") has entered into the agreement with Nanjing Panda Handa Technology Company Limited ("Nanjing Handa") to transfer the land use rights of a land to Nanjing Handa at a consideration of RMB 52,953,800, which will be settled in cash. Nanjing Handa is a wholly-owned subsidiary of Panda Electronics Group Company Limited, which is the controlling shareholder of the Company. Please refer to the announcement on the Stock Exchange of Hong Kong Limited website dated 10 August 2009.

22. **Comparative figures**

Apart from the restatement of certain comparative figures as a result of the adoption of merger accounting for the acquired subsidiary as disclosed in note 1, certain comparative figures have been reclassified to conform with the current period's presentation.

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

The interim 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 interim statements of comprehensive income

	Six months ended	
	30 June 2009 (unaudited) *RMB'000*	30 June 2008 (unaudited) *RMB'000* (Restated)
(Loss)/Profit attributable to shareholders as per interim financial statements prepared under Hong Kong Financial Reporting Standards	**(49,968)**	34,445
Income and expenditure taken directly to reserves	—	(16,054)
Minority interest	—	5
Amortisation of unrecognised intangible assets	—	(100)
Others	—	322
(Loss)/Profit attributable to shareholders as per interim financial statements prepared under PRC accounting standards	**(49,968)**	18,618

There were no difference between the consolidated statements of financial position prepared under Hong Kong Financial Reporting Standards and PRC accounting standards as at 30 June 2009 and 31 December 2008.

	30 June 2009 (unaudited) *RMB'000*	31 December 2008 (unaudited) *RMB'000* (Restated)
Equity attributable to equity holders of the Company as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong and PRC accounting standards	**1,399,661**	1,571,618

VIII. FINANCIAL REPORT (PREPARED UNDER THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES) (UNAUDITED)

(I) The 2009 interim financial statements of the Company were unaudited.

(II) Financial Statements and notes (Prepared in accordance with the PRC Accounting Standards for Business Enterprises)

Consolidated Balance Sheet
30 June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Assets	30 June 2009	1 January 2009
Current assets:		
Cash and bank	**234,010,457.98**	445,495,453.00
Trading financial assets	—	—
Bills receivable	**13,283,140.40**	15,692,227.80
Accounts receivable	**187,487,129.89**	232,275,665.07
Prepayments	**67,124,804.85**	59,734,002.53
Interest receivable	—	—
Dividends receivable	—	—
Other receivables	**28,113,720.86**	23,181,717.76
Stocks	**350,864,789.59**	341,847,590.96
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	**880,884,043.57**	1,118,226,657.12
Non-current assets:		
Available-for sale financial assets	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	**949,674,906.37**	937,585,276.41
Investment properties	—	—
Fixed assets	**489,507,199.47**	506,284,115.53
Construction in progress	**48,048,535.58**	23,099,502.20
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Gas assets	—	—
Intangible assets	**63,512,069.42**	64,571,997.12
Development expenses	—	—
Goodwill	—	—
Long term deferred expenses	**2,759,699.43**	3,205,958.49
Deferred income tax assets	**6,363,626.69**	6,665,213.05
Other non-current assets	—	—
Total non-current assets	**1,559,866,036.96**	1,541,412,062.80
Total assets	**2,440,750,080.53**	2,659,638,719.92

Legal Representative of the Company:	*Chief Accountant:*	*Head of the Accounting Department:*
Li Anjian	**Shen Jianlong**	**Wu Yuzhen**

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

	30 June 2009	1 January 2009
Liabilities and shareholders' equity		
Current liabilities:		
Short term loans	**595,500,000.00**	595,500,000.00
Trading financial liabilities	—	—
Bills payable	**20,056,966.44**	47,547,289.42
Accounts payable	**192,476,255.20**	203,518,800.32
Advances from customers	**54,451,576.97**	46,008,729.32
Salaries payable	**46,337,777.68**	44,944,231.10
Taxes payable	**14,117,977.77**	25,353,403.80
Interest payable	**1,168,419.44**	1,155,400.00
Dividends payable	—	—
Other payables	**97,105,507.42**	99,137,599.32
Non-current liabilities due within one year	**4,310,764.32**	9,167,543.14
Other current liabilities	—	—
Total current liabilities	**1,025,525,245.24**	1,072,332,996.42
Non-current liabilities:		
Long term loans	—	—
Bonds payables	—	—
Long term payables	**2,362,315.43**	3,546,064.37
Specific payables	—	—
Accrued liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	**2,362,315.43**	3,546,064.37
Total liabilities	**1,027,887,560.67**	1,075,879,060.79
Shareholders' equity:		
Share capital	**655,015,000.00**	655,015,000.00
Capital reserve	**467,488,082.91**	589,477,282.91
Less: treasury stock	—	—
Surplus reserve	**200,510,421.29**	200,510,421.29
Undistributed profits	**76,647,751.41**	126,615,686.31
Discounted spread in foreign currency statement	—	—
Sub-total of equity attributable to shareholders of the parent company	**1,399,661,255.61**	1,571,618,390.51
Minority interests	**13,201,264.25**	12,141,268.62
Total shareholders' equity	**1,412,862,519.86**	1,583,759,659.13
Total liabilities and shareholders' equity	**2,440,750,080.53**	2,659,638,719.92

Legal Representative of the Company: **Li Anjian** *Chief Accountant:* **Shen Jianlong** *Head of the Accounting Department:* **Wu Yuzhen**

Consolidated Profit and Loss Statement

January to June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Items			**January to June 2009**	January to June 2008
1.	**Total operating income**		**399,068,260.69**	615,503,413.48
	Include:	Operating income	**399,068,260.69**	615,503,413.48
2.	**Total operating cost**		**458,644,945.49**	676,616,658.97
	Include:	Operating cost	**347,599,488.51**	511,127,934.82
		Business taxes and surcharges	**2,988,405.18**	2,788,281.51
		Selling expenses	**16,447,066.05**	25,404,159.55
		Administrative expenses	**76,112,918.08**	78,277,984.99
		Financial expenses	**19,982,230.42**	29,991,777.99
		Loss in assets impairment	**(4,485,162.75)**	29,026,520.11
	Add:	Income from change in fair value (losses are represented by "—")	**—**	—
		Investment income (losses are represented by "—")	**12,089,630.96**	77,271,616.58
	Include:	Investment income of associates and joint ventures	**—**	—
3.	**Operating profit (losses are represented by "—")**		**(47,487,053.84)**	16,158,371.09
	Add:	Non-operating income	**1,769,898.75**	4,469,215.30
	Less:	Non-operating expenses	**964,631.78**	1,092,979.92
	Include:	Loss from the disposal of non-current assets	**—**	—
4.	**Total Profit (total losses are represented by "—")**		**(46,681,786.87)**	19,534,606.47
	Less:	Income tax	**2,226,152.40**	206,209.34
5.	**Net Profit (net losses are represented by "—")**		**(48,907,939.27)**	19,328,397.13
	Net profit attributable to the equity shareholders of the parent company		**(49,967,934.90)**	18,617,747.05
	Minority interest		**1,059,995.63**	710,650.08
	Net profit of the combined party in enterprise combination under the same control realized before the combining date		**610,245.45**	(7,156,273.35)
6.	**Earnings per share:**			
	(1)	Basic earnings per share	**(0.0763)**	0.0284
	(2)	Diluted earnings per share	**(0.0763)**	0.0284

Legal Representative of the Company: **Li Anjian** *Chief Accountant:* **Shen Jianlong** *Head of the Accounting Department:* **Wu Yuzhen**

Consolidated Cash flow statement
January to June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Items		January to June 2009	January to June 2008
1.	**Cash flows from operating activities**		
	Cash received from the sale of goods and services provided	**509,581,939.99**	530,844,135.38
	Return of tax payment	**1,322,550.59**	6,018,091.93
	Other cash received relating to operating activities	**22,719,072.24**	35,312,781.03
	Sub-total of cash inflows from operating activities	**533,623,562.82**	572,175,008.34
	Cash paid on purchase of goods and services	**366,677,343.20**	568,509,118.03
	Cash paid to staff and paid on behalf of staff	**110,019,298.32**	115,606,367.48
	Taxes paid	**35,599,919.72**	32,885,572.44
	Other cash paid relating to operating activities	**53,403,303.54**	41,960,271.64
	Sub-total of cash outflows from operating activities	**565,699,864.78**	758,961,329.59
	Net cash flows from operating activities)	**(32,076,301.96)**	(186,786,321.25)
2.	**Cash flows from investment activities:**		
	Cash received from investment recovered	**1.00**	—
	Cash received from investment income	**—**	50,000,000.00
	Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	**21,850.00**	717,400.00
	Net cash received from disposal of subsidiaries and other business units	**—**	—
	Cash received relating to other operating activities	**—**	—
	Sub-total of cash inflows from investment activities	**21,851.00**	50,717,400.00
	Cash paid on purchase of fixed assets, intangible assets and other long term assets	**31,625,574.20**	43,896,471.83
	Cash paid for investment	**121,989,200.00**	—
	Net cash paid on acquisition of subsidiaries and other business units	**—**	—
	Other cash paid on investment activities	**—**	26,783,067.02
	Sub-total of cash outflows from investment activities	**153,614,774.20**	70,679,538.85
	Net cash flows from investment activities	**(153,592,923.20)**	(19,962,138.85)
3.	**Cash flows from financing activities:**		
	Cash received from investment	**—**	—
	Including: cash received by subsidiaries from equity investment of minority shareholders	**—**	—
	Cash received from borrowings	**162,000,000.00**	217,000,000.00
	Other cash received from financing activities	**26,131,173.26**	115,046,128.79
	Sub-total of cash inflows from financing activities	**188,131,173.26**	332,046,128.79
	Cash paid on repayment of debts	**162,000,000.00**	212,000,000.00
	Cash paid on distribution of dividends or profits, or interest repayment	**19,235,248.27**	68,355,102.06
	Including: Dividends and profit paid to minority shareholders by subsidiaries	**—**	—
	Other cash paid on financing activities	**21,718,739.04**	51,567,726.63
	Sub-total of cash outflows from financing activities	**202,953,987.31**	331,922,828.69
	Net cash flows from financing activities	**(14,822,814.05)**	123,300.10
4.	**Effect on cash and cash equivalents due to foreign currency exchange**	**(25,734.47)**	(4,447,009.48)
5.	**Net increase in cash and cash equivalents**	**(200,517,773.68)**	(211,072,169.48)
	Add: balance of cash and cash equivalents at the beginning of the period	**412,236,426.18**	403,746,222.02
6.	**Balance of cash and cash equivalents at the end of the period**	**211,718,652.50**	192,674,052.54

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
January to June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Items	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
1. Balance at the end of last year	655,015,000.00	589,477,282.91	–	200,510,421.29	126,615,686.31	–	12,141,268.62	1,583,759,659.13	655,015,000.00	560,291,262.27	–	194,728,117.46	92,225,505.92	–	59,145,770.98	1,561,405,656.63
Add: change in accounting policies	–	–	–	–	–	–	–	–	–	–	–	5,365,905.92	48,293,153.23	–	–	53,659,059.15
Correction of prior errors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Balance at the beginning of this year	655,015,000.00	589,477,282.91	–	200,510,421.29	126,615,686.31	–	12,141,268.62	1,583,759,659.13	655,015,000.00	560,291,262.27	–	200,094,023.38	140,518,659.15	–	59,145,770.98	1,615,064,715.78
3. Change of this year (a decrease is represented by "–")	–	(121,989,200.00)	–	–	(49,967,934.90)	–	1,059,995.63	(170,897,139.27)	–	29,183,736.33	–	–	(33,783,452.95)	–	(46,470,949.68)	(51,070,666.30)
(1) Net profit	–	–	–	–	(49,967,934.90)	–	1,059,995.63	(48,907,939.27)	–	–	–	–	18,617,747.05	–	710,650.08	19,328,397.13
(2) Profit and loss directly accounted for in shareholders' equity	–	(121,989,200.00)	–	–	–	–	–	(121,989,200.00)	–	17,152,264.05	–	–	–	–	–	17,152,264.05
1. Net change in fair value of financial assets available for sale	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Effect of changes in other shareholders' equity in investee companies under equity method of accounting	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Effect of income tax in relation to items referred at equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	(121,989,200.00)	–	–	–	–	–	(121,989,200.00)	–	17,152,264.05	–	–	–	–	–	17,152,264.05
Subtotal of item(1) and (2) above	–	(121,989,200.00)	–	–	(49,967,934.90)	–	1,059,995.63	(170,897,139.27)	–	17,152,264.05	–	–	18,617,747.05	–	710,650.08	36,480,661.18
(3) Contribution and reduction of capital by shareholders	–	–	–	–	–	–	–	–	–	12,031,472.28	–	–	–	–	(34,675,478.95)	(22,644,006.67)
1. Capital contribution by shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Amount settled by shares for amount accounted for in shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–	12,031,472.28	–	–	–	–	(34,675,478.95)	(22,644,006.67)
(4) Profit distribution	–	–	–	–	–	–	–	–	–	–	–	–	(52,401,200.00)	–	(12,506,120.81)	(64,907,320.81)
1. Transfer from surplus reserves	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(52,401,200.00)	–	–	(52,401,200.00)
3. Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(12,506,120.81)	(12,506,120.81)
(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	467,488,082.91	–	200,510,421.29	76,647,751.41	–	13,201,264.25	1,412,862,519.86	655,015,000.00	589,474,998.60	–	200,094,023.38	106,735,206.20	–	12,674,821.30	1,563,994,049.48

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

Chief Accountant: **Shen Jianlong**

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

Balance Sheet
30 June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Assets	30 June 2009	1 January 2009
Current assets:		
Cash and bank	**101,078,071.84**	229,438,462.74
Trading financial assets	—	—
Bills receivable	**300,000.00**	—
Accounts receivable	**52,610,866.55**	89,150,124.91
Prepayments	**17,321,294.28**	22,505,935.65
Interest receivable	—	—
Dividends receivable	**3,242,582.93**	3,609,034.16
Other receivables	**171,885,510.33**	162,326,061.32
Stocks	**170,817,509.01**	167,188,463.35
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	**517,255,834.94**	674,218,082.13
Non-current assets:		
Available-for-sale financial assets	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investments	**1,248,949,284.43**	1,114,870,454.47
Investment properties	—	—
Fixed assets	**270,909,044.73**	278,091,577.34
Construction in progress	**47,525,544.15**	22,979,502.20
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Gas assets	—	—
Intangible assets	**14,139,825.43**	14,625,312.85
Development expenses	—	—
Goodwill	—	—
Long term deferred expenses	—	—
Deferred tax asset	—	—
Other non-current assets	—	—
Total non-current assets	**1,581,523,698.74**	1,430,566,846.86
Total assets	**2,098,779,533.68**	2,104,784,928.99

Legal Representative of the Company: **Li Anjian**
Chief Accountant: **Shen Jianlong**
Head of the Accounting Department: **Wu Yuzhen**

