

PANDA

Electronics

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Nanjing Panda Electronics Company Limited

2009 Annual Report

(H Share Stock code:0553)

(A Share Stock code:600775)



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Important Notice

1. The board of directors (the "Board"), the supervisory committee (the "Supervisory Committee"), the directors ("Directors"), supervisors ("Supervisors") and senior management staff of the Company confirm that the information in this report (the "Annual Report") does not contain any misrepresentation, misleading statements, or material omissions and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents.
2. Director Mr. Shi Qiusheng was engaged in other duties and unable to attend the Board meeting held on 29 March 2010. He appointed Mr. Xu Guofei to attend the meeting and to exercise the voting rights on his behalf.
3. Both UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. have prepared the unqualified auditors' reports in accordance with Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises, respectively.
4. None of the controlling shareholders or its related parties has misappropriated the Company's funds for non-operating purposes.
5. The Company did not provide external guarantees in violation of any stipulated decision-making procedures.
6. Mr. Xu Guofei, Vice-Chairman of the Company, Mr. Shen Jianlong, Chief Accountant, and Ms. Wu Yuzhen, Manager of the Finance Department, have declared the truthfulness and completeness of these financial statements contained in the Annual Report.

Definitions

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

Corporate Basic Information

(1) Corporate Basic Information

1. Legal Chinese Name of the Company : 南京熊猫电子股份有限公司
Legal English Name of the Company : Nanjing Panda Electronics Company Limited
Abbreviation of the English Name : NPEC
2. Legal Representative of the Company : Li Anjian (Chairman)
3. Secretary of the Board : Shen Jianlong
Securities Affairs Representative : Chen Yebao
Correspondence Address : 301 Zhongshan Road East,
Nanjing, the People's Republic of China
Postal Code : 210002
Telephone : (86 25) 84801144
Facsimile : (86 25) 84820729
Email Address : dms@panda.cn
4. Registered Address : Level 1-2, Block 05, North Wing,
Nanjing High and
New Technology Development Zone,
Nanjing, the PRC
Office and Correspondence Address : 301 Zhongshan Road East, Nanjing, the PRC
Postal Code : 210002
International Web Site : <http://www.panda.cn>
5. Designated Newspaper for Information Disclosure : Shanghai Securities News,
China Securities Journal
International Websites for the publication of the Company's : Shanghai Stock Exchange
<http://www.sse.com.cn>
Annual Report and information disclosure : The Stock Exchange of Hong Kong Limited
<http://www.hkex.com.hk>
Place for Inspection of the Company's Annual Report and documents available for inspection : Office of Secretary of the Board of Directors
301 Zhongshan Road East, Nanjing, the PRC

Corporate Basic Information

(1) Corporate Basic Information (Continued)

6. Stock Exchange, Stock Abbreviation and Stock Codes

H Shares : The Stock Exchange of Hong Kong Limited

Stock abbreviation : Nanjing Panda

Stock code : 0553

A Shares : Shanghai Stock Exchange

Stock abbreviation : Nanjing Panda

Stock code : 600775

Share Registrars and Transfer Office:

H Shares : Hong Kong Registrars Limited
46th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

A Shares : China Securities Depository and
Clearing Corporation Limited Shanghai Branch
36/F, China Insurance Building,
166 East Lu Jia Zui Road,
Xin Qu, Pudong, Shanghai, the PRC

Name of Custodian in respect of
the Non-circulating Shares
of the Company : China Securities Depository and Clearing
Corporation Limited Shanghai Branch
36/F, China Insurance Building,
166 East Lu Jia Zui Road,
Xin Qu, Pudong, Shanghai, the PRC

7. First Registration Date and : 29 April 1992

Place of the Company : Nanjing, the PRC

Date of Latest Change in Registration and : 14 July 2009

Place of the Company : Nanjing, the PRC

Legal Person Business License : 320100400008823
Registration Number of the Company

Taxation Registration Number : 320134134974572
of the Company

Organisation Code : 13497457-2

Corporate Basic Information

(1) Corporate Basic Information (Continued)

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

Corporate Basic Information

(2) Corporate Profile

Nanjing Panda Electronics Company Limited is a company which is engaged in research and development, manufacture and sales of telecommunication equipments, computers and electronic equipments as well as provision of technological services. The Company was established in April 1992 after the reorganization of the original Panda Electronics Group Company. The history of the Company can be traced back to 1936 and is the earliest electronics enterprise in the PRC. Shares of the Company were listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange on 2 May 1996 and 18 November 1996 respectively.

The principal operations of the Company are development, manufacturing and sales of satellite communication products, mobile telecommunication products, electronic equipment products and electronic intelligent products and electronic manufacturing business. Its registered trademark is "PANDA" which is the first "well known trademark in the PRC" in the electronics information industry in the country.

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

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

The forth-coming development strategy of the Company is to thoroughly implement a scientific outlook on development, enhance sustainable development capability and achieve a sound and quick development. In terms of the Company's technological developments, the Company targets to achieve further autonomous innovation in its principal businesses by fully utilizing all available technology and gradually develop itself into a R&D and production base of satellite communication. Meanwhile, the Company also aims at becoming a major company in electronic equipment, electronic intelligence and electronics manufacturing industries, and forging the Company onwards to become a comprehensive and international high technology enterprise.

Accounting Information and Business Highlights

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

1. Profits of the Company during the year:

Unit: RMB'000

Items	Amount
Operating Profit	(5,850.72)
Total Profit	31,398.25
Net profit attributable to shareholders of the Company	15,525.67
Net profit attributable to shareholders of the Company after extraordinary items	(21,271.22)
Net cash flow from operations	247,497.97

2. Items and amounts after deduction of extraordinary items:

Unit: RMB'000

Items	Amount
Gains and losses from disposal of non-current assets	7,860.08
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	23,220.25
Profit and loss from debt restructuring	5,521.17
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	3,998.00
Other non-operating net income and expenses other than the aforesaid items	(102.35)
Impact on enterprise income tax	(2,633.63)
Impact on minority shareholders (after tax)	(1,066.63)
Total	<u>36,796.89</u>

Accounting Information and Business Highlights

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

3. Major accounting information and financial indicators for the three years ended 31 December 2009

3.1 Major accounting information

Unit: RMB'000

	2009	2008		Increase/ (decrease) from last year (%)	2007	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Operating Profit	1,284,864.42	1,279,703.37	1,131,037.17	0.40	1,058,655.58	1,009,935.66
Total Profit	31,398.25	50,364.91	44,799.43	(37.66)	125,768.85	121,419.24
Net profit attributable to shareholders of the Company	15,525.67	41,139.03	37,201.26	(62.26)	116,951.44	107,006.05
Net profit attributable to shareholders of the Company after extraordinary items	(21,271.22)	17,929.68	17,929.68	(218.64)	109,597.93	109,597.93
Net cash flow from operating activities	247,497.97	(110,628.67)	(140,967.52)	323.72	(25,193.61)	(32,080.70)

	As of the end of 2009	As of the end of 2008		Increase/ (decrease) from last year (%)	As of the end of 2007	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Total assets	2,456,940.25	2,686,014.80	2,574,554.12	(8.53)	2,900,513.04	2,643,294.81
Owners' equity (or shareholders' equity)	1,465,004.52	1,574,625.36	1,493,301.42	(6.96)	1,588,217.84	1,491,349.10

Accounting Information and Business Highlights

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

3. Major accounting information and financial indicators for the three years ended 31 December 2009 (Continued)

3.2 Key financial indicators

Unit: RMB'000

	2009	2008		Increase/ (decrease) from last year (%)	2007	
		After the adjustment	After the adjustment		After the adjustment	After the adjustment
Basic earnings per share	0.02	0.06	0.06	(62.26)	0.18	0.16
Diluted earnings per share	0.02	0.06	0.06	(62.26)	0.18	0.16
Basic earnings per share after extraordinary items	(0.03)	0.03	0.03	(218.64)	0.17	0.17
Fully diluted return on net assets (%)	1.06	2.61	2.49	Decreased by 1.55 percentage points	7.36	7.18
Weighted average return on net assets (%)	1.04	2.60	2.48	Decreased by 1.56 percentage points	7.48	7.44
Fully diluted return on net assets after extraordinary items (%)	(1.45)	1.14	1.20	Decreased by 2.59 percentage points	6.90	7.35
Weighted average return on net assets after extraordinary items (%)	(1.44)	1.21	1.20	Decreased by 2.65 percentage points	7.01	7.92
Net cash flow from operating activities per share	0.38	(0.17)	(0.22)	323.72	(0.04)	(0.05)

	As of the end of 2009	As of the end of 2008		Increase/ (decrease) from last year (%)	As of the end of 2007	
		After the adjustment	After the adjustment		After the adjustment	After the adjustment
Net assets attributable to shareholders of the Company per share	2.24	2.40	2.28	(6.96)	2.42	2.28

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

Accounting Information and Business Highlights

(2) Prepared in accordance with Hong Kong Financial Reporting Standards

The following is a summary of the consolidated results of the Group for each of the five years ended 31 December 2009 and the combined proforma results of the Group for the year ended 31 December 2008 prepared on the basis that the Group's structure had been in existence from the year ended 31 December 2004.

Unit: RMB'000

	2009	2008 (restated)	2007	2006	2005
Turnover	1,267,295	1,264,233	994,038	880,973	850,817
Operating loss	(82,618)	(107,415)	(64,333)	(68,214)	(113,556)
Share of results of associated companies	147,273	201,284	247,405	230,730	257,381
Profit before taxation	31,398	49,789	122,476	105,717	100,165
Taxation	(12,374)	(6,568)	(2,665)	(4,160)	(3,176)
Profit after taxation	19,024	43,221	119,811	101,557	96,989
Minority interests	(3,498)	(2,657)	(7,816)	(8,447)	(4,228)
Profit attributable to shareholders	15,526	40,564	111,995	93,110	92,761
Proposed final dividends	—	—	52,401	—	—

Summary of the total assets and liabilities for each of the five years ended 31 December 2009

Unit: RMB'000

	2009	2008 (restated)	2007 (restated)	2006	2005
Total asset	2,456,940	2,686,015	2,835,943	2,766,077	2,571,839
Total liabilities	980,150	1,098,031	1,188,165	1,346,112	1,245,511
Total net assets	1,476,790	1,587,984	1,647,778	1,419,965	1,326,328

(3) No differences of net profit between the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and the PRC Accounting Standards for Business Enterprises as applicable to the Group

Changes in Share Capital and Information of Shareholders

(1) Changes in shareholdings during the reporting period

Unit: Shares

	Before the change		Newly Issued shares	Increase/(decrease) from the change (+, -)				After the change	
	Amount	Percentage (%)		Bonus shares	Transfer	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to trading moratorium									
1. State-owned legal person shares	269,213,500	41.10				-269,213,500	-269,213,500	0	0
II. Shares not subject to trading moratorium									
1. State-owned legal person shares	65,501,500	10.00			+269,213,500	+269,213,500	334,715,000	51.10	
2. Domestic natural person shares	78,300,000	11.95					78,300,000	11.95	
3. Overseas listed foreign shares	242,000,000	36.95					242,000,000	36.95	
III. Total number of shares	655,015,000	100				0	0	655,015,000	100

Notes:

- (1) During the reporting period, there is no change in the total number of the Company's shares and the shareholding structure. The Company did not repurchase, sell or redeem its listed securities.
- (2) As at 29 March 2010, the most practicable and recent date for the announcement of the Annual Report, based on information that is publicly available to the Company and so far as the Directors are aware, the Company has complied with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to sufficient public float.
- (3) During the reporting period, the Company, for the second time, arranged the listing of circulating shares subject to trading moratorium (limited to the shares involved in the share reform scheme) held by PEGL. The number of circulating shares subject to trading moratorium listed amounted to 269,213,500 shares; and the listing of shares commenced on 25 September 2009.

(Details were set out in the relevant announcements published in China Securities Journal, Shanghai Securities News on 22 September 2009, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 21 September 2009.)

Changes in Share Capital and Information of Shareholders

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

Changes of Shares subject to trading moratorium:

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

(2) Shares in issue and listings

1. Shares in issue and listings

	H Shares	A Shares
Date of issue	24 April -2 May 1996	7 November -18 November 1996
Par value	RMB1.00 per share	RMB1.00 per share
Issue price	HK\$2.13 per share	RMB5.10 per share
Number of shares issued (<i>share</i>)	242,000,000	23,000,000
Date of listing	2 May 1996	18 November 1996
Place of listing	Hong Kong	Shanghai
Aggregate number of shares permitted to be traded (<i>share</i>)	242,000,000	413,015,000
Opening price on the first trading day of listing	HK\$2.05	RMB11.00
Opening price on the first trading day of the year	HK\$1.06	RMB4.26
Closing price on the last trading day of the year	HK\$2.23	RMB9.64
The highest price during the year	HK\$2.53	RMB9.99
The lowest price during the year	HK\$0.93	RMB4.06
Total transaction volume during the year (<i>0'000 Shares</i>)	50,535.551	54,014.77

2. Issue of shares during the past three years

During the past three years ended 31 December 2009, the Company did not issue new shares or place new shares for listing, etc.

Changes in Share Capital and Information of Shareholders

(2) Shares in issue and listings *(Continued)*

3. Existing internal employee's share

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

(3) Details of the Shareholders

The total number of shareholders, the number of shares held by the top ten shareholders and holders of shares not subject to trading moratorium of the Company as at 31 December 2009 are as follows:

Unit: Shares

Total number of shareholders as at the end of the reporting period: 22,170 shareholders, of which 22,118 were holders of A shares and 52 were holders of H shares

Shareholdings of the top ten shareholders

Name of shareholders	Type of shareholders (state-owned or foreign shareholders)	Percentage of shareholding (%)	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
PEGL	State-owned shareholder	51.10	334,715,000	0	167,350,000 shares were pledged
HKSCC (Nominees) Limited	Foreign Shareholder	36.74	240,663,599	0	Unknown
Huang Jitang黃紀棠	Others	0.389	2,544,900	0	Unknown
Peng Hongwan彭洪萬	Others	0.142	933,050	0	Unknown
Zheng Xinhua鄭新華	Others	0.092	600,000	0	Unknown
Hunan Duntai Metallurgy Co., Ltd. (湖南敦泰冶金有限公司)	Others	0.073	480,000	0	Unknown
Guo Mingbo郭明波	Others	0.063	410,300	0	Unknown
Industrial and Commercial Bank of China Limited — Guangfa Chinese Securities 500 Index Securities Investment Fund (LOF) (中國工商銀行股份有限公司—廣發中證500指數證券投資基金(LOF))	Others	0.052	340,800	0	Unknown
Wang Gang王剛	Others	0.052	339,000	0	Unknown
Quan Hui全慧	Others	0.051	335,670	0	Unknown

Changes in Share Capital and Information of Shareholders

(3) Details of the Shareholders (Continued)

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

Name of shareholders	Number of shares held not subject to trading moratorium	Class of shares
PEGL	334,715,000	A
HKSCC (Nominees) Limited	240,663,599	H
Huang Jitang黃紀棠	2,544,900	A
Peng Hongwan彭洪萬	933,050	A
Zheng Xinhua鄭新華	600,000	A
Hunan Duntai Metallurgy Co., Ltd. (湖南敦泰冶金有限公司)	480,000	A
Guo Mingbo郭明波	410,300	A
Industrial and Commercial Bank of China Limited — Guangfa Chinese Securities 500 Index Securities Investment Fund (LOF) (中國工商銀行股份有限公司 — 廣發中證500指數證券投資基金(LOF))	340,800	A
Wang Gang王剛	339,000	A
Quan Hui全慧	335,670	A

Description of the connected relationship or party acting in concert among 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 of the Company on behalf of the state, representing 51.10% of the issued share capital of the Company, which were circulating shares not subject to trading moratorium. Among the shares held by PEGL, 192,815,000 shares which were originally judicially frozen were discharged on 12 November 2009, and 167,350,000 shares which were pledged during the reporting period were discharged on 28 January 2010. As at 29 March 2010, none of the shares of the Company held by PEGL are pledged or frozen.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 20 November 2009 and 30 January 2010, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 19 November 2009 and 29 January 2010.)

- (2) HKSCC (Nominees) Limited held 240,663,599 H Shares, representing 36.74% 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 the total share capital issued by the Company.

Changes in Share Capital and Information of Shareholders

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

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

PEGL held 334,715,000 shares of the Company, representing 51.10% of the issued share capital of the Company, all of which were circulating shares not subject to trading moratorium.

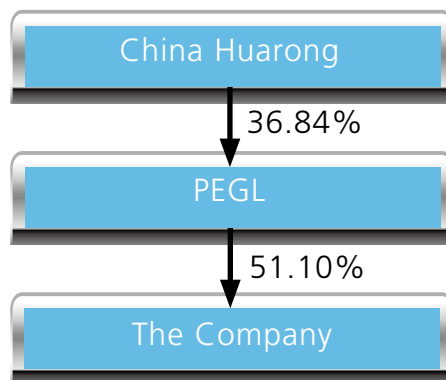
The predecessor of PEGL was established in 1936, which was converted into a limited company upon approval by the Nanjing Municipal Government on 5 July 1999 and subsequently completed the conversion of indebtedness into equity interests on 4 June 2003. The registered capital of PEGL is RMB1,266,060,000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

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

Changes in Share Capital and Information of Shareholders

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

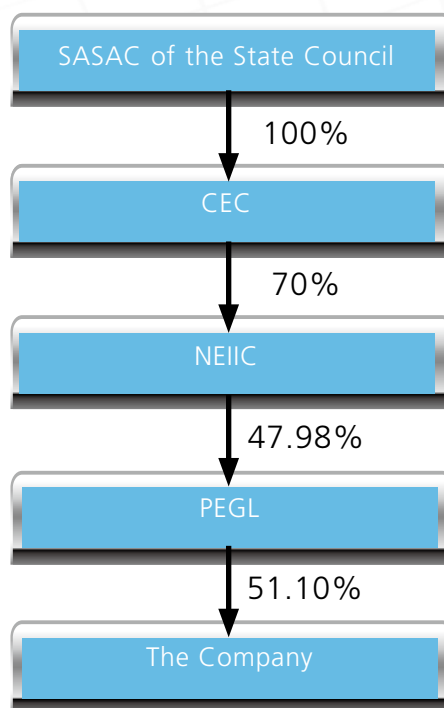
Controlling relationship between the Company and the de facto controller is as follows:



Note: NEIC was jointly invested and established pursuant to the agreement entered into by Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC"), Jiangsu Provincial Guo Xin Asset Management Group Ltd (江蘇省國信資產管理集團有限公司) ("Guo Xin Group") and CEC (of which CEC accounts for 70%, Nanjing SASAC and Guo Xin Group account for 15% each). Pursuant to the agreement, NEIC will hold 47.98% equity interest in PEGL, the controlling shareholder of the Company, and hence becoming the largest shareholder of PEGL. Pursuant to the approval of the change in the ultimate controller of the Company (Guo Zi Chan Quan [2009] No. 843) (《關於南京熊貓電子股份有限公司實際控制人變更有關問題的批覆》(國資產權[2009]843號)) issued by the Stateowned Assets Supervision and Administration Commission of the State Council, the ultimate controller of the Company will be changed to CEC upon completion of the establishment of NEIC. The completion of the agreement is still subject to the relevant approval procedures of the CSRC and other relevant regulatory authorities. By then, the diagram of property rights and controlling relationship between the Company and the ultimate controller shall become:

Changes in Share Capital and Information of Shareholders

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



(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 8 September 2009, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 7 September 2009.)

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

On 31 December 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. (3) Tuesday Thirteen Inc., held 16,920,000 H Shares, accounting for approximately 7.00% of H Shares in issue and approximately 2.59% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of controlled corporation. No short positions were found in any shares held by the above substantial shareholders.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2009.

Profiles of Directors, Supervisors, Senior Management and Staff

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

1. Executive Director

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

2. Non-executive Directors

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

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

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

Profiles of Directors, Supervisors, Senior Management and Staff

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

2. Non-executive Directors (Continued)

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

Mr. Jason Hsuan, born in 1944, holds a Ph.D. He graduated from the Department of Electrical Engineering of National Cheng Kung University, Taiwan in 1968. He holds a doctorate degree of philosophy in Systems Engineering from the Polytechnic Institute of Brooklyn, New York, the U.S.A. and a master's degree in Systems Engineering from Boston University, the U.S.A. Mr. Hsuan is the chairman of the Board and chief executive officer of TPV Technology Limited (Stock Code: 903), a company listed on the Hong Kong Stock Exchange. Mr. Hsuan joined the aforesaid company in November 1999 responsible for the overall corporate strategies and business development. Mr. Hsuan has about 20 years of corporate management experience in well-known multi-national enterprises which include General Electric and PepsiCo.

3. Independent Non-executive Directors

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

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

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

Profiles of Directors, Supervisors, Senior Management and Staff

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

4. Supervisors

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

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

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

5. Independent Supervisors

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

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

Profiles of Directors, Supervisors, Senior Management and Staff

(I) Profiles of Directors, Supervisors, Senior Management Staff (Continued)

6. Senior Management Staff

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

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

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

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

As of 31 December 2009, interests of the Directors, Supervisors and senior management staff of the Company in the domestic shares of the Company which were recorded in the register require to be kept by the Company under Section 352 of the Securities and Futures Ordinance of the Stock Exchange (Chapter 571 of the Laws of Hong Kong)(the "SFO") are as follows (the nature of such interests is personal interest) :

Name	Position	Sex	Age	Term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB'000)	Whether received out of shareholders or connected parties
Li Anjian	Chairman, General Manager	M	56	2007.06.12- 2010.03.22	0	0	—	0	No
Xu Guofei	Non-executive Director, Vice Chairman	M	47	2007.06.12- 2010.06.12	2,546	2,546	—	32	No

Profiles of Directors, Supervisors, Senior Management and Staff

(II) Shareholding and Remunerations of Directors, Supervisors and Senior Management Staff (Continued)

Name	Position	Sex	Age	Term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB'000)	Whether received out of shareholders or connected parties
Zhu Lifeng	Non-executive Director	M	45	2007.06.12-2010.06.12	4,378	4,378	—	26	No
Shi Qiu Sheng	Non-executive Director	M	50	2007.06.12-2010.06.12	5,940	5,940	—	0	No
Lu Qing	Non-executive Director	M	44	2007.06.12-2010.06.12	0	0	—	26	No
Jason Hsuan	Non-executive Director	M	65	2009.12.23-2010.06.12	0	0	—	0	No
Cai Lianglin	Independent Non-executive Directors	M	68	2007.06.12-2010.06.12	0	0	—	0	No
Tang Yousong	Independent Non-executive Directors	M	58	2007.06.12-2010.06.12	0	0	0	0	No
Ma Chung Lai, Lawrence	Independent Non-executive Directors	M	55	2007.06.12-2010.06.12	0	0	—	7.04 ^{Note}	No
Zhang Zhengping	Chairman of the Supervisory Committee	F	53	2007.06.12-2010.06.12	4,648	4,648	—	28	No
Tang Min	Supervisor	F	52	2007.06.12-2010.06.12	0	0	—	12	No
Zhou Yuxin	Supervisor	M	45	2008.10.28-2010.06.12	0	0	—	10	No
Sun Suhua	Independent Supervisor	F	67	2007.06.12-2010.06.12	0	0	—	0	No
Wang Fei	Independent Supervisor	M	50	2008.12.31-2010.06.12	0	0	—	0	No
Liu Kun	Deputy General Manager	M	43	2007.06.12-2010.06.12	0	0	—	24	No
Shen Jianlong	Chief Accountant, Secretary to the Board	M	46	2007.06.12-2010.06.12	0	0	—	24	No
Xia Dechuan	Deputy General Manager	M	39	2008.06.30-2010.06.12	0	0	—	24	No
Total					17,512	17,512		213.04	

Profiles of Directors, Supervisors, Senior Management and Staff

(II) Shareholding and Remunerations of Directors, Supervisors and Senior Management Staff (Continued)

Note: Independent Director Mr. Ma Chung Lai, Lawrence received remuneration of HK\$80,000 (based on the conversion of HK\$1=RMB0.8805 as at 31 December 2009).

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

Save as disclosed above, none of the Directors, Supervisors and senior management staff of the Company or their associates had any interest in the share of the Company or any of its associated corporations (as defined in Part XV of the SFO) as of 31 December 2009, and none of the Directors or Supervisors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

(III) Positions held by Directors and Supervisors in the Company's Shareholders

Name	Name of the Company's Shareholder	Position held in the Company's Shareholder	Term of appointment	Whether receiving remuneration or allowance (Yes or No)
Xu Guofei	PEGL	General Manager	From September 2004	No
Zhu Lifeng	PEGL	Deputy General Manager	From July 1999	No
Lu Qing	PEGL	Deputy General Manager	From January 2009	No
Zhang Zhengping	PEGL	Secretary to Department	From January 2009	No

(IV) Positions held by Directors and Supervisors in Other Units

Name	Name of other units	Position held	Term of appointment
Tang Yousong	Industrial and Commercial Bank of China, Jiangsu Province Branch	Researcher	From 2007
Ma Chung Lai, Lawrence	Hong Kong Taching Petroleum Co., Ltd.	General Manager	From 1982
Jason Hsuan	TPV Technology Ltd.	Chairman & CEO	From 1990
Wang Fei	Business School of Hehai University	Department Head	From 1999

Profiles of Directors, Supervisors, Senior Management and Staff

(V) Remunerations of the Directors, Supervisors and Senior Management Staff of the Company

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

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

(VI) Changes in Directors, Supervisors and Senior Management Staff

1. **During the reporting period, Ms. Liu Ailian resigned from her positions as a Director of the Company, a member of the Strategy Committee and the Audit Committee of the Company on 14 December 2009 due to old age.**

Mr. Hsuan Jason was nominated as a candidate for Director of the sixth Board of the Company at an extraordinary meeting of the Board of the Company convened on 20 October 2009. Mr. Jason Hsuan was elected as a Director of the sixth Board of the Company at the 2009 first extraordinary general meeting of the Company convened on 23 December 2009, for a term up to the expiry of the sixth Board.

(For details, please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News on 21 October 2009, 15 December 2009 and 24 December 2009 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 20 October 2009, 14 December 2009, 23 December 2009)

2. **Mr. Li Anjian, the former Chairman of the Company, resigned as the Chairman and General Manager of the Company, a member of the Strategy Committee and the Nomination Committee on 22 March 2010 due to change of work.**

Mr. Lai Weide has been nominated as a candidate for Director of the sixth Board of the Company at the extraordinary meeting of the Board held on 22 March 2010, and the nomination will be proposed at the upcoming general meeting for consideration.

(For details, please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News on 23 March 2010 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange 22 March 2010.)

(VII) Employees of the Company

As at 31 December 2009, there were 3,276 employees in the Company, of which 1,534 were engaged in production, 985 in technology, 353 in sales, 139 in finance and 265 in administration and management. Of these employees, 1,558 were graduates of tertiary institutions or above and 83 were masters or doctors. There were 736 retirees, for whom the Company undertook to pay retirement pension.

Corporate Governance Report

(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 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.

During the reporting period, the Company adopted and strived to comply with the Code of Corporate Governance Practice (“CGP Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

1. During the reporting period, the Company continued to further the rectification of corporate governance. Pursuant to requirements of the Notice on the Corporate Governance of Listed Companies for 2009 ([2009]No. 088) by the Listing Division of the CSRC and Notice on the Implementation of Further Rectification of Corporate Governance of Listed Companies in 2009 (Su Zheng Jian Gong Si Zi [2009] No.318) by the Jiangsu Securities Regulatory Bureau of CSRC, the Company conscientiously conducted self-examination and assessment on special campaigns for the corporate governance launched by the Company since 2007, further identified deficiencies in corporate governance and carried out remedial rectification measures, aiming to reinforce the achievements in governance and enable the Company to further standardize its operation and improve corporate governance. Such self-examination report was submitted to Jiangsu Securities Regulatory Bureau in August 2009.
2. The “Self-assessment Report on the Internal Control of the Company” (關於公司內部控制的自我評估報告) and the “Report on Performance of Social Responsibilities of the Company” (公司履行社會責任報告) of the Company for year 2008 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. In June 2009, the Company proactively arranged 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」), in order to have a more in-depth understanding and knowledge of the relevant provisions in establishing an internal control system, optimizing its internal control system and promoting departmental awareness of bringing internal control system into fully play.
4. In order to enhance the standardized operation of the Company, improve the quality of information disclosure and perfect the management system for information disclosure, the Company established an “Insider Information Management System”, “Management System For External Information Users” and “Accountability System for Major Disclosure Errors in Annual Report” during the reporting period. Such systems were considered and approved at the 12th meeting of the sixth Board of the Company held on 29 March 2010.

Corporate Governance Report

(I) Corporate Governance (Continued)

5. Mr. Li Anjian held the positions of Chairman and General Manager (CEO), which deviated from the code provision A.2.1 of the CGP Code.
6. According to relevant regulatory requirements, the Company has established a comprehensive internal control system which is examined by the audit department of the Company regularly or from time to time. The Audit Committee, Supervisory Committee and independent Directors of the Company review the implementation of internal control regularly. On 29 March 2010, the Board of the Company considered and approved the "Self-assessment Report on the Internal Control of the Company" and the "Report on Performance of Social Responsibilities of the Company" for 2009.

(II) Securities Transactions by Directors

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

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

(III) The Board

1. Board Composition

During the reporting period, the sixth Board continued to hold office and its Board members were elected at the annual general meeting held on 12 June 2007. During the reporting period, Ms. Liu Ailian resigned from her position as Director of the Company due to old age on 14 December 2009 while Mr. Jason Hsuan was elected as a Director of the sixth Board of the Company at the 2009 first extraordinary general meeting held on 23 December 2009. Other Directors remained unchanged.

The sixth Board still comprises nine Directors, three of whom are independent non-executive Directors and one is a certified public accountant.

The Board members for the year ended 31 December 2009 and the brief biographies of each Director are set out in Section V headed "Profiles of Directors, Supervisors, Senior Management and Staff" of the Annual Report.

Corporate Governance Report

(III) The Board (Continued)

1. Board Composition (Continued)

Executive Director

Mr. Li Anjian (*Chairman*)

Non-executive Director

Mr. Xu Guofei (*Vice Chairman*)

Mr. Zhu Lifeng

Mr. Shi Qiusheng

Mr. Lu Qing

Mr. Jason Hsuan

Independent Non-executive Directors

Mr. Cai Lianglin

Mr. Tang Yousong

Mr. Ma Chung Lai, Lawrence

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

2. Nomination of Directors

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

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

During the reporting period, the Nomination Committee convened one meeting by way of written resolutions in accordance with the Articles of Association and Rules of Procedures of Nomination Committee. All members of the committee attended the meeting at which it was resolved to propose the nomination of Mr. Jason Hsuan as a candidate for director of the sixth Board of the Company. The proposal was submitted to the Board for discussion.

Corporate Governance Report

(III) The Board (Continued)

3. Chairman and Chief Executive Officer

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

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

Mr. Li Anjian held the positions of Chairman and General Manager (Chief Executive Officer)

4. Board Practices

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

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

The Board held four meetings for the year ended 31 December 2009 (details are set out in Section IX headed "Report of the Board" of the Annual Report) and the attendance of each director are as follows:

Name of Directors	Required attendances at the Board meetings	Attendances in person	Attendances by proxy	Absences
Li Anjian	4	2	2	0
Xu Guofei	4	4	0	0
Liu Ailian	4	3	1	0
Zhu Lifeng	4	4	0	0
Shi Qiu Sheng	4	2	2	0
Lu Qing	4	3	1	0
Jason Hsuan	0	0	0	0

Corporate Governance Report

(III) The Board (Continued)

5. Performance of Duties by Independent Directors

- (1) The three independent Directors of Company diligently carried out their duties in accordance with the relevant laws, regulations and the Articles of Association. They participated in Board Meetings for the decision-making on material events. With their professional knowledge and experience, Independent Directors advised the Company on its operation and management; reviewed the impartiality and fairness of connected transactions and whether the Company has complied with the waiver conditions granted by the Hong Kong Stock Exchange in respect of its connected transactions, offer independent advice on significant events such as external guarantee, proposal for profit appropriation, appointment of senior management, assets acquisition and continuing connected transactions during the reporting period. They also participated in the work of audit committee to audit the Company's financial statements. During the preparation and disclosure of the 2009 Annual Report of the Company, independent Directors had fulfilled their duties and obligations with due diligence and listened to the reports regarding the Company's production and operation as well as the progress of significant events for the year by the management. On-site inspections of certain subsidiaries were conducted. They also had communications with certified public accountants for annual auditing and reviewed the relevant information. Advice and opinions were provided to the Company. Independent Directors have made contributions to protect the overall interests of the Company and the legitimate rights of shareholders as a whole and promote the development of the Company.
- (2) The Board held four meetings for the year ended 31 December 2009 and attendance of each Independent Director at the Board Meetings were as follows:

Name of independent Directors	Required attendances at the Board meetings	Attendances in person	Attendances by proxy	Absences
Cai Lianglin	4	4	0	0
Tang Yousong	4	4	0	0
Ma Chung Lai, Lawrence	4	4	0	0

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

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

6. Directors' Responsibility for the Financial Statements

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

Corporate Governance Report

(III) The Board (Continued)

7. Remuneration of Directors

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

Roles and functions of the Remuneration and Evaluation Committee include formulating and reviewing remuneration policies and proposal of Directors and the senior management and formulating relevant appraisal standards and conducting appraisals. The Remuneration and Evaluation Committee convened a meeting on 28 December 2009 during the reporting period. The meeting conducted appraisals of the Directors, Supervisors and the senior management of the Company and reviewed their remuneration. The remuneration of Directors, Supervisors and the senior management were set in accordance with the results of appraisals. The remuneration committee has not convened any meeting during the reporting period. The remuneration of Directors is set out in Section V headed "Profiles of Directors, Supervisors, Senior Management and Staff" in this Annual Report.

(IV) Audit Committee

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

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

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

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

1. The first meeting of 2009 was convened on 26 March 2009. All members of the Audit Committee attended the meeting to review the Company's 2008 financial report and agreed to submit the report to the Board for review. The revised Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report and the Summary Report on the Auditing Work by the Auditors for the year were approved. In addition, the re-appointment of Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited as the Company's PRC and international auditors for 2009 was approved at the meeting and was submitted to the Board for consideration.
2. The second meeting of 2009 was convened on 25 August 2009. All members of the Audit Committee attended the meeting to review the interim financial report of 2009 which was approved to submit to the Board for consideration.

Corporate Governance Report

(IV) Audit Committee (Continued)

During the preparation and disclosure of the 2009 financial report, in accordance with the "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report", the Audit Committee conducted various communications and coordination with the Company's certified public accountants for annual auditing. The Audit Committee reviewed and agreed with the "2009 Overall Audit Plan" submitted by the certified public accountants for annual auditing. Both parties negotiated and confirmed the schedule of the financial report for this year and requested full attention and diligent performance from the accountants and the finance department of the Company which were in charge of auditing, aspiring to prepare and audit the 2009 financial report in compliance with regulations of regulatory authorities and the new accounting standards. The financial conditions and operating results of the Company in 2009 were reflected in an objective and fair manner. The Audit Committee also advised and recommended significant audit issues that worth attention.

The Audit Committee convened a meeting on 26 March 2010. All members of the Audit Committee attended the meeting to review the 2009 financial report and the summary report on the 2009 annual audit by the accounting firms and agreed to submit such reports to the Board for review. In addition, the re-appointment of Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited as the Company's PRC and international auditors for 2010 was approved at the meeting and was submitted to the Board for consideration.

(V) Strategy Committee

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

Main functions of the Strategy Committee include studying the decisions on the Company's long-term development and material investment, financing and material capital restructuring and providing relevant suggestions. A Strategy Committee meeting was held on 9 November 2009 during the reporting period. The meeting discussed and studied the Company's development and recommended to the Board the need for the Company's further enhancement of development in its principal operations amid the international financial crisis. The meeting also suggested the Company strengthen the research and development of its core business, diligently develop products with intellectual property rights, facilitate on the development of joint venture companies and ensure sustainable growth of such business through further international cooperation.

(VI) Separation of Staff, Asset, Finance, Organization and Business Between the Company and Its Controlling Shareholder

1. Staff: The staff of the Company is independent from the controlling shareholder. The Company has independent management in labour, personnel and wages, and established the relevant management systems. Senior management members such as general manager and deputy general manager receive salaries from the Company. Save for the position of director, they do not hold any other positions in the controlling shareholder.
2. Asset: The Company has its own supply, production and sale systems, ancillary production system and facilities. The Company holds intangible assets such as trademark ownership, industrial property right, and non-patent technology.

Corporate Governance Report

(VI) Separation of Staff, Asset, Finance, Organization and Business Between the Company and Its Controlling Shareholder *(Continued)*

3. Finance: The Company has set up its own finance department, accounting system, financial management system and its own bank accounts.
4. Organization structure: The Company established a sound organizational system in which the Board, Supervisory Committee and other internal departments each operate and function independently. The Company is not subordinate to its controlling shareholder in term of its duties and departmental functions.
5. Business scope: The Company has a highly independent and complete business and operation ability. The Company has signed a "Non-competition and First Right of Refusal Agreement" with its controlling shareholder in order to avoid competition within the same industry.

(VII) Review on the Performance of the Senior Management and Incentive Systems

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

(VIII) Auditors' Remunerations

UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. were engaged as the Company's international and PRC auditors for 2009, respectively. Remunerations paid by the Company to the abovementioned two certified public accountants for their audit services in 2009 for the annual report were RMB908,900 and RMB1,111,000 respectively, totalling RMB2,019,900 (the aggregate amount of 2008: RMB2,021,800).

(IX) General Meeting

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

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

Corporate Governance Report

(IX) General Meeting (Continued)

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

(X) Communications with Shareholders and Investor Relations

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

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

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

Please refer to the announcement dated 29 March 2010 published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange for the full text of the Internal Control Report.

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

(XII) Disclosure of the Report on the Company’s Fulfilment of Social Responsibility (“Social Responsibility Report”)

Please refer to the announcement dated 29 March 2010 published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange for the full text of the Social Responsibility Report.

Shareholders' General Meetings

(I) The Company held its 2008 Annual General Meeting (“AGM”) on 15 May 2009 at its headquarters. The notice of the AGM was published in China Securities Journal and Shanghai Securities News on 27 March 2009 and on websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 26 March 2009. A total of 26 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,060,580 shares or 87.79% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the People’s Republic of China and the Articles of Association of the Company.