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Liabilities and shareholders' equity	30 June 2009	1 January 2009
Current liabilities:		
Short term loans	**567,500,000.00**	567,500,000.00
Trading financial liabilities	—	—
Bills payable	**1,500,000.00**	—
Accounts payable	**26,996,462.45**	28,478,983.45
Advances from customers	**1,200,800.00**	1,507,273.51
Salaries payable	**34,754,550.82**	30,365,579.33
Taxes payable	**17,027,937.59**	20,210,067.21
Interest payable	**1,168,419.44**	1,155,400.00
Dividends payable	—	—
Other payables	**109,051,939.21**	62,146,080.30
Non-current liabilities due within one year	—	—
Other current liabilities	—	—
Total current liabilities	**759,200,109.51**	711,363,383.80
Non-current liabilities:		
Long term loans	—	—
Bonds payables	—	—
Long term payables	—	—
Specific payables	—	—
Accrued liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	—	—
Total liabilities	**759,200,109.51**	711,363,383.80
Shareholders' equity:		
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**	200,510,421.29
Undistributed profits	**5,112,587.74**	58,954,708.76
Total shareholders' equity	**1,339,579,424.17**	1,393,421,545.19
Total liabilities and shareholders' equity	**2,098,779,533.68**	2,104,784,928.99

Legal Representative of the Company:	*Chief Accountant:*	*Head of the Accounting Department:*
Li Anjian	**Shen Jianlong**	**Wu Yuzhen**

Profit statement

January to June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Items			January to June 2009	January to June 2008
1.	**Operating income**		**62,835,420.73**	80,383,010.88
	Less:	Operating cost	**59,461,144.26**	64,326,826.20
		Business taxes and surcharges	**137,966.38**	89,783.25
		Selling expenses	**1,846,439.81**	1,132,945.51
		Administrative expenses	**51,361,150.29**	52,678,446.81
		Financial expenses	**17,428,643.73**	24,096,946.87
		Impairment loss on assets	**1,061,163.20**	17,727,873.23
	Add:	Income from change in fair value (losses are represented by "—")	**—**	—
		Investment income (losses are represented by "—")	**14,432,213.89**	74,934,293.66
		Include: Investment income of associates and joint ventures	**—**	—
2.	**Operating Profit (losses are represented by "—")**		**(54,028,873.05)**	(4,735,517.33)
	Add:	Non-operating income	**964,141.40**	696,621.02
	Less:	Non-operating expenses	**777,389.37**	652,443.60
		Include: Loss from the disposal of non-current assets	**—**	—
3.	**Total Profit (total losses are presented by "—")**		**(53,842,121.02)**	(4,691,339.91)
	Less:	Income tax expenses	**—**	—
4.	**Net profit (net losses are represented by "—")**		**(53,842,121.02)**	(4,691,339.91)
5.	**Earnings per share:**			
	(1)	Basic earnings per share	**—**	—
	(2)	Diluted earnings per share	**—**	—

Legal Representative of the Company:	*Chief Accountant:*	*Head of the Accounting Department:*
Li Anjian	**Shen Jianlong**	**Wu Yuzhen**

Cash flow statement
January to June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Items		January to June 2009	January to June 2008
1.	**Cash flows from operating activities:**		
	Cash received from the sale of goods and services provided	**96,900,679.67**	41,630,742.54
	Return of tax payment	—	—
	Other cash received relating to operating activities	**84,842,769.32**	50,467,337.89
	Sub-total of cash inflows from operating activities	**181,743,448.99**	92,098,080.43
	Cash paid on purchase of goods and services	**43,167,253.13**	76,274,703.34
	Cash paid to staff and paid on behalf of staff	**37,963,621.19**	40,704,659.74
	Taxes paid	**3,878,197.88**	1,735,782.97
	Other cash paid relating to operating activities	**59,452,783.95**	91,733,682.27
	Sub-total of cash outflows from operating activities	**144,461,856.15**	210,448,828.32
	Net cash flows from operating activities	**37,281,592.84**	(118,350,747.89)
2.	**Cash flows from investment activities:**		
	Cash received from investment recovered	**1.00**	—
	Cash received from investment income	**2,701,820.22**	50,104,256.89
	Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	—	45,200.00
	Net cash received from disposal of subsidiaries and other business units	—	—
	Other cash received relating to operating activities	—	—
	Sub-total of cash inflows from investment activities	**2,701,821.22**	50,149,456.89
	Cash paid on purchase of fixed assets, intangible assets and other long term assets	**28,246,924.40**	8,179,598.56
	Cash paid on investment	**121,989,200.00**	24,451,956.13
	Net cash paid on acquisition of subsidiaries and other business units	—	—
	Other cash paid on investment activities	—	—
	Sub-total of cash outflows from investment activities	**150,236,124.40**	32,631,554.69
	Net cash flows from investment activities	**(147,534,303.18)**	17,517,902.20
3.	**Cash flows from financing activities:**		
	Cash received from investment	—	—
	Cash received from borrowings	**150,000,000.00**	200,000,000.00
	Other cash received from financing activities	**620,000.00**	41,770,209.65
	Sub-total of cash inflows from financing activities	**150,620,000.00**	241,770,209.65
	Cash paid on repayment of debts	**150,000,000.00**	195,000,000.00
	Cash paid on distribution of dividends or profits, or interest repayment	**18,106,500.60**	66,428,000.29
	Other cash paid on financing activities	**1,800,000.00**	1,760,000.00
	Sub-total of cash outflows from financing activities	**169,906,500.60**	263,188,000.29
	Net cash flows from financing activities	**(19,286,500.60)**	(21,417,790.64)
4.	**Effect on cash and cash equivalents due to foreign currency exchange**	**(1,179.96)**	296,695.53
5.	**Net increase in cash and cash equivalents**	**(129,540,390.90)**	(121,953,940.80)
	Add: balance of cash and cash equivalents at the beginning of the period	**227,578,462.74**	246,370,810.95
6.	**Balance of cash and cash equivalents at the end of the period**	**98,038,071.84**	124,416,870.15

Legal Representative of the Company:	*Chief Accountant:*	*Head of the Accounting Department:*
Li Anjian	**Shen Jianlong**	**Wu Yuzhen**

Statement of Change of Shareholders' equity

January to June 2009

Prepared by: Nanjing Panda Electronics Company Limited *Unit: RMB*

Items	January to June 2009 Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Total shareholders' equity	January to June 2008 Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance of the end of last 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	–	194,728,117.46	59,315,174.36	1,387,999,706.96
Add: change in accounting policies	–	–	–	–	–	–	–	–	–	5,365,905.92	48,293,153.23	53,659,059.15
Correction of prior errors	–	–	–	–	–	–	–	–	–	–	–	–
2. Balance at the beginning of this 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
3. Change of this year (a decrease is represented by "–")	–	–	–	–	(53,842,121.02)	(53,842,121.02)	–	–	–	–	(57,092,539.91)	(57,092,539.91)
(1) Net profit	–	–	–	–	(53,842,121.02)	(53,842,121.02)	–	–	–	–	(4,691,339.91)	(4,691,339.91)
(2) Profit and loss directly accounted for in shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–
1. Net change in fair value of financial assets available for sale	–	–	–	–	–	–	–	–	–	–	–	–
2. Effect of changes in other shareholders' equity in investee companies referred at equity	–	–	–	–	–	–	–	–	–	–	–	–
3. Effect of income tax in relation to items referred at shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal of item(1) and (2) above	–	–	–	–	(53,842,121.02)	(53,842,121.02)	–	–	–	–	(4,691,339.91)	(4,691,339.91)
(3) Contribution and reduction of capital by shareholders'	–	–	–	–	–	–	–	–	–	–	–	–
1. Capital contribution by shareholders	–	–	–	–	–	–	–	–	–	–	–	–
2. Amount settled by shares for amount accounted for in shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–	–	–	–
(4) Profit distribution	–	–	–	–	–	–	–	–	–	–	(52,401,200.00)	(52,401,200.00)
1. Transfer from surplus reserves	–	–	–	–	–	–	–	–	–	–	–	–
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**	**5,112,587.74**	**1,339,579,424.17**	655,015,000.00	478,941,415.14	–	200,094,023.38	50,515,787.68	1,384,566,226.20

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

Chief Accountant: **Shen Jianlong**

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

NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2009 to 30 June 2009
(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), which 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, stationeries equipment, industrial moulds and other equipment.

In the general meeting of the Company held on 27 May 1994, a special resolution was passed to approve the matters concerning disconsolidation and restructuring the assets and liabilities of the Company and PEGL as well as re-affirming the state owned legal person shares of the Company. 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 H & A shares. According to the special 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 restructuring 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 upon approval by the Securities Committee of the State Council.

The Company gained approval from the document Zheng Wei Fa (1996) No. 6 from the Securities Committee of the State Council on 2 April 1996, to issue 242,000,000 H shares in Hong Kong, to be sold at HKD2.13 per share. Share issue was completed at 29 April 1996 and was formally listed on the Hong Kong Stock Exchange on 2 May 1996.

The Company gained approval from the document Zheng Gan Fa Zi (1996) No. 304 from Securities Supervision and Management Committee of the State Council on 30 October 1996, to issue 23,000,000 ordinary shares in RMB to the public. Issuing price was RMB5.10 per share. At 14 November 1996, all fees for issuance were received in full and the stock was officially listed on Shanghai Stock Exchange at 18 November 1996. The 5,000,000 shares in the 35,000,000 shares originally planned to be issued to internal employees were also listed on the Shanghai Stock Exchange 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 company of the Company is Panda Electronics Group Limited.

The Financial Statements of the Company were approved by the Board of the Company on 26 August 2009.

II. The declaration on compliance with the Accounting Standards for Business 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 complete basis.

III. Basis of preparation of financial statements

The Company's financial statements are prepared in accordance with the Basic Principle and 38 specific accounting 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 collectively referred to as the "Accounting Standards for Business Enterprises").

IV. Major accounting policies and accounting estimates adopted by the Company

1. Accounting period

Accounting periods are divided into annual periods (yearly) and interim periods. An interim accounting 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 the major economic environment of their places of operation. 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.

(2) Translation of financial statements denominated 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 classifies its financial liabilities into those measured at fair value through profit and loss of the period 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. Financial assets to be acquired or financial liabilities to be undertaken are quoted by adopting the prevailing asking price in the active market. For those without prevailing offer or asking price, the market quotations in the latest transaction or those adjusted are adopted, unless there is clear evidence which states that the market quotations are not fair value.

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

(3) Recognition of transferral and calculation of financial assets

Transferral of financial assets refer to a transferral or delivery of the financial assets from the Company 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 virtually 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 virtually 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 - Transferal of Financial Assets.

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

(5) Impairment of Financial Assets

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

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

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

A: Issuers or debtors encounter severe financial difficulties;

B: Debtors violate terms of contract, such as a breach of rules or delay during settlement of interests or principal;

C: Debtors give way to those under financial difficulty accounting on economic or legal reasons;

D: Debtors may go into liquidation or conduct other financial reorganization;

E: Transaction of the financial assets ceases in the active market as the issuer encounters great financial difficulties;

F: Any reduction in cash flow of certain assets among a group of financial assets cannot be identified, while it is discovered that the estimated future cash flow of the financial assets has been reduced and can be measured since initial recognition after an overall evaluation based on disclosed information. If the repayment capability of the debtor of the group of financial assets gradually deteriorates, unemployment rate of the country or region where the debtor is staying increases, prices in regions where collaterals are provided significantly decrease or an industry sentiment turns unfavourable;

G: Significant and adverse changes have taken place in the technological, market, economic or legal environments in which the debtor operates, making investors of equity instruments difficult to recover the investment cost;

H: Substantial or non-temporary reduction of the fair value of investment on equity instruments;

I: Other objective evidence showing signs of impairment on financial assets.

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

Upon recognition of the impairment loss on financial assets at amortized cost, if there is an objective evidence showing that the value of the financial assets has been restored which objectively relates to the events incurred upon the recognition of loss, the impairment loss initially recognized will be reversed through current 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 current profit and loss.

7. **Receivables**

Receivables comprise of accounts receivables and prepayments, etc. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value by the Company 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 test (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 bad debts 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 Company 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 the costs of purchase, costs of conversion and other costs. Weighted average method is adopted when the inventories are used or delivered.

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

(4) The Company adopts perpetual inventory record system.

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

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

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

Net realisable value of inventories of the Company 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 profit and loss.

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 mainly includes: 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 includes: when the Company directly or indirectly hold through subsidiaries 20% (inclusive) or above but less than 50% shares with voting rights of the investees, it will be recognized as having significant influence on the investees, except that there are clear evidences showing it cannot participate the production and operation decision of the investees thus constituting no significant influence; when the Company hold 20% (exclusive) below shares with voting rights of the investees, it generally will be recognized no significant influence on the investees. It can be recognized as having significant influence on the investees should the following conditions be satisfied:

A. Having representatives in the board of directors of investees or equivalent governing body;

B. Participating in the policy making process of investees;

C. Significant transactions occurred with investees;

D. Dispatching management staff to investees;

E. Providing key technology information to investees.

(2) Initial measurement of long-term equity investment

For long-term equity investment acquired by merger of business, the Company will recognize its initial investment 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 Business Enterprises No. 20 - Merger of Enterprises.

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

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

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

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

The initial cost of a long-term investment acquired by the exchange of non-monetary assets shall be recognized in accordance with the Accounting Standards for Business 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 Business Enterprises No. 12 - Debt Restructuring.

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

Long-term equity investments of the Company that are accounted for using cost method include: long-term equity investments that can exercise control over the investee; long-term equity investment without 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 initial investment cost.

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

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 cannot 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 cannot be acquired due to other reasons and an adjustment cannot 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 profit and loss according to a certain proportion.

10. Accounting Method for Investment Properties

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

(1) Recognition of Investment properties

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

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

The cost of the investment property can be reliably measured.

(2) Initial measurement of the investment property

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

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

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

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

(3) Subsequent measurement of the investment property

The cost method is adopted by the Company for subsequent measurement of investment property measurement on the date of the balance sheet. According to relevant regulations of Accounting Standards for Business 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.

11. Fixed Assets

(1) Recognition scope of fixed assets

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

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

The cost of the fixed asset can be measured reliably.

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, freights, loading and unloading fees, installation 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 profit and loss within the credit period, unless it shall be capitalized in accordance with the Accounting Standards for Business Enterprises No. 17 - Borrowing Costs.

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

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

Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalised in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are 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.

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 relevant requirements of the Accounting Standards for Business Enterprises No. 7 - Exchange of Non-monetary Assets, Accounting Standards for Business Enterprises No. 12 - Debt Restructuring, Accounting Standards for Business Enterprises No. 20 - Merger of Enterprises and Accounting Standards for Business Enterprises No. 21 - Leases.

(3) Categories of fixed assets

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

(4) Depreciation of fixed assets

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

Categories of fixed assets	**Estimated useful life** *(year)*	**Estimated net 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 net residual value, the depreciation made and provision for impairment over its remaining useful life.

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

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

(5) Treatment of subsequent expenses related to fixed assets

Subsequent expenses related to fixed assets mainly include 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 profit and loss. Decoration expenses related to fixed assets that are qualified for recognition of fixed assets are accounted for in a separate subsidiary account under “Fixed assets”, and are depreciated separately on a straight-line basis over the lower of the period between two decorations and the remaining useful life of fixed assets.

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

(6) Fixed assets acquired under finance leases

Recognition basis for fixed assets acquired under finance leases

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

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

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

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

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

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

Measurement method for fixed assets acquired under finance leases

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

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

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

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

Depreciation method for fixed assets acquired under finance leases

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

12. Construction in progress

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.

(2) Initial measurement of intangible assets

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

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

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

The cost of self-developed intangible assets

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

A. It is feasible technically to complete such intangible assets for use or sale;

B. It is intended to complete, use or sell the intangible assets;

C. The methods for intangible assets to generate economic benefits include being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself. Should the intangible assets be used internally, its usefulness shall be approved;

D. There are sufficient technologies, financial resources and other resources supporting the development of the intangible assets. And the Company is able to use or sell such intangible assets;

E. The expenses in the development phase of the intangible assets can be reliably measured.

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

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

(3) Subsequent measurement of intangible assets

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

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

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

14. Goodwill

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

15. Accounting Methods of long-term deferred expenses

Long-term deferred 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 deferred 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 (including 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 Company;

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 excepted 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 profit and loss. Meanwhile, a provision for the asset impairment shall be made accordingly. Upon the reorganization of asset impairment loss, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net residual value) within the remaining service life of the asset. Any impairment loss recognised shall not be reversed in subsequent accounting periods.

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

(6) Impairment of goodwill

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

17. **Borrowing Costs**

(1) Recognition Principles for Borrowing Cost Capitalisation

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

Capital expenditure has been incurred.

The borrowing costs have been incurred.

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

(2) Period of Capitalization of Borrowing Cost

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

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

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

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

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

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

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

Where there is any discount or premium for the borrowings, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined based on the 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.

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 dismission and other expenditures incurred in exchange for service rendered by employees. Save 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.

(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.

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.

(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.

(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.

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 measured, 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.

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.

(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 non-cash 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.

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.

(3) Main accounting treatment of finance lease

Accounting treatments of lessees

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

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

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

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

Accounting treatments of lessors

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

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

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

(4) Main accounting treatment of operating lease

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

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 temporary difference between the carrying amount of the assets or liabilities and its tax base, the deferred income tax assets or the deferred income tax liabilities shall be recognized according to the provisions.

(3) Recognition of deferred income tax assets

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

A. The transaction is not a merger of enterprise;

B. At the time of the transaction, the accounting profits will not be affected, nor will the taxable income (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 in future.

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

(4) Recognition of deferred income tax liabilities

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

A. Initial recognition of goodwill;

B. Initial recognition of assets or liabilities created in the transactions with the following characteristics;

a. The transaction is not a merger of enterprise;

b. When the transaction occurs, neither of the accounting profit and taxable income (or deductible loss) is 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.

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

1. Statement of change in main accounting policy

During the period, there was no change in accounting policies of the Company.

2. Change in Accounting Estimate and Correction of Previous Errors

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

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 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 14%.

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

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

2. Sales Tax

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

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

3. Urban development tax and education surcharge

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

4. Enterprise income tax

The Company 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 2009 is the second year of income tax exemption.

Nanjing Panda Appliance & Apparatus Co. Ltd and Nanjing Huage Appliance and Plastic Industrial Company Limited, two subsidiaries 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.

VII. Merger of enterprises and consolidated financial statements

1. Merger of enterprises

(1) Merger of enterprises under same control

Definition of merger of enterprises under same control

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

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

Basis for determination of the merger date

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

A. Agreement on merger of enterprises has been approved by shareholders' general meeting;

B. Where merger of enterprises shall be materially approved by relevant authorities of the State, the approval has been obtained from relevant authorities;

C. Parties participating in the merger have gone through necessary handover procedures of properties;

D. The Company has paid most of the merger consideration (typically, above 50%), and is capable of paying the remaining balance;

E. The Company has actually controlled financial and operating policies of the merged parties, shared corresponding benefits and bore related risks.

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

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

Treatment method of the merger expenses

All direct relevant expenses incurred 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.

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.

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 net 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 net 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 net 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 net 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 fair value of 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 acquire (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 identifiable assets and liabilities which meet the recognition requirements acquired by the Company on the merger date shall be recognized as assets and liabilities of the Company at its fair value.

2. Consolidated financial statements

(1) Consolidation scope

Recognition principle

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

Major subsidiaries and determination of consolidation scope for 2008:

Company name	Registration address	Nature of business	Registered capital: *(RMB'0000)*	Business scope
I. Subsidiaries acquired from merger of enterprises under same control				
Nanjing Panda Mechanical Engineering Plant	Nanjing	Industry	4,500	Manufacture and sales of electronic products, communication equipment and instruments
Nanjing Panda Technology Industrial Co., Ltd.	Nanjing	Commerce	8,000	House leasing, property management (including energy supply), childhood education and care
II. The subsidiaries acquired otherwise				
Nanjing Electronic Calibration Co., Ltd	Nanjing	Industry	100	Inspection of electronic instruments
Nanjing Panda Appliance & Apparatus Co. Ltd.	Nanjing	Industry	100	Production, development and sale of testing appliance; design and installation of electronic information system
Nanjing Panda Mechanical Manufacturing Co., Ltd.	Nanjing	Industry	500	Metal components
Nanjing Panda Accurate Machinery Co., Ltd.	Nanjing	Industry	500	Production of equipment and spare parts for electronic industry; processing of sophisticated machinery
Nanjing Panda Technology Equipment Co., Ltd.	Nanjing	Industry	500	Production and installation of production line
Nanjing Panda Machinery Co., Ltd.	Nanjing	Industry	300	Processing and manufacturing of mechanical parts
Nanjing Panda Information Industry Co., Ltd.	Nanjing	Industry	USD740	Development, production and sale of electronic information products
Nanjing Panda System Integration Co., Ltd.	Nanjing	Industry	300	Development and sales of computer software
Nanjing Panda Electronics Manufacturing Co., Ltd.	Nanjing	Industry	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
Nanjing Panda Power Sources Technology Co., Ltd.	Nanjing	Industry	1,100	Design, production and sales of power sources and special type power transformer

Company name	Registration address	Nature of business	Registered capital: *(RMB'0000)*	Business scope
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 and 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

Company name	The Company's Actual investment *(RMB'0000)*	Balance of net investment in substance in subsidiaries *(RMB'0000)*	Shareholding percentage *(%)*	Percentage of voting rights *(%)*	Whether to consolidate
I. Subsidiaries acquired from merger of enterprises under same control					
Nanjing Panda Mechanical Engineering Plant	3,004.20	3,004.20	99.11	100	Yes
Nanjing Panda Technology Industrial Co., Ltd.	12,198.92	12,198.92	100	100	Yes
II. The subsidiaries acquired otherwise					
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
Nanjing Panda Electronics Manufacturing Co., Ltd.	7,826.01	7,826.01	100	100	Yes

Company name	The Company's Actual investment *(RMB'0000)*	Balance of net investment in substance in subsidiaries *(RMB'0000)*	Shareholding percentage *(%)*	Percentage of voting rights *(%)*	Whether to consolidate
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

(2) Preparation method of consolidated financial statements

Basic preparation method of consolidated financial statements

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

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

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

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

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

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

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

(3) Minority interests

Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Electronic Calibration Co., Ltd.	**340,052.83**	313,567.87
Nanjing Panda Appliance & Apparatus Co. Ltd.	**1,139,539.69**	1,082,098.72
Nanjing Panda Mechanical Manufacturing Co. Ltd.	**5,665,330.41**	4,496,419.85
Nanjing Panda Accurate Machinery Co., Ltd.	**3,752,368.69**	3,944,325.13
Nanjing Panda Technology Equipment Co., Ltd.	**—**	—
Nanjing Panda Mechanical Co., Ltd.	**1,083,541.87**	1,042,320.01
Nanjing Panda Mechanical Engineering Plant	**—**	—
Nanjing Panda Information Industry Co., Ltd.	**—**	
Nanjing Panda System Integration Co., Ltd.	**1,220,430.76**	1,262,537.04
Nanjing Panda Electronic Manufacturing Company Limited	**—**	
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	**—**	—
Nanjing Panda Power Supply Technology Co., Ltd.	**—**	
Nanjing Guanghua Electronic Plastic Casting Factory	**—**	
Nanjing Panda International Telecommunication System Co., Ltd.	**—**	—
Shenzhen Panda Electronics Company Limited	**—**	
Nanjing Panda Technology Industrial Co., Ltd.		
Total	**13,201,264.25**	12,141,268.62

Additional loss borne by the Company

Company name	Closing balance	Opening balance
Nanjing Panda Technology Equipment Co., Ltd.	**6,050,951.94**	5,027,407.23
Nanjing Panda International Telecommunication System Co., Ltd.	**11,728,956.37**	9,901,325.62
Nanjing Panda Power Supply Technology Co., Ltd.	**6,361,112.90**	4,564,988.74
Total	**24,141,021.21**	19,493,721.59

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 2009 and 30 June 2009 respectively, and the terms "previous period" and "the period" refer to January to June 2008 and January to June 2009 respectively.

1. Cash and Bank Balances

	Closing balance	Opening balance
Cash	**553,093.98**	512,422.98
Bank balances	**211,165,558.52**	411,724,003.20
Other cash and bank balances	**22,291,805.48**	33,259,026.82
	234,010,457.98	445,495,453.00

Cash and bank balances includes the following foreign currencies:

	Closing balance			Opening balance		
	Amount in foreign currency	**Exchange rate**	**Equivalent amount in Renminbi**	Amount in foreign currency	Exchange rate	Equivalent amount in Renminbi
US dollar	**227,147.24**	**6.8322**	**1,551,918.22**	1,471,530.94	6.8346	10,057,325.33
HK dollar	**1,640.29**	**0.8815**	**1,445.92**	1,627.63	0.8819	1,435.41
Euro	**14,956.59**	**9.6408**	**144,193.49**	15,373.13	9.6590	148,489.06
			1,697,557.63			10,207,249.80

(1) The closing balance of restricted other cash and bank balances amounting to RMB22,291,805.48 (the opening balance: RMB33,259,026.82) mainly included bid deposits and bank acceptance deposits.

(2) The closing balance of bank balances included call deposits totalling RMB27,022,522.01 (the opening balance: RMB142,065,618.78).

(3) The closing balance of cash and bank balances decreased by 47.47% from the opening balance, mainly due to acquisition of the subsidiaries and other long-term assets.

2. Bills Receivable

(1) Details of bills receivable

Types of Bills	**Closing balance**	Opening balance
Bank acceptance notes	**13,283,140.40**	14,628,227.80
Trade acceptance		1,064,000.00
Total	**13,283,140.40**	15,692,227.80

(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 closing balance of bills receivable had no pledge or security.

3. Accounts Receivable

(1) Break-down of accounts receivable by category

Items	Closing balance			
	Balance	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Substantial amount of single account receivable	**142,623,624.12**	**65.25**	**13,135,748.53**	**9.21**
Other unsubstantial amount of accounts receivable	**75,965,859.64**	**34.75**	**17,966,605.34**	**23.65**
Total	**218,589,483.76**	**100.00**	**31,102,353.87**	**14.23**

Items	Opening balance			
	Balance	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Substantial amount of single account receivable	170,100,442.03	63.79	17,831,127.05	10.48
Other unsubstantial amount of accounts receivable	96,551,991.23	36.21	16,545,641.14	17.14
Total	266,652,433.26	100.00	34,376,768.19	12.89

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

(2) Break-down of accounts receivable by ageing

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	**190,560,757.02**	**87.18**	**9,145,990.91**	**4.80**	237,883,295.52	89.21	11,443,940.31	4.81
1-2 years	**9,625,180.29**	**4.40**	**4,503,398.19**	**46.79**	13,800,991.08	5.18	8,634,797.17	62.57
2-3 years	**5,212,254.95**	**2.38**	**4,536,139.36**	**87.03**	4,725,904.10	1.77	4,268,553.92	90.32
3-5 years	**6,925,710.21**	**3.17**	**6,651,194.12**	**96.04**	6,958,990.40	2.61	6,746,224.63	96.94
More than 5 years	**6,265,631.29**	**2.87**	**6,265,631.29**	**100.00**	3,283,252.16	1.23	3,283,252.16	100.00
Total	**218,589,483.76**	**100.00**	**31,102,353.87**	14.23	266,652,433.26	100.00	34,376,768.19	12.89

(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	35,000,000.00	16.01	Within 1 year
PACIC DIGIT CORP	27,408,580.90	12.54	Within 1 year
Nanjing Ericsson Panda Communication Company Limited	17,162,794.48	7.85	Within 1 year
Nanjing Sharp Electronics Co., Ltd.	14,681,971.16	6.72	Within 1 year
Nanjing Panda Television Co. Ltd.	8,721,891.91	3.99	Within 1 year, 1-2 years
Total	102,975,238.45	47.11	

(4) The closing balance of accounts receivable included RMB224,040.37 due from Panda Electronics Group Limited, the shareholder holding 51.10% shares with voting rights of the Company.

(5) The closing balance of accounts receivable decreased by 18.02% from the opening balance, mainly due to collection of payments for certain satellite communication products.

(6) The closing balance of accounts receivable includes RMB30,237,134.98 (the opening balance: RMB35,473,235.56) due from related parties, representing 13.83% of the total accounts receivable (the opening balance: 13.30%). Please refer to Note X (III) 9 for disclosure of relevant related transactions.

4. Prepayment

(1) Details of prepayment

Ageing	Closing balance Amount	Closing balance Percentage	Closing balance Provision for bad debt	Closing balance Percentage of provision for bad debts	Opening balance Amount	Opening balance Percentage	Opening balance Provision for bad debt	Opening balance Percentage of provision for bad debts
		%		%		%		%
Within 1 year	57,953,493.22	81.97	1,677,470.39	2.89	50,706,663.81	78.99	1,679,087.46	3.31
1-2 years	8,751,978.68	12.38	115,486.96	1.32	8,751,454.77	13.63	227,003.28	2.59
2-3 years	3,121,275.86	4.41	1,227,000.76	39.31	4,212,973.03	6.56	2,183,322.14	51.82
3-5 years	703,783.00	1.00	385,767.80	54.81	280,869.00	0.44	128,545.20	45.77
More than 5 years	171,870.00	0.24	171,870.00	100.00	241,115.77	0.38	241,115.77	100.00
Total	70,702,400.76	100.00	3,577,595.91	5.06	64,193,076.38	100.00	4,459,073.85	6.95

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

Client	Amount	Reason for not being settled more than 1 year
Nanjing Anjing Technology Industry Co., Ltd.	5,040,949.62	Project not completed
Nanjing Duolian Technology Co., Ltd.	2,620,000.00	Project not completed
Nanjing Operational Technology Co., Ltd.	879,347.50	Project not completed
Nanjing Shenye Intelligence System Engineering Co., Ltd.	781,594.57	Project not completed
AISLE INTERNATIONAL CO., LTD.	624,708.94	Change of purchase term, unsettled
Total	9,946,600.63	

(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 RMB3,616,644.00 prepaid to related parties (the opening balance: 3,816,644.00), accounting for 5.12% of the total prepayment (the opening balance: 5.95%). Please refer to Note X (III) 9 for disclosure of relevant related transactions.