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

- (1) To consider and approve the Report of the Board of the Company for the year 2008.
- (2) To consider and approve the Report of the Supervisory Committee of the Company for the year 2008.
- (3) To consider and approve the audited financial reports of the Company for the year 2008.
- (4) To consider and approve the profit appropriation plan (after tax) for the financial year of 2008. It was resolved that the Company would not declare any final dividend for the year ended 31 December 2008 nor make any capitalisation of capital reserve.
- (5) To consider and approve the re-appointment of UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. as the Company’s international and PRC auditors respectively for 2009, and authorize the Board to determine their remunerations.

2. The AGM was witnessed by Mr. Jing Zhong and Mr. Sun Xianchao of Yongheng Partners, who issued a legal opinion certifying that the meeting was legally and validly held.

The announcement of the above resolutions was published in the China Securities Journal and Shanghai Securities News on 16 May 2009 and the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 15 May 2009.

Shareholders' General Meetings

(II) The Company convened the first Extraordinary General Meeting (“EGM”) for 2009 at its headquarters on 23 December 2009. The notice of the EGM was published in the China Securities Journal and Shanghai Securities News on 6 November 2009 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 5 November 2009. A total of 25 shareholders of the Company or duly authorized proxies attended the meeting, representing 575,400,458 shares or 87.85% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the PRC and the Articles of Association.

1. The amendments to the Articles of Association of Nanjing Panda Electronics Company Limited were considered and approved by way of special resolution at the EGM.

2. The following resolutions were considered and approved at the EGM as ordinary resolutions:

- (1) To consider and approve the future continuing connected transactions to be conducted between the Company and its connected parties and Panda Electronics Group Limited and its connected parties from 2010 to 2012 as well as the annual caps of such transactions, and to authorize Directors of the Company to take all steps necessary to give effect to such continuing connected transactions.
- (2) To consider and approve the election of Mr. Jason Hsuan as a Director of the sixth Board of the Company until the expiry of the current Board, and to authorize the Board to fix his remuneration which shall not exceed the limit of RMB2,600,000, being the total directors’ fees for the sixth Board.
- (3) To consider and approve the State-owned Land Use Right Transfer Agreement entered into between Nanjing Huage Appliance and Plastic Industrial Company Limited (a wholly-owned subsidiary of the Company) and Nanjing Panda Handa Technology Company Limited, and to authorize Directors of the Company to take all steps necessary to give effect to such connected transaction.
- (4) To consider and approve the provision of a guarantee to Nanjing Panda Information Industry Co., Ltd. (南京熊猫信息產業有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB50,000,000 for the year 2010.

Shareholders' General Meetings

(II) The Company convened the first Extraordinary General Meeting (“EGM”) for 2009 at its headquarters on 23 December 2009. The notice of the EGM was published in the China Securities Journal and Shanghai Securities News on 6 November 2009 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 5 November 2009. A total of 25 shareholders of the Company or duly authorized proxies attended the meeting, representing 575,400,458 shares or 87.85% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the PRC and the Articles of Association. *(Continued)*

2. The following resolutions were considered and approved at the EGM as ordinary resolutions: *(Continued)*

- (5) To consider and approve the provision of a guarantee to Nanjing Panda Electronic Manufacture Co., Ltd (南京熊猫电子製造有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB30,000,000 for the year 2010.
- (6) To consider and approve the provision of a guarantee to Nanjing Huage Appliance and Plastic Industrial Company Limited (南京華格電汽塑業有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB55,000,000 for the year 2010.
- (7) To consider and approve the provision of a guarantee to Nanjing Panda Mechanical Manufacturing Co., Ltd. (南京熊猫機電製造有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB5,000,000 for the year 2010.
- (8) To consider and approve the provision of a guarantee to Nanjing Panda Electronic Equipment Co., Ltd. (南京熊猫电子裝備有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB10,000,000 for the year 2010.

3. The EGM was witnessed by Mr. Jing Zhong and Mr. Sun Xianchao of Yongheng Partners, who issued a legal opinion certifying that the meeting was legally and validly held.

The announcement of the above resolutions was published in the China Securities Journal and Shanghai Securities News on 24 December 2009 and on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 23 December 2009.

Chairman's Statement

(I) Analysis and Discussion on the Operations of the Company during the Reporting Period

1. Principal operations of the Company

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

In 2009, the Company continued to implement the philosophy of scientific development, deepened its internal reform, optimized its business structure, effectuated its industrial adjustment, consolidated internal resources, promoted innovations for its management system, strengthened comprehensive risk management, utilized its advantages on scientific research and development and insisted on sustainable development. The Company had, in general, maintained steady economic operations. While the Company had made great strides in principal businesses such as satellite communication, electronic equipment products, electronic intelligent products and electronic manufacturing, the Company had also pressed ahead to improve its management services to promote the healthy development of its joint ventures. Due to the subsequent impact of the global financial crisis in the year, the operating income and net profit of major sino-foreign joint ventures invested by the Company decreased, leading to a drop in the Company's investment income.



Chairman's Statement

(I) Analysis and Discussion on the Operations of the Company during the Reporting Period (Continued)

1. Principal operations of the Company (Continued)

According to the PRC Accounting Standards for Business Enterprises, revenue from operations of the Company for the year amounted to RMB1,285,000,000, representing an increase of 0.40% as compared with that of last year; profit of operations for the year amounted to RMB(5,850,700), representing a decrease of 123.46% as compared with that of last year; net profit amounted to RMB15,525,700, representing a decrease of 62.26% as compared with that of last year. Under the Hong Kong Financial Reporting Standards ("HKFRS"), revenue from principal operations of the Company for the year amounted to RMB1,267,000,000, representing an increase of 0.24% as compared with that of last year; profit of principal operations amounted to RMB91,427,000, representing a decrease of 14.22% as compared with that of last year; net profit attributable to shareholders amounted to RMB15,525,700, representing a decrease of 61.72% as compared with that of last year.

Chairman's Statement

(I) Analysis and Discussion on the Operations of the Company during the Reporting Period (Continued)

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

Unit: RMB'000

Business or product	Principal operating income	Principal operating costs	Principal operating profit margin %	Increase/decrease in revenues from principal operation from last year %	Increase/decrease in principal operating costs from last year %	Increase/decrease in principal operating profit margin from last year %
Electronic manufacturing	366,934	336,872	8.19	(8.87)	(1.83)	(6.58)
Electronic intelligent products	274,155	231,969	15.39	(19.00)	(22.73)	4.09
Electronic equipment products	276,338	238,554	13.67	3.22	5.77	(2.08)
Satellite communications	203,733	195,060	4.26	55.766	62.66	(4.06)
Others	138,765	143,843	(3.66)	15.50	34.96	(14.95)
Total	1,259,925	1,146,298	9.02	0.02	4.65	(4.03)

3. Principal operations by geographical regions

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

4. Operation of the principal controlling and investee companies

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

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson ("Ericsson Sweden"), 26% by Ericsson (China) Company Limited, 20% by China Potevio Co., Ltd., and 2% by Hong Kong Yung Shing Enterprise Company ("Hong Kong Yung Shing"). ENC is mainly engaged in producing products, such as mobile telecommunication system products and network communication systems. ENC is one of the supply pivots for Ericsson in the world, and is the largest supplier of mobile telecommunication equipments in China. In 2009, ENC took initiative to explore markets and constantly enhanced the competitiveness of its products. However, operating income and net profit decreased due to the impact of the global financial crisis.

Under the International Accounting Standards, operating revenue of ENC for 2009 amounted to RMB13,603,000,000, representing a decrease of 18.15% as compared to the corresponding period of last year; net profits amounted to RMB481,000,000, representing a decrease of 19.87% as compared to the corresponding period of last year.

Chairman's Statement



(I) Analysis and Discussion on the Operations of the Company during the Reporting Period (Continued)

4. Operation of the principal controlling and investee companies (Continued)

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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited ("Sony Ericsson"), 27% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing. BMC is mainly engaged in mobile terminals (mobile phones) under the brand of Sony Ericsson and is the principal production base and supply centre of Sony Ericsson mobiles. In 2009, BMC actively coped with 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, operating revenue of BMC for 2009 amounted to RMB22,842,000,000, representing a decrease of 19.36% as compared to the corresponding period of last year; net profits amounted to RMB428,000,000, representing a decrease of 7.76% as compared to the corresponding period of last year..

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

Hua Fei Company is held as to 25% by the Company, 20% by Nanjing Hua Dong Electronics Group Limited and 55% by LG. Philips Displays International Ltd. (樂金•飛利浦顯示件國際有限公司). 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.

(I) Analysis and Discussion on the Operations of the Company during the Reporting Period (Continued)

4. Operation of the principal controlling and investee companies (Continued)

(3) Hua Fei Color Display Systems Company Limited ("Hua Fei Company") (Continued)

Under the PRC Accounting Standards for Business Enterprises, sales income for 2009 amounted to RMB773,000,000, representing a decrease of 63.22% as compared to the corresponding period of last year. It continued to suffer a loss of RMB398,000,000 during the reporting period.

5. Major suppliers and customers

As at 31 December 2009, the aggregate turnover of the five major customers of the Company accounted for 36.00% of the turnover of the Company for the year, of which turnover from the largest customer accounted for 15.86% of turnover of the Company for the year.

The aggregate amount of purchase from the five major suppliers of the Company accounted for 22.70% of the total amount of purchase made by the Company for the year, of which the purchasing amount of the largest supplier accounted for 6.47% of the total amount of purchase made by the Company for the year.

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

6. Outlook of the Company's future development

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

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

The electronics industry covers a wide range of uses. It develops very rapidly and new products are constantly emerging. The market has vast prospect and potential for development.

Satellite communication has already become an emerging business and a new economic growing point around the world. The fusion of satellite communication with the Internet and land mobile network is taking satellite communication into a new realm. It serves as a supplement and backup for the national communication backbone network, playing an important role in emergency situations such as natural disasters, by ensuring the smooth operation of the national communication network.

Mobile communication is gaining importance in the way society communicates. Following the issue of 3G licenses in China, a telecom industry chain composing of 3G network construction, terminal equipments manufacture, operation and information servicing is going to take shape. This will in turn increase domestic demand and stimulate the economy.

Chairman's Statement



(I) Analysis and Discussion on the Operations of the Company during the Reporting Period (Continued)

6. Outlook of the Company's future development (Continued)

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

Electronic equipment products which integrate mechanics, electronics, optics, control tech, computer and information are the global development trend in the research of neotechnic products. Meanwhile, electromechanical integration is developing towards the directions of intelligence, vitalization, network, miniaturization, environmental-friendliness and systematization.

The development of electronic intelligent industry is evolving from traditional simulation toward digital, network and artificial intelligence. The development of electronic intelligent industry is evolving from traditional simulation toward digital, network and artificial intelligence. As electronic intelligent technology and products around the world continue to maintain a steady growth momentum, the expanding market size and rising needs for electronic intelligent products and network services provides room for further development in the electronic intelligent industry.

Electronic manufacturing has become a pillar of the national economy. Since the overall industry is still at its infancy stage, the business opportunities are huge. With increasing corporate governance ability and innovation ability, the industry will continue to leverage on new technology and new processes to improve efficiency, strengthen competitiveness, and grow at a moderate speed in the next few years.

(I) Analysis and Discussion on the Operations of the Company during the Reporting Period (Continued)

6. Outlook of the Company's future development (Continued)

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

Since electronic and intelligent products are heavy technological based, the replacement speed of the products is fast. Together with constant market change and intense product competition, the Company is expected to gain excellent opportunities and face huge challenges at the same time.

- (2) Development strategy of the Company

The overall development strategy of the Company is to effectively utilize its resources by technological research, so as to achieve further innovation in its business and gradually develop the Company into a R&D and production base of satellite communication. At the same time, the Company aims to enhance its competitiveness in the electronic equipment industry, electronic intelligence business and electronic manufacturing industry, forging the Company onwards to become a comprehensive and international high technology enterprise.

- (3) Risk factors

Despite the Government's ongoing implementation of positive fiscal policy and moderately relaxed monetary policy which have provided a favorable environment for the Company, the Company still faces the ongoing impacts and potential risks due to the global financial crisis and risks from policy adjustment due to expected inflation. Secondly, the Company faces market risk in the increasing competitive market as the core business of the Company is not prominent enough and its market competitiveness is comparatively weak. Thirdly, as technology is pivotal in electronic production, the Company faces technological risks due to the constant upgrading and updating of electronic products.



Chairman's Statement

(I) Analysis and Discussion on the Operations of the Company during the Reporting Period (Continued)

6. Outlook of the Company's future development (Continued)

(4) Development plans for 2010

2010 is a crucial year for the Company in realizing the "Eleventh Five-year Plan" and preparing for the "Twelfth Five-year Plan". The Company will continue to deliver its best and leap forward as a team under strict corporate governance in a pragmatic manner with groundbreaking business approaches. The Company will fully implement the philosophy of scientific development, facilitate the reform and development of the Company, promote sustainable growth, ensure the harmony and stability of the Company and achieve great development in good time. The main tasks in the forth-coming year are as follows:

- (i) to strengthen internal reforms, adjust enterprise structures, optimize allocation of resources and enhance fundamental management so as to upgrade the principal operations;
 - (ii) to insist on revitalizing the Company by science, strengthen the research and development ability of the Company and its development in core technology. Pay attention to the demand on advance technology and innovation, and focus on the development of products with intellectual property rights;
 - (iii) to insist on market orientation, speed up the establishment of marketing system, seize market opportunities brought by domestic demand stimulus, strengthen forward-looking researches on market demand and open up new sales channels, so as to increase market competitiveness;
 - (iv) to implement strategies by vigorously recruiting more talents and being committed to the concept of reliance on the people. Emphasize on the introduction of high-end research talents and management personnel, so as to meet the demand of talents for the Company's development and sharpen the Company's core competitive edges;
 - (v) to reinforce international collaboration, continue to focus on strategic cooperation with joint-ventures and partners, further reinforce management service of joint-venture corporations and facilitate continued rapid growth of joint-venture corporations, so as to increase income from investment.
- (5) The target operating revenue of the Company in 2010 is RMB1,388,000,000. The operating expenses during the period will be limited to RMB296,000,000 or below, out of which sales cost to be at RMB30,000,000, management cost RMB228,000,000 and financial cost RMB38,000,000.

(II) Conditions of investment of the Company

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

Chairman's Statement

(III) Analysis on financial status of the Company

1. Financial status

Changes in major financial indices according to the PRC Accounting Standards for Business Enterprises are as follows:

Unit: '000 Currency: RMB

Item	2009	2008	Increase/ (decrease) (%)	Main Reasons
Cash and bank balances	621,932.60	449,704.34	38.30	Mainly attributable to the timely collection of payment for product sales and receipt of dividend distributed from associates by the end of the year
Bills receivables	8,370.30	15,692.23	(46.66)	Mainly attributable to the decrease in bills receivables in the year
Stocks	157,430.03	345,835.20	(54.48)	Mainly attributable to the completion of all orders for satellite communication products and delivery to customers
Construction in progress	85,591.34	23,099.50	270.53	Mainly attributable to the increase in number of Xingang projects
Intangible assets	26,109.13	64,617.15	(59.59)	Mainly attributable to the transfer of land use rights in the year
Long term deferred expenses	0.00	3,205.96	(100.00)	Mainly attributable to the transfer of land use rights and fitment expenses transferred-out (already amortized)
Deferred income tax assets	2,782.00	6,927.71	(59.84)	Mainly because no more income tax will be paid by certain subsidiaries in the foreseeable future
Short term loans	380,000.00	595,500.00	(36.19)	Mainly attributable to the repayment of a portion of short term bank loans in the year
Bills payable	19,454.10	47,547.29	(59.08)	Mainly attributable to the decrease in bills payable in the year
Interest payable	469.36	1,155.40	(59.38)	Mainly attributable to the decrease in loans and interest rate in the period
Other payables	181,964.08	99,931.22	82.09	Mainly attributable to the capital flows received from shareholder, PEGL in the year
Long term payables	3,494.21	12,713.61	(72.52)	Attributable to the due payment of obligations of finance lease
Selling expenses	22,538.23	34,684.34	(35.02)	Mainly attributable to the comparatively higher selling expenses of the companies to which the subsidiaries acquired in the year belongs
Loss in assets impairment	20,440.53	36,506.83	(44.01)	Mainly attributable to the increase in provision for impairment of inventories provided for slow-moving stocks in the previous year

Chairman's Statement

(III) Analysis on financial status of the Company (Continued)

1. Financial status (Continued)

Item	2009	2008	Increase/ (decrease) (%)	Main Reasons
Operating (loss)/profit	(5,850.72)	24,938.48	(123.46)	Mainly attributable to the decrease in investment income in the year
Non-operating income	39,311.07	29,538.55	33.08	Mainly attributable to the profit generated from disposal of land use rights by the Company in the year
Non-operating expenses	2,062.10	4,112.13	(49.85)	Mainly attributable to the significant donation expenses last year
Total profit	31,398.25	50,364.91	(37.66)	Mainly attributable to the decrease in investment income in the year
Income tax	12,374.07	6,568.21	88.39	Mainly because no more income tax will be paid by certain subsidiaries in the foreseeable future
Minority interests	3,498.51	2,657.66	31.64	Mainly attributable to the increase in revenue of certain non wholly-owned subsidiaries as compared with last year
Net cash flows from operating activities	247,497.97	(110,628.67)	323.72	Mainly attributable to the collection of payment for product sales in the period and receivables at the beginning of the year
Net cash flows from investment activities	146,042.73	234,440.91	(37.71)	Mainly attributable to the acquisition of subsidiaries in the year
Net cash flows from financing activities	(249,619.83)	(144,371.49)	(72.90)	Mainly attributable to the repayment of bank loans in the year

2. Liquidity of capital

In accordance with the Hong Kong Financial Reporting Standards, the gearing ratio of the Company (the ratio between total liabilities and total assets), current liabilities, liquidity ratio and quick ratio were 39.89%, RMB975,000,000, 1.13 and 0.97 respectively as at 31 December 2009 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB622,000,000 as at 31 December 2009 as shown in the consolidated financial statements of the Company.

Loans: short-term bank loans amounted to RMB399,000,000 as at 31 December 2009 as shown in the consolidated financial statements of the Company and basic interest rate per annum during the reporting period was 5.31%.

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

Xu Guofei
Vice Chairman

Nanjing, the PRC
29 March 2010

Report of the Board

The Board is pleased to submit its report together with the audited financial statements for the year ended 31 December 2009.

Day-to-day Operation of the Board

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

- (1) On 26 March 2009, the Company held the eighth meeting of the sixth Board at its headquarters. The meeting approved the 2008 annual report and the summary thereof, report of the Board, 2008 financial statements as audited respectively by the international and domestic auditors and the profit appropriation plan for 2008. The re-appointment of UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. as the international and domestic auditors of the Company for 2009 was approved. The resolution on “adjustments to the opening balance of relevant items in the balance sheet for the year 2008” was considered and approved. The revised Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report was considered and approved. The relevant matters in relation to convening of the 2008 annual general meeting were passed.

(The announcement of the aforesaid resolutions passed by the Board was published in the Shanghai Securities News, China Securities Journal on 27 March 2009, and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 26 March 2009.)

- (2) On 28 April 2009, the Company held the ninth meeting of the sixth Board by way of written resolutions, at which the 2009 First Quarterly Report of the Company was approved.
- (3) On 26 August 2009, the Company held the tenth meeting of the sixth Board at its headquarters, at which the 2009 Interim Report and its summary were approved.
- (4) On 27 October 2009, the Company held the eleventh meeting of the sixth Board by way of written resolutions, at which the 2009 Third Quarterly Report of the Company was approved.

2. During the reporting period, the Board strictly complied with the resolutions approved at the general meetings and will diligently and honestly work for the best interest of the Company and shareholders.

Newspapers and Websites for Information Disclosure

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

Principal Activities

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

Report of the Board

Turnover and Contribution by Business Segment

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

Type of products	Turnover RMB'000	Contribution to the Group's operating profit (loss) RMB'000
Electronic manufacturing products	365,540	10,472
Satellite communication products	205,086	22,182
Electronic equipment products	278,950	15,556
Electronic intelligent products	275,287	9,845
Other operations	142,432	(9,495)
Operating profit		48,560
Unallocated corporate expense		(131,178)
Interest income		3,287
Interest expenses		(36,544)
Share of results of associates		147,273
Profit before taxation		31,398

Financial Summary

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

Net Assets Per Share

The details of the net assets per share as at the balance sheet date for each of the three years ended 31 December 2009 are as follows.

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

	2009	2008	2007
Net assets per share (Net assets/Total number of shares) (Unit: RMB)	2.25	2.42	2.52
Rate of increase/(decrease)	(7.02)%	(3.97)%	20.00%

Net Assets Per Share (Continued)

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

	2009	2008	2007
Net assets per share (Net assets/Total number of shares) (Unit: RMB)	2.25	2.42	2.42
Rate of increase/(decrease)	(6.25)%	—	14.69%

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

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

Pre-emptive Rights

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

Directors' and Supervisors' Remuneration

During the year, the aggregate remuneration of the Directors and Supervisors amounted to RMB910,400 and RMB500,000 respectively, exclusive of their pension scheme contributions. Save as disclosed above, the Company did not offer other remuneration, allowances, or bonuses to the Directors and Supervisors.

The remuneration paid or payable by the Company to each of the Directors and Supervisors was less than RMB350,000. The pension scheme for Executive Directors and Supervisors was included as part of the staff pension scheme of the Company as there was no other special arrangement.

Highest Paid Individuals

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

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

At no time during the year 2009 had the Company become a party to any arrangements to enable the Directors, Supervisors and senior management staff or any of their spouses or children under 18 to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other corporate bodies.

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

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

Report of the Board

Service Agreements for Directors and Supervisors

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

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

Privileges of Directors, Supervisors and Senior Management Staff

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

Material Contracts with Panda Electronics Group Limited

The Group entered into the following agreements under the Continuing Connected Transactions conducted from 2010 to 2012 with the PEGL Group:

1. An agreement on provision of sub-contracting services and composite services by the Group to the PEGL Group signed on 15 October 2009;
2. An agreement on provision of sub-contracting services and composite services by the PEGL Group to the Group signed on 15 October 2009;
3. An agreement on sale of materials and components and parts by the Group to the PEGL Group signed on 15 October 2009;
4. An agreement on sale of materials and components and parts by the PEGL Group to the Group signed on 15 October 2009;
5. An agreement on import and export agency services provided by the PEGL Group to the Group signed on 15 October 2009;
6. An agreement on licensing of PANDA Trademarks by the Group to the PEGL Group signed on 15 October 2009;
7. An agreement on lease of factory premises by the Group to the PEGL Group signed on 15 October 2009;
8. An agreement on lease of factory premises by the PEGL Group to the Group signed on 15 October 2009.

(For details of the aforesaid agreements, please refer to relevant announcements published in the China Securities Journal and Shanghai Securities News on 16 October 2009, and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 15 October 2009 and in the circular on convening the first extraordinary general meeting for 2009 dated 23 December 2009.)

The aforesaid agreements were approved by the independent shareholders as continuing connected transactions at the first extraordinary general meeting for 2009 held on 23 December 2009 and came into effect.

Convertible Securities, Options, Warrants or Similar Rights

The Company had not issued or granted any convertible securities, options, warrants or similar rights as at 31 December 2009.

Pension Scheme

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

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

Management Contracts

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

Results and Profit Distribution

The results of the Group for the year ended 31 December 2009 and the financial status of the Company and the Group on that date are set out in the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and the PRC accounting standards.

After being audited by Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited, the Company realized a net profit after taxation of RMB15,525,670 in 2009 under the PRC Accounting Standards for Business Enterprises; the Company's net profit was RMB15,525,670 in 2009 under Hong Kong Financial Reporting Standards.

Under the relevant accounting policies and the Articles of Association, the withdrawal from the statutory common fund was RMB2,273,980. In addition, the undistributed profit for 2008 was RMB128,583,450. Hence the actual profit attributable to shareholders in this year amounted to RMB141,835,130.

In view of the actual situations of the Company, the Board resolved not to distribute any final dividends as at 31 December 2009 in order to cater for the need to finance production and operation for sustainable development of the Company. The earnings for the year were used as supplementary working capital. The remaining distributable profit is to be carried forward to next year.

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

The aforesaid profit distribution proposal is subject to the shareholders' approval at the 2009 annual general meeting.

Distribution of the last three years of the Company

Unit: '000 Currency: RMB

Year	Cash Dividend (tax inclusive)	Net Profit of the Year	Ratio (%)
2006	0	85,561.98	—
2007	52,401.20	116,951.44	44.81
2008	0	41,139.03	—

Report of the Board

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group, as of 31 December 2009, are set out in the notes to the financial statements prepared under Hong Kong Financial Reporting Standards.

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

Reserves

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

Fixed Assets

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

Subsidiaries

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

Code of Corporate Governance Practices and Model Code

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

Confirmation by Independent Non-executive Directors on Connected Transactions

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

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

Annual General Meeting

The Board proposes to convene the annual general meeting before 30 June 2010. Announcement will be made separately for specific date and relevant matters.

By Order of the Board
Xu Guofei
Vice Chairman

Nanjing, the PRC
29 March 2010

Report of the Supervisory Committee

To all shareholders,

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

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

- (1) On 26 March 2009, the sixth meeting of the sixth Supervisory Committee was held at the Company's conference room, at which the 2008 report of the Supervisory Committee was approved, the 2008 audited financial statements and 2008 Annual Report and its summary were reviewed, the review opinions on 2008 Annual Report prepared by the Board were considered and approved, the summary of Supervisory Committee work for 2009 were passed and Internal Control Report and Report on Social Responsibilities of the Company were considered and approved.
- (2) On 28 April 2009, the seventh meeting of the sixth Supervisory Committee was held by way of written resolutions, at which the 2009 First Quarterly Report was reviewed, and the review opinion on the 2009 First Quarterly Report prepared by the Board was considered and approved.
- (3) On 26 August 2009, the eighth meeting of the sixth Supervisory Committee was held at the Company's conference room, at which the 2009 Interim Report and its summary was reviewed, and the review opinions on the 2009 Interim Report prepared by the Board was considered and approved.
- (4) On 27 October 2009, the ninth meeting of the sixth Supervisory Committee was held by way of written resolutions, at which the 2009 Third Quarterly Report was reviewed, and the review opinion on the 2009 Third Quarterly Report prepared by the Board was considered and approved.

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

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

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

During the reporting period, the Company entered into Equity Transfer Agreement on 10 July 2009 with PEGL, the controlling shareholder, in relation to the acquisition of 70% equity interests in Nanjing Panda Electromechanical Instruments Technology Co Ltd.. The transaction constituted a connected transaction. The transaction price was determined by the parties with reference to the appraised value of all equity interests of Nanjing Panda Electromechanical Instruments Technology Co Ltd, on normal commercial terms and on an arm's length basis. The Supervisory Committee was of the opinion that the transaction was fair and reasonable and in the interests of the Company and shareholders as a whole. Pursuant to relevant regulations, this transaction is exempted from independent shareholders' approval requirement.

Report of the Supervisory Committee

On 10 August 2009, Nanjing Huage Appliance and Plastic Industrial Company Limited (“Huage Appliance”), a subsidiary controlled by 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. The transaction constituted a connected transaction. The transaction price 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. The Supervisory Committee was of the opinion that the transaction was in the interests of the Company and shareholders. The transaction was approved by independent shareholder at 2009 first EGM held on 23 December 2009.

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

Since the agreements in respect of existing continuing connected transactions would be expired on 31 December 2009, after which all existing continuing connected transactions are expected to continue, the Group and PEGL Group entered into agreements in respect of the continuing connected transactions contemplated to be conducted between 2010 and 2012 by both parties on 15 October 2009. The continuing connected transactions were considered and approved by the independent shareholders at the 2009 first EGM held on 23 December 2009.

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

The financial statements as of 31 December 2009 were audited by UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd., in accordance with Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises respectively. They issued unqualified Auditors’ Report. The 2009 financial statements fairly reflected the financial and operating situation of the Company.

During the reporting period, the Company continued to further the rectification of corporate governance. Pursuant to requirements of the Notice on the Corporate Governance of Listed Companies for 2009 ([2009] No. 088) by the Listing Division of the CSRC and Notice on the Implementation of Further Rectification of Corporate Governance of Listed Companies in 2009 (Su Zheng Jian Gong Si Zi [2009] No.318) by the Jiangsu Securities Regulatory Bureau of CSRC, the Company conscientiously conducted self-examination and assessment on special campaigns for the corporate governance launched by the Company since 2007, further identified deficiencies in corporate governance and carried out remedial rectification measures, aiming to reinforce the achievements in governance and enable the Company to further standardize its operation and improve corporate governance.

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

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

By Order of the Supervisory Committee
Zhang Zhengping
Chairman

Nanjing, the PRC
29 March 2010

Significant Events

1. During the reporting period, the Company did not have material litigation and arbitration.
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. (南京熊猫机电儀技術有限公司) (“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 Hong Kong Stock Exchange 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 transaction price 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. The transaction was approved by independent shareholder at 2009 first EGM held on 23 December 2009.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 11 August 2009 and 24 December 2009 and on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 10 August 2009 and 23 December 2009.)

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

4. Connected transactions:

- (1) During the reporting period, other than the 2007-2009 Continuing Connected Transactions of the Company (namely, the continuing connected transactions which were conducted in the usual course of business on normal commercial terms) which had obtained independent shareholders’ approval at the EGM held on 3 April 2007 and the connected transaction relating to the aforesaid acquisition of equity interests in PEIT, transfer of the land use rights by Huage Appliance, the Company did not have other material connected transactions and asset reorganization.

Significant Events

4. Connected transactions: (Continued)

In 2009, the continuing connected transactions of the Company were entered into in the usual course of business on normal commercial terms which were required for normal business operation, and were audited by auditors. All connected transactions were confirmed by Independent Non-executive Directors (The details of which are contained in the Auditor's Report). and had not exceeded their respective annual caps.

During the reporting period, details of each of the continuing connected transactions are set out as follows:

Connected Transactions	Price	Total Amount (RMB'000)
(a) Provision of sub-contracting services and composite services by the Group to the PEG L Group	at prices no less favourable to the Company than terms available to an independent third party	8,460
(b) Provision of sub-contracting services and composite services by the PEG L Group to the Group	at prices no less favourable to the Company than terms available from an independent third party	3,080
(c) Sale of materials and components and parts by the Group to the PEG L Group	Market price	24,999
(d) Sale of materials and components and parts by the PEG L Group to the Group	Market price	1,949
(e) Import and export agency services provided by the PEG L Group to the Group		Nil
(f) Licensing of PANDA Trademarks by the Group to the PEG L Group		Nil
(g) Lease of factory premises by the Group to the PEG L Group	Market price	644
(h) Lease of factory premises and land use right by the PEG L Group to the Group	Market price	1,586

- (2) During the reporting period, the transactions amount of sale of product and provision of service by the Company to related parties was RMB113,434,200, among which the connected transaction for sale of products and provision of services to the controlling shareholder and its subsidiaries amounted to RMB33,458,400; the transaction for purchase of products and acceptance of service from related parties amounted to RMB7,093,500.
- (3) During the reporting period, the actual amount of the provision of fund by the Company to related parties was RMB726,600 and the balance was RMB2,462,800, amongst which the actual amount provided to the controlling shareholders and its subsidiaries was RMB0 and the balance was RMB0; the actual amount of the provision of fund by related parties to the Company was RMB80,560,200 and the balance was RMB89,117,300.
- (4) As at 31 December 2009, there were no non-operating funds supplied by the Company to its controlling shareholder PEG L.

4. Connected transactions: (Continued)

- (5) As the Existing Continuing Connected Transactions Agreements will expire on 31 December 2009 and all of the Existing Continuing Connected Transactions are expected to continue after the expiration, the Group and the PEGL Group entered into the future continuing connected transactions agreements from 2010 to 2012 on 15 October 2009. Such continuing connected transactions constituted the continuing connected transactions of the Company under Chapter 14A of the Listing Rules and were considered and approved by independent shareholders at 2009 first EGM held on 23 December 2009.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 16 October 2009 and 24 December 2009 and on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 15 October 2009 and 23 December 2009.)

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

6. Material guarantee

During the reporting period, the amount guaranteed by the Company for its subsidiaries amounted to RMB54,932,000 and the balance amounted to RMB27,591,200, the details of which are as follows:

As of 31 December 2009, the Company granted guarantees to letter of credit of RMB3,824,900 to its controlling subsidiary, Nanjing Panda Information Industry Co., Ltd., bank loan of RMB15,000,000 and obligations under finance leases amounted to RMB103,400 to Nanjing Huage Appliance and Plastic Industrial Company Limited, as well as bank loan of RMB5,000,000 and obligations under finance leases amounted to RMB3,662,900 to Nanjing Panda Electronic Manufacture Co., Ltd.

The said guarantees totalling RMB27,591,200, representing 1.87% of the Company's net asset, are provided to controlling subsidiaries. The gearing ratio of the above subsidiaries (other than Nanjing Panda Information Industry Co., Ltd.) receiving guarantees was below 70%.

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

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

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

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

Significant Events

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

(3) PEGL undertook to bear all the expenses arising from the Share Segregation Reform.

As at 21 September 2009, PEGL, the holder of shares of the Company subject to trading moratorium, had strictly fulfilled all the above undertaking.

During the reporting period, the Company, for the second time, arranged the listing of circulating shares subject to trading moratorium (limited to the shares involved in the share reform scheme) held by PEGL. Number of circulating shares subject to trading moratorium listed amounted to 269,213,500 shares. The date of listing of shares was 25 September 2009.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 22 September 2009 and on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 21 September 2009.)

8. At the Annual General Meeting held on 15 May 2009, the re-appointment of Vocation International Certified Public Accountants Co., Ltd. (“Vocation International”) and UHY Vocation HK CPA Limited (“Vocation HK”) as domestic and international auditors of the Company for 2009 was considered and approved.

Vocation International and Vocation HK have provided audit service to the Company for the second consecutive year.

Remuneration paid by the Company to the abovementioned two certified public accountants for their audit services for the annual report were aggregately RMB2,019,900 (the aggregate amount of 2008: RMB2,021,800), of which RMB1,111,000 was paid to Vocation International while RMB908,900 was paid to Vocation HK.

9. The Company, the Board and its Directors didn't suffer any administrative penalty or public criticism by regulatory authorities during the reporting period.

10. During the reporting period, the Company did not hold equities and securities issued by other listed companies or hold shares of unlisted financial enterprises.

11. Other Events

(1) Tax Policies

The Company is registered in High and New Technology Development Zone in Nanjing which is approved by the State Council as a national high and new technology zone. The Company has been approved by the Jiangsu Provincial Technological Commission and Jiangsu Provincial Science and Technology Bureau as a high and new technology enterprise in 1995 and 2008 respectively, which is entitled to the preferential enterprise income tax treatment of 15% under relevant regulations.

(2) Basic medical insurance for employees.

The Company acted pursuant to the Provisional Regulations on Basic Medical Insurance for Employees in Nanjing Municipality (the “Regulations”) and implemented a medical insurance scheme for its employees since 1 January 2001. The Company pays the premiums for such basic medical insurance scheme which are equivalent to 8.5% of the verified fee of all of the existing employees of the Company and provides subsidy to employees who have serious illness and whose medical expenses are covered under the medical scheme. The total allowance given in 2009 was less than RMB1.50 million. Save for the aforesaid premiums, the Company is not responsible for other medical expenses.