5. Other Receivables

(1) Break-down of other receivables by categories

Items	**Closing balance**			
	Balance	**Percentage %**	**Provision for bad debt**	**Percentage of Provision for bad debt %**
Substantial amount of single other receivables	**6,131,284.39**	**12.91**	**3,170,044.34**	**51.70**
Other unsubstantial amount of other receivables	**41,359,192.47**	**87.09**	**16,206,711.66**	**39.19**
Total	**47,490,476.86**	**100.00**	**19,376,756.00**	**40.80**

Items	Opening balance			
	Balance	Percentage %	Provision for bad debt	Percentage of Provision for bad debt %
Substantial amount of single other receivables	4,067,998.56	9.52	2,722,000.00	66.91
Other unsubstantial amount of other receivables	38,657,107.49	90.48	16,821,388.29	43.51
Total	42,725,106.05	100.00	19,543,388.29	45.74

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

(2) Break-down of other receivables by ageing

Ageing	Closing balance Amount	Closing balance Percentage	Closing balance Provision for bad debt	Closing balance Percentage of provision for bad debts	Opening balance Amount	Opening balance Percentage	Opening balance Provision for bad debt	Opening balance Percentage of provision for bad debts
		%		%		%		%
Within 1 year	**25,149,633.46**	**52.95**	**1,253,365.56**	**4.98**	17,706,996.94	41.44	935,505.91	5.28
1-2 years	**4,025,074.78**	**8.48**	**713,380.86**	**17.72**	8,680,685.15	20.32	3,273,352.49	37.71
2-3 years	**3,510,955.05**	**7.39**	**2,747,539.18**	**78.26**	2,393,334.67	5.61	1,563,786.78	65.34
3-5 years	**1,418,805.90**	**2.99**	**1,276,462.73**	**89.97**	4,727,205.13	11.06	4,553,858.95	96.33
More than 5 years	**13,386,007.67**	**28.19**	**13,386,007.67**	**100.00**	9,216,884.16	21.57	9,216,884.16	100.00
Total	**47,490,476.86**	**100.00**	**19,376,756.00**	**40.80**	42,725,106.05	100.00	19,543,388.29	45.74

(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 other receivables	Ageing
		%	
Nanjing Panda Digital Technology Development Co., Ltd.	3,540,000.00	7.45	1-2 years, 2-3 years, more than 5 years
Panda Electronics (Kunshan) Co. Ltd.	2,591,284.39	5.46	Within 1 year, 1-2 years, more than 5 years
PICC Life Insurance Co., Ltd.	1,011,825.00	2.13	Within 1 year
Nanjing Keyong Technology Co., Ltd.	700,000.00	1.47	Within 1 year
Nanjing Broadcast &television Network Co., Ltd.	650,000.00	1.37	Within 1 year, 1-2 years
Total	8,493,109.39	17.88	

(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 RMB2,591,284.39 due from related parties (the opening balance: RMB1,736,220.94), representing 5.46% of the total other receivables (the opening balance: 4.06%). Please refer to Note X (III) 9 for disclosure of relevant related transactions.

6. Inventories

(1) Details of inventories

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Raw materials	94,412,593.07	145,409,349.86	135,171,736.91	**104,650,206.02**
Packaging materials	41,199.09	834,331.05	757,525.02	**118,005.12**
Low-value consumables	528,394.75	94,570.73	225,766.50	**397,198.98**
Work in progress	188,143,966.14	290,404,764.45	272,364,956.74	**206,183,773.85**
Stored commodities	86,230,521.02	266,150,956.17	281,676,009.83	**70,705,467.36**
Sub-contracting materials	4,055,432.04	28,866,102.21	29,434,922.44	**3,486,611.81**
Delivered commodities	6,941,103.08	29,308,597.89	32,587,240.80	**3,662,460.17**
Total	380,353,209.19	761,068,672.36	752,218,158.24	**389,203,723.31**

(2) Provision for diminution in value of inventories

Items	Opening balance	Provision in the period	Decrease in the period			Closing balance
			Reverse	Write-off	Total	
Raw materials	5,591,838.76	46,693.06	33,383.10		33,383.10	**5,605,148.72**
Work in progress	1,965,269.95					**1,965,269.95**
Stored commodities	29,833,970.57	830,730.48	931,504.31		931,504.31	**29,733,196.74**
Delivered commodities	1,114,538.95		79,220.64		79,220.64	**1,035,318.31**
Total	38,505,618.23	877,423.54	1,044,108.05		1,044,108.05	**38,338,933.72**

1 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.

2 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.

7. Long-term equity investment

(1) Details of long-term equity investment

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Investment in associated companies	940,541,913.28	12,089,629.96		**952,631,543.24**
Less: provision for impairment of long term investment	2,956,636.87			**2,956,636.87**
Total	937,585,276.41	12,089,629.96		**949,674,906.37**

(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 period	Decrease in the period	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd	228,595,194.60	42,163,589.91		270,758,784.51	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	6,290,812.71	(111,208.47)		6,179,604.24	Nanjing	Technology Development
Hua Fei Colour Display Systems Company Limited	260,736,816.53	(47,474,098.35)		213,262,718.18	Nanjing	Manufacture
Tamura Electronics (Nanjing) Co., Ltd.	—	—	—	—	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.	—	—	—	—	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	335,574,930.00	12,833,526.23		348,408,456.23	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	92,820,902.73	4,867,627.00		97,688,529.73	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,670,181.97	(189,806.36)		1,480,375.61	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.		—	—	—	Nanjing	Manufacture
Nanjing Electronics (Kunshan) Co. Ltd.	2,605,920.11			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	9,290,517.76			9,290,517.76	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00			2,756,525.00	Korea	—
Total	940,541,913.28	12,089,629.96		952,631,543.24		

Name of investee	Shareholding of the Company %	Proportion of voting rights in investee %	Total net assets in the end of the period	Total operating income for this period	Net profit/(loss) for this period
Associates					
Beijing SE Putian Mobile Communications Co., Ltd	20	20	1,225,646,147.04	11,331,366,676.46	210,817,949.57
Hua Fei Colour Display Systems Company Limited	25	25	848,026,654.39	328,819,705.27	(189,896,393.40)
Nanjing Ericsson Panda Communication Company Limited	27	27	1,123,704,467.82	6,144,480,456.38	47,531,578.63
Shenzhen Jing Wah Electronics Company Limited	38.03	38.03	256,277,311.05	157,271,333.23	12,133,681.70

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

Name of investee	Initial investment	Opening balance	Investment amount increased during the period (less the equity transfer for the period)	Increase/ decrease of the investee's equity	Cash bonus distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd	50,361,373.68	228,595,194.60		42,163,589.91		270,758,784.51
Nanjing Huaxian High Technology Company Limited	10,000,000.00	6,290,812.71		(111,208.47)		6,179,604.24
Hua Fei Colour Display Systems Company Limited	392,892,722.42	260,736,816.53		(47,474,098.35)		213,262,718.18
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	335,574,930.00		12,833,526.23		348,408,456.23
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	92,820,902.73		4,867,627.00		97,688,529.73
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,670,181.97		(189,806.36)		1,480,375.61
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.88	2,605,920.11				2,605,920.11
Nanjing Panda Medical Electronics Co. Ltd.	500,000.00	200,111.87				200,111.87
Nanjing Thales Panda Transportation System Company Limited	8,626,600.00	9,290,517.76				9,290,517.76
Panda Korea Chen Xi Joint Venture Company Limited	3,494,075.00	2,756,525.00				2,756,525.00
Total	642,213,558.33	940,541,913.28		12,089,629.96		952,631,543.24

(4) Impairment for the Long-term equity investment

Items	Opening balance	provision during in the period	Decrease in the period		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

8. Fixed Assets

(1) Details of fixed assets

	Buildings	Machinery and equipment	Transportation equipment	Electronic equipment	Other equipment	Total
Original cost	407,936,440.05	307,422,772.48	8,776,387.11	28,399,430.78	19,931,098.90	772,466,129.32
Opening balance						
Construction in progress transferred to fixed assets		449,572.76		1,172,653.28		1,622,226.04
Other current period additions		3,273,561.66	33,000.00	445,050.83	108,574.09	3,860,186.58
Current period disposals	1,648,370.20		308,976.80		2,400.00	1,959,747.00
Closing balance	406,288,069.85	311,145,906.90	8,500,410.31	30,017,134.89	20,037,272.99	775,988,794.94
Accumulated depreciation						
Opening balance	105,932,254.96	124,082,523.96	3,918,162.59	19,738,999.97	7,979,706.10	261,651,647.58
Current period depreciation	6,531,058.06	11,694,708.81	390,086.21	1,887,150.89	950,127.79	21,453,131.76
Current period disposals	894,183.60		257,209.20		2157.28	1,153,550.08
Closing balance	111,569,129.42	135,777,232.77	4,051,039.60	21,626,150.86	8,927,676.61	281,951,229.26
Impairment provision						
Opening balance	2,316,866.36	580,447.79		1,633,052.06		4,530,366.21
Increase in the period						
Other decrease in the period						
Closing balance	2,316,866.36	580,447.79		1,633,052.06		4,530,366.21
Net book value						
Closing balance	292,402,074.07	174,788,226.34	4,530,370.71	6,847,931.97	11,109,596.38	489,507,199.47
Opening balance	299,687,318.73	182,759,800.73	4,858,224.52	7,027,378.75	11,951,392.80	506,284,115.53

(2) Fixed assets acquired under finance leases

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	63,869,759.77	15,235,279.59		48,634,480.18
Total	63,869,759.77	15,235,279.59		48,634,480.18

(3) Fixed assets leased out by operating lease

Items	Original book value	Accumulated depreciation	Book value	Remarks
Buildings	212,396,071.41	69,838,999.66	142,557,071.75	
Total	212,396,071.41	69,838,999.66	142,557,071.75	

(4) Fixed assets without certificate

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	160,078,519.57	40,569,824.11		119,508,695.46
Total	160,078,519.57	40,569,824.11		119,508,695.46

(5) Fixed assets used for pledge

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	193,082,652.14	63,942,402.79		129,140,249.35
Total	193,082,652.14	63,942,402.79		129,140,249.35

(6) Impairment provision of fixed assets

Items	Opening balance	Provision in the period	Decrease in the period Reversal	Decrease in the period Write-off	Total	Closing balance
Buildings	2,316,866.36					2,316,866.36
Machinery and equipment	580,447.79					580,447.79
Electronic equipment	1,633,052.06					1,633,052.06
Total	4,530,366.21					4,530,366.21

9. Construction in progress

(1) Details of Construction in progress

Name of project	Budget	Opening balance	Increase in the period	Transferred to fixed assets in the period	Other decrease	Closing balance	% of budget	Resource of fund
Xingang No. 4 and 5 plant project	RMB55 million	3,642,033.76	23,927,354.07			27,569,387.83	50.13	Internal capital
Xingang No.3 plant project	RMB9.04 million	7,274,189.54	209,661.71			7,483,851.25	82.79	Internal capital
Machinery and equipment	—	—	1,857,696.10	1,622,226.04		235,470.06		Internal capital
Xingang project No. 1 and 2 plant, No. 9 and 10 canteens)	RMB120 million	12,063,278.90	409,026.17			12,472,305.07	10.39	Internal capital
Mould		120,000.00	167,521.37			287,521.37		Internal capital
Total		23,099,502.20	26,571,259.42	1,622,226.04		48,048,535.58		

(2) The company has no capitalization of borrowing costs for the period. The company made no impairment provision for construction in progress as there is no indication of impairment.

(3) The closing balance of the construction in progress increased by 108.01% over the opening balance, primarily due to substantial investment in the construction of Xingang project in the period.

10. Intangible assets

(1) Details of intangible assets

Items	Initial cost	Opening balance	Increase in the period	Transferred -out in the period	Amortization in the period	Accumulative amortization in the period	Closing balance
Land use rights	65,537,570.47	61,849,601.17			724,604.47	4,412,573.77	61,124,996.70
Trademark use right	158,540,000.00	210,000.00				158,330,000.00	210,000.00
Others	3,278,899.00	2,722,395.95			335,323.23	891,826.28	2,387,072.72
Total	227,356,469.47	64,781,997.12			1,059,927.70	163,634,400.05	63,722,069.42

(2) Impairment provision for intangible assets

Items	Opening balance	Provision in the period	Decrease in the period Reversal	Decrease in the period Write-off	Decrease in the period Total	Closing balance
Trademark use right	210,000.00	—	—	—	—	210,000.00
Total	210,000.00	—	—	—	—	210,000.00

11. Long-term Deferred Expenses

Items	Original amount	Opening balance	Increase in the period	Transferred-out in the period	Amortization in the period	Closing balance
Fitment expenses	3,587,722.56	2,580,958.49			290,259.06	2,290,699.43
Operating lease fee	1,250,000.00	625,000.00			156,000.00	469,000.00
Total	4,837,722.56	3,205,958.49			446,259.06	2,759,699.43

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	**4,037,741.50**	**21,557,906.23**	5,027,198.59	27,124,122.15
Depreciation of fixed assets	**155,133.49**	**620,533.96**		
Intangible assets amortization	**691,092.13**	**2,843,411.63**	92,675.06	423,167.16
Unrecovered losses	**681,417.24**	**2,725,668.97**	681,417.24	2,725,668.97
Accounts payable	**176,464.34**	**1,176,428.91**	176,464.34	1,176,428.91
Long-term payables	**11,369.63**	**113,696.30**	60,155.76	601,557.60
Salaries payable	**610,408.36**	**3,394,687.07**	627,302.06	3,292,192.56
Total	**6,363,626.69**	**32,432,333.07**	6,665,213.05	35,343,137.35

13. **Details of Provision for Impairment of Assets**

Items		Opening balance	Provision in the period	Decrease in the period Reversal	Write-off	Total	Closing balance
1.	Total provision for bad debt	58,379,230.33	2,793,078.39	7,111,556.63	4,046.31	7,115,602.94	54,056,705.78
2.	Total provision for impairment of inventories	38,505,618.23	877,423.54	1,044,108.05		1,044,108.05	38,338,933.72
3.	Total provision for impairment of long term equity investment	2,956,636.87					2,956,636.87
4.	Total provision for impairment of fixed assets	4,530,366.21					4,530,366.21
5.	Provision for impairment of construction in progress	—	—	—	—	—	—
6.	Provision for impairment of intangible assets	210,000.00					210,000.00
Total		104,581,851.64	3,670,501.93	8,155,664.68	4,046.31	8,159,710.99	100,092,642.58

14. **Short Term Loans**

(1) Details of Short term loans

Type of loan	**Closing balance**	Opening balance
Collateral loan	**189,500,000.00**	189,500,000.00
Guaranteed loan	**406,000,000.00**	401,000,000.00
Pledge loan		
Credit loan		5,000,000.00
Total	**595,500,000.00**	595,500,000.00

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

(3) The Company pledged buildings (please refer to Note VIII 8) with book value of RMB129,140,249.35 (original cost: RMB193,082,652.14) with assessed value of RMB336,560,000.00 for loans amounting to RMB189,500,000.00 (2008 year end: RMB189,500,000.00) 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.

15. **Bills payable**

Types of Bills	**Closing balance**	Opening balance	**Amount due in the next accounting period**
Bank acceptance notes	**20,056,966.44**	47,547,289.42	**20,056,966.44**
Total	**20,056,966.44**	47,547,289.42	**20,056,966.44**

The closing balance of bills payable decreased from the opening balance by 57.82%, mainly due to the payment upon expiry for bills at the beginning of the period.

16. **Accounts payable**

(1) Details of accounts payable

Aging	**Closing balance Amount**	**Percentage %**	Opening balance Amount	Percentage %
Within 1 year	**153,066,179.36**	**79.53**	157,261,214.32	77.27
1-2 years	**7,762,593.89**	**4.03**	17,460,750.89	8.58
2-3 years	**3,964,567.42**	**2.06**	2,735,990.91	1.34
More than 3 years	**27,682,914.53**	**14.38**	26,060,844.20	12.81
Total	**192,476,255.20**	**100.00**	203,518,800.32	100.00

(2) The closing balance of accounts payable includes RMB3,790,275.86 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 RMB12,430,145.01 (the opening balance: RMB12,837,554.37) due to related parties. Please refer to Note X (III) 9 for disclosure of relevant related transactions.

(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.	873,996.03	Project not finished yet	No
Total	7,834,207.01		

17. **Advances from customers**

(1) Details of Advances from customers

Aging	Closing balance Amount	Closing balance Percentage %	Opening balance Amount	Opening balance Percentage %
Within 1 year	**46,118,138.17**	**84.70**	36,253,497.77	78.80
1-2 years	**7,168,218.52**	**13.16**	8,703,826.68	18.92
2-3 years	**114,006.03**	**0.21**	526,669.93	1.14
More than 3 years	**1,051,214.25**	**1.93**	524,734.94	1.14
Total	**54,451,576.97**	**100.00**	46,008,729.32	100.00

(2) There were no accounts payable to shareholders holding over 5% (inclusive) of the shares carrying voting rights of the Company in the closing balance of advances from customers at the end of the period...

(3) The closing balance of advances from customers includes RMB3,102,828.66 (the opening balance: RMB6,150,937.87) due to related parties. Please refer to Note X (III) 9 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 period	Decrease in the period	Closing balance
Salaries and bonus	3,086,815.48	60,690,468.24	63,243,952.32	533,331.40
Expenses for employee benefits		3,644,453.03	3,644,453.03	
Expenses for social security	1,945,873.69	20,256,413.76	14,911,964.01	7,290,323.44
Including: Medical insurance	193,710.94	4,780,397.76	3,386,319.04	1,587,789.66
Pension fund	919,143.06	14,146,797.41	10,589,642.23	4,476,298.24
Unemployment insurance	21,468.01	775,388.83	526,689.38	270,167.46
Injury insurance	271,787.40	207,735.10	148,297.89	331,224.61
Maternity insurance	539,764.28	346,094.66	261,015.47	624,843.47
Housing reserve fund	776,481.16	6,573,221.62	4,257,031.20	3,092,671.58
Trade union funds and employee education fund	2,984,369.12	1,027,590.84	1,636,534.85	2,375,425.11
Compensation for employment termination	162,498.00	33,804.00	88,302.00	108,000.00
Laid-off benefits	35,979,873.65	3,220,070.49	6,261,917.99	32,938,026.15
Others	8,320.00	64,414.13	72,734.13	
Total	44,944,231.10	95,510,436.11	94,116,889.53	46,337,777.68

19. Taxes payable

Items	Tax rate	Closing balance	Opening balance
Value-added tax*	Refer to Note VI: Taxation	**8,095,680.90**	16,327,464.32
Business tax	Refer to Note VI: Taxation	**158,274.54**	183,632.4
City maintenance tax	Refer to Note VI: Taxation	**501,421.57**	419,836.06
Education surcharges	Refer to Note VI: Taxation	**4,267,901.67**	4,233,856.27
Enterprise income tax	Refer to Note VI: Taxation	**483,191.84**	3,679,278.96
Individual income tax		**611,507.25**	501,034.21
Others		**8,301.58**	
Total		**14,117,977.77**	25,353,403.80

* This item is the outstanding tax accumulated from the previous periods. The closing balance of taxes payable decreased by 44.32% from the opening balance, mainly due to the payment of prior-year value-added tax in current year.

20. Interest Payable

Item	Closing balance	Opening balance
Short-term loan interest	**1,168,419.44**	1,155,400.00
Total	**1,168,419.44**	1,155,400.00

21. Other payables

Aging	Closing balance Amount	Closing balance Percentage %	Opening balance Amount	Opening balance Percentage %
Within 1 year	**42,036,719.36**	**43.30**	35,702,961.14	36.01
1-2 years	**7,702,706.55**	**7.93**	6,108,614.32	6.16
2-3 years	**4,489,992.10**	**4.62**	12,727,973.98	12.84
More than 3 years	**42,876,089.41**	**44.15**	44,598,049.88	44.99
Total	**97,105,507.42**	**100.00**	99,137,599.32	100.00

(1) The closing balance of other payables included RMB4,062,367.49 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 RMB4,821,371.70 payable to related parties (the opening balance: RMB10,292,303.09). Please refer to Note X (III) 9 for disclosure of relevant related transactions.

(3) Other payables in large amount

Name of creditor	Amount	Nature (or content)
Nanjing Economic and Technological Development Zone Management Commission	4,424,425.48	Appropriating fund
Panda Electronics Group Limited	4,062,367.49	Property management fee, social insurance fee
China Electronics Corporation	4,030,265.33	Appropriating fund
Nanjing Pengda Labour Consulting Services Co., Ltd.	1,108,420.21	Labour cost payable
UFIDA Software Co., Ltd. Nanjing Branch	688,320.00	Payables for goods
Total	14,313,798.51	

22. Long Term Payables

	Closing balance	Opening balance
Finance lease payables	**6,673,079.75**	12,713,607.51
Less: Finance lease payables due within 1 year	**4,310,764.32**	9,167,543.14
Total	**2,362,315.43**	3,546,064.37

Analysis of due date of long term payables:

	Closing balance	Opening balance
Within 1 year	**4,310,764.32**	9,167,543.14
1-2 years	**2,225,439.60**	2,376,463.46
2-5 years	**136,875.83**	1,169,600.91
Total	**6,673,079.75**	12,713,607.51

The closing balance of long term payables decreased from the opening balance by 47.51%, mainly due to payment under finance lease settled as scheduled.

23. Share Capital

	Opening balance	Increase in the period	Decrease in the period	Closing balance
Shares subject to trading moratorium-				
State owned shares	269,213,500.00			269,213,500.00
State-owned legal person shares				
Other domestic shares				
Foreign shares				
Subtotal	269,213,500.00			269,213,500.00
Shares not subject to trading moratorium-				
RMB denominated ordinary shares	143,801,500.00			143,801,500.00
Overseas-listed foreign shares	242,000,000.00			242,000,000.00
Others				
Subtotal	385,801,500.00			385,801,500.00
Total	655,015,000.00			655,015,000.00

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 all shareholders of circulating A shares, and acquired the right to circulate its non-circulating shares. PEGL paid 20.30 million shares to shareholders of circulating A shares, i.e. 3.5 shares per 10 circulating A shares.

PEGL committed that its 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 30 June 2009, 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, Panda Electronics Group Limited.

24. Capital Reserve

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Capital premium	477,875,089.49		10,387,006.58	467,488,082.91
Other capital reserve	111,602,193.42		111,602,193.42	
Total	589,477,282.91		121,989,200.00	467,488,082.91

According to the agreement signed on 5 November 2008 between the Company and Panda Electronics Group Limited and Nanjing Panda Electronic Import/Export Company Limited, the Company undertook to acquire 99% equity interests in Nanjing Panda Technology Industrial Co., Ltd. owned by Panda Electronics Group Limited and 1% equity interest in Nanjing Panda Technology Industrial Co., Ltd. owned by Nanjing Panda Electronic Import/Export Company Limited at a consideration of RMB121,989,200.00. The aforesaid consideration was settled in April 2009, and the whole acquisition was completed.

25. Surplus Reserve

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Statutory surplus reserve	130,133,779.96			130,133,779.96
Discretionary surplus reserve	70,376,641.33			70,376,641.33
Total	200,510,421.29			200,510,421.29

26. Undistributed Profit

Items		30 June 2009	30 June 2008
Closing balance of previous year		**126,615,686.31**	92,225,505.92
Add:	Changes in accounting policies		48,293,153.23
	Correction of previous errors		
Opening balance of the year		**126,615,686.31**	140,518,659.15
Add:	Consolidated net profit attributable to parent company	**(49,967,934.90)**	18,617,747.05
	Compensation of loss from surplus reserve		
	Other transfer-in		
Less:	Transfer to statutory surplus reserve		
	Transfer to discretionary surplus reserve		
	Distribution to shareholders		52,401,200.00
Closing balance of the period		**76,647,751.41**	106,735,206.20

(1) Pursuant to the Annual Profit Distribution Proposal for year 2007 considered and passed at 2007 annual 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 RMB0.8 (tax inclusive) for every 10 shares to shareholders, totalling RMB52,401,200. The cash dividend payment date was 24 June 2008.

(2) Pursuant to the Interim Profit Distribution Proposal for 2009 passed at the tenth meeting of the sixth Board, the Company decided not to distribute interim profits for the year 2009.

27. **Operating Income and Operating Costs**

(1) Income from principal activities and other activities

Items	**30 June 2009**	30 June 2008
Income from principal activities	**392,318,052.53**	605,176,051.57
Income from other activities	**6,750,208.16**	10,327,361.91
Total operating income	**399,068,260.69**	615,503,413.48
Cost of principal activities	**339,698,788.00**	504,055,585.80
Cost of other activities	**7,900,700.51**	7,072,349.02
Total operating cost	**347,599,488.51**	511,127,934.82

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

		30 June 2009	
Business segment	**Income from principal activities**	**Cost of principal activities**	**Profit of principal activities**
Electronic manufacture products	**149,447,538.00**	**131,654,443.78**	**17,793,094.22**
Electronic information products	**70,691,102.57**	**59,141,331.92**	**11,549,770.65**
Electrometrical products	**111,427,871.78**	**97,040,952.95**	**14,386,918.83**
Satellite telecommunication products	**35,000,000.00**	**32,960,000.00**	**2,040,000.00**
Others	**25,751,540.18**	**18,902,059.35**	**6,849,480.83**
Sub-total	**392,318,052.53**	**339,698,788.00**	**52,619,264.53**
Less: inter-segment offset			
Total	**392,318,052.53**	**339,698,788.00**	**52,619,264.53**

		30 June 2008	
Business segment	**Income from principal activities**	**Cost of principal activities**	**Profit of principal activities**
Electronic manufacture products	181,250,837.59	143,794,421.47	37,456,416.12
Electronic information products	168,847,343.17	145,763,954.08	23,083,389.09
Electrometrical products	100,125,610.52	84,252,914.70	15,872,695.82
Satellite telecommunication products	65,400,000.00	51,339,000.00	14,061,000.00
Others	89,552,260.29	78,905,295.55	10,646,964.74
Sub-total	605,176,051.57	504,055,585.80	101,120,465.77
Less: inter-segment offset			
Total	605,176,051.57	504,055,585.80	101,120,465.77

(3) Sales revenue from the largest five customers totalled RMB167,521,383.50 (January - June 2008: RMB249,943,552.47), accounting for 42.70% of total sales revenue for January - June 2009 (January - June 2008: 41.30%).

(4) Operating income for January to June 2009 decreased by 35.16% year-on-year, primarily due to the poor sales volume of electronic photo frames in international market during the period.

28. Sales tax and surcharges

Items	30 June 2009 Calculation basis	30 June 2009 Amount	30 June 2008 Calculation basis	30 June 2008 Amount
Business tax	**5% of lease income and others**	**1,620,428.17**	5% of lease income and others	1,682,155.55
City maintenance tax	**7% of turnover tax**	**868,707.37**	7% of turnover tax	693,611.31
Education surcharges	**4% of turnover tax**	**499,269.64**	4% of turnover tax	412,514.65
Total		**2,988,405.18**		2,788,281.51

29. Financial costs

Items	30 June 2009	30 June 2008
Interest expenses	**18,492,464.51**	28,669,613.25
Less: Interest income	**(1,166,930.80)**	(3,975,131.83)
Exchange difference	**36,760.54**	4,447,009.48
Handling charges	**86,287.07**	362,128.93
Others	**2,533,649.10**	488,158.16
Total	**19,982,230.42**	29,991,777.99

Financial costs for January to June 2009 decreased by 33.37% year-on-year, mainly due to the significant decrease in average loan interest for the period as compared to the previous period.

30. Assets Impairment Loss

Items	30 June 2009	30 June 2008
Bad debt losses	**(4,318,478.24)**	14,740,638.32
Loss from inventory impairment	**(166,684.51)**	14,285,881.79
Total	**(4,485,162.75)**	29,026,520.11

The decrease in assets impairment loss for January to June 2009 decreased by 115.45% year-on-year, mainly attributable to the partial collection of receivables against which provision for bad debts had been made.

31. Investment Income

Name of investee	30 June 2009	30 June 2008	*Remarks*
Nanjing Ericsson Panda Communication Co., Ltd.	**12,833,526.23**	87,957,245.46	
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	**42,163,589.91**	22,371,909.44	
Hua Fei Colour Display Systems Company Limited	**(47,474,098.35)**	(39,498,538.48)	
Nanjing Yinquan Communications Technology Co., Ltd.		1,443,661.77	(3)
Shenzhen Jingwah Electronics Co., Ltd	**4,867,627.00**	4,309,573.50	
Intenna (Nanjing) Co. Ltd.	**(189,806.36)**	(310,153.15)	
Nanjing Thales Panda Transportation System Company Limited		997,918.04	
Tamura Electronics (Nanjing) Co., Ltd.	**1.00**		(4)
Nanjing Huaxian High Technology Company Limited	**(111,208.47)**		
Total	**12,089,630.96**	77,271,616.58	

(1) 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 period 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.

(2) There was no material restriction on the remittance of the investment income to the Company.