Independent Auditor's Report

TO THE SHAREHOLDERS OF NANJING PANDA ELECTRONICS COMPANY LIMITED

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

We have audited the consolidated financial statements of Nanjing Panda Electronics Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 125, which comprise the consolidated and Company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

UHY VOCATION HK CPA LIMITED

Certified Public Accountants

David Tze Kin Ng, Auditor
Practising Certificate Number P553

Hong Kong, 29 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Turnover	5	1,267,295	1,264,233
Cost of sales	8	(1,175,868)	(1,157,645)
Gross profit		91,427	106,588
Other income	6	49,587	39,061
Other gains / (losses) — net		90	(3,143)
Distribution costs	8	(22,538)	(34,684)
Administrative expenses	8	(201,184)	(215,237)
Operating loss		(82,618)	(107,415)
Finance income	7	3,287	10,376
Finance costs	7	(36,544)	(54,456)
Finance costs — net	7	(33,257)	(44,080)
Share of profits of associates		147,273	201,284
Profit before income tax		31,398	49,789
Income tax expense	10	(12,374)	(6,568)
Profit for the year		19,024	43,221
Other comprehensive income			
Profit on disposal of a subsidiary under common control	26	—	12,031
Total comprehensive income for the year		19,024	55,252
Profit attributable to:			
Equity holders of the Company		15,526	40,564
Minority interest		3,498	2,657
		19,024	43,221
Total comprehensive income attributable to:			
Equity holders of the Company		15,526	52,595
Minority interest		3,498	2,657
		19,024	55,252
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in Renminbi per share)	12	0.024	0.062
Dividends	13	—	—

The notes on pages 68 to 125 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)	2007 RMB'000 (Restated)
ASSETS				
Non-current assets				
Land use rights	14	24,062	61,850	61,681
Property, plant and equipment	15	553,013	536,002	505,671
Investments in associates	17	778,712	937,585	1,030,034
Deferred income tax assets	18	2,782	6,928	6,967
		<u>1,358,569</u>	<u>1,542,365</u>	<u>1,604,353</u>
Current assets				
Inventories	19	157,430	345,835	343,228
Trade and bills receivables	20	215,484	237,518	125,134
Deposits, prepayments and other receivables	21	84,343	74,043	157,940
Amounts due from fellow subsidiaries, associates and related companies	33(f)	19,090	36,529	64,275
Amount due from the ultimate holding company	33(h)	91	21	—
Restricted bank deposits		61,579	33,259	92,015
Cash and cash equivalents	22	560,354	416,445	448,998
		<u>1,098,371</u>	<u>1,143,650</u>	<u>1,231,590</u>
Total assets		<u>2,456,940</u>	<u>2,686,015</u>	<u>2,835,943</u>
Equity				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares	28	655,015	655,015	655,015
Share premium and reserves		809,990	919,611	932,536
		<u>1,465,005</u>	<u>1,574,626</u>	<u>1,587,551</u>
Minority interest		<u>11,785</u>	<u>13,358</u>	<u>60,227</u>
Total equity		<u>1,476,790</u>	<u>1,587,984</u>	<u>1,647,778</u>

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)	2007 RMB'000 (Restated)
LIABILITIES				
Non-current liabilities				
Long term borrowing	23	4,000	—	—
Finance lease obligations — non-current portion	27	1,279	3,546	7,387
		<u>5,279</u>	<u>3,546</u>	<u>7,387</u>
Current liabilities				
Borrowings	23	399,454	643,047	711,335
Trade payables	24	270,216	210,977	214,119
Accruals and other payables		177,763	175,624	206,988
Amounts due to fellow subsidiaries, associates and related companies	33(f)	11,612	18,381	21,667
Amount due to the ultimate holding company	33(h)	86,705	11,722	15,817
Finance lease obligations – current portion	27	2,215	9,167	10,534
Tax payables		26,906	25,567	318
		<u>974,871</u>	<u>1,094,485</u>	<u>1,180,778</u>
Total liabilities		<u>980,150</u>	<u>1,098,031</u>	<u>1,188,165</u>
Total equity and liabilities		<u>2,456,940</u>	<u>2,686,015</u>	<u>2,835,943</u>
Net current assets		<u>123,500</u>	<u>49,165</u>	<u>50,812</u>
Total assets less current liabilities		<u>1,482,069</u>	<u>1,591,530</u>	<u>1,655,165</u>
	XU Guofei		LU Qing	
	Director		Director	

The notes on pages 68 to 125 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Land use rights	14	11,766	12,148
Property, plant and equipment	15	353,205	303,548
Investments in subsidiaries	16	498,006	343,717
Investments in associates	17	576,975	576,975
		<u>1,439,952</u>	<u>1,236,388</u>
Current assets			
Inventories	19	10,163	167,188
Trade receivables	20	23,579	87,272
Deposits, prepayments and other receivables	21	27,970	26,525
Dividend receivable		2,500	3,609
Amounts due from fellow subsidiaries, associates and related companies	33(f)	1,342	2,253
Amount due from the ultimate holding company	33(h)	—	2
Restricted bank deposits		33,745	1,860
Cash and cash equivalents	22	293,956	227,578
		<u>393,255</u>	<u>516,287</u>
Total assets		<u><u>1,833,207</u></u>	<u><u>1,752,675</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	28	655,015	655,015
Share premium and reserves	29	568,884	389,692
Total equity		<u><u>1,223,899</u></u>	<u><u>1,044,707</u></u>

Balance Sheet

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
LIABILITIES			
Non-current liabilities			
Long term borrowing	23	<u>4,000</u>	<u>—</u>
Current liabilities			
Borrowings	23	346,354	567,500
Trade payables	24	62,348	20,933
Accruals and other payables		108,110	102,858
Amounts due to fellow subsidiaries, associates and related companies	33(f)	6,659	7,027
Amount due to the ultimate holding company	33(h)	81,837	9,650
		<u>605,308</u>	<u>707,968</u>
Total liabilities		<u>609,308</u>	<u>707,968</u>
Total equity and liabilities		<u>1,833,207</u>	<u>1,752,675</u>
Net current liabilities		<u>(212,053)</u>	<u>(191,681)</u>
Total assets less current liabilities		<u>1,227,899</u>	<u>1,044,707</u>

XU Guofei
Director

LU Qing
Director

The notes on pages 68 to 125 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital	Share premium	Capital reserve	Statutory common funds	Asset revaluation 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
As at 1 January 2008, as previously reported	655,015	389,338	4,020	196,440	35,688	210,180	1,490,681	46,911	1,537,592
Adjustment for business combination under common control (Note 25)	—	—	111,125	—	—	(14,255)	96,870	13,316	110,186
As at 1 January 2008, restated	655,015	389,338	115,145	196,440	35,688	195,925	1,587,551	60,227	1,647,778
Comprehensive income									
Profit for the year	—	—	—	—	—	40,564	40,564	2,657	43,221
Other comprehensive income									
Disposal of a subsidiary under common control (Note 26)	—	—	12,031	—	—	—	12,031	—	12,031
Total comprehensive income	—	—	12,031	—	—	40,564	52,595	2,657	55,252
Disposal of a subsidiary	—	—	—	—	—	—	—	(12,505)	(12,505)
Acquisition of additional interest in a subsidiary	—	—	18,396	—	—	—	18,396	(36,372)	(17,976)
Reduction of share capital of the newly acquired entity under common control	—	—	(30,000)	—	—	—	(30,000)	—	(30,000)
Adjustment to profit appropriations in prior years	—	—	—	5,366	—	(5,366)	—	—	—
Profit appropriation	—	—	—	416	—	(416)	—	—	—
Dividends paid	—	—	—	—	—	(52,401)	(52,401)	—	(52,401)
Dividends paid to ex-shareholders of an entity acquired under common control	—	—	—	—	—	(1,515)	(1,515)	(649)	(2,164)
As at 31 December 2008, restated	655,015	389,338	115,572	202,222	35,688	176,791	1,574,626	13,358	1,587,984

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory common funds RMB'000	Asset revaluation reserve RMB'000	Retained earnings RMB'000	Attributable to equity holders of the Company RMB'000	Minority interest RMB'000	Total equity RMB'000
As at 1 January 2009, as previously reported	655,015	389,338	22,416	202,222	35,688	188,623	1,493,302	12,141	1,505,443
Adjustment for business combination under common control (Note 25)	—	—	93,156	—	—	(11,832)	81,324	1,217	82,541
As at 1 January 2009, restated	655,015	389,338	115,572	202,222	35,688	176,791	1,574,626	13,358	1,587,984
Profit for the year and total comprehensive income	—	—	—	—	—	15,526	15,526	3,498	19,024
Deemed distributions relating to business combinations under common control (Note 25)	—	—	(124,633)	—	—	—	(124,633)	—	(124,633)
Profit appropriations	—	—	—	2,274	—	(2,274)	—	—	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	(3,141)	(3,141)
Acquisition of additional interest in a subsidiary	—	—	(514)	—	—	—	(514)	(3,430)	(3,944)
Capital injection from the minority shareholders of a subsidiary	—	—	—	—	—	—	—	1,500	1,500
As at 31 December 2009	<u>655,015</u>	<u>389,338</u>	<u>(9,575)</u>	<u>204,496</u>	<u>35,688</u>	<u>190,043</u>	<u>1,465,005</u>	<u>11,785</u>	<u>1,476,790</u>

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Cash flows from operating activities			
Cash received / (used in) operations	30	243,743	(113,144)
Interest paid		(36,305)	(52,939)
Finance lease interest paid		(239)	(1,517)
PRC enterprise income tax paid		(9,661)	(3,280)
Net cash generated from / (used in) operating activities		197,538	(170,880)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(88,325)	(80,845)
Acquisition of land use rights		—	(1,559)
Acquisition of additional interest in subsidiaries		—	(1,692)
Net cash inflow from disposal of subsidiaries		—	11,217
Proceeds from disposal of property, plant and equipment		803	4,619
Proceeds from disposal of land use rights	14	52,954	—
Cash paid for business combination under common control		(124,633)	—
Interest received		3,287	10,376
Dividends received from associates		306,146	293,732
Net cash generated from investing activities		150,232	235,848
Cash flows from financing activities			
Proceeds from borrowings		454,000	703,500
Repayments of borrowings		(693,593)	(779,603)
Increase in amount due to the ultimate holding company		74,913	300
Inception of finance leases		—	7,113
Repayment of obligations under finance leases		(9,220)	(13,837)
Dividends paid		—	(54,565)
Dividends paid to minority shareholders of subsidiaries		(3,141)	—
Capital injection from the minority shareholders of a subsidiary		1,500	—
(Increase) / decrease in restricted bank deposits		(28,320)	69,571
Decrease in share capital of a subsidiary		—	(30,000)
Net cash used in financing activities		(203,861)	(97,521)
Net increase / (decrease) in cash and cash equivalents		143,909	(32,553)
Cash and cash equivalents at beginning of the year		416,445	448,998
Cash and cash equivalents at end of the year	22	560,354	416,445

The notes on pages 68 to 125 are an integral part of these financial statements.

Notes to The Financial Statements

1. General information

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

The Company previously announced on 9 April 2007 that, China Electronics Corporation (中國電子信息產業集團有限公司)("CEC"), Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC") and Jiangsu Provincial Guo Xin Asset Management Group Company Limited ("Guo Xin Group") entered into an agreement (the "Agreement") to establish a joint venture company called "Nanjing Electronics Information Industrial Corporation (南京中電熊貓信息產業集團有限公司)"("NEIIC"), which is owned as to 70% by CEC, 15% by Nanjing SASAC and 15% by Guo Xin Group. The completion of the Agreement is subject to the approval of the relevant PRC government authorities. Upon completion of the Agreement, NEIIC would hold 47.98% equity interests in PEGL, the controlling shareholder of the Company holding 51.10% of the total issued share capital of the Company, and become the major shareholder of PEGL.

The Company was recently notified by CEC that the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) has issued an official reply to Jiangsu Province State-owned Assets Supervision and Administration Commission and CEC concerning the approval of the change in the ultimate controller of the Company (Guo Zi Chan Quan [2009] No. 843) ("關於南京熊貓電子股份有限公司實際控制人變更有關問題的批覆" (國資產權[2009]843號)). Pursuant to the official reply, it is approved that the ultimate controller of the Company be changed to CEC upon completion of the establishment of NEIIC, while PEGL holds 334,715,000 shares of the Company, representing 51.10% of the total issued share capital of the Company. As the completion of the Agreement is subject to the approval procedures of China Securities Regulatory Commission (中國證監會)("CSRC") and other relevant regulatory authorities, PEGL is thus still regarded as the Company's ultimate holding company.

The principal activities of the Group are the development, manufacture and sale of electronic manufacturing products, electronic intelligent products, satellite communication products and electronic equipment 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 PEGL and Nanjing Panda Electronics Import and Export Company (the "Import & Export Company") respectively. PEGL is also the holding company of the 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.

Besides, the Company has entered into an equity transfer agreement with PEGL on 10 July 2009 in relation to the acquisition of 70% equity interests in Nanjing Panda Electromechanical Instruments Technology Co., Ltd.

Notes to The Financial Statements

1. General information (Continued)

As PEGL is the holding company of the Group, the above acquisitions are regarded as business combinations under common control.

As a result of the common control business combinations, restatements have been made for the comparative figures of these consolidated financial statements. Details of the relevant statements of adjustments for the common control combinations on the Group's financial position as at 31 December 2008 and the Group's results for the years then ended are set out in note 25.

These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

These consolidated financial statements here been approved for issue by the Board of Directors on 29 March 2010.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2009.

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 32 and HKAS 1 (Amendment)	Puttable financial instruments and obligation arising on liquidation
HKFRS 2 (Amendment)	Share-based payment
HKFRS 7 (Amendment)	Financial instruments: disclosures
HKFRS 8	Operating segments

Notes to The Financial Statements

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

2.1 Basis of preparation *(Continued)*

HKAS 1 (Revised) "Presentation of financial statements"

The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one statement: a statement of comprehensive income and the consolidated financial statements have been prepared under these revised disclosure requirements.

HKFRS 8, "Operating segments"

HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision-makers have been identified as the executive directors that make strategic decisions.

Following the adoption of HKFRS 8, the presentation of the segment results and segment assets has changed. Please refer to note 5 to the financial statements for details.

HKFRS 7, "Financial instruments: disclosures"

The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group has made relevant disclosures in the consolidated financial statements for the year ended 31 December 2009.

HKAS 23 (revised), "Borrowing costs"

This revised standard requires capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The change in this accounting policy had no material impact on the Group's results as the Group does not have any qualifying asset as at 31 December 2009.

The adoption of other new and revised standards and amendments to existing standards have no significant impact on the results and financial position of the Group.

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period beginning 1 January 2009 but are not currently relevant to the Group.

HKAS 32 (Amendment)	Financial instruments: Presentation
HK(IFRIC) 9 (Amendment)	Reassessment of embedded derivatives
HK(IFRIC) 13	Customer loyalty programmes
HK(IFRIC) 15	Agreements for the construction of real estate
HK(IFRIC) 16	Hedges of a net investment in a foreign operation

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2009 and have not been early adopted.

HKAS 39 (Amendment)	Financial instruments: Recognition and measurement
HKFRS 3 (Revised)	Business combinations
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 28 (Amendment)	Investments in associates
HKAS 31 (Amendment)	Interests in joint ventures
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(IFRIC) 18	Transfer of assets from customers

HKICPA's improvements to HKFRS published in May 2009:

HKFRS 2 (Amendment)	Share-based payment
HKFRS 5 (Amendment)	Non-current assets held for sales and discontinued operations
HKFRS 8 (Amendment)	Operating segments
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 7 (Amendment)	Statement of cash flows
HKAS 17 (Amendment)	Leases
HKAS 36 (Amendment)	Impairment of assets
HKAS 38 (Amendment)	Intangible assets
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement
HK(IFRIC) 9 (Amendment)	Reassessment of embedded derivatives
HK(IFRIC) 16 (Amendment)	Hedges of a net investment in a foreign operation

The adoption of the above standards, amendments and interpretations to existing standards in future periods is not expected to result in substantial changes to the Group's accounting policies.

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation

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

(a) Business combination

(i) Merger accounting for common control combinations

The 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 financial information of the Group has been prepared as if the acquired companies have always been the subsidiaries of the Group.

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties’ perspective. No amount is recognised in consideration for goodwill or excess of acquirers’ 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.

The 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, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements 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.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

Notes to The Financial Statements

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

2.2 Basis of consolidation *(Continued)*

(a) Business combination *(Continued)*

(ii) Purchase method of accounting for non-common control combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, other than the common control combinations (note 2.2(a)(i)). The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

(b) Subsidiaries

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

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.

For common control combination, the cost of investment is being either the cash consideration amount (for cash-settled transaction) or the amount of the net asset value of the subsidiary acquired at date of completion (for share-settled transaction). For non-common control combination, the cost of investment is being the amount of the fair value of the consideration for the subsidiary acquired at date of completion.

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

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

Notes to The Financial Statements

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

2.2 Basis of consolidation *(Continued)*

(c) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases of minority interests, the difference between considerations paid and the relevant share of the carrying value of net assets of the subsidiaries is deducted from equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(d) Associates

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

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

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

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income.

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

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Property, plant and equipment

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

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

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

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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

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

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

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

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

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

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

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

2.6 Land use rights

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

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.7 Goodwill

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

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

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

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.9 Financial Assets

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

Loans and receivables

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

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

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.10 Inventories

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

2.11 Trade and other receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Trade payables

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

2.15 Borrowings

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

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

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income.

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases.

(i) Where the Group is the lessee

(1) Operating leases

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

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.17 Leases (Continued)

(i) Where the Group is the lessee (Continued)

(2) Finance leases

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

(ii) Where the Group is the lessor

(1) Operating leases

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2.5 above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2.19 (iv) below.

2.18 Provisions

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

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

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

Notes to The Financial Statements

2. Summary of significant accounting policies (Continued)

2.19 Recognition of income

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

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

2.20 Borrowings costs

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

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

2.21 Retirement benefit scheme

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

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Notes to The Financial Statements

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

2.22 Research and development costs

Research costs are expensed when incurred.

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

2.23 Government grants

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

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

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

2.24 Dividend distributions

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

3. Financial Risk Management

3.1 Financial risk factors

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

Notes to The Financial Statements

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

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

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

As at 31 December 2009, if RMB had weakened/strengthened by 5 percent against USD with all the variables held constant, post-tax profit for the year would have been approximately RMB 42,000 (2008: RMB1,868,000) lower/higher, mainly as a result of foreign exchange gains on translation of USD-denominated monetary assets and liabilities.

(ii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from bank borrowings. As at 31 December 2009, a portion of borrowings were at floating rates.

As at 31 December 2009, if interest rates on RMB denominated borrowings have been 100 basis point higher/lower with all other variables held constant, profit for the year would have been RMB 4,170,000 (2008: RMB3,551,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

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

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

Notes to The Financial Statements

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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

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

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

(c) Liquidity risk

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

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

The Group	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
2009				
Borrowings	412,612	—	4,027	416,639
Trade payables	270,216	—	—	270,216
Accruals and other payables	177,763	—	—	177,763
Amounts due to fellow subsidiaries, associates and related companies	11,612	—	—	11,612
Amount due to the ultimate holding company	86,705	—	—	86,705
Finance lease obligations	2,452	1,314	—	3,766
	<u>961,360</u>	<u>1,314</u>	<u>4,027</u>	<u>966,701</u>

Notes to The Financial Statements

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The Group	Within 1 year <i>RMB'000</i> (Restated)	Between 1 year and 2 years <i>RMB'000</i> (Restated)	Over 2 years <i>RMB'000</i> (Restated)	Total <i>RMB'000</i> (Restated)
2008				
Borrowings	669,089	—	—	669,089
Trade payables	210,977	—	—	210,977
Accruals and other payables	175,624	—	—	175,624
Amounts due to fellow subsidiaries, associates and related companies	18,381	—	—	18,381
Amount due to the ultimate holding company	11,722	—	—	11,722
Finance lease obligations	9,942	2,616	1,204	13,762
	<u>1,095,735</u>	<u>2,616</u>	<u>1,204</u>	<u>1,099,555</u>

The Company	Within 1 year <i>RMB'000</i>	Between 1 year and 2 years <i>RMB'000</i>	Over 2 years <i>RMB'000</i>	Total <i>RMB'000</i>
2009				
Borrowings	358,695	—	4,027	362,722
Trade payables	62,348	—	—	62,348
Accruals and other payables	108,110	—	—	108,110
Amounts due to fellow subsidiaries, associates and related companies	6,659	—	—	6,659
Amount due to the ultimate holding company	81,837	—	—	81,837
	<u>617,649</u>	<u>—</u>	<u>4,027</u>	<u>621,676</u>

Notes to The Financial Statements

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The Company	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
2008				
Borrowings	592,571	—	—	592,571
Trade payables	20,933	—	—	20,933
Accruals and other payables	102,858	—	—	102,858
Amounts due to fellow subsidiaries, associates and related companies	7,027	—	—	7,027
Amount due to the ultimate holding company	9,650	—	—	9,650
	<u>733,039</u>	<u>—</u>	<u>—</u>	<u>733,039</u>

3.2 Capital risk management

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

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

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

The gearing ratios as at 31 December 2009 and 2008 were as follows:

	2009 RMB'000	2008 RMB'000 (Restated)
Total borrowings	406,948	655,760
Less: Cash and cash equivalents (Note 22)	(560,354)	(416,445)
Net debt	(153,406)	239,315
Total equity (excluding minority interest)	1,465,005	1,574,626
Total capital	1,311,599	1,813,941
Gearing ratio	(12%)	13%

Notes to The Financial Statements

3. Financial Risk Management (Continued)

3.3 Fair value estimation

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

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

4. Critical accounting estimates and judgements

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

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

(i) Useful lives of property, plant and equipment

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

(ii) Impairment of trade and other receivables

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

(iii) Provision for obsolete inventories

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

Notes to The Financial Statements

5. Segmental information

(a) Primary reporting format — business segments

As at 31 December 2009, the Group is currently organised into four operating businesses. The principal activities of the businesses are as follows:

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

The segment results for the year ended 31 December 2009 are as follows:

The following tables provide an analysis of the Group's revenue, results and certain assets, liabilities and expenditure information by business segments for the years ended 31 December 2009 and 2008:

For the year ended 31 December 2009

	Electronic Manufacturing products <i>RMB'000</i>	Electronic equipment products <i>RMB'000</i>	Satellite telecom- munication products <i>RMB'000</i>	Electronic intelligent products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue							
External sales	365,540	278,950	205,086	275,287	142,432	—	1,267,295
Internal sales	7,787	13,762	—	88,930	47,278	(157,757)	—
Total	<u>373,327</u>	<u>292,712</u>	<u>205,086</u>	<u>364,217</u>	<u>189,710</u>	<u>(157,757)</u>	<u>1,267,295</u>
Results							
Segment results	<u>10,472</u>	<u>15,556</u>	<u>22,182</u>	<u>9,845</u>	<u>(9,495)</u>	<u>—</u>	48,560
Unallocated corporate expenses							(131,178)
Interest income							3,287
Interest expenses							(36,544)
Share of profits of associates							147,273
Income tax expenses							<u>(12,374)</u>
Profit for the year							<u>19,024</u>

Notes to The Financial Statements

5. Segmental information (Continued)

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

At 31 December 2009

	Electronic Manufacturing products <i>RMB'000</i>	Electronic equipment products <i>RMB'000</i>	Satellite telecom- munication products <i>RMB'000</i>	Electronic intelligent products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Assets							
Segment assets	393,179	219,697	153,279	365,161	78,525	—	1,209,841
Investments in associates							778,712
Unallocated corporate assets							<u>468,387</u>
Consolidated total assets							<u><u>2,456,940</u></u>
Liabilities							
Segment liabilities	143,500	98,605	450	177,722	26,330	—	446,607
Unallocated corporate liabilities							<u>533,543</u>
Consolidated total liabilities							<u><u>980,150</u></u>
Other information							
Capital expenditure	9,201	1,139	—	524	1,588		
Depreciation and amortisation	<u>26,416</u>	<u>4,581</u>	<u>—</u>	<u>672</u>	<u>547</u>		

Notes to The Financial Statements

5. Segmental information (Continued)

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

For the year ended 31 December 2008

	Electronic Manufacturing products <i>RMB'000</i> (Restated)	Electronic equipment products <i>RMB'000</i> (Restated)	Satellite telecom- munication products <i>RMB'000</i> (Restated)	Electronic intelligent products <i>RMB'000</i> (Restated)	Other operations <i>RMB'000</i> (Restated)	Elimination <i>RMB'000</i> (Restated)	Consolidated <i>RMB'000</i> (Restated)
Revenue							
External sales	407,193	274,178	131,982	339,192	111,688	—	1,264,233
Internal sales	2,019	10,252	—	33,301	44,644	(90,216)	—
Total	<u>409,212</u>	<u>284,430</u>	<u>131,982</u>	<u>372,493</u>	<u>156,332</u>	<u>(90,216)</u>	<u>1,264,233</u>
Results							
Segment results	24,071	(38,059)	13,572	2,739	(5,603)	—	(3,280)
Unallocated corporate expenses							(104,135)
Interest income							10,376
Interest expenses							(54,456)
Share of profits of associates							201,284
Income tax expenses							<u>(6,568)</u>
Profit for the year							<u>43,221</u>

Notes to The Financial Statements

5. Segmental information (Continued)

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

At 31 December 2008

	Electronic Manufacturing products <i>RMB'000</i> (Restated)	Electronic equipment products <i>RMB'000</i> (Restated)	Satellite telecom- munication products <i>RMB'000</i> (Restated)	Electronic intelligent products <i>RMB'000</i> (Restated)	Other operations <i>RMB'000</i> (Restated)	Elimination <i>RMB'000</i> (Restated)	Consolidated <i>RMB'000</i> (Restated)
Assets							
Segment assets	419,258	209,092	313,429	239,681	118,732	—	1,300,192
Investments in associates							937,585
Unallocated corporate assets							448,238
Consolidated total assets							2,686,015
Liabilities							
Segment liabilities	156,807	103,982	5,538	126,117	19,010	—	411,454
Unallocated corporate liabilities							686,577
Consolidated total liabilities							1,098,031
Other information							
Capital expenditure	59,488	1,554	—	527	1,032		
Depreciation and amortisation	24,884	4,295	—	653	649		

(b) Secondary reporting format — geographical segments

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

Notes to The Financial Statements

6. Other income

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i> (Restated)
Rental income	7,359	6,169
Property management fee income	280	1,300
Profit on disposal of land use rights (Note 14)	8,953	—
Writing off of trade and other payables	5,620	4,580
Government subsidies	23,971	21,157
Profit on disposal of a subsidiary (Note 26)	—	1,444
Sundry income	3,404	4,411
	<u>49,587</u>	<u>39,061</u>

7. Finance income and costs

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i> (Restated)
Interest expense:		
— Bank and other borrowings wholly repayable within five years	(34,397)	(52,939)
— Finance lease interest	(239)	(1,517)
— Others	(1,908)	—
Finance costs	<u>(36,544)</u>	<u>(54,456)</u>
Finance income		
— Interest income on short-term deposits	3,287	10,376
Net finance costs	<u>(33,257)</u>	<u>(44,080)</u>

Notes to The Financial Statements

8. Expenses by nature

	2009 <i>RMB'000</i>	2008 RMB'000 (Restated)
Changes in inventories of finished goods and work in progress	138,195	37,210
Raw materials and consumables used	580,445	661,588
Loss / (profit) on disposal of property, plant and equipment	1,096	(843)
Depreciation of property, plant and equipment (Note 15)	44,516	40,747
Amortisation of land use rights (Note 14)	1,194	1,390
Impairment loss recognised / (reversed) on		
— Trade receivables	(5,013)	7,519
— Other receivables	2,182	(13,963)
— Amounts due from related companies	2,311	6,576
— Inventories	12,743	41,625
Impairment loss on property, plant and equipment	8,218	2,031
Research and development expenses	15,862	16,770
Staff costs (including directors' and supervisors' emoluments)		
— Salaries, bonuses and allowances	171,114	207,835
— Retirement benefit scheme contributions	18,244	27,118
Auditor's remuneration	2,020	2,022
Operating lease rentals in respect of land and buildings	4,219	15,016
Others	402,244	354,925
	<hr/> 1,399,590 <hr/>	<hr/> 1,407,566 <hr/>
Total cost of sales, distribution costs and administrative expenses	1,399,590	1,407,566

Notes to The Financial Statements

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

(a) Directors' and Supervisors' emoluments (Continued)

The emoluments paid or payable to each of the fifteen (2008: sixteen) Directors and Supervisors were as follows:

Year ended 31 December 2009

Name	Fees RMB'000	Basic salaries, housing allowances, other allowances and benefits in kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Director:				
Li Anjian (Note 1)	—	—	—	—
Non-executive Directors:				
Liu Ailian (Note 2)	—	—	—	—
Zhu Lifeng	260	—	—	260
Xu Guofei	320	—	—	320
Shi Qiusheng	—	—	—	—
Lu Qing	260	—	—	260
Jason Hsuan (Note 3)	—	—	—	—
	840	—	—	840
Independent Non-executive Directors:				
Tang Yousong	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	70	—	—	70
	70	—	—	70
Supervisors:				
Zhang Zhengping	—	280	23	303
Tang Min	—	120	23	143
Zhou Yuxin	—	100	23	123
	—	500	69	569
Independent Supervisors:				
Wu Shiyuan	—	—	—	—
Wang Fei	—	—	—	—
	—	—	—	—
Total	910	500	69	1,479

Notes:

- (1) Resigned on 22 March 2010.
- (2) Resigned on 14 December 2009.
- (3) Appointed on 23 December 2009.

Notes to The Financial Statements

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

(a) Directors' and Supervisors' emoluments (Continued)

Year ended 31 December 2008

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

Notes:

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

Notes to The Financial Statements

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

(b) The five highest paid individuals:

	2009 Number of Individuals	2008 Number of Individuals
Five highest paid individuals		
Directors	—	—
Supervisors	—	—
Employees	<u>5</u>	<u>5</u>
	<u>5</u>	<u>5</u>

All of the five individuals with highest emoluments in the Group were employees of the Company each with emoluments during the relevant periods under RMB1,000,000. The aggregate emoluments of these five individuals during the relevant periods were as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	2,950	2,643
Retirement benefits scheme contributions	<u>—</u>	<u>107</u>
	<u>2,950</u>	<u>2,750</u>

10. Income tax expense

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

	2009 RMB'000	2008 RMB'000 (Restated)
Current tax		
— PRC enterprise income tax	<u>8,228</u>	<u>7,906</u>
Deferred tax		
— attributable to the origination and reversal of temporary differences	4,292	(1,252)
— resulting from a change in tax rate	<u>(146)</u>	<u>(86)</u>
	<u>4,146</u>	<u>(1,338)</u>
	<u>12,374</u>	<u>6,568</u>

Notes to The Financial Statements

10. Income tax expense (Continued)

(a) Income tax expense in the consolidated statement of comprehensive income represents: (Continued)

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 of 2008 is the first year of income tax exemption.

Nanjing Panda Appliance & Apparatus Co. Ltd, a subsidiary of the Company, is recognized by Jiangsu Provincial Science and Technology Commission as a high-tech enterprise on 21 October 2008 with the effective period for three 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 Manufacture Co., Ltd, 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.

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

	2009 RMB'000	2008 RMB'000 (Restated)
Profit before income tax	<u>31,398</u>	<u>49,789</u>
Tax calculated at the statutory PRC tax rate of 25% (2008: 25%)	7,849	12,447
Exemption/reduction of income tax under preferential tax treatment	(6,811)	(6,762)
Tax effect of:		
Share of results of associates	(21,886)	(31,735)
Income not subject to tax	(90)	(2,476)
Expenses not deductible for tax purposes	7,812	32,144
Tax losses for which no deferred income tax was recognised, net	22,214	5,819
Effect of change in tax rate	(146)	(86)
Utilisation of previously unrecognised tax losses	(238)	(1,446)
Recognition of deferred income tax assets previously unrecognised	—	(916)
Deferred taxation recognised in previous years reversed	3,588	—
Others	<u>82</u>	<u>(421)</u>
Tax charge for the year	<u>12,374</u>	<u>6,568</u>

Notes to The Financial Statements

11. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB179,192,000 (2008: profit of RMB 113,923,000).

12. Earnings per share

The calculation of the earnings per share is based on profit attributable to equity holders of the Company of RMB15,526,000 (2008: RMB40,564,000) and 655,015,000 shares in issue throughout 2009 and 2008.

No diluted earnings per share for the years ended 31 December 2009 and 2008 has been presented as there were no dilutive potential ordinary shares in issue as at 31 December 2009 and 2008.

13. Dividends

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2009 (2008: RMB Nil).

14. Land use rights

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Net book value:				
At 1 January	61,850	61,681	12,148	10,945
Additions	—	1,559	—	1,538
Disposal	(36,594)	—	—	—
Amortisation	(1,194)	(1,390)	(382)	(335)
As at 31 December	24,062	61,850	11,766	12,148

The Group and the Company's land use rights are located in the PRC under medium term leases. The costs of the Group's and the Company's land use rights as at 31 December 2009 are RMB 27,219,000 (2008: RMB65,538,000) and RMB 13,423,000 (2008: RMB13,423,000) respectively.

A wholly-owned subsidiary of the Company, Nanjing Huage Appliance and Plastic Industrial Company Limited ("Nanjing Huage") entered into the agreement with Nanjing Panda Handa Technology Company Limited ("Nanjing Handa") on 10 August 2009 to transfer the land use rights of a land to Nanjing Handa at a consideration of RMB 52,954,000. Nanjing Handa is a wholly-owned subsidiary of Panda Electronics Group Company Limited, which is the controlling shareholder of the Company. The transfer of the land use rights has resulted in a gain on disposal of RMB 8,953,000 for the Group.

Notes to The Financial Statements

15. Property, plant and equipment

The Group	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Transportation equipment and motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost or valuation:					
As at 1 January 2008, restated	388,096	291,260	8,508	9,659	697,523
Reclassification	(16)	(218)	234	—	—
Additions	18,901	27,974	1,540	32,430	80,845
Transfers	2,660	16,329	—	(18,989)	—
Disposal of subsidiaries	—	(821)	(120)	—	(941)
Disposals	(1,705)	(34,540)	(779)	—	(37,024)
As at 31 December 2008 and 1 January 2009, restated	407,936	299,984	9,383	23,100	740,403
Additions	—	5,350	3,945	67,216	76,511
Transfers	—	4,725	—	(4,725)	—
Disposals	(5,612)	(37,021)	(1,405)	—	(44,038)
As at 31 December 2009	402,324	273,038	11,923	85,591	772,876
Accumulated depreciation and impairment losses :					
As at 1 January 2008, restated	71,918	116,141	3,793	—	191,852
Reclassification	(2)	(368)	370	—	—
Charge for the year	35,805	4,116	826	—	40,747
Impairment losses recognised	2,031	—	—	—	2,031
Impairment losses reversed	—	(1,789)	—	—	(1,789)
Disposal of subsidiaries	—	(319)	(5)	—	(324)
Written back on disposal	(1,503)	(25,869)	(744)	—	(28,116)
As at 31 December 2008 and 1 January 2009, restated	108,249	91,912	4,240	—	204,401
Charge for the year	12,917	30,473	1,126	—	44,516
Impairment losses recognised (Note f)	8,041	177	—	—	8,218
Impairment losses reversed	(2,032)	—	—	—	(2,032)
Written back on disposal	(1,169)	(33,105)	(966)	—	(35,240)
As at 31 December 2009	126,006	89,457	4,400	—	219,863
Net book value:					
As at 31 December 2009	276,318	183,581	7,523	85,591	553,013
As at 31 December 2008, restated	299,687	208,072	5,143	23,100	536,002

Notes to The Financial Statements

15. Property, plant and equipment (Continued)

The Company	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Transportation equipment and motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost or valuation:					
As at 1 January 2008	343,283	50,268	1,582	7,629	402,762
Additions	1,371	9,708	410	15,350	26,839
Disposals	(1,626)	(24,222)	(15)	—	(25,863)
As at 31 December 2008 and 1 January 2009	343,028	35,754	1,977	22,979	403,738
Additions	—	480	1,431	62,530	64,441
Disposals	—	(1,164)	(418)	—	(1,582)
As at 31 December 2009	343,028	35,070	2,990	85,509	466,597
Accumulated depreciation and impairment losses:					
As at 1 January 2008	62,294	43,260	590	—	106,144
Charge for the year	12,380	4,748	225	—	17,353
Written back on disposal	(97)	(23,196)	(14)	—	(23,307)
As at 31 December 2008 and 1 January 2009	74,577	24,812	801	—	100,190
Charge for the year	10,974	2,252	481	—	13,707
Written back on disposal	—	(260)	(245)	—	(505)
As at 31 December 2009	85,551	26,804	1,037	—	113,392
Net book value:					
As at 31 December 2009	257,477	8,266	1,953	85,509	353,205
As at 31 December 2008	268,451	10,942	1,176	22,979	303,548

Notes to The Financial Statements

15. Property, plant and equipment (Continued)

- (a) All the Group's and the Company's buildings are located in the PRC.
- (b) The Group leases production plant and machinery under finance leases expiring from 1 to 2 years. None of the leases includes contingent rentals. There was no addition of plant and machinery financed by new finance leases during the year (2008: RMB6,912,000). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was RMB 9,156,000 (2008: RMB51,539,000). The related depreciation charge for the year was RMB 5,832,000 (2008: RMB5,521,000).
- (c) The Group and the Company have no relevant information on the carrying amount of each revalued class of property, plant and equipment that would have been recognised had the assets been carried under the cost model.
- (d) Construction in progress does not include any capitalisation of interest paid.
- (e) As at 31 December 2009, the land and buildings of the Group with carrying value of approximately RMB 108,599,000 (2008: RMB 121,803,000) are still in the process of applying the title certificates.
- (f) During the year, an impairment loss of RMB 8,041,000 has been provided for the buildings of Nanjing Guanghua Electronics Plastic Casings Factory ("Nanjing Guanghua"), which is a wholly-owned subsidiary of the Group. The buildings of Nanjing Guanghua are located at No. 3 Lianhecun Road, Shimenkan, Baixia District, Nanjing City of Jiangsu Province and the land use right was held by Nanjing Huage Appliance and Plastic Industrial Company Limited ("Nanjing Huage"), another wholly-owned subsidiary of the Group and as a result the title certificates of the buildings have yet been approved by the local authority. As mentioned in Note 14, the land use right has been transferred in August 2009 and the management expects the buildings of Nanjing Guanghua will likely be demolished. As such, full provision has been made for the buildings of Nanjing Guanghua.