(3) Nanjing Yinquan Communications Technology Co., Ltd. was a former subsidiary of Nanjing Panda Technology Industrial Co., Ltd. which disposed of its equity interest in May 2008.

(4) The Company disposed of its equity interest in the company in April 2009.

(5) The decrease in investment income for January to June 2009 decreased by 84.35% year-on-year, principally owing to the decreased investment income from Nanjing Ericsson Panda Communication Company Limited.

32. Non-operating Income

(1) Details of Non-operating income

Items	**30 June 2009**	30 June 2008
Gains from disposal of non-current assets	**5,199.20**	781,189.10
Including: Gains from disposal of fixed assets	**5,199.20**	602,221.80
Gains from disposal of other non-current fixed assets		178,967.30
Profits from debt restructuring		1,514.27
Governmental subsidy	**584,286.98**	2,336,677.35
Net gain from fine payments	**3,134.70**	83,934.40
Asset inventory surplus		88,381.22
Others	**1,177,277.87**	1,177,518.96
Total	**1,769,898.75**	4,469,215.30

(2) Government subsidy

Items	**30 June 2009** **Amount**	**Including: Amount recorded in the current profits and losses**	30 June 2008 Amount	Including: Amount recorded in the current profits and losses
Reimbursement of value-added tax for software product	**9,237.49**	**9,237.49**	391,677.35	391,677.35
Financial subsidy and financial grant	**575,049.49**	**575,049.49**	1,945,000.00	1,945,000.00
Compensation for removal				
Total	**584,286.98**	**584,286.98**	2,336,677.35	2,336,677.35

(3) Non-operating income for January to June 2009 decreased by 60.40% year-on-year, mainly due to the decrease in receipt of government subsidy for the period .

33. Non-operating Expenses

Items	**30 June 2009**	30 June 2008
Loss from the disposal of non-current assets	**785,043.40**	169,507.04
Including: loss from disposal of fixed assets	**785,043.40**	169,507.04
Donation expenses	**25,000.00**	513,800.00
Fine payment expenses	**93,461.61**	211,015.57
Compensation expenses	**35,000.00**	115,424.00
Others	**26,126.77**	83,233.31
Total	**964,631.78**	1,092,979.92

34. **Income Tax Expenses**

Composition of income tax expenses (gains)

Items	30 June 2009	30 June 2008
Income tax expense in the period	**1,924,566.04**	3,340,581.44
Deferred income tax expense	**301,586.36**	(3,134,372.10)
	2,226,152.40	206,209.34

Income tax expenses for January to June 2009 increased by 979.56% year-on-year, mainly due to the considerable increase in deferred tax income assets in the previous period.

35. **Basic Earnings per Share and Diluted Earnings per Share**

Items	30 June 2009	30 June 2008
Basic earnings per share	**-0.08**	0.03
Diluted earnings per share	**-0.08**	0.03

Note: (1) Calculation of basic earnings per share

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

The weighted average of outstanding ordinary shares = $S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$

where: "S_0" represents total number of shares at the beginning of the period; "S_1" represents shares increased from conversion of reserve into capital or share dividend distribution in the period; "S_i" represents shares increased from issue of new shares or debt to equity during reporting period; "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M_0" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

(2) Calculation of diluted 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) × (1-Income tax ratio)] / ($S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$ + The weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond).

where: "S_0" represents total number of shares at the beginning of the reporting period; "S_1" represents shares increased from conversion of reserve into capital or share dividend distribution in the period; "S_i" represents shares increased from issue of new shares or debt to equity during reporting period; "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M_0" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

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	**30 June 2009**	30 June 2008
The receipts of prepayment of house building fund		14,993,340.74
Government subsidy	**819,286.98**	1,870,000.00
Commissioned collection of water and electricity charges	**1,030,832.50**	1,199,767.64
Collection for parking and lease expenses	**1,650,961.41**	1,417,370.02
Research fund received from China Electronics Corporation		
Others	**19,217,991.35**	15,832,302.63
Total	**22,719,072.24**	35,312,781.03

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	**30 June 2009**	30 June 2008
Operating fee	**2,845,586.05**	2,195,155.38
Technology development fee	**7,092,429.25**	6,182,968.44
Entertainment expenses	**5,227,488.47**	5,007,492.51
Travelling expenses	**2,390,326.98**	2,243,950.84
Agency fee	**3,779,981.39**	4,921,011.51
Water and electricity charges	**2,209,716.35**	3,168,194.49
Advertisement expenses	**1,349,023.00**	996,429.50
Maintenance expenses	**1,191,193.83**	2,603,098.89
Others	**27,317,558.22**	14,641,970.08
Total	**53,403,303.54**	41,960,271.64

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	**30 June 2009**	30 June 2008
Recovery of time deposit pledged for bank loans		50,000,000.00
Recovery of deposits as margin	**26,131,173.26**	65,046,128.79
Total	**26,131,173.26**	115,046,128.79

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	**30 June 2009**	30 June 2008
Payment of amount under finance lease	**6,554,787.12**	6,139,488.52
Deposit as margin	**15,163,951.92**	45,428,238.11
Others		
Total	**21,718,739.04**	51,567,726.63

40. Supplemental Information of Cash Flow Statements

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

Items		30 June 2009	30 June 2008
1.	**Reconciliation of net profit to cash flows from operating activities:**		
	Net profit	**(48,907,939.27)**	19,328,397.13
	Add: Provision for asset impairment	**(4,485,162.75)**	29,026,520.11
	Depreciation of fixed assets	**21,453,131.76**	19,632,917.27
	Amortization of intangible assets	**1,059,927.70**	852,790.54
	Amortization of long term deferred expenses	**446,259.06**	449,439.06
	Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	**779,844.00**	(611,682.06)
	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 "-")	**18,492,464.51**	25,325,572.14
	Loss on investment (gains are represented by "-")	**(12,089,630.96)**	(77,271,616.58)
	Decrease in deferred income tax assets (Increase is represented by "-")	**301,586.36**	(3,134,372.10)
	Increase in deferred income tax liabilities (decrease is represented by "-")		
	Decrease in inventories (increase is represented by "-")	**(9,017,198.63)**	(64,037,110.62)
	Decrease in trade receivables (Increase is represented by "-")	**35,990,517.64**	(156,218,792.10)
	Increase in trade payables (Decrease is represented by "-")	**(36,100,101.38)**	19,892,212.02
	Others		(20,596.06)
	Net cash flow from operating activities	**(32,076,301.96)**	(186,786,321.25)
2.	**Material investment and financing activities not involving cash:**		
	Debt capitalization		
	Convertible corporate bonds due within one year		
	Lease of fixed assets by financing		
3.	**Net change in cash and cash equivalents:**		
	Cash balance as at the end of the period	**211,718,652.50**	192,674,052.54
	Less: cash balance as at beginning of the period	**412,236,426.18**	403,746,222.02
	Add: balance of cash equivalents as at the end of the period		
	Less: balance of cash equivalents as at the beginning of the period		
	Net increase in cash and cash equivalents	**(200,517,773.68)**	(211,072,169.48)

(2) Information on cash and cash equivalents

Items			30 June 2009	30 June 2008
I.	**Cash**		**211,718,652.50**	192,674,052.54
	Including:	Cash on hand	**553,093.98**	577,389.97
		Bank deposit available for payment at any time	**211,165,558.52**	192,096,662.57
		Other cash fund available for payment at any time		
II.	**Cash equivalents**			
	Including:	Bond investment due within three months		
III.	**Closing balance of cash and cash equivalents**		**211,718,652.50**	192,674,052.54

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

1. Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Closing balance: Balance	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Substantial amount of single accounts receivable	**46,940,605.20**	**85.77**	**597,030.26**	**1.27**
Other unsubstantial amount of accounts receivable	**7,790,576.20**	**14.23**	**1,523,284.59**	**19.55**
Total	**54,731,181.40**	**100.00**	**2,120,314.85**	**3.87**

Items	Opening balance: 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
Total	91,797,100.43	100.00	2,646,975.52	2.88

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: Amount	Percentage %	Provision for bad debts	Percentage of provision for bad debt %	Opening balance: Amount	Percentage %	Provision for bad debts	Percentage of provision for bad debt %
Within 1 year	**52,826,280.59**	**96.52**	**891,314.03**	**1.69**	89,473,960.43	97.47	1,203,698.02	1.35
1-2 years	**839,999.00**	**1.53**	**164,100.00**	**19.54**	977,625.00	1.06	97,762.50	10.00
2-3 years	**529,422.00**	**0.97**	**529,422.00**	**100.00**	122.00		122.00	100.00
3-5 years	**535,478.82**	**0.98**	**535,478.82**	**100.00**	1,345,393.00	1.47	1,345,393.00	100.00
More than 5 years								
Total	**54,731,181.40**	**100.00**	**2,120,314.85**	**3.87**	91,797,100.43	100.00	2,646,975.52	2.88

(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.	35,000,000.00	63.95	Within 1 year
Yancheng Electronics & Information Development Co., Ltd	7,349,100.00	13.43	Within 1 year
Nanjing Broadcasting Network Inc	4,591,505.20	8.39	Within 1 year
Nanjing Qinhuai District Honghua Street Broadcasting & Television Station	1,221,888.00	2.23	Within 1 year
Binhai County Broadcasting & Television Bureau	1,037,400.00	1.90	Within 1 year
Total	49,199,893.20	89.90	

2. Other Receivables

(1) Break-down of other receivables by categories

	Closing balance			
Items	**Balance**	**Percentage %**	**Provision for bad debt**	**Percentage of provision for bad debt %**
Substantial amount of single other receivables	**165,891,332.90**	**82.91**	**18,827,479.84**	**11.35**
Other unsubstantial amount of other receivables	**34,194,632.88**	**17.09**	**9,372,975.61**	**27.41**
Total	**200,085,965.78**	**100.00**	**28,200,455.45**	**14.09**

	Opening balance			
Items	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

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

(2) Ageing analysis of other receivables

Ageing	Closing balance Amount	Percentage %	Provision for bad debts	Percentage of provision for bad debt %	Opening balance Amount	Percentage %	Provision for bad debts	Percentage of provision for bad debt %
Within 1 year	**95,058,680.95**	**47.51**	**4,301,449.44**	**4.53**	94,966,578.48	50.53	4,615,348.37	4.86
1-2 years	**85,500,740.21**	**42.73**	**8,550,074.02**	**10.00**	78,760,765.48	41.90	8,230,018.16	10.45
2-3 years	**7,676,892.58**	**3.84**	**3,815,764.34**	**49.70**	2,267,092.93	1.21	1,133,546.47	50.00
3-5 years	**817,687.15**	**0.41**	**501,202.76**	**61.30**	827,087.15	0.44	516,549.72	62.45
More than 5 years	**11,031,964.89**	**5.51**	**11,031,964.89**	**100.00**	11,116,564.89	5.92	11,116,564.89	100.00
Total	**200,085,965.78**	**100.00**	**28,200,455.45**	**14.09**	187,938,088.93	100.00	25,612,027.61	13.63

(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.	43,087,911.37	21.53	Within 1 year, 1-2 year
Nanjing Panda Information Industry Co., Ltd.	40,296,919.64	20.14	Within 1 year
Galant Limited	31,439,160.00	15.71	1-2 year
Nanjing Panda International Telecommunication System Co., Ltd.	27,953,429.09	13.97	Within 1 year
Nanjing Panda Accurate Machinery Co. Ltd.	9,379,804.23	4.69	Within 1 year, 1-2 year
Total	152,157,224.33	76.04	

3. **Long-term Equity Investment**

(1) Details of long-term equity investment

Items	**Opening balance**	**Increase in the period**	**Decrease in the period**	**Closing balance**
Investment in subsidiaries	216,793,560.51	121,989,200.00		338,782,760.51
Investment in associated companies	925,688,838.54	12,089,629.96		937,778,468.50
Less: provision for impairment of long term investment	27,611,944.58			27,611,944.58
Total	1,114,870,454.47	134,078,829.96		1,248,949,284.43

(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 period	Decrease in the period	Closing balance	Registration address	Nature of business
Associated company						
Beijing SE Putian Mobile Communications Co., Ltd	228,595,194.60	42,163,589.91		270,758,784.51	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	6,290,812.71	(111,208.47)		6,179,604.24	Nanjing	Technology development
Hua Fei Colour Display Systems Company Limited	260,736,816.53	(47,474,098.35)		213,262,718.18	Nanjing	Manufacture
Tamura Electronics (Nanjing) Co., Ltd.					Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.					Nanjing	Manufacture
Nanjin Ericsson Panda Communication Company Limited	335,574,930.00	12,833,526.23		348,408,456.23	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	92,820,902.73	4,867,627.00		97,688,529.73	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,670,181.97	(189,806.36)		1,480,375.61	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.					Nanjing	Manufacture
Total	925,688,838.54	12,089,629.96		937,778,468.50		

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 period	Net profit for the period/ (loss)
Associated companies					
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	1,225,646,147.04	11,331,366,676.46	210,817,949.57
Hua Fei Colour Display Systems Company Limited	25	25	848,026,654.39	328,819,705.27	(189,896,393.40)
Nanjing Ericsson Panda Communication Company Limited	27	27	1,123,704,467.82	6,144,480,456.38	47,531,578.63
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	256,277,311.05	157,271,333.23	12,133,681.70

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

Name of investee	Initial investment	Opening balance	Investment amount increased during the period (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	228,595,194.60		42,163,589.91		270,758,784.51
Nanjing Huaxian High Technology Company Limited	10,000,000.00	6,290,812.71		(111,208.47)		6,179,604.24
Hua Fei Colour Display Systems Company Limited	392,892,722.42	260,736,816.53		(47,474,098.35)		213,262,718.18
Tamura Electronics (Nanjing) Co., Ltd.	3,310,800.00					
MPower Batteries (Nanjing) Ltd.	4,200,000.00					
Nanjin Ericsson Panda Communication Company Limited	60,863,279.60	335,574,930.00		12,833,526.23		348,408,456.23
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	92,820,902.73		4,867,627.00		97,688,529.73
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,670,181.97		(189,806.36)		1,480,375.61
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Total	627,834,977.45	925,688,838.54		12,089,629.96		937,778,468.50

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

Name of investee	Initial investment	Opening balance	Increase in the period	Decrease in the period	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	5,031,944.58			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	44,086,793.98			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	60,012,744.60			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	8,271,096.45			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
Nanjing Panda Technology Industrial Co., Ltd.	121,989,200.00		121,989,200.00		121,989,200.00
Galant Limited					
Total	192,915,007.96	216,793,560.51	121,989,200.00		338,782,760.51

(5) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision during the period	Decrease in the period: Reversal	Decrease in the period: Write-off	Total	Closing balance
Nanjing Panda Technology Equipment Co., Ltd.	5,031,944.58					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
Total	27,611,944.58					27,611,944.58

4. Operating Income and Operating Cost

(1) Income from principal business and other business

Items	**30 June 2009**	30 June 2008
Income from principal business	**58,756,171.98**	78,353,755.91
Income from other business	**4,079,248.75**	2,029,254.97
Total income from operation	**62,835,420.73**	80,383,010.88
Cost of principal business	**56,248,980.51**	62,721,622.35
Cost of other business	**3,212,163.75**	1,605,203.85
Total operating cost	**59,461,144.26**	64,326,826.20

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

	30 June 2009		
Business segments	**Income from principal business**	**Cost of principal business**	**Profit of principal business**
Electronic manufacturing products			
Electronic information products	**19,363,837.59**	**18,830,476.46**	**533,361.13**
Electromechanical products	**3,002,078.84**	**3,117,302.29**	**(115,223.45)**
Satellite telecommunications products	**35,000,000.00**	**32,960,000.00**	**2,040,000.00**
Other	**1,390,255.55**	**1,341,201.76**	**49,053.79**
Total	**58,756,171.98**	**56,248,980.51**	**2,507,191.47**

	30 June 2008		
Business segments	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacturing products			
Electronic information products	6,763,765.33	5,969,010.85	794,754.48
Electromechanical products	6,189,990.58	5,393,010.93	796,979.65
Satellite telecommunications products	65,400,000.00	51,359,600.57	14,040,399.43
Other			
Total	78,353,755.91	62,721,622.35	15,632,133.56

5. Investment Income

Name of invested unit	30 June 2009	30 June 2008	Remarks
Nanjing Ericsson Panda Communication Company Limited	**12,833,526.23**	87,957,245.46	
Beijing SE Putian Mobile Communication Co. Limited	**42,163,589.91**	22,371,909.44	
Hua Fei Colour Display Systems Company Limited	**(47,474,098.35)**	(39,498,538.48)	
Nanjing Panda Hitachi Technology Co. Ltd			
Shenzhen Jinghua Electronic Company Limited	**4,867,627.00**	4,309,573.50	
Intenna (Nanjing) Co. Ltd.	**(189,806.36)**	(310,153.15)	
Tamura Electronics (Nanjing) Co., Ltd.	**1.00**		(3)
Nanjing Huaxian High Technology Company	**(111,208.47)**		
Nanjing Electronic Calibration Co., Ltd.		104,256.89	
Nanjing Guanghua Electronics Plastic Casings Factory	**2,342,582.93**		
Total	**14,432,213.89**	74,934,293.66	

(1) Since i) there is no material difference in the accounting policies and accounting periods adopted by the investee and the Company; ii) there is no issue affecting the net profit of the investee for the period 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 Company and the investee in the period of this financial statements. 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.

(2) There are no significant limitations on remittance of investments income to the Company.

(3) The Company transferred its equity interest In the company in April 2009.

(4) Investment income for January to June 2009 decreased by 80.74% year-on-year, mainly attributable to less investment income from Nanjing Ericsson Panda Communication Company Limited.

6. Condensed statement of provision for impairment of assets Condensed statement of

Items		Opening amount	Provision for the period	Increase for the period Reversal	Write-off	Total	Closing amount
I.	Total provision for bad debts	30,262,201.04	3,199,605.46	2,042,340.14		2,042,340.14	31,419,466.36
II.	Total provision for impairment of inventories	17,879,812.55		96,102.12		96,102.12	17,783,710.43
III.	Provision for impairment of long term equity investment	27,611,944.58					27,611,944.58
IV.	Total provision for impairment of fixed assets	2,207,603.72					2,207,603.72
V.	Provision for impairment of construction supplies						
VI.	Provision for impairment of construction in progress						
Total		77,961,561.89	3,199,605.46	2,138,442.26		2,138,442.26	79,022,725.09

7. **Supplementary information of cash flow statements**

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

Items	**30 June 2009**	30 June 2008
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**(53,842,121.02)**	(4,691,339.91)
Add: Provision for asset impairment	**1,061,163.20**	17,727,873.23
Depreciation of fixed assets	**6,490,842.75**	6,232,450.09
Amortisation of intangible assets	**485,487.42**	244,899.34
Amortisation of long term deferred expenses		
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	**754,186.60**	76,221.20
Loss from fixed assets scrapped (gains are represented by "-")		
Losses from change in fair value (gains are represented by "-")		
Financial expense (gains are represented by "-")	**16,579,149.72**	24,328,103.84
Loss on investment (gains are represented by "-")	**(14,432,213.89)**	(74,934,293.66)
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 "-")	**(3,629,045.66)**	9,667,517.99
Decrease in trade debtors (Increase is represented by "-")	**32,230,901.95**	(118,253,676.27)
Increase in trade creditors (Decrease is represented by "-")	**51,583,241.77**	21,251,496.26
Others		
Net cash flows from operating activities	37,281,592.84	(118,350,747.89)
2. Material investment and financial activities not involving cash:		
Debt capitalization		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance leases		
3. Net change in cash and cash equivalents:		
Cash balance as at the end of the period	**98,038,071.84**	124,416,870.15
Less: cash balance as at the beginning of the period	**227,578,462.74**	246,370,810.95
Add: balance of cash equivalents as at the end of the period		
Less: balance of cash equivalents as at the beginning of the period		
Net increase in cash and cash equivalents	**(129,540,390.90)**	(121,953,940.80)

(2) Information on Cash and Cash Equivalents

Items		30 June 2009	30 June 2008
I. Cash		**98,038,071.84**	124,416,870.15
Including:	Cash on hand	**254,467.08**	96,490.83
	Bank deposit available for payments at any time	**97,783,604.76**	124,320,379.32
	Other cash fund available for payment at any time		
II. Cash equivalents			
Including:	Bond investment due within three months		
III. Closing balance of cash and cash equivalents		**98,038,071.84**	124,416,870.15

X. Relationship and transactions with related parties

(1) Related parties

1. Recognition standards for a related party

The Company's 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 Limited	134883152	Nanjing economy and technology development zone	a company with limited liabilities	RMB1,266,060,000	51.10	51.10

3. Subsidiaries of the Company

Name of subsidiaries	Code of organization	Registered address	Nature of business	Registered capital	Total shareholding percentage of the Company %	Total voting right percentage of the Company %
Nanjing Panda Accurate Machinery Co. Ltd.	70416403-8	Nanjing	Manufacturing industry	RMB5,000,000	70	70
Nanjing Panda Technology Equipment Co., Ltd.	24981058-6	Nanjing	Manufacturing industry	RMB5,000,000	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 Appliance and Plastic Industrial Company Limited	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
Nanjing Panda Technology Industrial Co., Ltd.	76213131-4	Nanjing	Commodity industry	RMB80,000,000	100	100
GALANT LIMITED	1006135	Hong Kong	Development of communication products	HKD1	100	100

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 21st Century Electronic and Technology Square Company Limited	71627148X	Subsidiary of the Group
Nanjing Panda Garden Property Management Centre	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 Piezoeletric 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 Limited	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.

(III) Transactions with related parties

1. Purchase of goods

Name of related parties	**30 June 2009**	30 June 2008
Panda Electronics Group Ltd.	**193,478.47**	
Nanjing Panda Electronics Import/Export Co. Ltd.		3,966,952.49
Nanjing Zhen Hua Sound Equipment Plant	**1,050,584.14**	1,216,840.70
Nanjing Lianhui Communication Technology Company Limited	**1,745.11**	475,027.00
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**263,974.36**	111,619.67
Total	**1,509,782.08**	5,770,439.86

2. Receipt of services

Name of related parties	**30 June 2009**	30 June 2008
Panda Electronics Group Ltd.	**86,675.82**	1,778.39
Nanjing Panda Electronics Transportation Company	**258,030.70**	
Nanjing Panda Construction and Decoration Engineering Co., Ltd.	**5,400.00**	
Total	**350,106.52**	1,778.39

3. Sales of goods

Name of related parties	30 June 2009	30 June 2008
Nanjing Thales Panda Transportation System Company Limited	2,176,469.52	19,837,055.57
Nanjing Panda Television Co. Ltd.		3,947,241.28
Nanjing Panda Electronics Import/Export Co. Ltd.	170,500.85	2,624,251.34
Nanjing Zhen Hua Sound Equipment Plant	2,991.45	
Nanjing Ericsson Panda Communications Co. Ltd	5,133,743.01	2,090,652.79
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	450,785.75	478,313.81
Nanjing Panda Handa Technology Co., Ltd	3,705,813.82	443,455.09
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	2,559,115.05	
Nanjing Huaxian High Technology Company	128,205.13	282,051.28
Nanjing Lianhui Communication Technology Company Limited	9,659.40	149,444.44
Panda Electronics Group Ltd.	66,012.88	73,478.57
Nanjing Panda Electronics Transportation Company	14,833.99	8,509.47
Total	14,418,130.85	29,934,453.64

4. Provision of services

Name of related parties	30 June 2009	30 June 2008
Nanjing Ericsson Panda Communications Co. Ltd	24,322,280.46	19,802,528.19
Nanjing Panda Television Co. Ltd.		10,886,640.99
Nanjing Panda Handa Technology Co., Ltd	2,340,753.81	7,366,380.55
Nanjing Panda Electronics Import/Export Co. Ltd.		3,202,764.38
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	1,563,920.46	1,378,366.95
Nanjing Lianhui Communication Technology Company Limited	26,436.41	
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	299,614.29	
Panda Electronics Material Usage Co., Ltd.	213,675.22	
Panda Electronics Group Ltd.	3,300.00	66,814.65
Nanjing Huaxian High Technology Company Limited	17,600.00	
Nanjing Panda Electronics Transportation Company	12,247.84	9,132.84
Total	28,799,828.49	42,712,628.55

5. Provision of guarantee

(1) The Company provided a maximum amount guarantee for bank loan of RMB10,000,000 granted to Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, from Nanjing Centre Sub-branch of Nanjing Branch of Shenzhen Development Bank Co., Ltd. As at 30 June 2009, the loan amounted to RMB5,000,000.00 with a term from 1 December 2008 to 1 December 2009. As at 30 June 2009, the Company provided a guarantee for bank acceptance bills with an amount of RMB5,000,000.00 for Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company.

(2) The Company provided a maximum amount guarantee for borrowings of RMB20,000,000 granted to Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, from Nanjing Branch of China CITIC Bank with a term from 17 December 2008 to 17 December 2009. As at 30 June 2009, details of borrowing of Nanjing Huage Appliance and Plastic Industrial Company Limited are as follows:

Name of companies	Name of bank	Amount of borrowing	Period
Nanjing Huage Appliance and Plastic Industrial Company Limited	Nanjing Branch of China CITIC Bank	7,000,000.00	2009.01.04-2010.01.04
Nanjing Huage Appliance and Plastic Industrial Company Limited	Nanjing Branch of China CITIC Bank	5,000,000.00	2008.11.13-2009.11.13
Nanjing Huage Appliance and Plastic Industrial Company Limited	Nanjing Branch of China CITIC Bank	5,000,000.00	2008.12.17-2009.12.17
Total		17,000,000.00	

The Company provided a maximum amount guarantee for bank loan of RMB15,000,000 granted to Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, from Shenzhen Development Bank Co., Ltd. As at 30 June 2009, the Company provided a guarantee for bank acceptance bills with an amount of RMB1,000,000.00 for Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company.

(3) The Company provided an irrevocable letter of guarantee with maximum amount for Nanjing Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, for its borrowings of RMB5,000,000 from Nanjing Branch of China Merchants Bank, and provided guarantee for the loan granted to Nanjing Panda Mechanical Manufacturing Co. Ltd. during the credit period from 23 January 2009 to 8 September 2009. As at 30 June 2009, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 13 February 2009 to 13 February 2010.

(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 30 June 2009, the amount of borrowing amounted to RMB1,000,000.00 with a loan term from 12 December 2008 to 12 December 2009. As at 30 June 2009, the Company provided a guarantee for bank acceptance bills with an amount of RMB3,528,483.22 and for letter of credit with an amount of RMB527,734.74 and performance guarantee with an amount of RMB3,893,925.70 for Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company.

(5) The Company provided finance leasing guarantees for Nanjing Panda Electronic Manufacturing Company Limited and Nanjing Huage Appliance and Plastic Industrial Company Limited, subsidiaries of the Company, details of which are as follows:

No. of Leasing contract	Lessor	Leasee	Warrantor	Leasing period	Amount of contract	Unpaid amount as at 30 June 2009
00070	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.09-2009.08	12,613,120.00	255,463.50
0070-1	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.10-2009.10	11,816,400.00	453,940.90
201010	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2008.07-2011.07	7,917,712.70	4,837,516.52
00105	Siemens Finance and Leasing Ltd	Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	The Company	2006.12-2009.11	13,163,800.00	1,660,366.04
Total					45,511,032.70	7,207,286.96

As at 30 June 2009, the Company provided guarantee to its subsidiaries with an amount of RMB49,157,430.62 (year 2008: RMB67,914,642.19).

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 aggregating to 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 30 June 2009, 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	2009.01.14-2010.01.14
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	10,000,000.00	2008.02.18-2010.02.18
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	15,000,000.00	2009.02.19-2010.02.19
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	15,000,000.00	2009.02.24-2010.02.24
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2009.04.23-2010.04.23
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	

(2) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Chengdong Sub-branch of Bank of Nanjing Co., Ltd., providing guarantee for borrowings of the Company from Chengdong Sub-branch of Bank of Nanjing Co., Ltd.. As at 30 June 2009, the details of guarantee are as follows:

Name of borrowers	Name of bank	Amount of Borrowing	Period
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Bank of Nanjing Co., Ltd.	28,000,000.00	2008.08.05-2009.08.04
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Bank of Nanjing Co., Ltd.	20,000,000.00	2008.11.13-2009.11.13
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch 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 China CITIC Bank in December 2008, providing guarantee for borrowing amount granted by Nanjing Branch of China CITIC Bank to the Company during 2 December 2008 to 2 December 2009 with a guarantee amount of RMB80,000,000.00. As at 30 June 2009, 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 19 March 2009 to 9 September 2009.

(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 Co. Ltd. in November 2008, providing guarantee for borrowings of RMB50,000,000.00 granted to the Company from Nanjing Branch of Bank of Communications Co. Ltd. with the loan term from 28 November 2008 to 27 November 2009.

As at 30 June 2009, the Company had accepted the guarantee provided by Panda Electronics Group Limited, the controlling shareholder of the Company with an amount of RMB378,000,000.00 (Year 2008: RMB378,000,000.00).