16. Investments in subsidiaries

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Unlisted equity securities, at cost	409,257	216,793
Less: Impairment loss recognised	(21,437)	(27,612)
	387,820	189,181
Amounts due from subsidiaries	179,967	157,930
Amounts due to subsidiaries	(69,781)	(3,394)
	498,006	343,717

Notes to The Financial Statements

16. Investments in subsidiaries (Continued)

Particulars of the subsidiaries as at 31 December 2009 were as follows:

Name	Place of Incorporation/ establishment and kind of legal entity	Registered capital	Interest held		Principal activities and place of operations
			directly	indirectly	
Nanjing Panda Technology Equipment Co., Ltd.	PRC, limited liability	RMB5,000,000	100%	—	Manufacture and sale of equipment for production of television sets/PRC
Nanjing Panda Information Industry Co., Ltd.	PRC, limited liability	USD7,400,000	72%	28%	Development, production and sale of electronics information products/PRC
Nanjing Panda International Telecommunication Systems Company Limited	PRC, limited liability	USD1,240,000	72%	—	Sale and distribution of cellular mobile telephones and pagers/PRC
Nanjing Guanghua Electronics Plastic Casings Factory	PRC, limited liability	RMB11,497,600	100%	—	Manufacture and sale of plastic and spare parts/PRC
Nanjing Panda Mechanical Engineering Plant	PRC, limited liability	RMB45,000,000	99.11%	—	Manufacture and sale of communication and electronic equipment/PRC
Nanjing Panda Accurate Machinery Co., Ltd. (iv)	PRC, limited liability	RMB5,000,000	100%	—	Manufacture and sale of specialized electronic equipment/PRC
Nanjing Panda Appliance & Apparatus Co., Ltd.	PRC, limited liability	RMB1,000,000	70%	—	Development and production of electromechanical products and installation of electronic communication systems/PRC

Notes to The Financial Statements

16. Investments in subsidiaries (Continued)

Name	Place of Incorporation/ establishment and kind of legal entity	Registered capital	Interest held		Principal activities and place of operations
			directly	indirectly	
Nanjing Panda Mechanical Manufacturing Co., Ltd.	PRC, limited liability	RMB10,000,000	70%	—	Manufacture of raw materials, components and parts for production/PRC
Nanjing Huage Appliance and Plastic Industrial Company Limited	PRC, limited liability	RMB40,000,000	100%	—	Manufacture and sale of plastic products and spare parts/PRC
Nanjing Panda Mechanical Co., Ltd.	PRC, limited liability	RMB3,000,000	70%	—	Manufacture and subcontracting of mechanical parts/PRC
Nanjing Electronic Calibration Co., Ltd.	PRC, limited liability	RMB1,000,000	70%	—	Inspection of electromechanical products/PRC
Nanjing Panda System Integration Co., Ltd. (iii)	PRC, limited liability	RMB3,000,000	—	52.7%	Development and sale of computer software/PRC
Nanjing Panda Power Supply Technology Co., Ltd.	PRC, limited liability	RMB11,000,000	79.55%	—	Design, manufacture and sale of UPS and special power supply systems and converters/PRC
Nanjing Panda Electronic Manufacture Co., Ltd.	PRC, limited liability	USD16,000,000	75%	25%	Development and production of electronic components/PRC
Nanjing Panda Industrial Enterprise Co., Ltd. (ii)	PRC, limited liability	RMB 20,000,000	100%	—	Property management, sales of mechanical and electronic products, building materials and office supplies/PRC
Nanjing Panda Technology Industrial Co., Ltd. (i)	PRC, limited liability	RMB 80,000,000	100%	—	Property leasing and management (including energy supply), childhood education and care

Notes to The Financial Statements

16. Investments in subsidiaries (Continued)

Name	Place of Incorporation/ establishment and kind of legal entity	Registered capital	Interest held		Principal activities and place of operations
			directly	indirectly	
Nanjing Panda Electromechanical Instruments Technology Co., Ltd. (i, iii)	PRC, limited liability	RMB 1,000,000	—	70%	Development, manufacture and sale of logistics equipment/PRC
Nanjing Panda Electronic Equipment Co., Ltd. (ii)	PRC, limited liability	RMB 20,000,000	100%	—	Manufacture of industrial, environmental conservation and logistics equipment/PRC
Galant Limited	Hong Kong, limited liability	HKD 1	100%	—	Research and development of communication products/ Hong Kong

Notes:

- (i) These companies were newly acquired subsidiaries under common control business combination during the year.
- (ii) These companies were newly incorporated subsidiaries during the year.
- (iii) The Company has transferred two directly-held subsidiaries, Nanjing Panda Electromechanical Instruments Technology Co., Ltd. and Nanjing Panda System Integration Co., Ltd. to another wholly owned subsidiary, Nanjing Panda Information Industry Co., Ltd. on 31 December 2009.
- (iv) The Company has acquired the remaining equity interest of 30% from the minority shareholders of Nanjing Panda Accurate Machinery Co., Ltd. ("NPAM") during the year and NPAM is thus become the wholly owned subsidiary of the Company.

17. Investments in associates

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	—	—	690,987	690,987
Less: Impairment loss recognised	—	—	(114,012)	(114,012)
Share of net assets	775,269	934,142	—	—
Goodwill	3,443	3,443	—	—
	<u>778,712</u>	<u>937,585</u>	<u>576,975</u>	<u>576,975</u>

Notes to The Financial Statements

17. Investments in associates (Continued)

Particulars of the principal associates of the Group as at 31 December 2009 are as follows:

Name	Place of Incorporation/ establishment and kind of legal entity	Interest held	Principal activities and place of operations
Nanjing Ericsson Panda Communication Company Limited ("ENC")	PRC, limited liability	27%	Manufacture and sale of cellular mobile telephone system products and digital switching system products/PRC
Shenzhen Jinghua Electronic Company Limited	PRC, limited liability	38.03%	Development, manufacture and sale of communication equipment and electronic Equipment/PRC
Panda Electronics (Kunshan) Co., Ltd.	PRC, limited liability	40%	Manufacture of electronic equipment/PRC
Intenna (Nanjing) Company Ltd.	PRC, limited liability	35%	Manufacture of electronic equipment/PRC
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	PRC, limited liability	20%	Manufacture and sale of mobile communication products/PRC
Nanjing Thales Panda Transportation System Company Limited	PRC, limited liability	40%	Design, research and development and production of electronic equipment of auto billing systems/PRC
Nanjing Huaxian High Technology Company Limited	PRC, limited liability	20%	Research and development/PRC
Hua Fei Color Display Systems Co., Ltd. ("Hua Fei")	PRC, limited liability	25%	Design, research and development and production of color display systems/PRC

Note: The financial statements of the above associates were not audited by UHY Vocation HK CPA Limited.

Notes to The Financial Statements

17. Investments in associates (Continued)

ENC, BMC and Hua Fei are the most significant associates of the Group. The details as set out below were extracted from the 2009 audited financial statements of these companies.

	2009			2008		
	ENC RMB'000	BMC RMB'000	Hua Fei RMB'000	ENC RMB'000	BMC RMB'000	Hua Fei RMB'000
Turnover	<u>13,603,442</u>	<u>22,842,364</u>	<u>773,064</u>	<u>16,619,497</u>	<u>28,326,864</u>	<u>2,102,050</u>
Profit / (loss) before income tax	<u>566,311</u>	<u>586,658</u>	<u>(398,363)</u>	<u>818,676</u>	<u>485,262</u>	<u>(242,148)</u>
Tax charge	<u>(84,947)</u>	<u>(158,511)</u>	<u>—</u>	<u>(217,944)</u>	<u>(21,385)</u>	<u>(145)</u>
Profit / (loss) for the year	<u>481,364</u>	<u>428,147</u>	<u>(398,363)</u>	<u>600,732</u>	<u>463,877</u>	<u>(242,293)</u>
Profit / (loss) for the year attributable to the Group	<u>129,968</u>	<u>85,629</u>	<u>(99,591)</u>	<u>162,198</u>	<u>92,573</u>	<u>(60,573)</u>
Financial position						
Non-current assets	<u>738,496</u>	<u>370,124</u>	<u>1,775,378</u>	<u>638,465</u>	<u>453,926</u>	<u>2,005,224</u>
Current assets	<u>6,341,247</u>	<u>4,462,467</u>	<u>199,816</u>	<u>7,200,842</u>	<u>3,929,470</u>	<u>445,514</u>
Current liabilities	<u>(5,942,843)</u>	<u>(3,833,685)</u>	<u>(1,333,846)</u>	<u>(6,596,430)</u>	<u>(3,257,637)</u>	<u>(1,407,790)</u>
Net assets	<u>1,136,900</u>	<u>998,906</u>	<u>641,348</u>	<u>1,242,877</u>	<u>1,125,759</u>	<u>1,042,948</u>
Net assets attributable to the Group	<u>306,963</u>	<u>199,781</u>	<u>160,337</u>	<u>335,575</u>	<u>228,595</u>	<u>260,737</u>

Note: During the year, BMC has paid out a total of RMB 555,000,000 dividends and the Group has received RMB 141,000,000, which constituted 25.41% of total dividends and exceeded the equity interest of 20% held by the Group on BMC. The management of BMC was in the view that the operating results of 2008 were not satisfactory and not up to the expectation of the Chinese investors, a board meeting of BMC was thus held on 9 June 2009 and resolved that the major shareholders to reduce their share of dividends in the year of 2009 unconditionally so as to increase the proportion of dividends of the Chinese investors. The Group has accounted for the dividends in excess of the equity interest in share of profits of associates for the year ended.

Notes to The Financial Statements

18. Deferred income tax assets

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

	Impairment losses on			Recognition of deferred income RMB'000	Available tax losses RMB'000	Trade & other payable RMB'000	Others RMB'000	Total RMB'000
	Receivables RMB'000	Inventories RMB'000	Property, plant and equipment RMB'000					
1 January 2008, restated	5,373	1,027	121	150	296	—	—	6,967
Deferred income tax (charged)/ credited to the consolidated statement of comprehensive income	(134)	91	73	(120)	385	873	84	1,252
Disposal of subsidiaries	(1,377)	—	—	—	—	—	—	(1,377)
Effect of change in tax rate	117	(1)	—	(30)	—	—	—	86
As at 31 December 2008 and 1 January 2009, restated	3,979	1,117	194	—	681	873	84	6,928
Deferred income tax (charged)/ credited to the consolidated statement of comprehensive income	(2,761)	(324)	30	—	(681)	(524)	(32)	(4,292)
Effect of change in tax rate	25	—	—	—	—	121	—	146
As at 31 December 2009	1,243	793	224	—	—	470	52	2,782

As at 31 December 2009, the Group has unused tax losses of RMB 298,430,000 (2008: RMB19,448,000) available for offset against future profits. In 2009, no deferred income tax asset has been recognised by the Group due to the unpredictability of future profit streams. In 2008, a deferred income tax asset has been recognised in respect of RMB2,726,000 of such losses.

Such tax losses will expire within five years.

Notes to The Financial Statements

19. Inventories, at cost

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Raw materials	42,647	92,917	1,716	31,465
Work in progress	53,605	189,466	2,198	124,456
Finished goods	60,590	62,924	6,249	11,267
Spare parts and consumables	588	528	—	—
	<u>157,430</u>	<u>345,835</u>	<u>10,163</u>	<u>167,188</u>

The cost of inventories recognised as expenses and included in cost of sales amounted to approximately RMB 580,445,000 (2008: RMB 661,588,000).

20. Trade and bills receivables

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Trade receivables	225,836	247,716	26,252	89,502
Bills receivables	8,370	15,692	300	—
Less: Provision for impairment	(18,722)	(25,890)	(2,973)	(2,230)
	<u>215,484</u>	<u>237,518</u>	<u>23,579</u>	<u>87,272</u>

- (a) The carrying amounts of the trade and bills receivables approximate to their fair values.
- (b) The Group allows a credit period ranging from 30 to 180 days to its trade customers.

Notes to The Financial Statements

20. Trade and bills receivables (Continued)

- (c) The following is the ageing analysis of trade and bills receivables net of provision for impairment as at 31 December 2009 and 2008:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Within 1 year	182,720	231,908	17,430	86,392
1 to 2 years	32,010	5,042	6,149	880
2 to 3 years	686	356	—	—
Over 3 years	68	212	—	—
	<u>215,484</u>	<u>237,518</u>	<u>23,579</u>	<u>87,272</u>

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

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Up to 3 months	6,459	6,210	—	3,929
Over 3 months	34,756	3,289	6,589	2,098
	<u>41,215</u>	<u>9,499</u>	<u>6,589</u>	<u>6,027</u>

- (e) The movements in the provision for impairment during the year were as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
At beginning of the year	25,890	18,599	2,230	976
Impairment loss (reversed)/ recognised	(5,013)	7,519	743	1,448
Uncollectible amounts written off	(2,155)	(228)	—	(194)
At end of the year	<u>18,722</u>	<u>25,890</u>	<u>2,973</u>	<u>2,230</u>

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

Notes to The Financial Statements

20. Trade and bills receivables (Continued)

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

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
RMB	203,427	230,482	26,552	89,502
USD	27,702	32,926	—	—
Euro dollar	3,077	—	—	—
	<u>234,206</u>	<u>263,408</u>	<u>26,552</u>	<u>89,502</u>

21. Deposits, prepayments and other receivables

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Other receivables	35,241	40,635	9,319	9,798
Less: Provision for impairment	<u>(15,179)</u>	<u>(18,330)</u>	<u>(6,620)</u>	<u>(5,643)</u>
	20,062	22,305	2,699	4,155
Deposits and prepayments	<u>64,281</u>	<u>51,738</u>	<u>25,271</u>	<u>22,370</u>
	<u>84,343</u>	<u>74,043</u>	<u>27,970</u>	<u>26,525</u>

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

22. Cash and cash equivalents

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Cash at bank and on hand	560,354	415,445	293,956	227,578
Short-term bank deposits	<u>—</u>	<u>1,000</u>	<u>—</u>	<u>—</u>
	<u>560,354</u>	<u>416,445</u>	<u>293,956</u>	<u>227,578</u>

(a) The effective interest rate on short-term bank deposits for 2008 was 3.33% per annum and these deposits have average maturity of 25 days. There was no short-term bank deposit as at end of 2009.

Notes to The Financial Statements

22. Cash and cash equivalents (Continued)

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

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
RMB	540,712	405,498	293,951	217,372
USD	19,490	10,798	4	10,057
Euro dollar	151	148	—	148
HKD	1	1	1	1
	<u>560,354</u>	<u>416,445</u>	<u>293,956</u>	<u>227,578</u>

23. Borrowings

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Borrowings				
— Short term bank loans				
— unsecured	380,000	406,000	338,000	378,000
— secured (i)	—	189,500	—	189,500
— Bills payables (ii)	<u>19,454</u>	<u>47,547</u>	<u>8,354</u>	—
	<u>399,454</u>	<u>643,047</u>	<u>346,354</u>	<u>567,500</u>
— Long term loan (iii)	<u>4,000</u>	—	<u>4,000</u>	—
	<u>403,454</u>	<u>643,047</u>	<u>350,354</u>	<u>567,500</u>

(i) As at 31 December 2009, none of the Group's land and buildings was secured for the above borrowings (2008: net book value of land and buildings of approximately RMB132,204,000 was secured). There was neither bank deposits secured for the above borrowings as at 31 December 2009 and 2008.

(ii) Bills payables were issued with a term of 3 to 6 months and no bank balances are pledged (2008: RMB Nil) as at the balance sheet date.

(iii) The long term loan represented a specific-purpose loan granted by Jiangsu International Trust Co., Ltd. in November 2009 for the purpose of research and development of system software. The period of the loan is 2 years and 3 months and to be repaid in February 2012. The loan is interest-bearing at a rate of 0.3% per annum.

(iv) The effective interest rate at the balance sheet date is 6.34% (2008: 7.44%) per annum.

(v) The carrying amounts of the borrowings approximate to their fair values and they are denominated in RMB.

Notes to The Financial Statements

24. Trade payables

The following is an ageing analysis of trade payables as at 31 December 2009:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Within 1 year	229,714	172,826	56,403	11,526
1 to 2 years	21,152	17,389	408	—
2 to 3 years	3,543	2,436	—	512
Over 3 years	15,807	18,326	5,537	8,895
	<u>270,216</u>	<u>210,977</u>	<u>62,348</u>	<u>20,933</u>

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

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
RMB	264,464	208,453	62,348	20,933
USD	5,752	2,524	—	—
	<u>270,216</u>	<u>210,977</u>	<u>62,348</u>	<u>20,933</u>

25. Business combinations under common control

- (i) 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 Industrial from PEGL and the Import & Export Company respectively at an aggregate consideration of RMB121,000,000.

On 9 February 2009, Jiansu Provincial State-owned Information Asset Management Group Company Limited 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 Company has signed the supplementary equity transfer agreement subsequently with PEGL and the Import & Export Company in which the Company 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.

Notes to The Financial Statements

25 Business combinations under common control (Continued)

(i) (Continued)

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.

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

	Date of acquisition 30 April 2009 <i>RMB'000</i>
Land use rights	12,496
Property, plant and equipment	66
Deferred income tax assets	715
Trade and bills receivables	10,092
Deposits, prepayment and other receivables	56,805
Cash and cash equivalents	8,499
Trade payables	(1,654)
Accruals and other payables	(8,249)
	<hr/>
Net assets	78,770

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 merger party on the merger date.

- (ii) The Company has entered into an equity transfer agreement with PEG, on 10 July 2009 in relation to the acquisition of 70% equity interests in Nanjing Panda Electromechanical Instruments Technology Co., Ltd. ("NPEIT") for an aggregate consideration of RMB2,643,700.

Jiangsu Provincial State-owned Information Asset Management Group Company Limited approved the acquisition and required that the aggregate consideration should not be less than the fair value of NPEIT.

The Group regarded the date of acquisition of NPEIT to be on 31 July 2009 at which the Group obtained the ultimate control.

Notes to The Financial Statements

25 Business combinations under common control (Continued)

(ii) (Continued)

The assets and liabilities of NPEIT as at 31 July 2009 are as follows:

	Date of acquisition 31 July 2009 <i>RMB'000</i>
Property, plant and equipment	1,271
Deferred income tax assets	263
Trade and bills receivables	18,373
Deposits, prepayment and other receivables	2,616
Cash and cash equivalents	6,104
Inventories	2,766
Trade payables	(19,896)
Accruals and other payables	(4,911)
	<hr/>
Net assets	6,586

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 merger party on the merger date.

(iii) Statements of adjustments for common control combinations of the transferred subsidiaries on the consolidated balance sheets at 31 December 2009 and 2008 and the Group's result for the years then ended are as follows:

	As previously Reported <i>RMB'000</i>	Transferred Subsidiaries <i>RMB'000</i>	Adjustments <i>RMB'000</i>	As restated <i>RMB'000</i>
Year ended 31 December 2008				
Turnover	1,120,391	166,100	(22,258)	1,264,233
Profit before income tax	44,224	5,250	315	49,789
Income tax	(5,996)	(572)	—	(6,568)
Profit for the year	38,228	4,678	315	43,221

Notes to The Financial Statements

25 Business combinations under common control (Continued)

(iii) (Continued)

	As previously reported RMB'000	Transferred Subsidiaries RMB'000	Adjustments RMB'000	As restated RMB'000
At 31 December 2008				
ASSETS				
Non-current assets	1,527,409	14,956	—	1,542,365
Current assets	1,047,145	103,308	(6,803)	1,143,650
Total assets	2,574,554	118,264	(6,803)	2,686,015
EQUITY				
Capital and reserves				
Share capital	655,015	81,000	(81,000)	655,015
Reserves	838,287	1,226	80,098	919,611
Minority interests	12,141	—	1,217	13,358
Total equity	1,505,443	82,226	315	1,587,984
LIABILITIES				
Non-current liabilities	3,546	—	—	3,546
Current liabilities	1,065,565	36,038	(7,118)	1,094,485
Total liabilities	1,069,111	36,038	(7,118)	1,098,031
Total equity and liabilities	2,574,554	118,264	(6,803)	2,686,015

	The Group Before Transferred Subsidiaries RMB'000	Transferred Subsidiaries RMB'000	Adjustments RMB'000	Year ended 31 December 2009 RMB'000
Year ended 31 December 2009				
Turnover	1,206,812	78,217	(17,734)	1,267,295
Profit before income tax	21,497	10,127	(226)	31,398
Income tax	(8,327)	(4,047)	—	(12,374)
Profit for the year	13,170	6,080	(226)	19,024

Notes to The Financial Statements

25 Business combinations under common control (Continued)

(iii) (Continued)

	The Group Before Transferred Subsidiaries	Transferred Subsidiaries	Adjustments	At 31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2009				
ASSETS				
Non-current assets	1,344,838	13,731	—	1,358,569
Current assets	1,065,716	101,064	(68,409)	1,098,371
Total assets	<u>2,410,554</u>	<u>114,795</u>	<u>(68,409)</u>	<u>2,456,940</u>
EQUITY				
Capital and reserves				
Share capital	655,015	81,000	(81,000)	655,015
Reserves	726,578	5,027	78,385	809,990
Minority interests	<u>9,396</u>	<u>—</u>	<u>2,389</u>	<u>11,785</u>
Total equity	<u>1,390,989</u>	<u>86,027</u>	<u>(226)</u>	<u>1,476,790</u>
LIABILITIES				
Non-current liabilities	5,279	—	—	5,279
Current liabilities	1,014,286	28,768	(68,183)	974,871
Total liabilities	<u>1,019,565</u>	<u>28,768</u>	<u>(68,183)</u>	<u>980,150</u>
Total equity and liabilities	<u>2,410,554</u>	<u>114,795</u>	<u>(68,409)</u>	<u>2,456,940</u>

Notes:

No other significant adjustments were made to the net assets and net profit of any entities or businesses as a result of the common control combinations to achieve consistency of accounting policies.

Notes to The Financial Statements

26. 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 25, the Group acquired Panda Technology Industrial on 30 April 2009 and such acquisition is regarded as a business combination under common control. These consolidated 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 party under common control, the profits resulted will be recognized in accordance with the accounting policies of the Group. 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 consolidated statement of comprehensive income for the year ended 31 December 2008.

The net cash inflow arising from the disposal of subsidiaries for the Group amounted to RMB11,217,000.

27. Obligations under finance leases

	The Group	
	2009	2008
	RMB'000	<i>RMB'000</i>
Within one year	2,452	9,942
In the second year	1,314	2,616
In the third year	—	1,204
	<hr/>	<hr/>
Total minimum finance lease payments	3,766	13,762
Future finance charges	(272)	(1,049)
	<hr/>	<hr/>
Present value of finance lease obligations	3,494	12,713
	<hr/> <hr/>	<hr/> <hr/>
The present value of finance lease obligations is as follows:		
Within one year	2,215	9,167
In the second year	1,279	2,376
In the third year	—	1,170
	<hr/>	<hr/>
	3,494	12,713
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of finance lease obligations were denominated in RMB and they bear interest rates ranging from 6.12% to 10.30% (2008: 6.12% to 10.30%) per annum.

Notes to The Financial Statements

28. Share capital

	State-owned legal person shares <i>RMB'000</i>	A shares (held by PRC public investors) <i>RMB'000</i>	H share <i>RMB'000</i>	Total <i>RMB'000</i>
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As at 1 January 2008,

31 December 2008 and 2009	334,715	78,300	242,000	655,015
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As at 31 December 2008, PEGL, the controlling shareholder which is holding 334,715,000 State-owned legal person shares of the Company, representing 51.10% of its total share capital.

Due to contractual disputes between PEGL and the Bank of China Limited Jiangsu Branch ("BOC Jiangsu Branch"), 192,815,000 shares of the Company held by PEGL was judicially frozen by the High People's Court of Jiangsu Province (江蘇省高級人民法院) (the "Court"). As the debts concerning PEGL and BOC Jiangsu Branch have been fully settled, the Court gave its judgement on 12 November 2009 that the 192,815,000 shares of the Company held by PEGL be unfrozen.

As PEGL repaid the loans from Shanghai Pudong Development Bank (Nanjing Branch) and China Construction Bank (Nanjing City Da Hang Gong Branch), 32,500,000 shares and 134,850,000 shares of the Company which were originally pledged were discharged respectively in accordance with the law. Relevant procedures with China Securities Depository & Clearing Corporation Limited (Shanghai Branch) were completed on 28 January 2010.

As at the issue date of this report, none of the 334,715,000 shares of the Company held by PEGL are pledged nor frozen.

29. Share premium and reserves

The Company	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory common funds <i>RMB'000</i>	Asset revaluation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2008	389,338	3	181,468	26,381	(287,416)	309,774
Profit for the year	—	—	—	—	113,923	113,923
Dividend paid for the year	—	—	—	—	(52,401)	(52,401)
Acquisition of additional interest in subsidiaries	—	18,396	—	—	—	18,396
As at 31 December 2008 and 1 January 2009	389,338	18,399	181,468	26,381	(225,894)	389,692
Profit for the year	—	—	—	—	179,192	179,192
Profit appropriations	—	—	2,274	—	(2,274)	—
As at 31 December 2009	389,338	18,399	183,742	26,381	(48,976)	568,884

Notes to The Financial Statements

29. Share premium and reserves (Continued)

Note:

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

In accordance with the Company's Articles of Association, the profit available for distribution is the lesser of the profit determined in accordance with PRC accounting standards and profit determined in accordance with Hong Kong Financial Reporting Standards. There was no distributable reserve as at 31 December 2009 and 2008.

30. Cash generated from operations

	2009 RMB'000	2008 <i>RMB'000</i> (Restated)
Profit before income tax	31,398	49,789
Adjustments for:		
Share of profits of associates	(147,273)	(201,284)
Interest income	(3,287)	(10,376)
Interest expense	36,305	52,939
Finance lease interest	239	1,517
Allowance for inventories	12,743	41,625
(Reversal) / Provision of impairment for trade receivables	(5,013)	7,519
Provision / (Reversal) of impairment for other receivables	2,182	(13,963)
Provision of impairment for amounts due from related companies	2,311	6,576
Provision of impairment for property, plant and equipment	8,218	2,031
Depreciation and amortisation	45,710	42,137
Loss / (gain) on disposal of property, plant and equipment, net	1,096	(843)
Profit on disposal of land use rights	(8,953)	—
Operating cash flows before changes in working capital	(24,324)	(22,333)
Decrease / (Increase) in inventories	175,662	(78,710)
Decrease / (Increase) in trade and bills receivables, deposits, prepayments and other receivables and amounts due from related companies	43,463	(40,570)
Increase in trade payables, accruals and other payables and amounts due to related companies	48,942	28,469
Net cash generated from / (used in) operations	243,743	(113,144)

Notes to The Financial Statements

31. Contingent liabilities

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

	The Company	
	2009	2008
	RMB'000	RMB'000
Guarantees given in respect of banking and other facilities made available to subsidiaries	<u>65,511</u>	<u>95,511</u>

The maximum liability of the Company at the balance sheet date under the guarantee is the amount of facilities drawn down by all the subsidiaries that are covered by guarantee, being RMB27,591,000 (2008: RMB52,386,000).

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

32. Commitments

(a) Capital commitment

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

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for				
Property, plant and equipment	82,250	22,266	82,250	22,266
— Investments in subsidiaries	<u>—</u>	<u>121,000</u>	<u>—</u>	<u>121,000</u>
	<u>82,250</u>	<u>143,266</u>	<u>82,250</u>	<u>143,266</u>
Approved but not contracted for				
— Investments in subsidiaries	<u>—</u>	<u>—</u>	<u>23,178</u>	<u>33,490</u>

Notes to The Financial Statements

32. Commitments (Continued)

(b) Operating lease arrangement – where the Group is the lessor

At 31 December 2009, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	The Group	
	2009	2008
	RMB'000	<i>RMB'000</i> (Restated)
Land and buildings		
Within 1 year	2,072	1,238
1-2 years	2,935	1,911
2-3 years	1,444	953
More than 3 years	1,728	471
	8,179	4,573

33. Related party transactions

Other than as disclosed in note 31 to the financial statements, the Group and the Company had the following material related party transactions.

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

	Fellow subsidiaries		Associates		The ultimate holding company	
	2009	2008	2009	2008	2009	2008
	RMB'000	<i>RMB'000</i> (Restated)	RMB'000	<i>RMB'000</i> (Restated)	RMB'000	<i>RMB'000</i> (Restated)
Sale of components and parts (Note 1)	24,936	19,039	48,181	62,737	63	136
Purchase of components and parts (Note 1)	1,949	12,050	2,064	4,088	—	—
Fees paid for welfare, support and sub-contracting services (Note 2)	2,949	159	—	—	131	1,467
Income for welfare, support, and sub-contracting services (Note 2)	8,452	20,896	31,795	53,147	8	126
Rental income (Note 1)	572	280	18	—	72	18
Rental expenses (Note 1)	—	—	—	—	1,586	268
Trademark income (Note 2)	—	192	—	—	—	—

Notes to The Financial Statements

33. Related party transactions (Continued)

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

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

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

- (b) A wholly-owned subsidiary of the Company, Nanjing Huage Appliance and Plastic Industrial Company Limited ("Nanjing Huage") entered into the agreement with Nanjing Panda Handa Technology Company Limited ("Nanjing Handa") on 10 August 2009 to transfer the land use rights of a land to Nanjing Handa at a consideration of RMB 52,954,000. Nanjing Handa is a wholly-owned subsidiary of Panda Electronics Group Company Limited, which is the controlling shareholder of the Company. The transfer of the land use rights has resulted in a gain on disposal of RMB 8,953,000 for the Group.
- (c) As at balance sheet date, the Company had acceptance of guarantees provided by the ultimate holding company and its fellow subsidiary in the amount of RMB 338,000,000 (2008: RMB378,000,000).
- (d) As at the balance sheet date, the Company had provided guarantees to its subsidiaries in the amount of RMB65,511,000 (2008 : RMB 95,511,000).
- (e) The remuneration of directors and other members of key management during the year was as follows:

	2009	2008
	RMB'000	RMB'000
Salaries and other short term benefits	2,130	5,506
Retirement benefit scheme contributions	69	385
	2,199	5,891

Notes to The Financial Statements

33. Related party transactions (Continued)

- (f) The amount due from/(to) fellow subsidiaries, associates and related companies are unsecured, interest free and repayable on demand. Provision for impairment amounting to RMB 13,345,000 (2008: RMB 11,034,000) was made in respect of these amounts and the movements in the provision for impairment during the year were as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
At beginning of the year	11,034	4,458	417	1,178
Impairment loss recognised/(reversed)	2,311	6,576	(371)	4,534
Uncollectible amounts written off	—	—	—	(5,295)
At end of the year	<u>13,345</u>	<u>11,034</u>	<u>46</u>	<u>417</u>

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

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

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

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

Impact on the consolidated statement of comprehensive income

	2009 RMB'000	2008 RMB'000 (Restated)
Profit for the year attributable to equity holders of the Company per financial statements prepared under Hong Kong Financial Reporting Standards	15,526	40,564
Amortisation of unrecognised intangible assets	—	575
Profit for the year attributable to equity holders of the Company per financial statements prepared under PRC accounting standards	<u>15,526</u>	<u>41,139</u>

Notes to The Financial Statements

34. Difference between Hong Kong Financial Reporting Standards and PRC accounting standards as applicable to the Group (Continued)

The consolidated financial statements as at 31 December 2008 and 2009 prepared under Hong Kong Financial Reporting Standards and those prepared under PRC accounting standards do not have any difference.

	2009 RMB'000	2008 RMB'000 (Restated)
Equity attributable to equity holders of the Company per financial statements prepared under Hong Kong Financial Reporting Standards and under PRC accounting standards	<u>1,465,005</u>	<u>1,574,626</u>

35. Comparative figures

The Group has applied merger accounting to account for the purchase of the equity interests in the Transferred Subsidiaries during the year, as if the business combinations had been occurred from the beginning of the earliest financial years presented. The adoption of merger accounting has resulted in changes to the presentation of certain items and comparative figures have been restated accordingly. In addition, certain comparative figures have been reclassified to conform to the current year's presentation.

36. Subsequent events

(i) Matters in relation to ultimate holding company

Reference is made to the announcements of Nanjing Panda Electronics Company Limited (the "Company") dated 26 April 2007, 11 May 2007 and 13 May 2009 and the 2007 and 2008 annual reports of the Company.

The Company previously announced that on 9 April 2007, China Electronics Corporation (中國電子信息產業集團有限公司) ("CEC"), Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC") and Jiangsu Provincial Guo Xin Asset Management Group Company Limited ("Guo Xin Group") entered into an agreement (the "Agreement") to establish a joint venture company called "Nanjing Electronics Information Industrial Corporation (南京中電熊貓信息產業集團有限公司) ("NEIIC"), which is owned as to 70% by CEC, 15% by Nanjing SASAC and 15% by Guo Xin Group. The completion of the Agreement is subject to the approval of the relevant PRC government authorities. Upon completion of the Agreement, NEIIC would hold 47.98% equity interests in Panda Electronic Group Limited ("PEGL"), the controlling shareholder of the Company holding 51.10% of the total issued share capital of the Company, and become the major shareholder of PEGL.

The Company was recently notified by CEC that the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) has issued an official reply to Jiangsu Province State-owned Assets Supervision and Administration Commission and CEC concerning the approval of the change in the ultimate controller of the Company (Guo Zi Chan Quan [2009] No. 843) (「關於南京熊女電子股份有限公司實際控制人變更有關問題的批復」(國資產權[2009]843號)). Pursuant to the official reply, it is approved that the ultimate controller of the Company be changed to CEC upon completion of the establishment of NEIIC, while PEGL holds 334,715,000 shares of the Company, representing 51.10% of the total issued share capital of the Company.

Notes to The Financial Statements

36. Subsequent events (Continued)

(i) Matters in relation to ultimate holding company (Continued)

The completion of the Agreement is still subject to the approval procedures of China Securities Regulatory Commission (中國證監會) (“CSRC”) and other relevant regulatory authorities (if any). The Company will make further announcements in compliance with the requirements of the CSRC, the Stock Exchange, the Securities and Futures Commission, and/or other relevant regulatory authorities upon completion of the Agreement.

(ii) Guarantees provided to subsidiaries

The first extraordinary general meeting in 2009 (“EGM”) of the Company was held on 23 December 2009 and the resolutions regarding the provision of guarantees to the subsidiaries in 2010 have been approved. Details of which are as follows:

Subsidiaries	Amount of guarantee (RMB'000)
Nanjing Panda Information Industry Co., Ltd.	50,000
Nanjing Panda Electronic Manufacture Co., Ltd	30,000
Nanjing Huage Appliance and Plastic Industrial Company Limited	55,000
Nanjing Panda Mechanical Manufacturing Co., Ltd.	5,000
Nanjing Panda Electronic Equipment Co., Ltd.	20,000

Report of the Auditors

TZ Hu Shen Zi (2010) No. 1005

To All Shareholders of Nanjing Panda Electronics Company Limited:

We have audited the accompanying financial statements of Nanjing Panda Electronics Company Limited (hereinafter referred to as "Nanjing Panda"), which comprise the Balance Sheets and Consolidated Balance Sheet as at 31 December 2009, Income Statement, Consolidated Income Statement, Statement of Change in Equity, Consolidated Statement of Changes in Equity, Cash Flow Statement, Consolidated Cash Flow Statement for the year 2009, and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises (issued by Ministry of Finance on 15 February 2006) lies with Nanjing Panda. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, Nanjing Panda's financial statements are prepared in conformity with the "Accounting Standards for Business Enterprises" (issued by Ministry of Finance on 15 February 2006), and in all material respects, present fairly the financial position of the Company as at 31 December 2009 and the results of its operations and cash flow for the year then ended.