7. Asset leased

Name of related parties	**Jan-Jun 2009 Amount**	Jan-Jun 2008 Amount
Nanjing Panda Garden Property Management Centre	**137,821.30**	
Panda Electronics Group Limited		115,407.20
Total	**137,821.30**	115,407.20

8. Lease of assets

Name of related parties	**Jan-Jun 2009 Amount**	Jan-Jun 2008 Amount
Nanjing Panda Huaxin Technology Industrial Co. Ltd.	**160,762.32**	52,320.00
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**24,948.00**	
Nanjing Panda Electronics Transportation Company	**11,988.00**	11,988.00
Total	**197,698.32**	64,308.00

9. Balance due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts receivable				
Nanjing Ericsson Panda Communications Co., Ltd.	**17,162,794.48**	18,244,937.03		
Nanjing Panda Television Co. Ltd.	**8,712,891.91**	12,507,807.29		
Nanjing Panda Handa Technology Company Limited	**1,732,805.75**	1,710,249.80		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	**974,281.26**	1,657,505.03		
Panda Electronic (Kun Shan) Co. Ltd.	**719,240.70**	547,579.80		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**185,189.03**	434,107.86		
Panda Electronics Group Co. Ltd.	**224,040.37**	135,709.19		
Nanjing Panda Electronics Import/Export Co. Ltd.	**225,654.53**	130,339.56		
Nanjing Lianhui Communication Technology Company Limited	**30,930.60**	60,000.00		
Nanjing Panda Electronics Transportation Company	**49,996.26**	45,000.00		
Hua Fei Colour Display Systems Company Limited	**33,450.00**			
Nanjing Huaxian High Technology Co., Ltd.	**17,600.00**			
Panda (Beijing) International Information Technology Co., Ltd	**151,850.07**			
Nanjing Thales Panda Transportation System Company Limited	**16,410.02**			
Total	**30,237,134.98**	35,473,235.56		
Accounts receivable-provision for bad debt				
Nanjing Ericsson Panda Communications Co. Ltd	**766,651.87**	912,648.84		
Nanjing Panda Television Co. Ltd.	**8,281,699.77**	12,199,116.50		
Nanjing Panda Handa Technology Company Limited	**56,822.09**	85,743.04		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	**35,001.79**	76,642.42		
Panda Electronic (Kun Shan) Co. Ltd.	**524,575.35**	364,990.34		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**9,259.46**	21,694.00		
Panda Electronics Group Co. Ltd.	**1,312.50**	132,286.69		
Nanjing Panda Electronics Import/Export Co. Ltd.	**21,875.11**	17,262.16		
Nanjing Lianhui Communication Technology Company Limited	**1,546.53**	3,000.00		
Hua Fei Color Display Systems Company Limited	**33,450.00**			
Nanjing Panda Electronics Transportation Company	**249.81**			
Nanjing Huaxian High Technology Company	**880.00**			
Panda (Beijing) International Information Technology Co., Ltd	**7,592.50**			
Total	**9,740,916.78**	13,813,383.99		

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Prepayments				
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**2,500,000.00**	2,500,000.00		
Nanjing Lianhui Communication Technology Company Limited	**671,644.00**	871,644.00		
Nanjing Panda Electronics Import/Export Co. Ltd.	**445,000.00**	445,000.00		
Total	**3,616,644.00**	3,816,644.00		
Prepayments-provision for bad debt				
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**125,000.00**	125,000.00		
Nanjing Lianhui Communication Technology Company Limited	**255,822.00**	355,822.00		
Nanjing Panda Electronics Import/Export Co. Ltd.	**13,875.11**	13,875.11		
Total	**394,697.11**	494,697.11		
Other receivables				
Panda Electronic (Kun Shan) Co. Ltd.	**2,591,284.39**	1,736,220.94		
Total	**2,591,284.39**	1,736,220.94		
Other receivables-provision for bad debt				
Panda Electronic (Kun Shan) Co. Ltd.	**1,170,044.34**	1,184,720.94		
Total	**1,170,044.34**	1,184,720.94		
Accounts payable				
Nanjing Panda Electronics Import/Export Co. Ltd.	**4,030,942.82**	4,972,745.84		
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	**2,548,591.15**	2,548,591.15		
Nanjing Panda Handa Technology Co., Ltd.	**782,685.51**	2,231,132.00		
Panda Electronic Group Co. Ltd.	**3,790,275.86**	1,896,495.19		
Nanjing Zhen Hua Sound Equipment Plant	**816,697.36**	1,038,090.18		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**192,800.01**	150,500.01		
Nanjing Panda Electronics Transportation Company	**156,742.39**			
Nanjing Panda Piezoeletric Technique Co., Ltd.	**93,717.86**			
Nanjing Panda Electronics Technology Development Company Limited	**17,692.05**			
Total	**12,430,145.01**	12,837,554.37		

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Advances from customers				
Nanjing Thales Panda Transportation System Company Limited	**1,127,893.42**	3,606,729.23		
Nanjing Panda Handa Technology Company Limited		2,361,198.84		
Panda Electronics Group Ltd.		183,009.80		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	**1,940,150.44**			
Nanjing Panda Piezoeletric Technique Co., Ltd	**200.00**			
Nanjing Panda Electronic Import/Export Company Limited	**34,584.80**			
Total	**3,102,828.66**	6,150,937.87		
Other payables				
Panda Electronics Group Ltd.	**4,062,367.49**	9,642,549.09		
Nanjing Thales Panda Transportation System Company Limited	**349,754.00**	349,754.00		
Panda Electronic (Kun Shan) Co. Ltd.	**181,596.01**	300,000.00		
Nanjing Panda Electronics Transportation Company	**15,012.60**			
Nanjing Panda Garden Property Management Centre	**212,641.60**			
Total	**4,821,371.70**	10,292,303.09		

XI. Contingencies

1. Please refer to Note X (III) 5 for the guarantees provided by the Company for bank borrowings of its subsidiaries.

2. As at 30 June 2009, 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 balance sheet of the Group are as follows:

	Closing balance	Opening balance
Houses and buildings	**79,861,083.96**	22,265,610.32

2. Expenses for contracted material external investment

(1) 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 in GALANT LIMITED by June 2009.

(2) Same as the above commitments, as of 30 June 2009, the Company did not have any other material commitments discloseable.

XIII. Post Balance Sheet Events

(1) On 9 July 2009, the Company held an extraordinary meeting of the Board by way of written resolutions, which considered and approved the Company to enter into an equity transfer agreement with the controlling shareholder, Panda Electronics Group Limited ("PEGL") for the acquisition of PEGL's 70% equity interest in Nanjing Panda Electromechanical Instruments Technology Co., Ltd. (registered capital of RMB1 million, "Panda Electromechanical"), at a negotiated consideration of RMB2,643,700 on the basis of the valuation of the entire equity interest in Panda Electromechanical of RMB3,776,700. Upon completion of the acquisition, the Company will hold 70% equity interest in Panda Electromechanical. The acquisition constituted a connected transaction of the Company and has been approved by SASAC of Jiangsu Province.

(2) On 10 August 2009, the Company held an extraordinary meeting of the Board by way of written resolutions, which considered and approved Nanjing Huage Appliance and Plastic Industrial Company Limited ("Nanjing Huage"), a controlling subsidiary of the Company and Nanjing Panda Handa Technology Company Limited ("Nanjing Handa"), a wholly owned subsidiary of the Company's controlling shareholder to enter into the state-owned land use right transfer agreement, pursuant to which Nanjing Huage agreed to transfer the state-owned land use right of 70,231.9 square metres at No.3 Lianhecun, Baixia District (for industry use) to Nanjing Handa at the consideration of RMB52,953,800 based on the valuation of the land. The transaction constituted a connected transaction and is subject to approval at the next shareholder meeting.

(3) There were no discloseable material post balance sheet events in the Company as at the date when the financial report was approved.

XIV. Other Significant Events

1. On 9 April 2007, Jiangsu Provincial State-owned Information Asset Management Group Company Limited ("Provincial State-owned Information"), Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC") and China Electronics Corporation ("CEC") signed an agreement to jointly establish Nanjing Electronics Information Industrial Corporation ("NEIDC") with their respective equity interests in Panda Electronics Group Limited and other enterprises. 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 Nanjing Municipal People's Government and Jiangsu Provincial 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 30 June 2009, in the state-owned legal person share of the Company held by Panda Electronics Group Limited, 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 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 50% of the total shares it holds in the Company.

3. Lease

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

Items	Closing amount	Opening amount
Fixed assets, at cost		
Machinery and equipment	**63,869,759.77**	63,869,759.77
Total	**63,869,759.77**	63,869,759.77
Accumulated depreciation		
Machinery and equipment	**15,235,279.59**	12,330,638.56
Total	**15,235,279.59**	12,330,638.56
Accumulated amount of provision for impairment		
Machinery and equipment		
Total		
Carrying value		
Machinery and equipment	**48,634,480.18**	51,539,121.21
Total	**48,634,480.18**	51,539,121.21

Minimum lease payments in the following years

Remaining lease term	Minimum lease payments
Within 1 year (including 1 year)	4,719,019.68
1-2 years (including 2 years)	2,349,249.24
2-3 years (including 3 years)	139,018.04
More than 3 years	
Total	7,207,286.96

As at 30 June 2009, the balance of unrecognized financing expenses amounted to RMB534,207.21, which was amortised using the effective interest method.

(2) Details of operating lease of the Company during the Reporting Period are as follows:

Categories of operating assets leased out	Closing balance	Opening balance
Buildings	**142,557,071.75**	146,021,632.02
Total	**142,557,071.75**	146,021,632.02

XV. Reconciliation of net assets for differences between Hong Kong and PRC Accounting Standards (Unit: RMB'000)

Items	Closing balance	Opening balance
Net assets attributable to the shareholders of parent company under HKFRS and PRC Accounting Standards for Business Enterprises	**1,399,661**	1,571,618

Items	Closing balance	Opening balance
Net profit attributable to the shareholders of parent company under HKFRS	**(49,968)**	34,445
Amortization of unrecognized intangible assets		(100)
Expenses and income directly recorded as equity		(16,054)
Minority interests		5
Others		322
Total differences		(15,827)
Net profit attributable to the shareholders of parent company under PRC Accounting Standards for Business Enterprises	**(49,968)**	18,618

XVI. Comparative figure

Due to changes in the scope of consolidation, some comparative figures for year 2008 have been restated in this financial statement.

SUPPLEMENTARY INFORMATION

I. Related financial indicators

Profit during the Reporting Period	Reporting Period	Return on net assets (%) Fully diluted	Return on net assets (%) Weighted average	Earnings per share (RMB/share) Basic earnings per share	Earnings per share (RMB/share) Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	Jan-Jun 2009	(3.57)	(3.36)	(0.08)	(0.08)
	Jan-Jun 2008	1.20	1.20	0.03	0.03
Net profit attributable to holders of ordinary shares after extraordinary items	Jan-Jun 2009	(3.61)	(3.40)	(0.08)	(0.08)
	Jan-Jun 2008	1.04	1.04	0.02	0.02

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÷E

where: 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 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 = $P/(E_0+N_P\div 2+E_i\times M_i\div M_0-E_j\times M_j\div M_0\pm E_k\times M_k\div M_0)$

where: "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; "N_P" represents net profit attributable to holders of ordinary shares of the Company; "E_0" represents net assets attributable to holders of ordinary shares of the Company at the beginning of the period; "E_i" 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_j" represents net assets attributable to holders of ordinary shares of the Company, reduced from repurchase or cash dividend during the Reporting Period; "M_0" represents the months in Reporting Period and ; "M_i" represents the months from the next month of the increase of net assets to the end of the Reporting Period; "M_j" represents the months from the next month of the decrease of net assets to the end of the Reporting Period; "E_k" represents the increase or decrease of net assets arising from other transactions or matters; "M_k" represents the months from the next month of the increase or decrease of other net assets to the end of the Reporting Period;

(3) Basic earnings per share

Basic earnings per share = $P\div S$

$S=S_0+S_1+S_i\times M_i\div M_0-S_j\times M_j\div M_0-S_k$

where: "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_0" represents total number of shares at the beginning of the period; "S_1"represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the Reporting Period; "S_i" represents shares increased from issue of new shares or debt to equity during the Reporting Period; "S_j" represents the reduced shares arising from repurchase during Reporting Period; "S_k" represents the number of reduced shares during the Reporting Period; " M_0" represents months in the Reporting Period; "M_i" represents the months from the next month of the increase of shares to the end of the Reporting Period; "M_j" 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+ (The interests of the diluted potential ordinary shares recognized to be expenses - conversion expenses) x (1-Income tax ratio)] / ($S_0+S_1+S_i$ x $M_i\div M_0-S_j$ x $M_j\div M_0-S_k$+The weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond)

where: "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_0" represents total number of shares at the beginning of the period; "S_1"represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the Reporting Peiod; "S_i" represents shares increased from Reporting Period issue of new shares or debt to equity, etc; "S_j" represents the reduced shares arising from repurchase during Reporting Period; "S_k" represents the number of reduced shares during the Reporting Period; "M_0" represents months in the Reporting Period; "M_i" represents the months from the next month of the increase of shares to the end of the Reporting Period; "M_j" represents the months from the next month of the decrease of shares to the end of the Reporting Period. In calculating diluted earnings per share, the Company takes into consideration of influence from all diluted potential ordinary shares till diluted earnings per share become minimized.

II. Statement of extraordinary items

Unit: RMB

Item	30 June 2009	30 June 2008
Profit and loss of disposal of non-current assets	(779,844.20)	611,682.06
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)	575,049.49	1,945,000.00
Capital occupation fee received from non-financial enterprises and recorded into the current gains and losses (excluding capital occupation fee received from non-financial enterprises by financial institute with operation qualification approved and established by the relevant authorities of the State)		
Profit and loss incurred when cost of merger of enterprises are less than the fair value of the identifiable net assets of acquirees attributable to the Company during merger		
Profit and loss from exchange of non-monetary assets		
Profit and loss from entrusted investment		
Provision for assets impairment due to force majeure including natural disasters		
Profit and loss from debt restructuring		1,514.27
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 arising from mergers of enterprises under common control from the beginning of period to the date of merger		
Loss and profit from estimated accrued liabilities having no relation to principal business of the Company		
Other net non-operating income/expenses other than the above items	1,000,824.19	426,361.70
Other non-recurring profit and loss items recognized by CSRC		
Sub-total	**796,029.48**	2,984,558.03
Less: the impact from enterprise income tax	140,457.69	268,514.74
Net non-recurring profit and loss	655,571.79	2,716,043.30
Net non-recurring profit and loss attributable to minority shareholders	155,199.25	239,640.44
Net non-recurring profit and loss attributable to ordinary shareholders of the Company	500,372.54	2,476,402.86
Net profit attributable to holders of ordinary shares of the Company after deducting extraordinary items	(50,468,307.44)	16,141,344.19
Impact of net non-recurring profit and loss on net profit	(1.00%)	13.30%

Note: "+" represents increase in turnover and income, "-" represents decrease in loss or expenses.

IX. DOCUMENTS AVAILABLE FOR INSPECTION

1. The Interim Report signed by the Chairman;

2. The text of financial statements signed and sealed by the legal representative, chief accountant and head of the accounting department of the Company;

3. The texts of announcements published in Shanghai Securities News and China Securities Journal, and on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange during the Reporting Period;

4. The text of articles of association of the Company; and

5. The text of the Interim Report published in Hong Kong and Shanghai securities market.

Nanjing Panda Electronics Company Limited
The Board of Directors
26 August 2009

PANDA

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