Chinese Certified
Public Accountant: Wang Chuan Bang

Beijing, the People's Republic of China

Chinese Certified
Public Accountant : Xu Xin Yi

29 March 2010

Consolidated Balance Sheet

31 December 2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	2009/12/31	2008/12/31
Current assets:			
Cash and bank	VIII.1	621,932,597.32	449,704,337.63
Trading financial assets		—	—
Bills receivable	VIII.2	8,370,297.83	15,692,227.80
Accounts receivable	VIII.3	225,724,139.03	250,951,661.62
Prepayments	VIII.4	64,834,617.63	57,762,399.81
Interest receivable		—	—
Dividends receivable		—	—
Other receivables	VIII.5	20,079,161.67	23,080,165.88
Stocks	VIII.6	157,430,028.94	345,835,201.73
Non-current assets due within one year		—	—
Other current assets		—	—
Total current assets		1,098,370,842.42	1,143,025,994.47
Non-current assets:			
Available-for sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investment	VIII.7	778,712,065.54	937,585,276.41
Investment properties		—	—
Fixed assets	VIII.8	465,374,877.71	507,553,212.21
Construction in progress	VIII.9	85,591,336.05	23,099,502.20
Construction supplies		—	—
Clearance of fixed assets		—	—
Biological assets for production		—	—
Gas assets		—	—
Intangible assets	VIII.10	26,109,128.25	64,617,145.70
Development expenses		—	—
Goodwill		—	—
Long term deferred expenses	VIII.11	—	3,205,958.49
Deferred income tax assets	VIII.12	2,781,999.75	6,927,714.01
Other non-current assets		—	—
Total non-current assets		1,358,569,407.30	1,542,988,809.02
Total assets		2,456,940,249.72	2,686,014,803.49

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Balance Sheet

31 December 2009

Liabilities and Shareholders' equity	Notes	2009/12/31	2008/12/31
Current liabilities			
Short term loans	VIII.14	380,000,000.00	595,500,000.00
Trading financial liabilities		—	—
Bills payable	VIII.15	19,454,095.64	47,547,289.42
Accounts payable	VIII.16	276,239,639.25	224,391,890.44
Advances from customers	VIII.17	42,926,670.63	46,264,581.14
Salaries payable	VIII.18	44,696,054.89	44,959,789.09
Taxes payable	VIII.19	26,906,223.41	25,567,470.01
Interest payable	VIII.20	469,360.36	1,155,400.00
Other payables	VIII.21	181,964,084.47	99,931,222.98
Non-current liabilities due within one year		2,215,375.85	9,167,543.14
Other current liabilities		—	—
Total current liabilities		974,871,504.50	1,094,485,186.22
Non-current liabilities:			
Long term loans	VIII.22	4,000,000.00	—
Bonds payables		—	—
Long term payables	VIII.23	1,278,829.39	3,546,064.37
Specific payables		—	—
Accrued liabilities		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		—	—
Total non-current liabilities		5,278,829.39	3,546,064.37
Total liabilities		980,150,333.89	1,098,031,250.59
Shareholders' equity:			
Share capital	VIII.24	655,015,000.00	655,015,000.00
Capital reserve	VIII.25	465,369,977.77	590,516,496.81
Less: treasury stock		—	—
Special reserve		—	—
Surplus reserve	VIII.26	202,784,405.42	200,510,421.29
Generic risk reserve		—	—
Undistributed profits	VIII.27	141,835,133.81	128,583,446.32
Discounted spread in foreign currency statement		—	—
Sub-total of equity attributable to shareholders of the parent company		1,465,004,517.00	1,574,625,364.42
Minority interests	VII.2(3)	11,785,398.83	13,358,188.48
Total shareholders' equity		1,476,789,915.83	1,587,983,552.90
Total liabilities and shareholders' equity		2,456,940,249.72	2,686,014,803.49

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Profit and Loss Statement

Year 2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2009	2008
1. Total operating income		1,284,864,419.97	1,279,703,372.12
Include: Operating income	VIII.28	1,284,864,419.97	1,279,703,372.12
2. Total operating cost		1,437,988,605.94	1,457,492,067.89
Include: Operating cost	VIII.28	1,163,124,802.11	1,116,019,958.87
Business taxes and surcharge	VIII.29	6,970,273.99	5,514,912.58
Selling expenses		22,538,232.95	34,684,342.00
Administrative expenses		190,506,628.18	216,173,215.25
Financial expenses	VIII.30	34,408,135.20	48,592,807.07
Loss in assets impairment	VIII.31	20,440,533.51	36,506,832.12
Add: Income from change in fair value (losses are represented by "-")		—	—
Investment income (losses are represented by "-")	VIII.32	147,273,461.93	202,727,180.24
Include: Investment income of associates and joint ventures		147,273,460.93	201,283,518.47
3. Operating profit (losses are represented by "-")		(5,850,724.04)	24,938,484.47
Add: Non-operating income	VIII.33	39,311,073.07	29,538,554.69
Less: Non-operating expenses	VIII.34	2,062,096.32	4,112,133.97
Include: Loss from the disposal of non-current assets		1,416,732.68	1,051,098.57
4. Total Profit (losses are represented by "-")		31,398,252.71	50,364,905.19
Less: Income tax	VIII.35	12,374,068.45	6,568,213.66
5. Net Profit (losses are represented by "-")		19,024,184.26	43,796,691.53
Profit attributable to the equity shareholders of the Parent company		15,525,671.62	41,139,032.14
Minority interest		3,498,512.64	2,657,659.39
Net profit of the combined party in enterprise combination under the same control realized before the combining date		3,139,535.66	4,678,983.55
6. Earnings per share			
(1) Basic earnings per share	VIII.36	0.02	0.06
(2) Diluted earnings per share	VIII.36	0.02	0.06
7. Other comprehensive income	VIII.37	—	12,031,472.28
8. Total comprehensive income		19,024,184.26	55,828,163.81
Total comprehensive income attributable to the equity shareholders of the Parent company		15,525,671.62	53,170,504.42
Total comprehensive income attributable to minority shareholders		3,498,512.64	2,657,659.39

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Cash flow statement

Year 2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2009	2008
1. Cash flows from operating activities:			
Cash received from the sale of goods and services provided		1,450,219,148.51	1,293,309,265.77
Return of tax payment		896,123.49	9,474,070.13
Other cash received relating to operating activities	VIII.38	119,110,640.93	105,948,782.04
Sub-total of cash inflows from operating activities		1,570,225,912.93	1,408,732,117.94
Cash paid on purchase of goods and services		936,802,346.81	1,153,677,758.57
Cash paid to staff and paid on behalf of staff		190,798,864.07	198,877,512.08
Taxes paid		74,896,110.97	89,941,948.69
Cash paid relating to other operating activities	VIII.39	120,230,616.25	76,863,565.73
Sub-total of cash outflows from operating activities		1,322,727,938.10	1,519,360,785.07
Net cash flows from operating activities	VIII.42	247,497,974.83	(110,628,667.13)
2. Cash flows from investment activities:			
Cash received from investment recovered		1.00	—
Cash received from investment income		306,146,671.80	293,732,401.20
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		53,758,901.28	3,987,171.50
Cash received from disposal of subsidiaries and other business units		—	11,216,932.98
Cash received relating to other investment activities		—	—
Sub-total of cash inflows from investment activities		359,905,574.08	308,936,505.68
Cash paid on purchase of fixed assets, intangible assets and other long term assets		88,309,603.17	74,495,595.82
Cash paid for investment		—	—
Net cash paid on acquisition of subsidiaries and other business units		125,553,242.55	—
Cash paid on other investment activities		—	—
Sub-total of cash outflows from investment activities		213,862,845.72	74,495,595.82
Net cash flows from investment activities		146,042,728.36	234,440,909.86

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Cash flow statement

Year 2009

Items	Notes	2009	2008
3. Cash flows from financing activities:			
Cash received from investment		1,500,000.00	—
Including: cash received by subsidiaries from equity investment of minority shareholders			
Cash received from borrowings		454,000,000.00	703,500,000.00
Cash received from other financing activities	VIII.40	8,301,668.02	70,811,321.18
Sub-total of cash inflows from financing activities		463,801,668.02	774,311,321.18
Cash paid on repayment of debts		665,500,000.00	764,861,500.00
Cash paid on distribution of dividends or profits, or interest repayment		38,462,896.53	108,780,872.23
Including: bonus and profit paid to minority shareholders by subsidiaries		—	—
Cash paid on other financing activities	VIII.41	9,458,601.79	45,040,434.28
Sub-total of cash and cash equivalents outflows from financing activities		713,421,498.32	918,682,806.51
Net cash flows from financing activities		(249,619,830.30)	(144,371,485.33)
4. Effect on cash and cash equivalents due to foreign currency exchange		(12,165.77)	(1,131,472.47)
5. Net increase in cash and cash equivalents	VIII.42(1)	143,908,707.12	(21,690,715.07)
Add: balance of cash and cash equivalents at the beginning of the year	VIII.42(1)	416,445,310.81	438,136,025.88
6. Balance of cash and cash equivalents at the end of the year	VIII.42(2)	560,354,017.93	416,445,310.81

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Statement of Change of Shareholders' equity

Year 2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Year 2009									
	Equity attributable to shareholders of the Parent company									
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Minority Interest	Total shareholders'
1. Balance of last year	655,015,000.00	497,361,298.42	—	—	200,510,421.29	—	140,414,701.05	—	12,141,268.62	1,505,442,689.38
Add: change in accounting policies	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	93,155,198.39	—	—	—	—	(11,831,254.73)	—	1,216,919.86	82,540,863.52
2. Balance at the beginning of this year	655,015,000.00	590,516,496.81	—	—	200,510,421.29	—	128,583,446.32	—	13,358,188.48	1,587,983,552.90
3. Change of this year										
(a decrease is represented by "-")	—	(125,146,519.04)	—	—	2,273,984.13	—	13,251,687.49	—	(1,572,789.65)	(111,193,637.07)
(1) Net profit	—	—	—	—	—	—	15,525,671.62	—	3,498,512.64	19,024,184.26
(2) Other comprehensive income	—	—	—	—	—	—	—	—	—	—
Subtotal of item (1) and (2) above	—	—	—	—	—	—	15,525,671.62	—	3,498,512.64	19,024,184.26
(3) Contribution and reduction of capital by shareholders	—	(125,146,519.04)	—	—	—	—	—	—	(1,930,706.09)	(127,077,225.13)
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—	1,500,000.00	1,500,000.00
2. Amount settled by shares accounted for in shareholders' equity	—	—	—	—	—	—	—	—	—	—
3. Others	—	(125,146,519.04)	—	—	—	—	—	—	(3,430,706.09)	(128,577,225.13)
(4) Profit distribution	—	—	—	—	2,273,984.13	—	(2,273,984.13)	—	(3,140,596.20)	(3,140,596.20)
1. Transfer from surplus reserves	—	—	—	—	2,273,984.13	—	(2,273,984.13)	—	—	—
2. Transfer from generic risk reserves	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	(3,140,596.20)	(3,140,596.20)
4. 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	—	—	—	—	—	—	—	—	—	—
(6) Transfer and use of special reserve	—	—	—	—	—	—	—	—	—	—
1. Transfer in current period	—	—	—	—	—	—	—	—	—	—
2. Use in current period	—	—	—	—	—	—	—	—	—	—
4. Balance at the end of the year	655,015,000.00	465,369,977.77	—	—	202,784,405.42	—	141,835,133.81	—	11,785,398.83	1,476,789,915.83

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Statement of Change of Shareholders' equity

Year 2009

Items	The same period of year 2008									
	Equity attributable to shareholders of the Parent company									
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Minority Interest	Total shareholders'
1. Balance of last year	655,015,000.00	480,209,034.37	—	—	200,094,023.38	—	156,031,038.14	—	46,818,871.15	1,538,167,967.04
Add: change in accounting policies	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	111,123,726.11	—	—	—	—	(14,254,989.93)	—	13,316,043.35	110,184,779.53
2. Balance at the beginning of this year	<u>655,015,000.00</u>	<u>591,332,760.48</u>	<u>—</u>	<u>—</u>	<u>200,094,023.38</u>	<u>—</u>	<u>141,776,048.21</u>	<u>—</u>	<u>60,134,914.50</u>	<u>1,648,352,746.57</u>
3. Change of this year										
(a decrease is represented by "-")	—	(816,263.67)	—	—	416,397.91	—	(13,192,601.89)	—	(46,776,726.02)	(60,369,193.67)
(1) Net profit	—	—	—	—	—	—	41,139,032.14	—	2,657,659.39	43,796,691.53
(2) Other comprehensive income	—	12,031,472.28	—	—	—	—	—	—	—	12,031,472.28
Subtotal of item (1) and (2) above	<u>—</u>	<u>12,031,472.28</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>41,139,032.14</u>	<u>—</u>	<u>2,657,659.39</u>	<u>55,828,163.81</u>
(3) Contribution and reduction of capital										
by shareholders	—	(12,847,735.95)	—	—	—	—	—	—	(48,712,086.04)	(61,559,821.99)
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—	—	—
2. Amount settled by shares accounted for in shareholders' equity	—	—	—	—	—	—	—	—	—	—
3. Others	—	(12,847,735.95)	—	—	—	—	—	—	(48,712,086.04)	(61,559,821.99)
(4) Profit distribution	—	—	—	—	416,397.91	—	(54,331,634.03)	—	(722,299.37)	(54,637,535.49)
1. Transfer from surplus reserves	—	—	—	—	416,397.91	—	(416,397.91)	—	—	—
2. Transfer from generic risk reserves	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	(53,915,236.12)	—	(722,299.37)	(54,637,535.49)
4. 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	—	—	—	—	—	—	—	—	—	—
(6) Transfer and use of special reserve	—	—	—	—	—	—	—	—	—	—
1. Transfer in current period	—	—	—	—	—	—	—	—	—	—
2. Use in current period	—	—	—	—	—	—	—	—	—	—
4. Balance at the end of the year	<u>655,015,000.00</u>	<u>590,516,496.81</u>	<u>—</u>	<u>—</u>	<u>200,510,421.29</u>	<u>—</u>	<u>128,583,446.32</u>	<u>—</u>	<u>13,358,188.48</u>	<u>1,587,983,552.90</u>

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Balance Sheet

2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	2009/12/31	2008/12/31
Current assets:			
Cash and bank		327,700,983.52	229,438,462.74
Trading financial assets		—	—
Bills receivable		300,000.00	—
Accounts receivable	IX.1	24,536,091.11	89,150,124.91
Prepayments		25,270,980.90	22,505,935.65
Interest receivable		—	—
Dividends receivable		4,842,582.93	3,609,034.16
Other receivables	IX.2	182,748,549.10	162,326,061.32
Stocks		10,163,724.18	167,188,463.35
Non-current assets due within one year		—	—
Other current assets		—	—
Total current assets		575,562,911.74	674,218,082.13
Non-current assets:			
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	IX.3	1,113,461,382.90	1,114,870,454.47
Investment properties		—	—
Fixed assets		265,847,921.94	278,091,577.34
Construction in progress		85,509,336.05	22,979,502.20
Construction supplies		—	—
Clearance of fixed assets		—	—
Biological assets for production		—	—
Gas assets		—	—
Intangible assets		13,614,113.40	14,625,312.85
Development expenses		—	—
Goodwill		—	—
Long term deferred expenses		—	—
Deferred tax asset		—	—
Other non-current assets		—	—
Total non-current assets		1,478,432,754.29	1,430,566,846.86
Total assets		2,053,995,666.03	2,104,784,928.99

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Balance Sheet

2009

Assets	2009/12/31	2008/12/31
Current liabilities:		
Short term loans	338,000,000.00	567,500,000.00
Trading financial liabilities	—	—
Bills payable	8,354,095.64	—
Accounts payable	71,628,242.83	28,478,983.45
Advances from customers	3,783,687.81	1,507,273.51
Salaries payable	30,620,099.44	30,365,579.33
Taxes payable	17,374,556.53	20,210,067.21
Interest payable	469,360.36	1,155,400.00
Other payables	204,856,900.73	62,146,080.30
Non-current liabilities due within one year	—	—
Other current liabilities	—	—
Total current liabilities	<u>675,086,943.34</u>	<u>711,363,383.80</u>
Non-current liabilities:		
Long term loans	4,000,000.00	—
Bonds payables	—	—
Long term payables	—	—
Specific payables	—	—
Accrued liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	<u>4,000,000.00</u>	<u>—</u>
Total liabilities	<u>679,086,943.34</u>	<u>711,363,383.80</u>
Shareholders' equity:		
Share capital	655,015,000.00	655,015,000.00
Capital reserve	437,688,751.31	478,941,415.14
Less: Treasury stock	—	—
Specific Reserve	—	—
Surplus reserve	202,784,405.42	200,510,421.29
Generic risk reserve	—	—
Undistributed profits	79,420,565.96	58,954,708.76
Total shareholders' equity	<u>1,374,908,722.69</u>	<u>1,393,421,545.19</u>
Total liabilities and shareholders' equity	<u><u>2,053,995,666.03</u></u>	<u><u>2,104,784,928.99</u></u>

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Profit Statement

Year 2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	2009/12/31	2008/12/31
1. Operating income		355,190,263.48	202,237,264.92
Include: Operating income	IX.4	355,190,263.48	202,237,264.92
2. Total operating cost		518,608,192.72	418,427,663.03
Include: Operating cost	IX.4	345,136,409.53	193,329,335.44
Business taxes and surcharge		336,734.89	241,696.17
Selling expenses		5,432,649.97	6,932,135.03
Administrative expenses		125,790,136.71	150,774,409.47
Financial expenses		30,569,080.07	44,003,300.13
Loss in assets impairment		11,343,181.55	23,146,786.79
Add: Income from change in fair value (losses are represented by "-")			
Investment income (losses are represented by "-")	IX.5	167,845,480.67	211,566,659.58
Include: Investment income of associates and joint ventures		—	—
3. Operating profit(losses are represented by "-")		4,427,551.43	(4,623,738.53)
Add: Non-operating income		19,283,638.19	11,583,864.18
Less: Non-operating expenses		971,348.29	2,796,146.57
Include: Loss from the disposal of non-current assets		—	—
4. Total Profit(losses are represented by "-")		22,739,841.33	4,163,979.08
Less: Income tax		—	—
5. Net Profit(losses are represented by "-")		22,739,841.33	4,163,979.08
6. Earnings per share:			
(1) Basic earnings per share		—	—
(2) Diluted earnings per share		—	—
7. Other comprehensive income		—	—
8. Total comprehensive income		22,739,841.33	4,163,979.08

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Cash Flow Statement

Year 2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2009	2008
1. Cash flows from operating activities:			
Cash received from the sale of goods and services provided		446,077,308.20	171,408,325.84
Return of tax payment		—	—
Other cash received relating to operating activities		162,949,502.16	48,832,039.95
Sub-total of cash inflows from operating activities		609,026,810.36	220,240,365.79
Cash paid on purchase of goods and services		141,599,302.38	283,882,101.56
Cash paid to staff and paid on behalf of staff		65,155,744.91	61,587,163.81
Taxes paid		12,682,481.50	17,788,115.25
Cash paid relating to other operating activities		111,390,088.85	55,703,467.98
Sub-total of cash outflows from operating activities		330,827,617.64	418,960,848.60
Net cash flows from operating activities	IX.6(1)	278,199,192.72	(198,720,482.81)
2. Cash flows from investment activities:			
Cash received from investment recovered		1.00	—
Cash received from investment income		326,857,747.90	302,439,165.09
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		242,006.79	45,200.00
Cash received from disposal of subsidiaries and other business units		4,987,800.00	—
Cash received relating to other investment activities		—	—
Sub-total of cash inflows from investment activities		332,087,555.69	302,484,365.09
Cash paid on purchase of fixed assets, intangible assets and other long term assets		76,303,492.63	21,726,678.77
Cash paid for investment		199,779,242.55	22,858,363.58
Net cash paid on acquisition of subsidiaries and other business units		—	—
Cash paid on other investment activities		—	—

Head of the Company
Xu Guofei

Chief Accountant
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Head of the Accounting Department
Wu Yuzhen

Cash Flow Statement

Year 2009

Items	Notes	2009	2008
Sub-total of cash outflows from investment activities		<u>276,082,735.18</u>	<u>44,585,042.35</u>
Net cash flows from investment activities		<u>56,004,820.51</u>	<u>257,899,322.74</u>
3. Cash flows from financing activities:			
Cash received from investment		—	—
Cash received from borrowings		412,000,000.00	677,500,000.00
Cash received from other financing activities		—	80,000,000.00
Sub-total of cash inflows from financing activities		<u>412,000,000.00</u>	<u>757,500,000.00</u>
Cash paid on repayment of debts		637,500,000.00	733,000,000.00
Cash paid on distribution of dividends or profits, or interest repayment		35,632,828.45	101,266,030.80
Cash paid on other financing activities		<u>6,694,095.64</u>	<u>1,203,333.32</u>
Sub-total of cash and cash equivalents outflows from financing activities		<u>679,826,924.09</u>	<u>835,469,364.12</u>
Net cash flows from financing activities		<u>(267,826,924.09)</u>	<u>(77,969,364.12)</u>
4. Effect on cash and cash equivalents due to foreign currency exchange		—	(1,824.02)
5. Net increase in cash and cash equivalents	IX.6(1)	66,377,089.14	(18,792,348.21)
Add: balance of cash and cash equivalents at the beginning of the year		<u>227,578,462.74</u>	<u>246,370,810.95</u>
6. Balance of cash and cash equivalents at the end of the year	IX.6(2)	<u>293,955,551.88</u>	<u>227,578,462.74</u>

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Statement of Change of Shareholders' equity

Year 2009

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Year 2009								Total shareholders'
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	
1. Balance of last year	655,015,000.00	478,941,415.14	—	—	200,510,421.29	—	58,954,708.76	—	1,393,421,545.19
Add: change in accounting policies	—	—	—	—	—	—	—	—	—
Correction of prior errors	—	—	—	—	—	—	—	—	—
2. Balance at the beginning of this year	<u>655,015,000.00</u>	<u>478,941,415.14</u>	<u>—</u>	<u>—</u>	<u>200,510,421.29</u>	<u>—</u>	<u>58,954,708.76</u>	<u>—</u>	<u>1,393,421,545.19</u>
3. Change of this year(a decrease is represented by"-")	—	(41,252,663.83)	—	—	2,273,984.13	—	20,465,857.20	—	(18,512,822.50)
(1) Net profit	—	—	—	—	—	—	22,739,841.33	—	22,739,841.33
(2) Other comprehensive income	—	—	—	—	—	—	—	—	—
Subtotal of item (1) and (2) above	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,739,841.33</u>	<u>—</u>	<u>22,739,841.33</u>
(3) Contribution and reduction of capital by shareholders	—	(41,252,663.83)	—	—	—	—	—	—	(41,252,663.83)
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—	—
2. Amount settled by shares accounted for in shareholders' equity	—	—	—	—	—	—	—	—	—
3. Others	—	(41,252,663.83)	—	—	—	—	—	—	(41,252,663.83)
(4) Profit distribution	—	—	—	—	2,273,984.13	—	(2,273,984.13)	—	—
1. Transfer from surplus reserves	—	—	—	—	2,273,984.13	—	(2,273,984.13)	—	—
2. Transfer from generic risk reserves	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—
4. 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	—	—	—	—	—	—	—	—	—
(6) Transfer and use of special reserve	—	—	—	—	—	—	—	—	—
1. Transfer in current period	—	—	—	—	—	—	—	—	—
2. Use in current period	—	—	—	—	—	—	—	—	—
4. Balance at the end of the year	<u>655,015,000.00</u>	<u>437,688,751.31</u>	<u>—</u>	<u>—</u>	<u>202,784,405.42</u>	<u>—</u>	<u>79,420,565.96</u>	<u>—</u>	<u>1,374,908,722.69</u>

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Consolidated Statement of Change of Shareholders' equity

Year 2009

Items	The same period of Year 2008								
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Total shareholders'
1. Balance of last year	655,015,000.00	478,941,415.14	—	—	194,728,117.46	—	59,315,174.36	—	1,387,999,706.96
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	<u>655,015,000.00</u>	<u>478,941,415.14</u>	<u>—</u>	<u>—</u>	<u>200,094,023.38</u>	<u>—</u>	<u>107,608,327.59</u>	<u>—</u>	<u>1,441,658,766.11</u>
3. Change of this year(a decrease is represented by"")	—	—	—	—	416,397.91	—	(48,653,618.83)	—	(48,237,220.92)
(1) Net profit	—	—	—	—	—	—	4,163,979.08	—	4,163,979.08
(2) Other comprehensive income	—	—	—	—	—	—	—	—	—
Subtotal of item (1) and (2) above	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,163,979.08</u>	<u>—</u>	<u>4,163,979.08</u>
(3) Contribution and reduction of capital by shareholders	—	—	—	—	—	—	—	—	—
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—	—
2. Amount settled by shares accounted for in shareholders' equity	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—
(4) Profit distribution	—	—	—	—	416,397.91	—	(52,817,597.91)	—	(52,401,200.00)
1. Transfer from surplus reserves	—	—	—	—	416,397.91	—	(416,397.91)	—	—
2. Transfer from generic risk reserves	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	(52,401,200.00)	—	(52,401,200.00)
4. 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	—	—	—	—	—	—	—	—	—
(6) Transfer and use of special reserve	—	—	—	—	—	—	—	—	—
1. Transfer in current period	—	—	—	—	—	—	—	—	—
2. Use in current period	—	—	—	—	—	—	—	—	—
4. Balance at the end of the year	<u><u>655,015,000.00</u></u>	<u><u>478,941,415.14</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>200,510,421.29</u></u>	<u><u>—</u></u>	<u><u>58,954,708.76</u></u>	<u><u>—</u></u>	<u><u>1,393,421,545.19</u></u>

Head of the Company
Xu Guofei

Chief Accountant
Shen Jianlong

Head of the Accounting Department
Wu Yuzhen

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

I. Introduction to the Company

The Company was established on 27 April 1992 after the approval from Nanjing Economic System Reform Committee with document number Ning Ti Gai Zi (1992) No. 034. It turned into Nanjing Panda Electronics Company Limited (present name) later by its sole promoter, Panda Electronics Group Limited (PEGL), acquired the Company's 480,000,000 state-owned legal person shares in establishment with a consideration of total net asset value of RMB480,000,000.00. Registered capital for the Company at its establishment was RMB515,000,000.00, comprising 480,000,000 state-owned legal person shares of RMB1 each and 35,000,000 employee's shares of RMB1 each.

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

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

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

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

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

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 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 1-2 floors on North side of No.5 Building, Nanjing High Technology Development District. The parent of the Company is Panda Electronics Group Limited.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

I. Introduction to the Company (Continued)

The Company received new business license with numbered 320100400008823 on 14 July 2009. The registered capital is RMB655,015,000. The scope of business approved is made up of certified business items and general business items. Certified business items include the research, manufacture and sales of the transmission equipments of radio broadcasting and television, together with the after service, technical service, etc.. General business items include the research and development, production, sale, after-sale and technical service of communication equipment, computer and other electronic products; appliance & apparatus and machines for culture and office; electronic machine and its parts; plastic products; General equipment of fans machine, scale and packing machines; chemical industry, timber and non-mental processing special equipment; power transmission and control equipment; environment protection, social public safety and other equipment; financial and taxation control machines; power supply products; moulds; computer service, software and system integration; property management. The registered address is 1st-2nd floor on North side of No.5 Building, Nanjing High Technology Development District.

The Financial Statements of the Company were approved by the Board of the Company on 29 March 2010.

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

The financial statements of the Company are prepared under the requirements of the Accounting Standard for Business Enterprises: Basic Standard issued by the Ministry of Finance on 25 February 2006, 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 standards of Accounting Standards for Business Enterprises issued by Ministry of Finance on 15 February 2006, Application Guidance of Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereafter referred to as "the Accounting Standard for Business Enterprises", "China Accounting Standards"), as well as "Interpretation II to China Accounting Standards" issued on 7 August 2008 by the Ministry of Finance and "Interpretation III to China Accounting Standards" issued on 11 June 2009 by the Ministry of Finance.

IV. 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 period is a reporting period shorter than a full accounting year. Accounting year is the calendar year from 1 January to 31 December.

2. Measurement Currency

The Company uses Renminbi as its currency for recording transactions.

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

3. Principle of book-keeping and accounting measurement attribute

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

4. Recognition standard for cash equivalents

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

5. Foreign Currency businesses

(1) 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 recognized 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 capitalized 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 Dominated in Foreign Currency

The foreign asset and liability items in the balance sheets shall be translated at the spot exchange rate on the balance sheet date. Among the owner's equity items, except "undistributed profits", other items shall be translated at the spot exchange rate when they are incurred. The 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, financial assets available for sale, receivables and investment held to maturity in terms of the goal of investment and economic nature. Among which tradable financial assets are calculated at fair value of which changes are included through profit and loss in the prevailing period, while financial assets available for sale are calculated at fair value of which changes are included in shareholder's equity. Receivables and investment held to maturity are calculated at amortized cost.

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

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

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

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

(3) Transferral and Calculation of Financial Assets

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

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

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

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

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

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

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

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

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

(5) Impairment of Financial Assets

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

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

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

- A. Issuers or debtors encounter severe financial difficulties;
- B. Debtors violate terms of contract, such as a breach of rules or delay during settlement of interests or principal;
- C. Debtors give way to those under financial difficulty accounting on economic or legal reasons;
- D. Debtors may go into liquidation or conduct other financial reorganization;
- E. Transaction of the financial assets ceases in the active market as the issuer encounters great financial difficulties;
- F. Any reduction in cash flow of certain assets among a group of financial assets cannot be identified, while it is discovered that the estimated future cash flow of the financial assets has been reduced and can be measured since initial recognition after an overall evaluation based on disclosed information. If the repayment capability of the debtor of the group of financial assets gradually deteriorates, unemployment rate of the country or region where the debtor is staying increases, prices in regions where collaterals are provided significantly decrease or an industry sentiment turns unfavourable;
- 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

(5) Impairment of Financial Assets (Continued)

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

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

7. Receivables

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

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

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

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

8. Inventories

(1) Classification of Inventories

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

(2) Measurement method for inventories received and delivered

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

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

(4) The Company adopts perpetual inventory record system.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

8. Inventories (Continued)

(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 realizable 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 realizable 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 realizable value is determined by the amount of estimated selling price of inventories less estimated sale expense and related tax; for material inventories, net realizable 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 labor contracts, net realizable value is calculated based on contractual price. Where the quantity of the Company's inventories exceeds that ordered under sale contract, the net realizable value of the surplus inventories is calculated based on general selling price.

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

9. Long-term Equity Investment

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

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

1. Joint control is the contractually agreed sharing of control over an economic activity. Basis for confirmation of joint control include: Any party to the joint venture shall not separately control production and operation activities of the joint venture; the decision concerning the elementary operation activities of the joint venture need unanimous consent from all parties to the joint venture.
2. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. Basis for confirmation of significant influence mainly include: when the Company directly or indirectly hold through subsidiaries 20%(inclusive) or above but less than 50% shares with voting rights, it will be recognized as having significant influence on the investees, except that there are clear evidences showing it 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:

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

9. Long-term Equity Investment (Continued)

- (1) Basis for confirmation of joint control or significant influences (Continued)
 - A. Having representatives in the board of directors of investees or equivalent governing body;
 - B. participating in the policy making process of investees;
 - C. Significant transactions occurred with investees;
 - D. Dispatching management staff to investees;
 - E. Providing key technology information to investees.
- (2) Initial measurement of long-term equity investment

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

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

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

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

1. 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;
2. 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;
3. 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;

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

9. Long-term Equity Investment (Continued)

- (2) Initial measurement of long-term equity investment (Continued)
4. The initial cost of a long-term investment acquired by the exchange of non-monetary assets shall be recognized in accordance with the Accounting Standards for Enterprises No. 7 - Exchange of Non-monetary Assets.
 5. The initial cost of a long-term equity investment acquired by debt restructuring shall be recognized in accordance with Accounting Standards for Enterprises No. 12 - Debt Restructuring.
- (3) Subsequent measurement method and recognition methods of investment income of long-term equity investment

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

Long-term equity investments accounted for using cost method are measured based on initial investment cost, adjusted according to addition or disposal of investment. Cash dividends or profit distribution are recognized as investment gain when they are declared by investees.

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

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 reorganized 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 unrecognized loss.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

9. Long-term Equity Investment (Continued)

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

The Company's share of the investee's net profit and loss is recognized 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 recognized. Changes in shareholders' equity other than the share of the investee's net profit and loss are accounted for with an adjustment to the book value of the long-term equity investment and included into shareholders' equity, and the portion previously included in the owner's equity shall be transferred to the current profits and losses according to a certain proportion.

10. Accounting Method for Investment Properties

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

- (1) Recognition of Investment properties

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

1. The economic benefits pertinent to this investment property are likely to flow into the enterprise;
2. The cost of the investment property can be reliably measured.

- (2) Initial measurement of the investment property

1. The cost of an purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.
2. The cost of a self-built investment property shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
3. The cost of an investment property obtained by other means shall be recognized in accordance with the relevant accounting standards.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

10. Accounting Method for Investment Property (Continued)

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

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

(3) Subsequent measurement of the investment property

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

(4) Conversion of the investment property

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

11. Fixed Assets

(1) Recognition scope of fixed assets

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

1. The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;
2. The cost of the fixed asset can be measured reliably.

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets (Continued)

(2) Initial measurement of fixed asset (Continued)

2. The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
3. The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.
4. Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized 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 capitalized as long-term deferred expenses and amortized on a reasonable basis.
5. The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, merger of enterprises, and financial leasing shall be respectively ascertained in accordance with the Accounting Standards No. 7 - Exchange of Non-monetary Assets, Accounting Standards for Enterprises No. 12 - Debt Restructuring, Accounting Standards for Enterprises No. 20 - Merger of Enterprises and Accounting Standards for Enterprises No. 21 - Leases.

(3) Categories of fixed assets

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

(4) Depreciation of Fixed assets

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets (Continued)

(4) Depreciation of Fixed assets (Continued)

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

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

2. Review of useful life estimated net residual value and depreciation method for fixed assets: The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end, any change of which is accounted for as a change in an accounting estimate. The useful life of fixed assets is subject to adjustment based on the change, if any, as compared to the original estimate. The estimated net residual value is subject to adjustment based on the change, if any, as compared to the original estimate. The depreciation method applied is subject to change where there arises a significant change in the expected realization 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 capitalized 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 profits and losses. Decoration expenses related to fixed assets that are qualified for recognition of fixed assets are accounted for in a separate subsidiary account under "Fixed assets", and are depreciated separately on a straight-line basis over the lower of the period between two decorations and the remaining useful life of fixed assets.

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets (Continued)

(6) Fixed assets acquired under finance leases

1. Recognition basis for fixed assets acquired under finance leases

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

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

2. Measurement method for fixed assets acquired under finance leases

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets (Continued)

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

2. Measurement method for fixed assets acquired under finance leases (Continued)

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.

3. Depreciation method for fixed assets acquired under finance leases

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

12. Construction in Progress

Construction in progress is categorized by projects and measured at actual cost. The actual cost comprises construction costs and other costs necessarily incurred to bring construction to get ready for its intended use. Borrowing costs that are eligible for capitalization are capitalized 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

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:

1. Meet the definition of intangible assets;
2. The economic benefits pertinent to the assets are likely to flow into the Company;
3. 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:

1. The cost of purchased intangible assets shall include the purchase price, relevant taxes another necessary expenditure directly attributable to intangible assets for the expected purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is equivalent to financing in nature, the cost of intangible assets shall be determined on the basis of the present value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be included in the current profits and losses within the credit period, unless it shall be capitalized in accordance with the Accounting Standards No. 17 - Borrowing Costs.
2. The cost invested to an intangible asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

13. Intangible Assets (Continued)

(2) Initial measurement of intangible assets (Continued)

3. The cost of self-developed intangible assets

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

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

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

13. Intangible Assets (Continued)

(3) Subsequent measurement of intangible assets

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

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

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

14. Goodwill

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

15. Accounting Methods of Long-term Prepaid Expenses

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

16. Impairment of Assets

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

16. Impairment of Assets (Continued)

(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:

1. The current market price of assets falls significantly, beyond the expectation based on the advance of time or normal use;
2. Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the fixed assets is located, thus exerting an adverse effect on the enterprise;
3. 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 the present value of the expected future cash flows and resulting in a material decrease in the fixed asset's recoverable amount;
4. Any evidence shows that the assets have become obsolete or physical damage occurred;
5. The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;
6. 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.;
7. 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

16. Impairment of Assets (Continued)

(4) Recognition of Asset Impairment Losses

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as asset impairment loss through the current profits and losses. Meanwhile, a provision for the asset impairment shall be made accordingly. Upon the reorganization of asset impairment loss, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net residual value) within the remaining service life of the asset. Any impairment loss recognized 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

17. Borrowing Costs

(1) Recognition Principles for Borrowing Cost Capitalization

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

1. Capital expenditure has been incurred;
2. The borrowing costs have been incurred;
3. It has 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 capitalization

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:

1. 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

17. Borrowing Costs (Continued)

(3) Measurement method for the amount of borrowing cost capitalization (Continued)

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

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

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

18. Employee Benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labor union funds, employee education funds, compensation for employee demission 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 recognized 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

19. Share-based Payments

(1) The Equity-settled Share-based Payments

1. 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.
2. 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.
3. 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.
4. 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

1. The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.
2. 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.
3. 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

19. Share-based Payments (Continued)

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

4. 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 recognized 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 recognized 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:

1. The major risks and rewards attached to ownership of the goods have been transferred to the buyers by the Company;
2. The Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods;
3. A reliable measurement can be made to the amount of the revenue;
4. The relevant economic benefits are likely to flow into the Company;
5. A reliable measurement can be made to the relevant costs incurred or to be incurred.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

21. Revenue (Continued)

(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 cannot, 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:

1. 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.
2. 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 an alienating use right of assets

1. Recognition Principles for the revenue from an alienating use right of assets

The revenue from an alienating 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.

2. 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

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: 1. The total contract revenue can be measured in a reliable way; 2. The economic benefits pertinent to the contract are likely flow into the Company; 3. The actual contract costs incurred can be clearly distinguished and measured reliably; 4. 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: 1. The economic benefits pertinent to the contract are likely flow into the Company; 2. 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: 1. 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; 2. If the contract costs cannot 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:

1. The Company can meet the conditions attached to the government subsidies;
2. The Company can obtain the government subsidies.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

23. Government Subsidies (Continued)

(2) Measurement of government subsidies

1. 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).
2. The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized. Those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in the current profits and losses.
3. 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.
 1. Non-monetary assets shall be recognized and measure, where a non-monetary assets transaction satisfies the following conditions at the same time:
 - A. The transaction is commercial in nature;
 - B. The fair value of the assets received or surrendered can be measured reliably.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

24. Exchange of Non-monetary Assets (Continued)

(1) (Continued)

2. 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.
3. 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

25. Debt Restructuring (Continued)

(2) Accounting treatment of debtors

1. 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.
2. Where other terms of a debt are modified, the debtor shall regard the post-modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other terms of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with provisions of .modification of other terms of a debt.

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

25. Debt Restructuring (Continued)

(3) Accounting treatments of the creditor

1. 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.
2. When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the book balance of the debt to be restructured and the book value of the restructured debt in accordance with provisions of liquidation of a debt by cash. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the noncash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

26. Leases

(1) Classification of Leases

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

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

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

1. The ownership of the leased asset is transferred to the lessee when the term of lease expires.
2. 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.
3. Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life of the leased asset (75% or above, typically).
4. 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.
5. The leased assets are of a specialized nature that only the Company (or the lessee) can use them without making major modifications.

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

26. Leases (Continued)

(3) Main accounting treatment of finance lease

1. Accounting treatments of lessees

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

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

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

26. Leases (Continued)

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

2. Accounting treatments of lessors

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

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

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

(4) Main accounting treatment of operating lease

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

27. Income Taxes

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

27. Income Taxes (Continued)

(3) Recognition of deferred income tax assets

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

- A. The transaction is not a merger of enterprise;
- B. At the time of the transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

2. 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.

3. 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

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

27. Income Taxes (Continued)

(4) Recognition of deferred income tax liabilities (Continued)

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

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

(5) Measurement of income taxes

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

- 1. Merger of enterprises;
- 2. The transactions or events directly recognized as the owner's equity.

(6) Impairment of deferred income tax assets

- 1. 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.
- 2. Where it is likely to obtain sufficient taxable income taxes, the book value of deferred tax assets reduced can be recovered.

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

1. Statement of change in accounting policy

There is no change on accounting policy of the Company during this accounting period.

2. Change in Accounting Estimate and Correction to Previous Errors

There is no change in accounting estimate and correction to previous errors of the Company during this accounting period.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

VI. Tax

1. Value-added tax

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

The value-added tax paid for purchase of raw materials of imported raw materials etc. can be offset against sales tax. The tax rate is 17%. Of this tax, application can be made for refund of the import duty paid for export of products, and the refund tax rate for export is 13% and 17%.

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, the Company enjoys a preferential tax policy of 15% from 1 January 2008 to 31 December 2010.

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. Year 2009 is the second year of income tax exemption.

Nanjing Panda Appliance & Apparatus Co. Ltd, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Provincial Science and Technology Bureau on 21 October 2008 with the effective period for 3 years. Accordingly, it paid income taxes by 15% of taxable income from 1 January 2008 to 31 December 2010.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

VI. Tax (Continued)

4. Enterprise income tax (Continued)

Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 9 December 2008, with an effective period of 3 years. Accordingly, it paid income taxes by 15% of taxable income from 1 January 2008 to 31 December 2010.

Pursuant to the approval from the tax bureau of Nanjing Economics and Technology Development District, Nanjing Panda Electronic Manufacture Co., Ltd, 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. In 2009, the income tax rate was 10%.

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

The tax are calculated based on the appreciation amount which is the balance of proceeds on the transfer of land use right deducting the sum of cost and tax related to the transfer. Land appreciation tax shall adopt the four level progressive rates which ranged from 30% to 60% according to the appreciation amount.

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

1. 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:

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

1. Merger of enterprises (Continued)

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

1. Definition of merger of enterprises under same control (Continued)

- A. parties of the merger are under the ultimate control of the group company before and after the merger;
- B. 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.

2. 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.

3. 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

1. Merger of enterprises (Continued)

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

4. Treatment method of the merger expenses

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

(2) Merger of enterprises not under same control

1. 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.

2. 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.

3. Determination of the merger cost

A. In a merger of enterprises through one swap transaction, the merger cost shall be assets paid, and liabilities incurred or borne by the Company for acquiring the control right of the acquiree (acquirees) on the acquisition date and fair value of the issued equity securities.

B. In a merger of enterprises through several swap transactions, the merger cost shall be sum of each single transaction cost.

C. All relevant direct expenses incurred to the Company for the merger of enterprises shall be included in costs for the merger of enterprises.

D. Where future events with possible impact on the merger cost are specified in the merger contract or agreement, and future events are likely to occur as estimated on the acquisition date and the amount of the impact on the merger cost can be reliably measured, the Company shall include them in the merger cost.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

1. Merger of enterprises (Continued)

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

4. 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.

5. 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.

6. Distribution of the merger cost

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

A. the Company recognizes the difference from the merge cost above the share of fair value of identifiable assets acquired from the acquiree (acquirees) in the merger as goodwill;

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

C. Recognition principle for fair value of identifiable assets of the acquiree (acquirees)

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

1. Merger of enterprises (Continued)

(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:

1. As for the merger by absorption under same control, assets and liabilities acquired by the Company on the merger date shall be recognized as per the original book value of such assets and liabilities in the acquiree (acquirees). If the accounting policy adopted by the acquiree (acquirees) is inconsistent with the Company, on the principle of materiality, the Company shall adjust the fair value of relevant assets and liabilities of the acquiree (acquirees) in accordance with the Company's accounting policy based on which the Company shall recognize the book value of assets and liabilities acquired in the merger.
2. As for the merger by absorption not under same control, all the assets and liabilities which meet the recognition requirements acquired by the Company on the merger date shall be recognized as assets and liabilities of the Company at its fair value.

2. Consolidated financial statements

(1) Consolidation scope

1. Recognition principle

Recognition of the consolidation scope of the consolidated financial statements is 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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2009

Company name	Registration address	Nature of business	Registered capital: (RMB0'000)	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, appliance and apparatus.
Nanjing Panda Technology Industrial Co., Ltd.	Nanjing	Industry	8,000	Building lease, Property Management (including energy transfer) and pre-school care
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	Nanjing	Industry	100	Research, Development, Manufacturing and sales of logistic supporting equipment and automatic fare collection equipment
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	1,000	Metal components

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2009 (Continued)

Company name	Registration address	Nature of business	Registered capital: (RMB0'000)	Business scope
II. The subsidiaries acquired otherwise (Continued)				
Nanjing Panda Accurate Machinery Co., Ltd.	Nanjing	Industry	500	Production of equipment and spare parts for electronic industry; processing of sophisticated machinery
Nanjing Panda Technology Equipment Co., Ltd.	Nanjing	Industry	500	Production and installation of production line
Nanjing Panda Machinery Co., Ltd.	Nanjing	Industry	300	Processing and manufacturing of mechanical parts
Nanjing Panda Information Industry Co., Ltd.	Nanjing	Industry	USD740	Development, production and sale of electronic information products
Nanjing Panda System Integration Co., Ltd.	Nanjing	Industry	300	Development and sales of computer software
Nanjing Panda Electronic Manufacture Co., Ltd	Nanjing	Industry	USD1,600	Development and production of new models of electronic products
Nanjing Huage Appliance and Plastic Industrial Company Limited	Nanjing	Industry	4,000	Plastic product & accessories
Nanjing Panda Power Sources Technology Co., Ltd.	Nanjing	Industry	1, 100	Design, production and sales of power sources and special type power transformer
Nanjing Guanghua Electronics Co. Ltd	Nanjing	Industry	1,149.76	PVC, ABS products

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2009 (Continued)

Company name	Registration address	Nature of business	Registered capital: (RMB0'000)	Business scope
II. The subsidiaries acquired otherwise (Continued)				
Nanjing Panda International Telecommunication System Co., Ltd.	Nanjing	Industry	USD124	Development, production sale of telephone and telecommunication system
Nanjing Panda Electronics Equipment Co., Ltd.	Nanjing	Industry	2,000	Manufacture of automatic industrial equipment, environmental protection equipment, and logistic accessories
Nanjing Panda Industrial Enterprise Co., Ltd.	Nanjing	Industry	2,000	Property management and sales of mechanical, electronic products, construction materials and office supplies
Galant Limited	Hong Kong	R & D	HKD1	R&D of communication products

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2009 (Continued)

Company name	The Company's	Balance of net	Shareholding	Percentage	Whether
	Actual	investment			
	investment	in other		rights	
	(RMB0'000)	accounts	(%)	(%)	
		in subsidiaries			
		(RMB0'000)			
I. Subsidiaries acquired from merger of enterprises under same control					
Nanjing Panda Mechanical Engineering Plant	3,004.20		99.11	100	Yes
Nanjing Panda Technology Industrial Co., Ltd. (a)	12,198.92		100	100	Yes
Nanjing Panda Electromechanical Instruments Technology Co., Ltd. (b)	264.37		70	70	Yes
II. The subsidiaries acquired otherwise					
Nanjing Electronic Calibration Co., Ltd.	70		70	70	Yes
Nanjing Panda Appliance & Apparatus Co. Ltd.	70		70	70	Yes
Nanjing Panda Mechanical Manufacturing Co., Ltd.	700		70	70	Yes

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2009 (Continued)

Company name	The Company's	Balance of net investment	Shareholding percentage	Percentage of voting rights	Whether to consolidate
	Actual investment	in other accounts in subsidiaries			
	(RMB0'000)	(RMB0'000)	(%)	(%)	

II. The subsidiaries acquired otherwise (Continued)

Nanjing Panda Accurate Machinery Co., Ltd.	756.96		100	100	Yes
Nanjing Panda Technology Equipment Co., Ltd.	503.19		100	100	Yes
Nanjing Panda Machinery Co., Ltd.	210		70	70	Yes
Nanjing Panda Information Industry Co., Ltd.	5,966.92		100	100	Yes
Nanjing Panda System Integration Co., Ltd.	158.02		52.7	52.7	Yes
Nanjing Panda Electronic Manufacture Co., Ltd	11,922.84		100	100	Yes
Nanjing Huage Appliance and Plastic Industrial Company Limited	3,462.28		100	100	Yes

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2009 (Continued)

Company name	The Company's	Balance of net	Shareholding	Percentage	Whether
	Actual	investment			
	investment	in subsidiaries	percentage	rights	
	(RMB0'000)	(RMB0'000)	(%)	(%)	

II. The subsidiaries acquired otherwise (Continued)

Nanjing Panda Power Sources Technology Co., Ltd.	875		79.55	79.55	Yes
Nanjing Guanghua Electronics Co. Ltd	827.11		100	100	Yes
Nanjing Panda International Telecommunication System Co., Ltd	765.50		72	72	Yes
Nanjing Panda Industrial Enterprise Co., Ltd. (c)	2,000		100	100	Yes
Nanjing Panda Electronics Equipment Co., Ltd. (d)	2,000		100	100	Yes
Galant Limited	HKD1		100	100	Yes

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

3. Explanation to the change of Consolidation Scope

- A. According to the agreement signed on 5 November 2008 between the Company and Nanjing Panda Electronics Group Co., Ltd. and Nanjing Panda Electronics Import/Export Co., Ltd., the Company is committed to acquire 99% equity interests in Nanjing Panda Technology Industrial Co., Ltd. owed by Panda Electronics Group Ltd. and 1% equity interest in Nanjing Panda Technology Industrial Co., Ltd. owed by Nanjing Panda Electronic import/Export Company at a consideration of RMB121,990,000. Share transfer was registered in the Administration Bureau of Industry and Commerce in 2009 and the acquisition date of this transaction is 30 April 2009. As Panda Electronics Group Ltd. is the parent of the Company, such acquisition is regarded as a business combination under common control. Therefore, Nanjing Panda Technology Industrial Co., Ltd. is included in the consolidation scope.
- B. On 31 July 2009, the Company acquired 70% equity interests in the Nanjing Panda Electromechanical Instrument Technology Co., Ltd. from the Panda Electronics Group Ltd. As Panda Electronics Group Ltd. is the parent of the Company, such acquisition is regarded as a business combination under common control. Therefore, Nanjing Panda Electromechanical Instrument Technology Co., Ltd. is included in the consolidation scope.
- C. Nanjing Panda Industrial Enterprise Co., Ltd. was established on 13 August 2009, with the registered capital of RMB20,000,000. As Nanjing Panda Industrial Enterprise Co., Ltd. is a wholly owned subsidiary of the Company, it is included in the consolidation scope.
- D. Nanjing Panda Technology Equipment Co., Ltd. was established on 13 August 2009, with the registered capital of RMB20,000,000. As Nanjing Panda Technology Equipment Co., Ltd. is a wholly owned subsidiary of the Company, it is included in the consolidation scope.
- E. Shenzhen Panda Electronics Co., Ltd. is excluded from the consolidation scope this year because its business license has been cancelled.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(2) Preparation method of consolidated financial statements

1. Basic preparation method of consolidated financial statements

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

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

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

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

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

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

3. 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

1. Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Electronic Calibration Co., Ltd.	400,683.91	313,567.87
Nanjing Panda Appliance & Apparatus Co. Ltd.	1,486,677.58	1,082,098.72
Nanjing Panda Mechanical Manufacturing Co. Ltd.	5,849,818.23	4,496,419.85
Nanjing Panda Accurate Machinery Co., Ltd.	3,944,325.13	
Nanjing Panda Mechanical Co., Ltd.	1,098,685.88	1,042,320.01
Nanjing Panda System Integration Co., Ltd.	560,530.01	1,262,537.04
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	2,389,003.22	1,216,919.86
Total	11,785,398.83	13,358,188.48

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(3) Minority interests

2. Additional loss borne by the Company

Company name	2009	2008
Nanjing Panda Technology Equipment Co., Ltd.	8,021,730.14	5,027,407.23
Nanjing Panda International Telecommunication System Co., Ltd.	11,775,085.31	9,901,325.62
Nanjing Panda Power Supply Technology Co., Ltd.	11,379,310.81	4,564,988.74
Total	31,176,126.26	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 31 December 2009 respectively, and the terms "last year" and "the year" refer to year 2008 and year 2009 respectively.

1. Cash and Bank Balances

	Closing balance	Opening balance
Cash	795,860.71	545,943.48
Bank balances	559,558,157.22	415,899,367.33
Other cash and bank balances	61,578,579.39	33,259,026.82
Total	621,932,597.32	449,704,337.63

Cash and bank balances includes the following foreign currencies:

	Closing Balance			Opening Balance		
	Amount in original currency	Exchange rate	Equivalent amount in CNY	Amount in original currency	Exchange rate	Equivalent amount in CNY
USD	2,854,269.01	6.8282	19,489,519.65	1,579,858.40	6.8346	10,797,700.22
HKD	1,640.45	0.8805	1,444.42	1,627.63	0.8819	1,435.41
EUR	15,394.62	9.7971	150,822.63	15,373.13	9.6590	148,489.06
Total			19,641,786.70			10,947,624.69

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

1. Cash and Bank Balances (Continued)

- (1) The closing balance of restricted other cash and bank amounting to RMB61,578,579.39 at the year end (as at the end of 2008: RMB33,259,026.82) mainly included bid deposits and contract guarantee deposits.
- (2) The Company's bank balances included call deposits totalling RMB136,845,000.00 (as at the end of 2008: RMB142,065,618.78).
- (3) The closing balance of cash and bank balances increased by 38.30% from the opening balance, mainly due to prompt collection of receivables from the sales of satellite communication products and receipts of the dividends from associate companies at the year end.

2. Bills Receivable

- (1) Details of bills receivable

Types of Bills	Closing balance	Opening balance
Bank acceptance notes	8,370,297.83	14,628,227.80
Trade acceptance		1,064,000.00
Total	8,370,297.83	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 year-end bills receivable had no pledge or security.
- (4) The closing balance of bills receivable decreased by 46.66% from the opening balance, mainly due to the reduced trade clearance by bill receivable this year.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

3. Accounts Receivable

(1) Break-down of ageing of accounts receivable

Items	Balance	Closing Balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable	123,042,127.61	48.33	5,428,297.15	4.41
Other unsubstantial amount of accounts receivable	131,551,473.65	51.67	23,441,165.08	17.82
Total	254,593,601.26	100.00	28,869,462.23	11.34

Items	Balance	Opening Balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable	176,700,467.00	61.71	17,831,127.05	10.09
Other unsubstantial amount of accounts receivable	109,656,272.65	38.29	17,573,950.98	16.03
Total	286,356,739.65	100.00	35,405,078.03	12.36

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

(2) Ageing analysis of accounts receivable

Ageing	Closing Balance				Opening Balance			
	Amount	Percentage %	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	196,600,851.44	77.22	3,722,159.47	1.89	257,501,348.03	89.92	12,438,207.16	4.83
1-2 years	39,028,067.28	15.33	6,898,162.38	17.67	13,808,160.37	4.82	8,636,231.03	62.54
2-3 years	5,818,742.15	2.29	5,171,411.49	88.88	4,804,988.69	1.68	4,301,163.05	89.51
3-5 years	7,821,955.62	3.07	7,753,744.12	99.13	6,958,990.40	2.43	6,746,224.63	96.94
more than 5 years	5,323,984.77	2.09	5,323,984.77	100.00	3,283,252.16	1.15	3,283,252.16	100.00
Total	254,593,601.26	100.00	28,869,462.23	11.34	286,356,739.65	100.00	35,405,078.03	12.36

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

3. Accounts Receivable (Continued)

(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
PACIC DIGIT CORP	25,438,409.51	9.99	Within one year, 1-2 years
Chongqing Culture, Radio & Television Bureau	24,398,682.00	9.58	Within one year
Nanjing Sharp Electronics Co., Ltd.	23,726,889.25	9.32	Within one year
Nanjing Metro Co., Ltd.	17,328,252.18	6.81	Within one year
Shaanxi Radio, Film & Television Department	12,028,784.94	4.73	Within one year
Total	102,921,017.88	40.43	

(4) The closing balance of accounts receivable included RMB103,935.33 due from Panda Electronics Group Limited, the shareholder holding 51.10% shares of the Company.

(5) The closing balance of accounts receivable includes RMB28,758,105.62 due from related parties, representing 11.30% of the total accounts receivable (the opening balance: RMB42,704,842.69, representing 14.91%). Please refer to Note X3(11) for disclosure of relevant related transactions.

4. Prepayment

(1) Details of prepayment

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	51,602,126.50	72.96	1,307,869.46	2.53	48,578,427.84	78.22	1,554,087.46	3.20
1-2 years	11,433,315.98	16.17	1,345,118.70	11.76	8,752,855.77	14.10	227,003.28	2.59
2-3 years	5,213,800.29	7.37	900,568.42	17.27	4,213,711.03	6.79	2,183,322.14	51.81
3-5 years	1,934,883.95	2.74	1,795,952.51	92.82	310,363.25	0.50	128,545.20	41.42
More than 5 years	538,159.94	0.76	538,159.94	100.00	241,115.77	0.39	241,115.77	100.00
Total	70,722,286.66	100.00	5,887,669.03	8.33	62,096,473.66	100.00	4,334,073.85	6.98

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

4. Prepayment (Continued)

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

Client	Amount	Reason for not settled more than 1 year
Nanjing Anqing Technology Industry Co., Ltd.	5,040,949.62	Construction not completed
Nanjing Duolian Technology & Development Co., Ltd.	2,620,000.00	Project not completed
China Railway Signal & Communication Shanghai Engineering Company	1,799,628.00	Project not completed
Jiangyin Fastway Intelligent System Co., Ltd.	1,253,680.00	Project not completed
Nanjing Xiliou Auto Parts Co., Ltd.	1,017,150.00	Project not completed
Total	11,731,407.62	

- (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 RMB1,305,655.97 due from related parties (the opening balance: 1,316,644.00), accounting for 1.85% of the total prepayment (the opening balance: 2.12%). Please refer to Note X3(11) for disclosure of relevant related transactions.

5. Other Receivables

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

Item	Balance	Closing Balance		Percentage of provision for bad debts %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables	9,828,372.98	26.07	5,984,824.92	60.89
Other unsubstantial amount of other receivables	27,874,826.75	73.93	11,639,213.14	41.76
Total	37,703,199.73	100.00	17,624,038.06	46.74

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

5. Other Receivables (Continued)

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

Item	Balance	Opening Balance		Percentage of provision for bad debts %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables	4,067,998.56	9.54	2,722,000.00	66.91
Other unsubstantial amount of other receivables	<u>38,555,555.61</u>	<u>90.46</u>	<u>16,821,388.29</u>	<u>43.63</u>
Total	<u>42,623,554.17</u>	<u>100.00</u>	<u>19,543,388.29</u>	<u>45.85</u>

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

(2) Ageing analysis of other receivables

Ageing	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 years	16,250,255.75	43.10	2,016,245.26	12.41	17,605,445.06	41.30	935,505.91	5.31
1-2 years	4,911,615.44	13.03	1,423,147.32	28.98	8,680,685.15	20.37	3,273,352.49	37.71
2-3 years	4,659,828.42	12.36	2,397,468.36	51.45	2,393,334.67	5.61	1,563,786.78	65.34
3-5 years	2,609,196.06	6.92	2,519,873.06	96.58	4,722,205.13	11.08	4,549,858.95	96.35
More than 5 years	<u>9,272,304.06</u>	<u>24.59</u>	<u>9,267,304.06</u>	<u>99.95</u>	<u>9,221,884.16</u>	<u>21.64</u>	<u>9,220,884.16</u>	<u>99.99</u>
Total	<u>37,703,199.73</u>	<u>100.00</u>	<u>17,624,038.06</u>	<u>46.74</u>	<u>42,623,554.17</u>	<u>100.00</u>	<u>19,543,388.29</u>	<u>45.85</u>

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

5. Other Receivables (Continued)

(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
Yunnan Broadcasting & Television Bureau	3,825,548.06	10.15	Within 1 year
Nanjing Panda Digital Technology Development Co., Ltd.	3,540,000.00	9.39	2-5 years
Panda Electronics (Kunshan) Co., Ltd.	2,462,824.92	6.53	1-5 years
Nanjing Economic and Technological Development Zone Management Committee	1,650,000.00	4.38	Within 1 year
Nanjing Ke'an Electronics Co., Ltd.	680,000.00	1.80	Within 1 year
Total	<u>12,158,372.98</u>	<u>32.25</u>	

(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 RMB2,462,824.92 due from related parties (the opening balance: RMB1,736,220.94), representing 6.53% of the total other receivables (the opening balance: 4.07%). Please refer to Note X3(11) for disclosure of relevant related transactions.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

6. Inventories

(1) Details of inventories

Items	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Raw materials	94,412,593.07	562,413,014.72	611,004,125.15	45,821,482.64
Packaging materials	41,199.09	2,742,480.03	2,622,265.32	161,413.80
Low-value consumables	528,394.75	3,389,427.98	3,329,546.74	588,275.99
Work in progress	191,430,584.37	810,472,192.41	944,576,885.28	57,325,891.50
Stored commodities	86,931,513.56	859,909,178.07	873,417,899.23	73,422,792.40
Consigned commodities	4,055,432.04	62,676,331.79	57,817,881.71	8,913,882.12
Delivered commodities	6,941,103.08	35,656,962.00	37,607,482.33	4,990,582.75
Total	<u>384,340,819.96</u>	<u>2,337,259,587.00</u>	<u>2,530,376,085.76</u>	<u>191,224,321.20</u>

(2) Provision for diminution in value of inventories

Item	Opening Balance	Provision in the year	Decrease in the year			Closing Balance
			Reverse	Write-off	Total	
Raw materials	5,591,838.76	6,406,010.14	46,748.71		46,748.71	11,951,100.19
Work in progress	1,965,269.95	2,023,008.24	267,779.47		267,779.47	3,720,498.72
Stored commodities	29,833,970.57	5,921,557.26	2,052,644.16	17,454,322.38	19,506,966.54	16,248,561.29
Consigned commodities		299,182.75				299,182.75
Delivered commodities	<u>1,114,538.95</u>	<u>463,112.17</u>	<u>2,701.81</u>		<u>2,701.81</u>	<u>1,574,949.31</u>
Total	<u>38,505,618.23</u>	<u>15,112,870.56</u>	<u>2,369,874.15</u>	<u>17,454,322.38</u>	<u>19,824,196.53</u>	<u>33,794,292.26</u>

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 anymore, the amount of write-down shall be recovered and be reversed from the provision for diminution in value of inventories that has been made.
- (3) The closing balance of inventories decreased by 50.25% from the opening balance, mainly due to the completion of satellite communication products which have been sent to the clients.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

7. Long-term equity investment

(1) Details of long-term equity investment

Item	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Investment in associated companies	940,541,913.28	147,273,460.93	306,146,671.80	781,668,702.41
Less: provision for impairment of long term investment	2,956,636.87			2,956,636.87
Total	<u>937,585,276.41</u>	<u>147,273,460.93</u>	<u>306,146,671.80</u>	<u>778,712,065.54</u>

(2) Details of investment in associated companies and major financial information of associated companies for the year

Name of investee	Opening Balance	Increase in this year	Decrease in this year	Closing Balance	Registration Address	Nature of business
Associated company						
Beijing SE Putian Mobile Communications Co., Ltd.	228,595,194.60	115,629,005.40	141,000,000.00	203,224,200.00	Beijing	Manufacture Technology
Nanjing Huaxian High Technology Company Limited	6,290,812.71	(4,447,833.33)		1,842,979.38	Nanjing	Development
Hua Fei Colour Display Systems Company Limited	260,736,816.53	(100,399,647.36)		160,337,169.17	Nanjing	Manufacture
MPower Batteries (Nanjing) Co., Ltd.					Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	335,574,930.00	129,970,140.00	158,582,070.00	306,963,000.00	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	92,820,902.73	8,918,566.29	6,564,601.80	95,174,867.22	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,670,181.97	(352,375.15)		1,317,806.82	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.					Nanjing	Manufacture
Nanjing Electronics (Kunshan) Co. Ltd.	2,605,920.06	(2,605,920.06)			Kunshan	Manufacture
Nanjing Panda Medical Electronics Co. Ltd.	200,111.87			200,111.87	Nanjing	Manufacture
Nanjing Thales Panda Transportation System Company Limited	9,290,517.81	561,525.14		9,852,042.95	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00			2,756,525.00	Korea	
Total	<u>940,541,913.28</u>	<u>147,273,460.93</u>	<u>306,146,671.80</u>	<u>781,668,702.41</u>		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

7. Long-term equity investment (Continued)

- (2) Details of investment in associated companies and major financial information of associated companies for the year (Continued)

Name of investee	The Company's shareholding percentage %	The Company's percentage in voting rights of the investee %	Total net assets at the end of the year	Total revenue from operations for the year	Net profit/(loss) for the year
Associated companies					
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	998,906,000.00	22,842,364,000.00	428,147,000.00
Hua Fei Colour Display Systems Company Limited	25	25	641,348,676.69	773,064,344.92	(398,362,910.96)
Nanjing Ericsson Panda Communication Company Limited	27	27	1,136,900,000.00	13,603,442,000.00	481,364,000.00
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	250,262,601.16	348,712,697.08	24,591,821.10
Intenna (Nanjing) Co. Ltd.	35	35	3,764,694.56		(1,006,798.38)
Nanjing Thales Panda Transportation System Company Limited	40	40	24,630,107.24	63,530,263.97	1,034,555.28
Nanjing Electronics (Kunshan) Co. Ltd.	40	40	(1,691,400.08)	6,740,917.47	(8,226,900.04)
Nanjing Huaxian High Technology Company Limited	20	20	9,214,896.88	4,411,614.98	(22,239,166.67)

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

7. Long-term equity investment (Continued)

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

Name of investee	Initial investment	Opening Balance	Additional investment in 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		115,629,005.40	141,000,000.00	203,224,200.00
Nanjing Huaxian High Technology Company Limited	10,000,000.00	6,290,812.71		(4,447,833.33)		1,842,979.38
Hua Fei Colour Display Systems Company Limited	392,892,722.42	260,736,816.53		(100,399,647.36)		160,337,169.17
MPOWER Batteries (Nanjing) Co., Ltd.	4,200,000.00					
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	335,574,930.00		129,970,140.00	158,582,070.00	306,963,000.00
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	92,820,902.73		8,918,566.29	6,564,601.80	95,174,867.22
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,670,181.97		(352,375.15)		1,317,806.82
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.88	2,605,920.06		(2,605,920.06)		
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	9,290,517.81		561,525.14		9,852,042.95
Panda Korea Chen Xi Joint Venture Company Limited	3,494,075.00	2,756,525.00				2,756,525.00
Total	638,902,758.33	940,541,913.28		147,273,460.93	306,146,671.80	781,668,702.41

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

7. Long-term equity investment (Continued)

(4) Impairment for the Long-term equity investment

Name of investee	Opening Balance	Provision during the year	Reversal	Decrease in the year Write-off	Total	Closing Balance
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00					2,756,525.00
Nanjing Panda Medical Electronics Co. Ltd.	200,111.87					200,111.87
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
Cost						
Opening Balance	407,936,440.05	304,580,195.13	9,383,760.11	39,643,003.82	12,868,973.21	774,412,372.32
Transfer from CIP		2,434,751.25		1,537,478.73	752,273.47	4,724,503.45
Other Current Addition		3,658,028.17	3,944,587.23	1,308,618.25	368,489.78	9,279,723.43
Other Current Disposal	(5,611,717.75)	(32,126,612.08)	(1,404,850.71)	(236,528.10)	(125,400.00)	(39,505,108.64)
Closing Balance	402,324,722.30	278,546,362.47	11,923,496.63	42,252,572.70	13,864,336.46	748,911,490.56
Accumulated Depreciation						
Opening Balance	105,932,254.96	123,871,206.67	4,162,459.49	24,259,743.35	4,103,129.43	262,328,793.90
Current Depreciation	12,916,712.07	23,421,370.75	1,085,824.53	3,884,742.95	1,979,556.38	43,288,206.68
Current Disposal	(1,168,630.66)	(30,438,382.94)	(965,927.52)	(173,773.97)	(49,982.40)	(32,796,697.49)
Closing Balance	117,680,336.37	116,854,194.48	4,282,356.50	27,970,712.33	6,032,703.41	272,820,303.09
Impairment Provision						
Opening Balance	2,316,866.36	580,447.79		1,633,052.06		4,530,366.21
Current Increase	8,040,591.86	176,861.89				8,217,453.75
Current Decrease	(2,031,510.20)					(2,031,510.20)
Closing Balance	8,325,948.02	757,309.68		1,633,052.06		10,716,309.76
Net book value						
Closing Balance	276,318,437.91	160,934,858.31	7,641,140.13	12,648,808.31	7,831,633.05	465,374,877.71
Opening Balance	299,687,318.73	180,128,540.67	5,221,300.62	13,750,208.41	8,765,843.78	507,553,212.21

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

8. Fixed Assets (Continued)

(2) Fixed assets acquired under finance leases

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	11,402,829.76	2,246,584.60		9,156,245.16
Total	11,402,829.76	2,246,584.60		9,156,245.16

(3) Fixed assets leased out by operating lease

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	251,028,574.08	75,924,736.66	3,337,418.19	171,766,419.23
Total	251,028,574.08	75,924,736.66	3,337,418.19	171,766,419.23

(4) Fixed assets without certificate

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	159,835,722.26	42,910,506.90	8,325,948.02	108,599,267.34
Total	159,835,722.26	42,910,506.90	8,325,948.02	108,599,267.34

(5) Impairment provision of fixed assets

Items	Opening Balance	Provision during the year	Decrease in the year			Closing Balance
			Reversal	Write-off	Total	
Buildings	2,316,866.36	8,040,591.86		2,031,510.20	2,031,510.20	8,325,948.02
Machinery and equipment	580,447.79	176,861.89				757,309.68
Electronic equipment	1,633,052.06					1,633,052.06
Total	4,530,366.21	8,217,453.75		2,031,510.20	2,031,510.20	10,716,309.76

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

8. Fixed Assets (Continued)

(5) Impairment provision of fixed assets (Continued)

The buildings of Nanjing Guanghua Electronics Plastic Casings Factory (“Nanjing Guanghua”), which is a wholly-owned subsidiary of the Company are located in Baixia District, Nanjing. The land use right was held by Nanjing Huage Appliance and Plastic Industrial Company Limited, another wholly-owned subsidiary of the Company. During the year, Nanjing Huage entered into the agreement with Nanjing Panda Handa Technology Company Limited to transfer the land use rights of the above land to Nanjing Handa, a wholly-owned subsidiary of Panda Electronics Group Company Limited, which is the controlling shareholder of the Company. As Nanjing Guanghua has not acquired the property right certificate and the buildings of Nanjing Guanghua is likely to be demolished, full provision of RMB8,040,591.86 has been made for the buildings of Nanjing Guanghua.

As Shenzhen Panda Electronic Co., Ltd was de-registered, the Company wrote off fixed assets of RMB5,368,920.44 for the year (accumulated depreciation: RMB933,117.26), for which impairment provision of RMB2,031,510.20 had been made.

9. Construction in progress

(1) Details of Construction in progress

Name of project	Budget	Opening balance	Increase in the year	Transferred to fixed assets in the year	Other decrease	Closing balance	% of budget	Resource of fund
Xingang No.4 and No.5 Plant Project	RMB180 million	3,642,033.76	57,543,821.66			61,185,855.42	33.99	Internal capital
Xingang No.3 Plant Project	RMB9.04 million	7,274,189.54	1,661,089.94			8,935,279.48	98.84	Internal capital
Xingang No.1 & No.2 Plant, No.9 & No.10 Canteen	RMB120 million	12,063,278.90	3,324,922.25			15,388,201.15	17.98	Internal capital
Machinery and equipment			3,982,229.98	3,972,229.98		10,000.00		
Mould		120,000.00	704,273.47	752,273.47		72,000.00		Internal capital
Total		<u>23,099,502.20</u>	<u>67,216,337.30</u>	<u>4,724,503.45</u>		<u>85,591,336.05</u>		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

9. Construction in progress (Continued)

- (2) The Company has no capitalization of borrowing costs for the year. The Company made no impairment provision for construction in progress as there is no indication of impairment.
- (3) The closing balance of the CIP increased by 270.53% from the opening balance because of the expansion of construction of Xingang No.4 and No.5 plant project.

10. Intangible assets

- (1) Details of intangible assets

Items	Initial cost	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Accumulative amortization in the year	Closing balance
Land use rights	65,537,570.47	61,849,601.17		36,593,985.85	1,193,753.53	4,881,722.83	24,061,861.79
Trademark use right	158,640,000.00	248,333.58			38,333.58	158,430,000.00	210,000.00
Others	3,296,299.00	2,729,210.95		25,014.61	656,929.88	1,224,017.93	2,047,266.46
Total	227,473,869.47	64,827,145.70		36,619,000.46	1,889,016.99	164,535,740.76	26,319,128.25

- (2) The closing balance decreased by 59.40% from the opening balance is because Nanjing Huage Appliance and Plastic Industrial Company Limited, the subsidiary of the Company, transferred the land use rights of the land located at Lianhe Village, Baixia District, with a net book value of RMB36,593,985.85 (the original cost is RMB38,318,309.80) to Nanjing Panda Handa Technology Company Limited, the subsidiary of Panda Electronics Group Limited which is the dominant stockholder of the Company.
- (3) Impairment provision for intangible assets

Items	Opening Balance	Provision in the year	Decrease in the year	Closing Balance
			Reversal Write-off Total	
Trademark use right	210,000.00			210,000.00
Total	210,000.00			210,000.00

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

11. Long-term Deferred Expenses

Items	Original amount	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Closing balance
Fitment expenses	3,587,722.56	2,580,958.49		2,048,816.95	532,141.54	
Operating Lease fee	1,250,000.00	625,000.00		312,500.00	312,500.00	
Total	<u>4,837,722.56</u>	<u>3,205,958.49</u>		<u>2,361,316.95</u>	<u>844,641.54</u>	

The closing balance decreased by 100% from the opening balance is because Nanjing Huage Appliance and Plastic Industrial Company Limited, the subsidiary of the Company, transferred the land use rights of the land located at Lianhe Village, Baixia District to Nanjing Panda Handa Technology Company Limited, the subsidiary of Panda Electronics Group which is the dominant stockholder of the Company. The Company reversed the fitment expenses of fixed assets by RMB2,048,816.95.

12. Deferred Income Tax Assets

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	2,042,840.56	11,858,657.26	5,289,699.55	28,174,125.99
Depreciation of fixed assets	225,639.11	999,062.02		
Intangible assets amortization	51,919.24	229,461.75	92,675.06	423,167.16
Unrecovered losses			681,417.24	2,725,668.97
Deferred income				
Accounts payable			176,464.34	1,176,428.91
Long-term payables	12,843.53	58,379.68	60,155.76	601,557.60
Salaries payable	448,757.31	2,151,929.40	627,302.06	3,292,192.56
Total	<u>2,781,999.75</u>	<u>15,297,490.11</u>	<u>6,927,714.01</u>	<u>36,393,141.19</u>

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

13. Details of Provision for Impairment of Assets

Items	Opening Balance	Provision in the year	Decrease in the year		Total	Closing Balance
			Reversal	Write-off		
1. Total provision for bad debt	59,282,540.17	14,417,808.92	14,937,725.57	6,381,454.20	21,319,179.77	52,381,169.32
Including: Accounts receivable	35,405,078.03	7,356,480.32	11,737,261.00	2,154,835.12	13,892,096.12	28,869,462.23
Other receivables	19,543,388.29	3,035,718.64	728,449.79	4,226,619.08	4,955,068.87	17,624,038.06
Prepayment	4,334,073.85	4,025,609.96	2,472,014.78		2,472,014.78	5,887,669.03
2. Total provision for impairment of inventories	38,505,618.23	15,112,870.56	2,369,874.15	17,454,322.38	19,824,196.53	33,794,292.26
Including: Raw materials	5,591,838.76	6,406,010.14	46,748.71		46,748.71	11,951,100.19
Work in progress	1,965,269.95	2,023,008.24	267,779.47		267,779.47	3,720,498.72
Commodity inventories	29,833,970.57	5,921,557.26	2,052,644.16	17,454,322.38	19,506,966.54	16,248,561.29
Consigned Processing material		299,182.75				299,182.75
Delivered Commodities	1,114,538.95	463,112.17	2,701.81		2,701.81	1,574,949.31
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	8,217,453.75		2,031,510.20	2,031,510.20	10,716,309.76
Including: Buildings	2,316,866.36	8,040,591.86		2,031,510.20	2,031,510.20	8,325,948.02
Machinery and equipment	580,447.79	176,861.89				757,309.68
Electronic equipment	1,633,052.06					1,633,052.06
5. Provision for impairment of construction in progress						
6. Provision for impairment of intangible assets	210,000.00					210,000.00
Including: Trademark	210,000.00					210,000.00
Total	105,485,161.48	37,748,133.23	17,307,599.72	25,867,286.78	43,174,886.50	100,058,408.21

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

14. Short Term Loans

(1) Details of Short term loans

Type of loan	Closing Balance	Opening Balance
Collateral loan	189,500,000.00	
Guaranteed loan	358,000,000.00	401,000,000.00
Pledge loan Credit loan	22,000,000.00	5,000,000.00
Total	380,000,000.00	595,500,000.00

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

(3) There is no pledged loan this year while it was RMB189,500,000.00 in 2008.

(4) Details of guaranteed loans of the Company and its subsidiaries, please refer to Note X3 (5) and (6)

(5) The weighted average interest rate of the short term loans for the year is 6.34 (year 2008: 7.44%).

(6) The closing balance of the short-term loan decreased by 36.19% from the opening is because the Company returned the pledged loan of RMB189,500,000.00 from Nanjing Industrial & Commercial Bank, Hanfu Branch.

15. Bills payable

Types of Bills	Closing Balance	Opening Balance	Amount due in the next accounting period
Bank acceptance notes	19,454,095.64	47,547,289.42	19,454,095.64
Total	19,454,095.64	47,547,289.42	19,454,095.64

The closing balance of bills receivable decreased by 59.08% from the opening balance is mainly due to the decreased use of bank notes to settle the trade payment.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

16. Accounts payable

(1) Details of accounts payable

Aging	Closing Balance		Opening Balance	
	Amount	Percentage%	Amount	Percentage%
Within 1 year	230,875,610.98	83.58	178,188,532.95	79.41
1-2 years	21,196,943.42	7.67	17,520,250.37	7.80
2-3 years	3,606,635.44	1.31	2,593,780.91	1.16
More than 3 years	20,560,449.41	7.44	26,089,326.21	11.63
Total	<u>276,239,639.25</u>	<u>100.00</u>	<u>224,391,890.44</u>	<u>100.00</u>

(2) The closing balance of accounts payable includes RMB1,370,111.38 due to Panda Electronics Group Company, the shareholder with 51.10% of shareholding with voting power in the Company.

(3) The closing balance of accounts payable included RMB6,023,699.80 (the opening balance: RMB12,793,482.31) due to related parties. Please refer to Note X3(11) 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 Runkai Technology Industrial and Commercial Co., Ltd.	1,924,303.54	Unable to contact the other party	No
Thales Co., Ltd.	1,374,895.69	Payment unqualified	No
Shaoxing Four Dimension Plastic Engineering Co., Ltd.	1,111,131.92	Unable to contact the other party	No
Kunshan Qin Lian Electronics Co., Ltd.	896,110.00	Payment unqualified	No
Danyang Yuqiu General Electronics Co., Ltd.	776,735.56	Not due to the payment term	Yes
Total	<u>6,083,176.71</u>		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

17. Advances from customers

(1) Details of Advances from customers

Aging	Closing Balance		Opening Balance	
	Amount	Percentage%	Amount	Percentage%
Within 1 year	23,709,699.68	55.23	36,454,123.90	78.80
1-2 years	13,282,607.03	30.94	8,717,426.68	18.84
2-3 years	5,434,220.05	12.66	568,295.62	1.23
More than 3 years	500,143.87	1.17	524,734.94	1.13
Total	<u>42,926,670.63</u>	<u>100.00</u>	<u>46,264,581.14</u>	<u>100.00</u>

(2) The closing balance of advances from customers includes RMB21,746.60 due to Panda Electronics Group Company, the shareholder with 51.10% of shareholding with voting power in the Company.

(3) The closing balance of advances from customers includes RMB1,495,547.72 (the opening balance: RMB6,150,937.87) due to related parties. Please refer to Note X3 (11) 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

	Opening Balance	Increase	Decrease	Closing Balance
Salaries and bonus	3,096,040.96	133,089,622.16	132,812,370.72	3,373,292.40
Expenses for employee benefits	6,971,430.56	6,971,430.56		
Expenses for social security	1,938,486.72	28,354,641.58	27,678,533.05	2,614,595.25
Including: Medical insurance	178,515.89	6,622,985.41	6,397,924.12	403,577.18
Pension fund	925,866.59	18,243,641.22	17,090,722.75	2,078,785.06
Unemployment insurance	22,133.53	1,016,090.30	948,567.81	89,656.02
Injury insurance	271,981.46	1,954,598.65	2,213,384.51	13,195.60
Maternity insurance	539,989.25	517,326.00	1,027,933.86	29,381.39
Housing reserve fund	783,137.32	8,577,718.86	8,582,431.17	778,425.01
Trade union funds and employee education funds	2,995,235.48	1,912,709.34	2,497,798.83	2,410,145.99
Compensation for employment termination	162,498.00	217,961.38	272,459.38	108,000.00
Laid-off benefits	35,979,873.65	10,028,895.51	10,647,440.32	35,361,328.84
Others	4,516.96	204,345.60	158,595.16	50,267.40
Total	<u>44,959,789.09</u>	<u>189,357,324.99</u>	<u>189,621,059.19</u>	<u>44,696,054.89</u>

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

18. Salaries payable (Continued)

Laid-off benefits are the total accrued expenses of laid-off staff since 1 January 2010 to the retirement date, including the unrecognized financing expenses amounting to Rmb2,661,690.88 (the opening balance: 7,623,326.59). The unrecognized financing cost is amortized by the effective interest method.

19. Taxes payable

Items	Tax Rate	Closing Balance	Opening Balance
Value-added tax	Refer to Note VI: Taxation	17,136,520.50	16,010,902.88
Business tax	Refer to Note VI: Taxation	351,069.48	183,632.40
City maintenance tax	Refer to Note VI: Taxation	507,203.05	437,076.09
Education surcharges	Refer to Note VI: Taxation	2,280,060.83	4,243,707.72
Enterprise income tax	Refer to Note VI: Taxation	2,750,322.16	4,182,815.13
Land appreciation tax*	Refer to Note VI: Taxation	3,422,006.97	
Individual income tax		451,665.01	501,034.21
Fund for flood control			
Others		7,375.41	8,301.58
Total		26,906,223.41	25,567,470.01

* It is caused by the transfer of land use right by Nanjing Huage Appliance and Plastic Industrial Company Limited, the subsidiary of the Company.

20. Interest Payable

Items	Closing Balance	Opening Balance
Short-term loan interest	469,360.36	1,155,400.00
Total	469,360.36	1,155,400.00

21. Other payables

Aging	Closing Balance		Opening Balance	
	Amount	Percentage%	Amount	Percentage%
Within 1 year	136,597,053.77	75.07	35,792,305.96	35.82
1-2 years	4,945,660.42	2.72	6,108,614.32	6.11
2-3 years	2,308,569.67	1.27	12,727,973.98	12.74
More than 3 years	38,112,800.61	20.94	45,302,328.72	45.33
Total	181,964,084.47	100.00	99,931,222.98	100.00

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

21. Other payables (Continued)

- (1) The closing balance of other payables included RMB85,313,589.70 payables to Panda Electronics Group Company, the shareholder with 51.10% of shareholding with voting power in the Company.
- (2) The closing balance of other payables includes RMB90,797,320.40 payables to related parties (the opening balance: RMB12,886,218.64). Please refer to Note X3 (11) for disclosure of relevant related transactions.
- (3) Other payables in large amount

Name of creditor	Amount	Nature
Panda Electronics Group Co., Ltd.	85,313,589.70	Daily operation fund, Property management fee, social insurance fee
Ministry of Finance, China	18,689,667.00	Project Fund
Jiangsu Hai Fu Motor & Auto Parts Trade Center	2,945,165.54	Lease deposit
Intenna (Nanjing) Co. Ltd	2,262,342.55	Daily operating expenses
Nanjing Pengda Labor Consulting Services Co., Ltd.	<u>2,076,491.31</u>	Labor expenses
Total	<u><u>111,287,256.10</u></u>	

- (4) The closing balance of other payables increased by 82.09% from the opening balance because the Company received RMB80,000,000 from Panda Electronics Group Co., Ltd., the parent company mainly for the daily operation.

22. Long-term Loan

Items	Closing Balance	Opening Balance
Credit Loan	4,000,000.00	
Less: Long-term loan due within one year		
Total	<u><u>4,000,000.00</u></u>	

The long-term loan was assessed by the Bureau of Science and Technology, Jiangsu Province and granted by Jiangsu International Trust Co., Ltd. through the special fund of scientific and technological achievements of Jiangsu Province. The purpose of the loan was to finance the research and industrialization of the automatic fare collection (AFC) and the ticket clearance management center (ACC) system software. The loan period is from 27 November, 2009 to 27 February, 2012, with the weighted average annual interest rate of 0.3%. The principal and interest will be paid when loan term ends (the opening balance: nil).

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

23. Long Term Payables

Items	Closing Balance	Opening Balance
Finance lease payables	3,494,205.24	12,713,607.51
Less: Finance lease payables due within 1 year	2,215,375.85	9,167,543.14
Total	1,278,829.39	3,546,064.37

Analysis of due date of long term payables:

Items	Closing Balance	Opening Balance
Within 1 year	2,215,375.85	9,167,543.14
1-2 years	1,278,829.39	2,376,463.46
2-5 years		1,169,600.91
Total	3,494,205.24	12,713,607.51

The closing balance of long-term payables decreased by 63.94% from the opening is because the Company paid finance lease payment due in current year and there is no addition of finance lease in 2009.

24. Share Capital

Items	Opening Balance	Increase In the year	Decrease In the year	Closing Balance
Shares subject to trading moratorium -				
State owned shares				
State-owned legal person shares	269,213,500.00		269,213,500.00	
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	269,213,500.00		413,015,000.00
Overseas-listed foreign shares	242,000,000.00			242,000,000.00
Others				
Subtotal	385,801,500.00	269,213,500.00		655,015,000.00
Total	655,015,000.00	269,213,500.00	269,213,500.00	655,015,000.00

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

24. Share Capital (Continued)

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 Company Limited ("Panda Group"), paid shares to shareholders of circulating A shares, and acquired the right to circulate its non-circulating shares. Panda Group paid 20.3 million shares to shareholders of circulating shares, i.e. 3.5 shares per 10 circulating a share.

PEGL committed that its non-trading shares shall not be traded or transferred within 24 months since the effective date of share distribution and circulation reform (11 September 2006). Within 12 months after the expiration of the aforesaid stipulation, the shares sold through Shanghai Securities Exchange shall not exceed 10% of total shares owned. From 12 September 2008, 65,501,500 shares subject to trading moratorium are allowed to be circulated. As of 25 September, 2009, the remaining 269,213,500 shares subject to trading moratorium can also be traded. During the reporting period, the company's controlling shareholder, PEGL, did not increase or reduce shareholdings of the Company.

25. Capital Reserve

Item	Opening Balance	Increase In the year	Decrease In the year	Closing Balance
Capital premium	576,151,079.65		125,146,519.04	451,004,560.61
Other capital reserve	<u>14,365,417.16</u>			14,365,417.16
Total	<u>590,516,496.81</u>		<u>125,146,519.04</u>	<u>465,369,977.77</u>

In 2009, the Company acquired 100% shares of Nanjing Panda Technology Industrial Co., Ltd. and 70% shares of Nanjing Panda Electrical Instrument Technology Co., Ltd, with RMB121,989,200.00 and RMB2,643,700.00 respectively. As the Company and the acquired companies are all under the ultimate control of PEGL and the control is not temporary, the acquisition is regarded as a business combination under common control. Total amount of the purchase price amounting to RMB124,632,900.00 was used to reduce current year's capital reserve. For disclosure of business combination, please refer to VIII 44.

In 2009, the Company acquired minority stockholder's interest of Nanjing Panda Precision Machine Co., Ltd. The amount RMB513,619.05, which was more than the value of minority interest, was recorded in the capital reserve for the year.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

26. Surplus Reserve

Item	Opening Balance	Increase In the year	Decrease In the year	Closing Balance
Statutory surplus reserve	130,133,779.96	2,273,984.13		132,407,764.09
Discretionary surplus reserve	70,376,641.33			70,376,641.33
Total	<u>200,510,421.29</u>	<u>2,273,984.13</u>		<u>202,784,405.42</u>

According to “the Company law of the PRC”, the Company’s Articles of Association and a resolution at the Board of Directors, the Company appropriates 10% of net profits of the year to statutory surplus reserve. The Company shall not appropriate statutory surplus reserve when it reaches above 50% of the total share capital. The statutory surplus reserve could be used to recover loss or increase share capital. The Company appropriated statutory surplus reserve amounting to RMB2,273,984.13, which amounted to 10% net profit of the Company this year (year 2008: RMB416,397.91).

27. Undistributed Profit

Items	2009	2008
Closing balance of previous year	140,414,701.05	156,031,038.14
Add: Changes in accounting policies		
Correction of previous errors		
Merger of enterprises under same control	(11,831,254.73)	(14,254,989.93)
Opening balance of the year	128,583,446.32	141,776,048.21
Add: Consolidated net profit		
attributable to parent company	15,525,671.62	41,139,032.14
Compensation of loss from surplus reserve		
Other transfer-in		
Less: Transfer to statutory surplus reserve	2,273,984.13	416,397.91
Transfer to discretionary surplus reserve		
Distribution to shareholders		53,915,236.12
Closing balance of the year	<u>141,835,133.81</u>	<u>128,583,446.32</u>

- (1) The statutory surplus reserve of the Company was appropriated based on 10% of profits after tax.
- (2) Pursuant to the Annual Profit Distribution Proposal for 2009 passed at the twelfth meeting of sixth Board, the Company decided not to distribute profits for the year 2009.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

28. Operating Income and Cost

(1) Income from principal activities and other activities

Items	2009	2008
Income from principal activities	1,259,924,875.31	1,259,731,576.04
Income from other activities	24,939,544.66	19,971,796.08
Total operating income	1,284,864,419.97	1,279,703,372.12
Cost of principal activities	1,146,298,242.71	1,095,404,522.59
Cost of other activities	16,826,559.40	20,615,436.28
Total operating cost	1,163,124,802.11	1,116,019,958.87

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

Business segment	2009		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	366,933,963.75	336,872,072.87	30,061,890.88
Electronic intelligent products	274,154,923.44	231,968,539.23	42,186,384.21
Electronic Equipment products	276,338,408.16	238,553,960.21	37,784,447.95
Satellite telecommunication products	203,733,000.00	195,060,314.29	8,672,685.71
Others	138,764,579.96	143,843,356.11	(5,078,776.15)
Total	1,259,924,875.31	1,146,298,242.71	113,626,632.60

Business segment	2008		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	402,628,597.43	343,140,738.25	59,487,859.18
Electronic intelligent products	338,442,099.99	300,217,762.30	38,224,337.69
Electronic equipment products	267,718,950.15	225,545,966.53	42,172,983.62
Satellite telecommunications products	130,800,000.00	119,917,604.00	10,882,396.00
Others	120,141,928.47	106,582,451.51	13,559,476.96
Total	1,259,731,576.04	1,095,404,522.59	164,327,053.45

(3) Sales revenue from the largest five customers totaled RMB462,520,969.89 (year 2008: RMB512,727,706.38), accounting for 36.00% of total sales revenue for the year (year 2008: 40.07%).

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

29. Sales tax and surcharges

Item	2009		2008	
	Calculation basis	Amount	Calculation basis	Amount
Business tax	5% of lease income and others	3,751,114.66	5% of lease income and others	2,887,057.29
City maintenance tax	7% of turnover tax	2,020,467.96	7% of turnover tax	1,624,718.38
Education surcharges	4% of turnover tax	1,198,691.37	4% of turnover tax	1,003,136.91
Total		<u>6,970,273.99</u>		<u>5,514,912.58</u>

30. Financial expenses

Items	2009	2008
Interest expenses	34,636,260.69	52,938,721.30
Less: Interest income	3,286,558.58	10,375,635.01
Exchange loss	130,345.51	7,517,483.32
Less: Exchange gain	220,808.13	4,374,191.67
Bank charges	275,205.20	751,789.90
Unrecognized financing expenses	1,907,913.61	1,516,600.51
Others	965,776.90	618,038.72
Total	<u>34,408,135.20</u>	<u>48,592,807.07</u>

The decrease of financial expenses by 29.19% in 2009 from that of 2008 was due to the return of bank loans and decreased loan interest rate.

31. Assets Impairment Loss

Items	2009	2008
Bad debt losses	(519,916.65)	(10,537,491.79)
Loss from inventory impairment	12,742,996.41	45,006,917.58
Fixed asset impairments loss	8,217,453.75	2,037,406.33
Total	<u>20,440,533.51</u>	<u>36,506,832.12</u>

Assets impairment loss for year 2009 decreased by 44.01% over year 2008, mainly due to that there was great inventory impairment accrued for the obsolete mould products in year 2008 while there is not in year 2009.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

VIII. Notes to major items of consolidated financial statements

32. Investment Income

(1) Listed by Items

Items	2009	2008
Share of profit of investees under equity method of accounting	147,273,460.93	201,283,518.47
Income on disposal of long-term equity investments	1.00	1,443,661.77
Total	<u>147,273,461.93</u>	<u>202,727,180.24</u>

(2) Investment income listed by investees

Name of Investees	2009	2008	Remarks
Nanjing Ericsson Panda Communication Company Limited	129,970,140.00	162,197,640.00	(1)
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	115,629,005.40	92,753,310.99	(1)
Hua Fei Colour Display Systems Company Limited	(100,399,647.36)	(60,573,231.89)	(2)
Shenzhen Jingwah Electronics Co., Ltd	8,918,566.29	10,417,895.79	
Intenna (Nanjing) Co. Ltd.	(352,375.15)	(519,168.16)	
Nanjing Thales Panda Transportation System Company Limited	561,525.14	760,109.41	
Nanjing Electronics (Kunshan) Co. Ltd	(2,605,920.06)	(43,850.38)	
Nanjing Huaxian High Technology Company Limited	(4,447,833.33)	(3,709,187.29)	
Nanjing Yinquan Communication & Technology Co., Ltd.		1,443,661.77	
Tamura Electronics (Nanjing) Co., Ltd.	1.00		
Total	<u>147,273,461.93</u>	<u>202,727,180.24</u>	

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

32. Investment Income (Continued)

(2) Investment income listed by investees (Continued)

1. The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2009, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
2. The financial statement of Hua Fei Color Display Systems Company Limited in 2009, an associated company of the Company, was audited by Jiangsu Talent CPA and a standard unqualified audited report was issued.
3. Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company; ii) there was no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs offset between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit.

The investment income or loss was recognized based on the share of profit or loss of investees under equity method of accounting.

4. There was no material restriction on the remittance of the investment income to the Company.

33. Non-operating Income

(1) Details of Non-operating income

Items	2009	2008
Gains from disposal of non-current assets	9,276,809.71	1,879,035.41
Including: gains from disposal of fixed assets	323,622.03	1,879,035.41
Gains from disposal of other non-current fixed assets	8,953,187.68	
Wrote off payables	5,619,606.22	5,008,499.57
Governmental subsidy	23,970,077.05	21,157,301.73
Net gain from fine payments	56,161.58	163,952.45
Others	388,418.51	1,329,765.53
Total	39,311,073.07	29,538,554.69

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

33. Non-operating Income (Continued)

(2) Governmental subsidy

Items	2009		2008	
	Amount	Including: Amount recorded in the current profits and losses	Amount	Including: Amount recorded in the current profits and losses
Reimbursement of value-added tax for software product	749,828.90	749,828.90	1,820,717.51	1,820,717.51
Financial subsidy and financial grant	<u>23,220,248.15</u>	<u>23,220,248.15</u>	<u>19,336,584.22</u>	<u>19,336,584.22</u>
Total	<u>23,970,077.05</u>	<u>23,970,077.05</u>	<u>21,157,301.73</u>	<u>21,157,301.73</u>

(3) The non-operating income for year 2009 increased by 33.08% over year 2008 because of the income from the disposal of land use right in the current year.

34. Non-operating Expenses

Items	2009	2008
Loss from the disposal of non-current assets	1,416,732.68	1,051,098.57
Including: loss from disposal of fixed assets	1,416,732.68	1,051,098.57
Loss from the disposal of other non-current assets		
Loss from debt restructuring	98,439.92	428,904.84
Donation expenses	211,000.00	1,903,600.00
Fine payment expenses	104,460.12	252,087.93
Compensation expenses	143,302.00	220,889.31
Others	88,161.60	255,553.32
Total	<u>2,062,096.32</u>	<u>4,112,133.97</u>

The non-operating expenses in 2009 decreased by 49.85% over year 2008, mainly due to that there was great donation expenses in year 2008.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

35. Income Tax Expenses

(1) Composition of income tax expenses (gains)

Items	2009	2008
Current income tax	8,228,354.19	7,906,552.08
Deferred income tax	4,145,714.26	(1,338,338.42)
Total	12,374,068.45	6,568,213.66

(2) The reconciliation from total profit presented in the consolidated financial statements to the income tax expenses is as follows:

Items	2009	2008
Total profit	31,398,252.71	50,364,905.19
Income tax expenses calculated at the applicable tax rate	7,849,563.18	12,591,226.00
Exemption/reduction of income tax under preferential tax treatment	(6,811,363.42)	(6,762,000.00)
Share of results of associates	(21,886,579.80)	(31,735,000.00)
Income not subject to tax	(90,485.77)	(2,397,747.00)
Expenses not deductible for tax purposes	7,812,158.72	32,065,714.26
Tax losses for which no deferred income tax asset was recognized	22,214,304.09	5,819,000.00
Effect of change in tax rate	(145,841.35)	(86,000.00)
Utilization of previously unrecognized tax losses	(238,521.21)	(1,446,000.00)
Reversal/Recognition of deferred income tax assets previously unrecognized	3,588,429.32	(916,417.00)
Others	82,404.69	(564,562.60)
Income tax expenses	12,374,068.45	6,568,213.66

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

36. Basic Earnings per Share and Diluted Earnings per Share

Items	2009	2008
Basic earnings per share	0.02	0.06
Diluted earnings per share	0.02	0.06

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

Including:

“S₀” represents total number of shares at the beginning of the period;

“S₁” represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period;

“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;

“M₀” 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 = $P_1 / (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond})$

Including, “P₁” represents net profit attributable to ordinary shareholders, taking into consideration of impact from potential diluted ordinary shares and adjustments according to the Enterprise Accounting Standards and Accounting System for business enterprises. In calculating diluted earnings per share, the Company takes into consideration of impact from all potential diluted ordinary shares on net profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares. The potential diluted ordinary shares are included in the calculation of diluted earnings per share in sequence to the degree of dilution till diluted earnings per share become minimum.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

37. Other Comprehensive Earnings

Items	2009	2008
1. Others		12,031,472.28
Less: Income tax impact combined with other comprehensive earnings		
Net Profit transferred from other comprehensive earning in the previous period		
Sub-Total		<u>12,031,472.28</u>
Total		<u><u>12,031,472.28</u></u>

38. 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	2009	2008
Cash receipts from Panda Electronics Group Co., Ltd.	80,000,000.00	
Research & development funds from Ministry of Finance, PRC.	21,840,000.00	4,500,000.00
Government subsidy	12,135,007.60	15,069,536.18
transaction received from Panda Electronics Group Co., Ltd. due to the merger under the common control		47,000,000.00
Reception of		27,993,340.74
Others	5,135,633.33	<u>11,385,905.12</u>
Total	<u>119,110,640.93</u>	<u><u>105,948,782.04</u></u>

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

39. 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	2009	2008
Payments of deposits	37,668,989.15	1,240,000.00
Technology development fee	15,862,151.58	16,770,393.00
Operating fee	16,209,622.19	18,307,453.80
Entertainment expenses	12,065,233.56	9,626,435.49
Travelling expenses	5,796,127.62	4,998,464.80
Others	32,628,492.15	25,920,818.64
Total	120,230,616.25	76,863,565.73

40. Other Cash Received in Connection with Financing Activities

Among the "Other Cash Received in Connection with Financing Activities", the items with large amount are listed as follows:

Items	2009	2008
Deposits as margin	8,301,668.02	20,811,321.18
Receipt of time deposit pledged for bank loans		50,000,000.00
Total	8,301,668.02	70,811,321.18

41. Other Cash Paid Relating to Financing Activities

Among the "Other Cash Paid Relating to Financing Activities", the items with large amount are listed as follows:

Items	2009	2008
Payment of amount under finance lease	9,458,601.79	13,837,100.96
Capital reduction by Panda Electronics Group Co., Ltd.		30,000,000.00
Payment of discount interest		1,203,333.32
Total	9,458,601.79	45,040,434.28

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

42. Supplemental Information of Cash Flow Statements

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

Items	2009	2008
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	19,024,184.26	43,796,691.53
Add: Provision for asset impairment	20,440,533.51	36,506,832.12
Depreciation of fixed assets	43,288,206.68	41,087,249.00
Amortization of intangible assets	1,889,016.99	2,276,150.85
Amortization of long term deferred expenses	844,641.54	893,018.12
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	(7,860,077.03)	(827,936.84)
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 "-")	34,636,260.69	57,349,483.01
Loss on investment (gains are represented by "-")	(147,273,461.93)	(202,727,180.24)
Decrease in deferred income tax assets (Increase is represented by "-")	4,145,714.26	(1,338,338.42)
Increase in deferred income tax liabilities (decrease is represented by "-")		
Decrease in inventories (increase is represented by "-")	175,662,176.38	(82,091,993.85)
Decrease in trade receivables (Increase is represented by "-")	6,471,516.07	(46,467,281.94)
Increase in trade payables (Decrease is represented by "-")	96,229,263.41	40,914,639.53
Net cash flow from operating activities	247,497,974.83	(110,628,667.13)
2. Material investment and financial activities not involving cash:		
Debt capitalization		
Convertible bonds due within one year		
Lease of fixed assets by financing		
3. Net change in cash and cash equivalents:		
Cash balance as at end of the year	560,354,017.93	416,445,310.81
Less: cash balance as at beginning of the year	416,445,310.81	438,136,025.88
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
Net increase in cash and cash equivalents	143,908,707.12	(21,690,715.07)

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

42. Supplemental Information of Cash Flow Statements (Continued)

(2) Information on cash and cash equivalents

Items	2009	2008
I. Cash	560,354,017.93	416,445,310.81
Including: Cash on hand	795,860.71	545,943.48
Bank deposit available for payment at any time	559,558,157.22	415,899,367.33
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	560,354,017.93	416,445,310.81

43. Segment Report

Primary reporting format - business segments

(1) Segment information as at and for the year is as follows:

	Electronic manufacture products	Electronic Equipment products	Satellite telecommu- -nications products	Electronic intelligent products	Others	Total
Segment revenue						
Income from principal activities	366,933,963.75	276,338,408.16	203,733,000.00	274,154,923.44	138,764,579.96	1,259,924,875.31
Income from other activities	1,600,142.78	7,792,231.62	1,432,573.00	3,171,531.58	10,943,065.68	24,939,544.66
Segment expenses	369,628,490.30	270,267,078.00	193,601,741.30	274,789,573.17	165,495,861.57	1,273,782,744.34
Segment profit	(1,094,383.77)	13,863,561.78	11,563,831.70	2,536,881.85	(15,788,215.93)	11,081,675.63
Unallocated expenses						(132,856,159.49)
Interest income						3,286,558.58
Interest expense						(34,636,260.69)
Investment income						147,273,461.93
Non-operating income						39,311,073.07
Non-operating expense						(2,062,096.32)
Income tax expense						(12,374,068.45)
Net profit						19,024,184.26
Segment assets						
Assets	393,178,835.32	219,696,500.13	153,278,560.39	365,160,123.30	78,525,543.23	1,209,839,562.37
Long-term equity investment						778,712,065.54
Unallocated assets						468,388,621.81
Segment liabilities						
Liabilities	143,499,867.01	98,604,774.08	450,613.41	177,722,218.56	26,329,812.02	446,607,285.08
Unallocated liabilities						533,543,048.81
Other expense						
Capital expenditure	9,200,598.32	1,138,843.99		524,493.34	1,588,082.86	
Depreciation and amortization expense	26,415,702.19	4,581,276.19		672,243.07	546,542.72	

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

43. Segment Report (Continued)

Primary reporting format - business segments (Continued)

(2) Segment information as at and for last year

	Electronic manufacture products	Electronic Equipment products	Satellite telecommu- -nications products	Electronic intelligent products	Others	Total
Segment revenue						
Income from principal activities	402,628,597.43	267,718,950.15	130,800,000.00	338,442,099.99	120,141,928.47	1,259,731,576.04
Income from other activities	4,565,456.37	6,722,127.77	1,182,027.36	750,151.51	6,752,033.07	19,971,796.08
Segment expenses	383,123,295.39	312,892,966.79	118,409,747.82	336,453,712.23	134,071,694.64	1,284,951,416.87
Segment profit	24,070,758.41	(38,451,888.87)	13,572,279.54	2,738,539.27	(7,177,733.10)	(5,248,044.75)
Unallocated expenses						(129,977,564.73)
Interest income						10,375,635.01
Interest expense						(52,938,721.30)
Investment income						202,727,180.24
Non-operating income						29,538,554.69
Non-operating expense						(4,112,133.97)
Income tax expense						(6,568,213.66)
Net profit						43,796,691.53
Segment assets						
Assets	419,257,998.34	209,091,504.67	313,428,903.48	239,681,041.42	118,732,719.68	1,300,192,167.59
Long-term equity investment						937,585,276.41
Unallocated assets						448,237,359.49
Segment liabilities						
Liabilities	156,806,511.02	103,981,891.01	5,537,882.86	126,117,038.87	19,009,939.84	411,453,263.60
Unallocated liabilities						686,577,986.99
Other expense						
Capital expenditure	59,487,690.39	1,554,443.46		526,700.00	1,032,453.00	
Depreciation and amortization expense	24,884,007.95	4,294,558.16		652,664.01	649,334.97	

The Company's major business is in Nanjing.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

44. Business Combination

Business combination involving enterprises under common control

On 30 April 2009, the Company acquired 100% equity interests in the Nanjing Panda Technology Industrial Co., Ltd from the PEGL. The acquisition date of this transaction is 30 April 2009, on which the Company effectively obtains the right to control Panda Technology Industrial Co., Ltd. As Panda Technology Industrial Co., Ltd and the Company are both under the ultimate control of PEGL and the control is not temporary, such acquisition is regarded as a business combination under common control.

The acquisition cost of combination and the carrying amount of net assets acquired are as follows:

Cost of combination -	
Cash paid	121,989,200.00
Fair value of non-cash assets transferred	
Carrying amount of the liabilities incurred or assumed	Carrying amount of the liabilities incurred or assumed
Total cost of combination	121,989,200.00
Less: carrying amount of the net assets acquired	78,770,253.34
Amount of capital surplus and retained earnings adjusted	43,218,946.66

The carrying amount of assets, liabilities of Nanjing Panda Technology Industrial Co., Ltd. at the date of the combination, and cash flows related to the combination are as follows:

	Carrying amount Date of combination	31 December 2008
Cash and cash equivalents	8,499,276.60	61,841,409.54
Financial assets held for trading		
Receivables	66,897,337.45	13,926,183.75
Inventories		
Other current assets		
Available-for-sale financial assets		
Held-to-maturity investments		
Long-term equity investments		
Fixed assets	66,402.00	65,921.32
Intangible assets	12,496,162.37	12,596,131.67
Other non-current assets	715,482.72	715,482.72
Less: Borrowings		
Payables	9,468,757.69	10,868,263.22
Employee benefits payable	101,598.70	
Other liabilities	334,051.41	107,059.53
Net assets	78,770,253.34	78,169,806.25
Less: Minority interest		
Net assets acquired	78,770,253.34	78,169,806.25

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

44. Business Combination (Continued)

Revenue, net profit and cash flows of Nanjing Panda Technology Industrial Co., Ltd. for the period from 1 January 2009 to the date of combination and for the year ended 31 December 2008 are as follows:

	For the period from 1 January 2009 to date of combination	2008
Revenue	6,190,097.94	101,954,373.20
Net profit	610,245.45	1,756,820.33
Cash flows from operating activities	(53,333,913.87)	27,733,065.30
Net cash flows	(53,342,132.94)	38,917,545.21

On 31 July 2009, the Company acquired 70% equity interests in the Nanjing Panda Electromechanical Instrument Technology Co., Ltd. from the PEGE. The combination date of the transaction is 31 July 2009, on which the Company effectively obtains the right to control the Nanjing Panda Electromechanical Instrument Technology Co., Ltd. As the Nanjing Panda Electromechanical Instrument Technology Co., Ltd. and the Company are both under the ultimate control of PEGE and the control is not temporary, such acquisition is regarded as a business combination under common control.

The acquisition cost of combination and the carrying amount of net assets acquired are as follows:

Cost of combination-	
Cash paid	2,643,700.00
Fair value of non-cash assets transferred	
Carrying amount of the liabilities incurred or assumed	
Carrying amount of the liabilities incurred or assumed	
Total cost of combination	2,643,700.00
Less: carrying amount of the net assets acquired	4,609,982.83
Amount of capital surplus and retained earnings adjusted	(1,966,282.83)

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

44. Business Combination (Continued)

The carrying amount of assets, liabilities of Nanjing Panda Electromechanical Instruments Technology Co., Ltd. at the date of the combination, and cash flows related to the combination are as follows:

	Carrying amount Date of combination	31 December 2008
Cash and cash equivalents	6,104,391.46	4,208,884.63
Financial assets held for trading		
Receivables	20,988,069.53	19,344,844.75
Inventories	2,766,123.73	3,987,610.77
Other current assets		
Available-for-sale financial assets		
Held-to-maturity investments		
Long-term equity investments		
Fixed assets	1,233,122.88	1,269,096.68
Intangible assets	38,300.27	45,148.58
Other non-current assets	262,500.96	262,500.96
Less: Borrowings		
Payables	24,519,429.81	24,832,062.62
Employee benefits payable	15,557.99	
Other liabilities	287,389.26	214,066.21
Net assets	6,585,689.76	4,056,399.55
Less: Minority interest	1,975,706.93	1,216,919.86
Net assets acquired	4,609,982.83	2,839,479.69

Revenue, net profit and cash flows of Nanjing Panda Electromechanical Instruments Technology Co., Ltd. for the period from 1 January 2009 to the date of combination and for the year ended 31 December 2008 are as follows:

	For the period from 1 January 2009 to date of combination	2008
Revenue	36,736,608.51	64,904,088.45
Net profit	2,529,290.21	2,922,163.22
Cash flows from operating activities	1,967,306.83	2,605,789.44
Net cash flows	1,895,506.83	(30,180,919.23)

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

1. Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Closing balance		Provision for bad debt	Percentage of provision for bad debt %
	Balance	Percentage %		
Substantial amount of single accounts receivable	19,610,148.85	71.29		
Other unsubstantial amount of accounts receivable	7,899,068.82	28.71	2,973,126.56	37.64
Total	27,509,217.67	100.00	2,973,126.56	10.81

Items	Opening balance		Provision for bad debt	Percentage of provision for bad debt %
	Balance	Percentage %		
Substantial amount of single accounts receivable	80,770,425.75	87.99	1,263,806.47	1.56
Other unsubstantial amount of accounts receivable	<u>11,026,674.68</u>	<u>12.01</u>	<u>1,383,169.05</u>	<u>12.54</u>
Total	<u>91,797,100.43</u>	<u>100.00</u>	<u>2,646,975.52</u>	<u>2.88</u>

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.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

1. Accounts Receivable (Continued)

(2) The ageing analysis of accounts receivable

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts%	Amount	Percentage%	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 year	18,415,359.11	66.94	28,368.00	0.15	89,473,960.43	97.47	1,203,698.02	1.35
1-2 years	7,418,954.74	26.97	1,269,854.74	17.12	977,625.00	1.06	97,762.50	10.00
2-3 years	647,625.00	2.36	647,625.00	100.00	122.00	122.00	100.00	
3-5 year	1,027,278.82	3.73	1,027,278.82	100.00	1,345,393.00	1.47	1,345,393.00	100.00
Over 5 years								
Total	27,509,217.67	100.00	2,973,126.56	10.81	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
Nanjing Broadcasting Network Inc	7,774,548.85	28.26	Within 1 year
Yancheng Electronics & Information Development Co., Ltd.	6,149,100.00	22.35	1-2 years
Shenzhen No.1 Environment Technology Co., Ltd.	5,686,500.00	20.67	Within 1 year
Nanjing Panda Handa Technology Company Limited	1,043,441.38	3.79	Within 1 year
Shenzhen Securities Communication Co., Ltd.	771,362.00	2.80	Within 1 year
Total	21,424,952.23	77.87	

(4) The closing balance of accounts receivable decreased by 70.03% from the opening balance, mainly due to the receipts of accounts receivable from the sales of satellite telecommunications products of RMB64,000,000.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Other Receivables

(1) Break-down of other receivables by categories

Items	Balance	Closing balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables	194,042,945.82	88.33	27,631,072.79	14.24
Other unsubstantial amount of other receivables	<u>25,627,247.42</u>	<u>11.67</u>	<u>9,290,571.35</u>	<u>36.25</u>
Total	<u>219,670,193.24</u>	<u>100.00</u>	<u>36,921,644.14</u>	<u>16.81</u>

Items	Balance	Opening balance		Percentage of provision for bad debt %
		Percentage %	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	<u>26,680,602.16</u>	<u>14.20</u>	<u>8,988,489.90</u>	<u>33.69</u>
Total	<u>187,938,088.93</u>	<u>100.00</u>	<u>25,612,027.61</u>	<u>13.63</u>

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

2. Other Receivables (Continued)

(2) Ageing analysis of other receivables

Ageing	Closing balance				Opening balance			
	Amount	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	155,312,212.84	70.70	4,958,094.31	3.19	94,966,578.48	50.53	4,615,348.37	4.86
1-2 years	12,755,335.94	5.81	1,262,522.91	9.90	78,760,765.48	41.90	8,230,018.16	10.45
2-3 years	40,222,547.06	18.31	19,373,133.23	48.16	2,267,092.93	1.21	1,133,546.47	50.00
3-5 years	1,831,331.79	0.83	1,779,128.08	97.15	827,087.15	0.44	516,549.72	62.45
Over 5 years	9,548,765.61	4.35	9,548,765.61	100.00	11,116,564.89	5.92	11,116,564.89	100.00
Total	<u>219,670,193.24</u>	<u>100.00</u>	<u>36,921,644.14</u>	<u>16.81</u>	<u>187,938,088.93</u>	<u>100.00</u>	<u>25,612,027.61</u>	<u>13.63</u>

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

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Nanjing Panda Information Industry Co., Ltd.	110,189,538.14	50.16	Within 1 year
Galant Limited	41,650,800.00	18.96	Within 1 year, 2-3years
Nanjing Panda International Telecommunication Systems Co., Ltd.	19,205,045.29	8.74	Within 1 year, 1-2 years
Nanjing Panda Accurate Machinery Co., Ltd.	9,017,930.79	4.11	Within 1 year, 1-2 years
Nanjing Panda Technology Equipment Co., Ltd.	7,046,889.41	3.21	Within 1 year
Total	<u>187,110,203.63</u>	<u>85.18</u>	

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment

(1) Details of long-term equity investment

Item	Opening balance	Increase In the year	Decrease In the year	Closing balance
Investment in subsidiaries	216,793,560.51	161,550,561.30	12,305,816.92	366,038,304.89
Investment in associated companies	925,688,838.54	149,317,855.85	306,146,671.80	768,860,022.59
Less: provision for impairment of long term investment	<u>27,611,944.58</u>		<u>6,175,000.00</u>	<u>21,436,944.58</u>
Total	<u>1,114,870,454.47</u>	<u>310,868,417.15</u>	<u>312,277,488.72</u>	<u>1,113,461,382.90</u>

(2) Details of investment in associated companies and major financial data of the associated companies this year

Name of investee	Opening balance	Increase In this year	Decrease In this year	Closing balance	Registration Address	Nature of business
Associated company						
Beijing SE Putian Mobile Communications Co., Ltd						
	228,595,194.60	115,629,005.40	141,000,000.00	203,224,200.00	Beijing	Manufacture
Nanjing Huaxian High Technology Company Development						
	6,290,812.71	(4,447,833.33)		1,842,979.38	Nanjing	Technology
Hua Fei Colour Display Systems Company						
	260,736,816.53	(100,399,647.36)		160,337,169.17	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.						
	335,574,930.00	129,970,140.00	158,582,070.00	306,963,000.00	Nanjing	Manufacture
Shenzhen Jinghua Electronics Co., Ltd.						
	92,820,902.73	8,918,566.29	6,564,601.80	95,174,867.22	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.						
	1,670,181.97	(352,375.15)		1,317,806.82	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.						
					Nanjing	Manufacture
Total	<u>925,688,838.54</u>	<u>149,317,855.85</u>	<u>306,146,671.80</u>	<u>768,860,022.59</u>		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment (Continued)

- (2) Details of investment in associated companies and major financial data of the associated companies this year. (Continued)

Name of investee	The Company's shareholding percentage %	The Company's percentage in voting rights of the investee %	Total net assets at the end of the period	Total revenue from operations for the year	Net profit for the year/(loss)
Associated companies					
Beijing SE Putian					
Mobile Communications Co., Ltd.	20	20	998,906,000.00	22,842,364,000.00	428,147,000.00
Hua Fei Colour Display					
Systems Company Limited	25	25	641,348,676.69	773,064,344.92	(398,362,910.96)
Nanjing Ericsson Panda					
Communication Company Limited	27	27	1,136,900,000.00	13,603,442,000.00	481,364,000.00
Shenzhen Jinghua Electronics					
Co., Ltd.	38.03	38.03	250,262,601.16	348,712,697.08	24,591,821.10
Intenna (Nanjing) Co. Ltd.	35	35	3,764,694.56		(1,006,798.38)
Nanjing Huaxian High					
Technology Company Limited	20	20	9,214,896.88	4,411,614.98	(22,239,166.67)

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

Name of investee	Initial investment	Opening Balance	Investment amount increased (less the equity transfer for the year)	Increase/decrease of the investee's equity	Cash dividends Distributed	Closing balance
Beijing SE Putian Mobile						
Communications Co., Ltd.	50,361,373.68	228,595,194.60		115,629,005.40	141,000,000.00	203,224,200.00
Nanjing Huaxian High						
Technology Company	10,000,000.00	6,290,812.71		(4,447,833.33)		1,842,979.38
Hua Fei Colour Display						
Systems Company	392,892,722.42	260,736,816.53		(100,399,647.36)		160,337,169.17
MPower Batteries (Nanjing) Ltd.						
	4,200,000.00					
Nanjin Ericsson Panda						
Communication						
Company Limited	60,863,279.60	335,574,930.00		129,970,140.00	158,582,070.00	306,963,000.00
Shenzhen Jinghua						
Electronics Co., Ltd.	69,687,437.75	92,820,902.73		8,918,566.29	6,564,601.80	95,174,867.22
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,670,181.97		(352,375.15)		1,317,806.82
Nanjing Flextronics Panda						
Mobile Terminals Co. Ltd.	34,769,364.00					
Total	624,524,177.45	925,688,838.54		149,317,855.85	306,146,671.80	768,860,022.59

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment (Continued)

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

Name of investee	Initial investment	Opening balance	Increase in the year	Decrease in the year	Closing balance	Dividend
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		7,000,000.00	5,732,343.45
Nanjing Panda Accurate Machinery Co., Ltd.	3,625,300.00	3,625,300.00	3,944,325.13		7,569,625.13	
Nanjing Panda Technology Equipment Co., Ltd.	5,031,944.58	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.	44,086,793.98	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 Manufacture Co., Ltd	60,012,744.60	60,012,744.60	30,726,000.00		90,738,744.60	7,500,000.00
Nanjing Huage Appliance and Plastic Industrial Company Limited	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	

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment (Continued)

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

Name of investee	Initial investment	Opening balance	Increase in the year	Decrease in the year	Closing balance	Dividend
Nanjing Guanghua Electronics Plastic Casings Factory	8,271,096.45	8,271,096.45			8,271,096.45	2,342,582.93
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.	78,770,253.34	78,770,253.34			78,770,253.34	
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	4,609,982.83	4,609,982.83		4,609,982.83		1,595,714.36
Nanjing Panda Industrial Enterprise Co., Ltd.	20,000,000.00		20,000,000.00		20,000,000.00	
Nanjing Panda Electronic Equipment Co., Ltd.	20,000,000.00		20,000,000.00		20,000,000.00	
Galant Limited						2,500,000.00
Total	340,685,553.29	216,793,560.51	161,550,561.30	12,305,816.92	366,038,304.89	19,670,640.74

The current year's decrease of long-term equity investment on Nanjing Panda System Integration Co., Ltd. and Nanjing Panda Electromechanical Instruments Technology Co., Ltd. could be referred to Note IX 5(3)(4).

(5) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision during the year	Decrease in the year	Closing balance
			Reversal Write-off	Total
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
Nanjing Panda Power Supply Technology Co., Ltd.	8,750,000.00			8,750,000.00
Shenzhen Panda Electronics Company Limited	6,175,000.00		6,175,000.00	6,175,000.00
Total	27,611,944.58		6,175,000.00	21,436,944.58

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

4. Operating Income and Operating Cost

(1) Income from principal business and other business

Items	2009	2008
Income from principal business	344,264,181.82	195,552,771.39
Income from other business	10,926,081.66	6,684,493.53
Total income from operation	355,190,263.48	202,237,264.92
Cost of principal business	339,435,003.70	188,726,764.00
Cost of other business	5,701,405.83	4,602,571.44
Total operating cost	345,136,409.53	193,329,335.44

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

Business segments	2009		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacture products	1,676,259.58	1,149,500.14	526,759.44
Electronic Intelligent products	92,971,860.66	90,836,932.88	2,134,927.78
Electronic equipment products	17,202,290.25	19,375,946.53	(2,173,656.28)
Satellite telecommunications products	203,733,000.00	195,060,314.29	8,672,685.71
Other	28,680,771.33	33,012,309.86	(4,331,538.53)
Total	344,264,181.82	339,435,003.70	4,829,178.12

Business segments	2008		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacture products			
Electronic Intelligent products	29,203,396.02	24,794,528.16	4,408,867.86
Electronic equipment products	15,642,361.68	24,281,681.05	(8,639,319.37)
Satellite telecommunications products	130,800,000.00	119,917,604.00	10,882,396.00
Other	19,907,013.69	19,732,950.79	174,062.90
Total	195,552,771.39	188,726,764.00	6,826,007.39

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

5. Investment Income

Name of invested units	2009	2008	Remarks
Nanjing Ericsson Panda Communication Company Limited	129,970,140.00	162,197,640.00	(1)
Beijing SE Putian Mobile Communication Co. Limited	115,629,005.40	92,753,310.99	(1)
Hua Fei Colour Display Systems Company Limited	(100,399,647.36)	(60,573,231.89)	(2)
Shenzhen Jinghua Electronic Company Limited	8,918,566.29	10,417,895.79	
Intenna (Nanjing) Co. Ltd.	(352,375.15)	(519,168.16)	
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	1.00		
Nanjing Huaxian High Technology Company	(4,447,833.33)	(3,709,187.29)	
Nanjing Electronic Calibration Co., Ltd.		104,256.89	
Nanjing Panda Mechanical Manufacturing Co., Ltd.	5,732,343.45		
Nanjing Panda System Integration Co., Ltd.	(465,834.09)	30,993.77	(3)
Nanjing Panda Electronic Manufacture Co., Ltd	7,500,000.00	8,155,115.32	
Galant Limited	2,500,000.00	2,709,034.16	
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	918,531.53		(4)
Nanjing Guanghua Electronics Plastic Casings Factory	2,342,582.93		
Total	<u>167,845,480.67</u>	<u>211,566,659.58</u>	

- (1) The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2009, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
- (2) The financial statement of Hua Fei Color Display Systems Company Limited in 2009, an associated company of the Company, was audited by Jiangsu Talent CPA and a standard unqualified audited report was issued.
- (3) The Company transferred 51% shares of the Nanjing Panda System Integration Co., Ltd to its subsidiary, Nanjing Panda Information Industry Co., Ltd. The loss of investment was RMB465,834.09 and the date of share transfer is 31 December 2009.
- (4) The Company transferred 70% shares of the Nanjing Panda Electromechanical Instrument Technology Co., Ltd to its subsidiary, Nanjing Panda Information Industry Co., Ltd. The loss of investment was RMB677,182.83 and the date of share transfer is 31 December 2009. The Company received dividends distributed from Nanjing Panda Electrical Instrument Technology Co., Ltd this year was RMB1,595,714.36. The net investment profit of the above is RMB918,531.53.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

5. Investment Income (Continued)

- (5) Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company; ii) there was no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs offset between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit. The investment income or loss was recognized based on the share of profit or loss of investees under equity method of accounting.
- (6) There was no material restriction on the remittance of the investment income to the Company.

6. Cash flow Supplementary Information

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

Items	2009	2008
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	22,739,841.33	4,163,979.08
Add: Provision for asset impairment	10,433,603.22	23,146,786.79
Depreciation of fixed assets	13,118,288.58	12,651,967.18
Amortization of intangible assets	970,974.84	591,298.68
Amortization of long term deferred expenses		
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	636,269.35	952,377.23
Loss from fixed assets scrapped (gains are represented by "-")		
Loss from change in fair value (gains are represented by "-")		
Financial expense (gains are represented by "-")	32,672,804.68	49,502,257.73
Loss on investment (gains are represented by "-")	(167,845,480.67)	(211,566,659.58)
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 "-")	156,403,543.58	(43,470,905.51)
Decrease in trade debtors (Increase is represented by "-")	19,838,187.95	(29,221,261.42)
Increase in trade creditors (Decrease is represented by "-")	189,231,159.86	(5,470,322.99)
Others		
Net cash flows from operating activities	278,199,192.72	(198,720,482.81)

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

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

6. Cash flow Supplementary Information (Continued)

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

Items	2009	2008
2. Material investment and financial activities not involving cash:		
Debt capitalization		
Convertible bonds due within one year		
Fixed assets acquired under finance leases		
3. Net change in cash and cash equivalents:		
Cash balance as at end of the year	293,955,551.88	227,578,462.74
Less: cash balance as at beginning of the year	227,578,462.74	246,370,810.95
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
Net increase in cash and cash equivalents	66,377,089.14	(18,792,348.21)

- (2) Information on Cash and Cash Equivalents

Items	2009	2008
I. Cash	293,955,551.88	227,578,462.74
Including: Cash on hand	260,996.45	73,103.39
Bank deposit available for payments at any time	293,694,555.43	227,505,359.35
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	293,955,551.88	227,578,462.74

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties

1. Related parties

1. Recognition standards for a related party

Recognition standards for a related party: In case a party controls, commonly controls or exerts significant influence over another party, or in case two or more parties are under exclusive control, common control or significant influence of the same party, they shall constitute related parties. Recognition standards for a related party in 2009. During the financial and business decision-makings, in case that a party is able to directly or indirectly control, commonly control over another party or exerts significant influence over another party or in case two or more parties are under exclusive control, the Company deem it as a related party.

2. Parent Company of the Company

Name of the parent company	Code of Organization	Registered Address	Nature of business	Registered capital	Shareholding percentage in the Company %	Voting right percentage in the Company %
Panda Electronics Group Ltd.	134883152	Nanjing economy and technology development zone	a company with limited liabilities	RMB 1,266,060,000	51.10	51.10

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	Manufacture	RMB5,000,000	100	100
Nanjing Panda Technology Equipment Co., Ltd.	24981058-6	Nanjing	Manufacture	RMB5,000,000	100	100
Nanjing Electronic Calibration Co., Ltd.	13487289-1	Nanjing	Manufacture	RMB1,000,000	70	70
Nanjing Panda Power Supply Technology Co., Ltd.	76816539-8	Nanjing	Manufacture	RMB11,000,000	79.55	79.55
Nanjing Panda Information Industry Co., Ltd.	60897073-4	Nanjing	Manufacture,	USD7,400,000	100	100

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

1. Related parties (Continued)

3. Subsidiaries of the Company (Continued)

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 Huage Appliance and Plastic Industrial Company Limited	73316319-X	Nanjing	Manufacture	RMB40,000,000	100	100
Nanjing Panda Appliance & Apparatus Co., Ltd.	72457423-7	Nanjing	Manufacture, software industry	RMB1,000,000	70	70
Nanjing Panda International Telecommunication System Co., Ltd.	60892596-8	Nanjing	Manufacture	USD 1,240,000	72	72
Nanjing Panda Electronic Manufacture Co., Ltd	76214760-7	Nanjing	Manufacture	USD16,000,000	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	Manufacture	RMB3,000,000	70	70
Panda Mechanical Manufacturing Co. Ltd.	71609764-9	Nanjing	Manufacture	RMB10,000,000	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
Nanjing Panda Technology Industrial Co., Ltd.	76213131-4	Nanjing	Service industry	RMB80,000,000	100	100
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	73888466-6	Nanjing	Manufacture	RMB1,000,000	70	70
Nanjing Panda Industrial Enterprise Co., Ltd.	69043834-0	Nanjing	Service industry	RMB20,000,000	100	100
Nanjing Panda Electronic Equipment Co., Ltd.	69460069-1	Nanjing	Manufacture	RMB20,000,000	100	100
Galant Limited	1006135	Hong Kong	Development of communication products	HKD1	100	100

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

1. Related parties (Continued)

4. Related parties with non-controlling relationship

Name of related parties	Code of Organization	Relationship with the Company
Nanjing Panda Television Co. Ltd.	716223402	Subsidiary of the Group
Nanjing 21st Century Electronic and Technology Square Company Limited	71627148X	Subsidiary of the Group
Nanjing Panda Garden Property Management	134961667	Subsidiary of the Group
Nanjing Panda Electronics Technology Development Company Limited	134870044	Subsidiary of the Group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the Group
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	134941148	Subsidiary of the Group
Nanjing Panda Piezoelectric Technique Co., Ltd.	742394272	Subsidiary of the Group
Nanjing Zhen Hua Packing Material Plant	13487319X	Subsidiary of the Group
Nanjing Lianhui Communication Technology Company Limited	777014380	Subsidiary of the Group
Nanjing Panda Electronic Import/Export Company	134850684	Subsidiary of the Group
Nanjing Panda Handa Technology Company Limited	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

2. Pricing policy

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

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties

(1) Purchase of goods

Name of related parties	2009	2008
Nanjing Zhen Hua Packing Material Plant	1,600,426.24	3,693,855.11
Nanjing Electronics (Kunshan) Co. Ltd.	1,315,328.53	4,087,905.98
Nanjing Thales Panda Transportation System Company Limited	641,872.58	
Nanjing Panda Electronics Import/Export Co. Ltd.	252,136.75	7,936,600.86
Nanjing Huaxian High Technology Company	106,837.61	
Nanjing Panda Piezoelectric Technique Co., Ltd.	31,670.51	13,230.77
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	59,511.67	
Nanjing Panda Electronics Technology Development Company Limited	5,636.87	
Nanjing Lianhui Communication Technology Company Limited		406,005.98
Total	4,013,420.76	16,137,598.70

(2) Receipt of services

Name of related parties	2009	2008
Nanjing Panda Electronics Transportation Company	2,775,310.54	102,000.00
Panda Electronics Group Co. Ltd.	130,923.88	1,019,707.21
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	120,200.00	
Nanjing Panda Garden Property Management Centre	53,707.60	446,913.59
Nanjing Zhen Hua Packing Material Plant		57,301.45
Total	3,080,142.02	1,625,922.25

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(3) Sales of products

Name of related parties	2009	2008
Nanjing Ericsson Panda Communications Co. Ltd	33,036,841.87	23,260,988.79
Nanjing Panda Handa Technology Company Limited	17,357,759.43	4,441,205.05
Nanjing Thales Panda Transportation System Company Limited	15,023,087.54	39,174,792.63
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	4,021,259.97	3,310,936.34
Nanjing Panda Electronics Import/Export Co. Ltd.	3,156,651.25	3,507,584.62
Nanjing Lianhui Communication Technology MCompany Limited	397,180.98	277,965.81
Nanjing Huaxian High Technology Company Limited	120,719.49	301,529.92
Panda Electronics Group Co. Ltd.	63,059.83	135,815.22
Nanjing Zhen Hua Packing Material Plant	2,991.45	
Nanjing Panda Television Co. Ltd.		7,501,225.72
Total	73,179,551.81	81,912,044.10

(4) Provision of services

Name of related parties	2009	2008
Nanjing Ericsson Panda Communications Co. Ltd.	31,478,495.42	48,304,917.61
Nanjing Panda Handa Technology Company Limited	4,678,762.13	8,344,483.42
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	1,643,200.59	1,385,063.41
Nanjing Panda Zhongdian Furniture Company Limited	851,641.05	
Nanjing Panda Electronics Import/Export Co. Ltd.	573,215.59	8,801,930.45
Panda (Beijing) International Information Technology Co., Ltd	368,714.53	
Panda Electronics Material Usage Co., Ltd.	213,675.22	5,555.56
Panda Electronic (Kun Shan) Co. Ltd.	170,940.17	4,749,600.00
Nanjing Huaxian High Technology Company Limited	145,805.13	
Nanjing Panda Electronics Technology Development Company Limited	61,982.91	
Nanjing Lianhui Communication Technology Company Limited	55,496.24	47,025.36
Panda Electronics Group Co. Ltd	7,980.66	126,249.46
Nanjing Panda Electronics Transportation Company	4,737.53	77,630.43
Nanjing Panda Television Co. Ltd.		2,226,113.65
Nanjing Thales Panda Transportation System Company Limited		92,000.00
Nanjing Panda Piezoelectric Technique Co., Ltd.		8,300.00
Total	40,254,647.17	74,168,869.35

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(5) Provision of guarantee

- A. The Company provided a maximum amount guarantee for bank loan of RMB5,000,000 granted to Nanjing Panda Electronic Manufacture Co., Ltd, a subsidiary of the Company, from Sales Department of Jiangsu Bank Co., Ltd. As at 31 December 2009, the loan amounted to RMB5,000,000.00 with a term from 11 December 2009 to 26 September 2010.
- B. The Company provided guarantee for borrowings of RMB7,000,000 granted to Nanjing Huage Appliance and Plastic Industrial Company Limited ("Nanjing Huage"), a subsidiary of the Company, from Nanjing Branch of Citic Bank with a term from 4 January 2009 to 4 January 2010. The borrowing belonged to credit loan and had no guarantee after 17 December 2009. In addition, the Company provided guarantee for borrowings of RMB10,000,000 granted to Nanjing Huage from Nanjing Branch of Citic Bank with a term from 1 January 2009 to 31 December 2009. As at 31 December 2009, details of borrowings of Nanjing Huage are as follows:

Name of companies	Name of bank	Amount of borrowing	Period
Nanjing Huage Appliance and Plastic Industrial Company Limited	Nanjing Branch of Citic Bank	7,000,000.00	2009.01.04-2010.01.04
Nanjing Huage Appliance and Plastic Industrial Company Limited	Nanjing Branch of Citic Bank	5,000,000.00	2009.12.17-2010.12.17
Nanjing Huage Appliance and Plastic Industrial Company Limited	Nanjing Branch of Citic Bank	5,000,000.00	2009.12.09-2010.12.09
Total		<u>17,000,000.00</u>	

The Company provided a maximum amount guarantee for bank loan of RMB5,000,000 granted to Nanjing Huage borrowed from Jiangsu Bank Co., Ltd., with the guarantee period from 2 November, 2009 to 26 September, 2010. As at 31 December 2009, the loan amounted to RMB5,000,000.00 with a loan term from 11 November 2009 to 1 May 2010.

- C. The Company provided an irrevocable letter of guarantee with maximum amount for Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, for its borrowings of RMB5,000,000 from Nanjing Branch of China Merchants Bank during the credit period from 23 January 2009 to 8 September 2009. As at 31 December 2009, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 13 February 2009 to 13 February 2010. The borrowing belonged to credit loan and had no guarantee after 8 September 2009.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(5) Provision of guarantee (Continued)

- D. The Company provided an irrevocable letter of guarantee with maximum amount for borrowings of RMB25,000,000 from Nanjing Branch of China Merchants Bank granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company, and provided guarantee for the loan granted to Nanjing Panda Information Industry Co., Ltd. during the credit period, from 5 November 2008 to 11 September 2009. As at 31 December 2009, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 26 August 2009 to 26 February 2010. The borrowing belonged to credit loan and there was no guarantee after 11 September 2009. In addition, the loan of Nanjing Panda Information Industry Co., Ltd amounted to RMB5,000,000, with loan term from 10 September 2009 to 10 March 2010. The borrowing belonged to credit loan and there was no guarantee after 11 September 2009. As at 31 December 2009, the Company provided a guarantee for letter of credit with an amount of RMB3,824,925.70 for Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company.

Name of companies	Name of bank	Amount of borrowing	Period
Nanjing Panda Information Industry Co., Ltd.	Nanjing Branch of China Merchants Bank	5,000,000.00	2009.08.26–2010.02.26
Nanjing Panda Information Industry Co., Ltd.	Nanjing Branch of China Merchants Bank	5,000,000.00	2009.09.10–2010.03.10
Total		<u>10,000,000.00</u>	

- E. The Company provided finance leasing guarantees for Nanjing Panda Electronic Manufacture Co., Ltd and Nanjing Huage Appliance and Plastic Industrial Company Limited, subsidiaries of the Company, details of which are as follows:

No. of Leasing Contract	Lessor	Lessee	Warrantor	Leasing Period	Amount of contract	Unpaid amount as at 31 December 2009
201010	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacture Co., Ltd	The Company	2008.07-2011.07	7,917,712.70	3,662,891.90
105	Siemens Finance and Leasing Ltd	Nanjing Huage Appliance and Plastic Industrial Company Limited	The Company	2006.12-2010.02	13,163,800.00	103,417.28
Total					<u>21,081,512.70</u>	<u>3,766,309.18</u>

As at 31 December 2009, the Company provided guarantee to its subsidiaries with an amount of RMB27,591,234.88 (year 2008: RMB52,386,224.19).

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(6) Acceptance of guarantee

- A. 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 February 2009, providing guarantee for credit facilities of RMB120,000,000 granted to the Company from Chengdong Branch of Nanjing Branch of China Merchants Bank during the credit period from 19 February 2009 to 19 February 2010. As at 31 December 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	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	10,000,000.00	2009.02.18-2010.02.18
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
Total		<u>80,000,000.00</u>	

- B. 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 31 December 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.	30,000,000.00	2009.08.31-2010.08.31
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Bank of Nanjing Co., Ltd.	28,000,000.00	2009.08.21-2010.08.21
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Bank of Nanjing Co., Ltd.	20,000,000.00	2009.11.12-2010.11.12
Total		<u>78,000,000.00</u>	

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(6) Acceptance of guarantee (Continued)

- C. Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Citic Bank in December 2009, providing guarantee for borrowing amount granted by Nanjing Branch of Citic Bank to the Company during 2 December 2009 to 2 December 2010 with guarantee amount of RMB80,000,000.00. As at 31 December 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	30,000,000.00	2009.12.04-2010.12.04
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	<u>50,000,000.00</u>	2009.12.02-2010.12.02
Total		<u>80,000,000.00</u>	

- D. 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 2009, 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 21 September 2009 to 21 September 2010.

- E. Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Bank of Communications in November 2009, providing guarantee for borrowings of RMB50,000,000.00 granted to the Company from Nanjing Branch of Bank of Communications with the loan term from 18 November 2009 to 17 November 2010.

As at 31 December 2009, the Company had acceptance of guarantee provided by Panda Electronics Group Limited, the controlling shareholder of the Company with an amount of RMB338,000,000.00 (year 2008: RMB378,000,000.00).

(7) Asset leased

Name of related parties	2009 Amount	2008 Amount
Panda Electronics Group Limited	<u>1,586,194.53</u>	267,544.86
Total	<u>1,586,194.53</u>	<u>267,544.86</u>

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(8) Lease of assets

Name of related parties	2009 Amount	2008 Amount
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	491,235.20	106,515.00
Nanjing Panda Electronics Transportation Company Limited	48,341.68	23,976.00
Nanjing Panda Construction and Decoration Engineering Co., Ltd.	32,040.00	
Nanjing Huaxian High Technology Company Limited	17,600.00	
Panda Electronics Group Company Limited	72,250.00	
Nanjing Panda Garden Property Management Centre		18,225.74
Nanjing Panda Television Co. Ltd.		149,121.00
Total	<u>661,466.88</u>	<u>297,837.74</u>

(9) The transfer of land use right

Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd, the subsidiary of Nanjing Panda Electronics Company Limited, entered into the agreement with Nanjing Panda Handa Technology Company Limited ("Nanjing Handa"), a subsidiary of Nanjing Panda Electronics Group Company Limited, on 10 August 2009 to transfer land use rights located at No. 3 Lianhe Village, Baixia District, Nanjing with the size of 3, 70,231.90 square meters. The land was transferred to Nanjing Handa at a consideration of RMB52,953,800. The book value of the land use right by 31 December 2008 was RMB37,104,900 and the transfer price was RMB52,953,800. Such transaction has resulted in a gain on disposal amounting to RMB8,953,187.68 for the Company after deduction of relevant taxes and fees.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(10) Remuneration of key management

During the reporting period, total annual remuneration for directors, supervisors and senior management received from the Company was RMB2,130,400, details of which are as follows:

Position	Total annual remuneration	Number of
Director	Below RMB100,000	7
	From RMB200,000 to RMB300,000	3
Sub-total	RMB910,400	10
Supervisor	Below RMB100,000	2
	From RMB100,000 to RMB200,000	2
	From RMB200,000 to RMB300,000	1
Sub-total	RMB500,000	5
Senior management	From RMB100,000 to RMB200,000	3
Sub-total	RMB720,000	3
Total	RMB2,130,400	18

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(11) Balance of due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts receivable				
Nanjing Panda Television Co. Ltd.	8,673,512.96	12,507,807.29		
Nanjing Ericsson Panda Communications Company Limited	7,443,817.33	24,844,962.00		
Nanjing Thales Panda Transportation System Company Limited	5,052,952.31	1,017,086.17		
Nanjing Panda Handa Technology Company Limited	2,875,403.52	1,710,249.80		
Nanjing Panda Electronics Import and Export Company	2,525,498.51	130,339.56		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	1,141,840.19	1,657,505.03		
Panda Electronics (Kunshan) Co. Ltd.	621,568.44	547,579.80		
Panda (Beijing) International Information Technology Co., Ltd	147,885.29			
Panda Electronics Group Limited	103,935.33	184,313.04		
Nanjing Panda Zhongdian Furniture Company Limited	78,488.82			
Nanjing Panda Electronics Transportation Company Limited	47,152.92	45,000.00		
Hua Fei Colour Display Systems Company Limited	33,450.00			
Nanjing Huaxian High Technology Company Limited	12,600.00			
Nanjing Lianhui Communication Technology Company Limited		60,000.00		
Total	<u>28,758,105.62</u>	<u>42,704,842.69</u>		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(11) Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts receivable-provision for bad debt				
Nanjing Panda Television Co. Ltd.	8,673,512.96	12,199,116.50		
Panda Electronics (Kunshan) Co. Ltd.	621,568.44	364,990.34		
Nanjing Panda Handa Technology Company Limited	430,671.23	85,743.04		
Nanjing Ericsson Panda Communications Company Limited	136,722.94	912,648.84		
Nanjing Panda Electronics Import and Export Company	126,692.63	17,262.16		
Nanjing Thales Panda Transportation System Company Limited	73,162.93			
Hua Fei Colour Display Systems Company Limited	33,450.00			
Panda (Beijing) International Information Technology Co., Ltd	14,498.53			
Panda Electronics Group Limited	12,527.00	132,286.69		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.		76,642.42		
Nanjing Lianhui Communication Technology Company Limited		3,000.00		
Total	<u>10,122,806.66</u>	<u>13,791,689.99</u>		
Prepayments				
Nanjing Lianhui Communication Technology Company Limited	679,664.00	871,644.00		
Nanjing Panda Electronics Import and Export Company	445,000.00	445,000.00		
Nanjing Panda Construction and Decoration Engineering Co., Ltd.	118,500.00			
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	62,491.97			
Total	<u>1,305,655.97</u>	<u>1,316,644.00</u>		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(11) Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Prepayments-provision for bad debt				
Nanjing Lianhui Communication Technology Company Limited	670,664.00	355,822.00		
Nanjing Panda Construction and Decoration Engineering Co., Ltd.	59,250.00			
Nanjing Panda Electronics Import and Export Company	22,250.00	13,875.11		
Total	752,164.00	369,697.11		
Other receivables				
Panda Electronics (Kunshan) Co. Ltd.	2,462,824.92	1,736,220.94		
Total	2,462,824.92	1,736,220.94		
Other receivables-provision for bad debt				
Panda Electronics (Kunshan) Co. Ltd.	2,444,824.92	1,184,720.94		
Total	2,444,824.92	1,184,720.94		
Accounts payable				
Nanjing Panda Electronics Import and Export Company	3,568,576.08	4,972,745.84		
Panda Electronic Group Limited	1,370,111.38	1,913,546.14		
Nanjing Zhen Hua Packing Material Plant	948,556.59	1,127,467.18		
Nanjing Panda Dasheng Technology Company Limited	94,288.46			
Nanjing Panda Electronics Technology Development Company Limited	17,692.05			
Nanjing Thales Panda Transportation System Company Limited	16,410.02			
Nanjing Panda Handa Technology Company Limited	3,300.00	2,231,132.00		
Nanjing Lianhui Communication Technology Company Limited	3,053.23			
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	1,711.99			
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.		2,548,591.15		
Total	6,023,699.80	12,793,482.31		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(11) Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Advances from customers				
Nanjing Panda Handa Technology Company Limited	852,736.25	2,361,198.84		
Nanjing Panda Zhongdian Furniture Company Limited	393,532.27			
Nanjing Panda Electronics Import and Export Company	98,823.44			
Nanjing Panda Television Co. Ltd. Panda (Beijing) International Information Technology Co., Ltd	82,887.19			
Panda Electronics Group Limited	45,588.91			
Nanjing Panda DaSheng Electronics Technology Company Limited	21,746.60	183,009.80		
Nanjing Thales Panda Transportation System Company Limited	200.00			
	33.06	3,606,729.23		
Total	<u>1,495,547.72</u>	<u>6,150,937.87</u>		
Other payables				
Panda Electronics Group Limited	85,313,589.70	9,642,549.09		
Intenna (Nanjing) Co. Ltd.	2,262,342.55	2,593,915.55		
Nanjing Panda Electronics Transportation Company Limited	1,933,562.60			
Nanjing Thales Panda Transportation System Company Limited	349,754.00	349,754.00		
Nanjing Panda Garden Property Management Centre	328,071.55			
Nanjing 21st Century Electronic and Technology Square Company Limited	310,000.00			
Panda Electronics (Kunshan) Co. Ltd.	300,000.00	300,000.00		
Total	<u>90,797,320.40</u>	<u>12,886,218.64</u>		

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

(12) Trademark licensing

Name of related parties	2009 Amount	2008 Amount
Nanjing Panda Huaxin Technology Industrial Co., Ltd.		192,020.00
Total		192,020.00

Pricing policy of trademark licensing granted to the related party: The related party will be offered a trademark license fee of RMB2 to 5 for each unit of Panda color television or CD player sold. Given to the higher cost or more resources is required for entering overseas market, the above license fee for each unit will be reduced 50% if the products manufactured and sold are for export use.

XI. Contingencies

- Please refer to Note X3(5) for the guarantees provided by the Company for bank borrowings of its subsidiaries.
- As at 31 December 2009, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

XII. Commitments

1. Operating lease commitment

The future aggregate minimum lease payments due under non-cancelable operating leases are as follows:

	2009	2008
within 1 year	527,580.00	135,000.00
1-2 years	296,346.67	135,000.00
2-3 years	273,859.50	
3-5 years	420,808.50	
Total	1,518,594.67	270,000.00

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

XII. Commitments (Continued)

2. Capital expenditure commitment

Capital expenditures contracted for at the balance sheet date but not recognized in the financial statements are as follows:

Items	2009	2008
Buildings	<u>82,250,023.90</u>	<u>22,265,610.32</u>

3. 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 the research and development of joint venture projects including communication products and investment in electronics information and electromechanical industry. The Company has invested US\$6.1 million to GALANT LIMITED for the year.
- (2) Save as the above commitments, as of 31 December 2009, the Company did not have any other material commitments discloseable.

XIII. Post Balance Sheet Events

1. Pursuant to the first provisional general meeting of shareholders for 2009, the Company passed the resolution that the Company will provide a maximum amount guarantee for borrowings of RMB50 million for year 2010 granted to Nanjing Panda Information Industry Co., Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB30 million for year 2010 granted to Nanjing Panda Electronic Manufacture Co., Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB55 million for year 2010 granted to Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB5 million for year 2010 granted to Nanjing Panda Mechanical Manufacturing Co. Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB20 million for year 2010 granted to Nanjing Panda Electronic Equipment Co., Ltd, a subsidiary of the Company.
2. As the Panda Electronics Group Co., Ltd. has repaid the bank loans, 167,350,000 shares were released from pledge. The formalities were completed at Shanghai branch of the China Securities Depository and Clearing Co., Ltd on 28 January 2010. By the day when the financial report is announced, Panda Electronics Group Co., Ltd. holds 334,715,000 shares of the Company, and there is no situation of shares pledged or frozen.
3. Save as above, there were no discloseable material post balance sheet events in the Company as at the date when the financial report was approved for issue.

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

XIV. Other Significant Events

1. In 2009 the Company received relevant notice from CEC that State-owned Assets Supervision and Administration Commission of the State Council has approved the application about the change of actual controller of the Company caused by the establishment of Nanjing Electronics Information Industrial Corporation (“NEIIC”) (Property rights of State-owned assets [2009] No. 843). According to the approval, the actual controller of the Company changed to CEC after NEIIC is established. Panda Electronics Group Limited holds 334.715 million shares of the Company, representing 51.1% of the total share capital.
2. As at December 31 2009, in the State-owned legal person share of the Company held by Panda Electronics Group Limited, the controlling shareholder of the Company, 167,350,000 shares were pledged to the bank, representing 25.55% of the total shares in the Company and account for 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	<u>11,402,829.76</u>	63,869,759.77
Total	<u>11,402,829.76</u>	63,869,759.77
Accumulated depreciation		
Machinery and equipment	<u>2,246,584.60</u>	12,330,638.56
Total	<u>2,246,584.60</u>	12,330,638.56
Accumulated amount of provision for impairment		
Machinery and equipment		
Total		
Carrying value		
Machinery and equipment	<u>9,156,245.16</u>	51,539,121.21
Total	<u>9,156,245.16</u>	51,539,121.21

Notes To The Financial Statements

(All amounts in RMB unless otherwise stated)

XIV. Other Significant Events (Continued)

3. Lease (Continued)

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

Minimum lease payments in the following years

Remaining lease term	Minimum lease payments
Within 1 year (including 1 year)	2,215,375.85
1-2 years (including 2 year)	<u>1,278,829.39</u>
Total	<u><u>3,494,205.24</u></u>

As at 31 December 2009, the balance of unrecognized financing expenses amounted to RMB272,103.94 (the opening balance: RMB1,048,466.57), which was amortized by the effective interest method.

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

Categories of assets leased out	Closing balance	Opening balance
Buildings	<u>171,766,419.23</u>	<u>146,021,632.02</u>
Total	<u><u>171,766,419.23</u></u>	<u><u>146,021,632.02</u></u>

XV. Reconciliation of Hong Kong and PRC Accounting Standards Differences (Unit: RMB thousands)

Items	2009	2008
Equity attributable to the shareholders of parent company under PRC accounting standards and accounting principles generally accepted in Hong Kong during the year	<u>1,465,005</u>	<u>1,574,626</u>
Net profit attributable to the shareholders of parent company under accounting principles generally accepted in Hong Kong	<u>15,526</u>	40,564
Amortization of unrecognized intangible assets		<u>575</u>
Net profit attributable to the shareholders of parent company under PRC accounting standards	<u><u>15,526</u></u>	<u><u>41,139</u></u>

XVI. Comparative figure

Some comparative figures in 2008 have been reclassified in accordance with the current year presentation.

Supplementary Information

I. Related financial indicators

Profit during reporting period	Reporting period	Return on	Earnings per share (RMB/share)	
		net assets (%) Weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	2009	1.04	0.02	0.02
	2008	2.60	0.06	0.06
Net profit attributable to holders of ordinary shares after extraordinary items	2009	(1.44)	(0.03)	(0.03)
	2008	1.21	0.03	0.03

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

(1) Fully diluted return on net assets

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

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

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

(2) Weighted average return on net assets

Weighted average return on net assets = $P / (E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0 \pm E_k \times M_k \div M_0)$

Including: "P" respectively represents net profit attributable to holders of ordinary shares of the Company and the net profit attributable to holders of ordinary shares of the Company after extraordinary items; "NP" represents net profit attributable to holders of ordinary shares of the Company; "E₀" represents net assets attributable to holders of ordinary shares of the Company at the beginning of the reporting 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; "M₀" represents the months in reporting period and; "M_i" represents the months from the next month of the increase of assets to the end of the reporting period; "M_j" represents the months from the next month of the decrease of 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 assets to the end of the reporting period;.

Supplementary Information

I. Related financial indicators (Continued)

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

(3) Basic earnings per share

Basic earnings per share = $P \div S$

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

Including: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company; "S" represents the weighted average of outstanding ordinary shares; "S₀" represents total number of shares at the beginning of the reporting period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "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; "M₀" 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 = $[P + (\text{The interests of the diluted potential ordinary shares determined to be expenses in the current period} - \text{Conversion expenses}) \times (1 - \text{Income tax ratio})] \div (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{The weighted average number of ordinary shares, increased from subscription warrant share option and convertible bond})$

Including, "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. "S₀" represents total number of shares at the beginning of the reporting period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "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; "M₀" 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.

Supplementary Information

II. Statement of extraordinary items

Unit: RMB

Item	2009	2008
(1) Profit and loss of disposal of non-current assets	7,860,077.03	851,594.70
(2) Tax rebate or tax reduction through approval beyond authorities or without official approval document		
(3) 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)	23,220,248.15	19,276,584.22
(4) Capital occupation fee received from non-financial enterprises and recorded into the current gains and losses		
(5) 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		
(6) Profit and loss from exchange of non-monetary assets		
(7) Profit and loss from entrusted investment		
(8) Provision for assets impairment due to force majeure including natural disasters		
(9) Profit and loss from debt restructuring	5,521,166.30	4,579,594.73
(10) Expenses of enterprise restructuring, such as staff replacement, integration expenses, etc.		
(11) Loss and profit exceeding fair value of transaction with unfair consideration		
(12) Net profits and losses of the current period of subsidiaries under same control arising for merger of enterprise from the beginning of period to the date of merger	3,997,998.72	5,565,473.91
(13) Loss and profit from accrued liabilities having no relation with principal business of the Company		

Supplementary Information

II. Statement of extraordinary items (Continued)

Details of non-recurring profit and loss	2009	2008
(14) Investment income obtained from holding transactional financial assets transactions financial liabilities generated changes in fair values and disposal tradable financial assets transactions financial liabilities and sellable financial assets apart with company normal operations related effective hedging business		
(15) Reversal of impairment of receivables provided by specific provision		
(16) Profit and loss from entrusted loans		
(17) Profit and loss arising from changes in fair value of investment property under fair value model on subsequent measurement		
(18) Profit and loss according to tax and accounting laws and regulations require a one-time adjustment of profit or loss		
(19) Entrusted fee income obtained from entrusted operation		
(20) Other net non-operating income/expenses other than the above items	(102,343.63)	(1,311,618.26)
(21) Other non-recurring profit and loss items recognized by CSRC		
Total non-recurring profit and loss	40,497,146.57	28,961,629.30
Less: the impact from income tax	2,633,624.17	2,741,930.81
Non-recurring profit and loss net of the impact from income tax	37,863,522.40	26,219,698.49
Include: Net non-recurring profit and loss attributable to ordinary shareholders of the Company	36,796,886.20	23,209,352.61
Net non-recurring profit and loss attributable to minority shareholders	1,066,636.20	3,010,345.88

Notes: “()” represents loss or expenses.

Documents Available for Inspection

1. Original financial statements signed and sealed under the hand of the Legal Representative, Chief Accountant and the person in charge of the accounting matters of the Company.
2. Original copy of the auditors' report with the auditing firms' chop affixed, signed and sealed by certified public accountants.
3. Original copies of all documents and text announcements of the Company publicly disclosed in newspapers designated by CSRC during the reporting period.
4. Annual reports (in Chinese and English) published on the Hong Kong Stock Exchange. (The Chinese version shall prevail)