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Electronics

Nanjing Panda Electronics Company Limited

2010 Interim Report

(H Share Stock code:0553)

(A Share Stock code:600775)



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I. IMPORTANT NOTICE

1. The board of directors (the "Board") and the supervisory committee (the "Supervisory Committee") and the directors ("Directors"), supervisors ("Supervisors") and senior management of the Company confirm that the information in this interim report (the "Interim Report") does not contain any false representation, misleading statement, or material omission and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the contents.
2. All Directors were present at the Board meeting held on 25 August 2010.
3. The financial statements of the Company for the six months ended 30 June 2010 (the "Reporting Period") were unaudited.
4. None of the controlling shareholder 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, the Vice Chairman of the Company, Mr. Shen Jianlong, the Chief Accountant, and Ms. Wu Yuzhen, the manager of Finance Department, have declared that they guarantee the truthfulness and completeness of the financial statements in the Interim Report.

II. BASIC COMPANY INFORMATION

(I) Company profile:

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

(II) Key financial data and indices

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

	End of the Reporting Period (30 June 2010)	End of last year (31 December 2009)	Change between the end of the Reporting Period and the end of the last year (%)
Total assets	2,582,611,390.50	2,456,940,249.72	5.11
Owners' equity (or shareholders' equity)	1,455,575,295.89	1,465,004,517.00	(0.64)
Net asset value per share attributable to shareholders of the Company (RMB/share)	2.22	2.24	(0.64)

	The Reporting Period (January to June 2010)	The corresponding period last year (January to June 2009) After adjustment	Before adjustment	Change between the Reporting Period and the same period last year (%)
Operating profit	(7,880,621.96)	(44,526,690.24)	(47,487,053.84)	82.30
Total profit	(3,976,606.29)	(43,721,423.27)	(46,681,786.87)	90.90
Net profit attributable to shareholders of the Company	(9,429,221.11)	(48,171,090.98)	(49,967,934.90)	80.43
Net profit after extraordinary items attributable to shareholders of the Company	(13,845,522.10)	(51,077,413.67)	(50,468,307.44)	72.89
Basic earnings per share	(0.0144)	(0.0735)	(0.0763)	80.43
Basic earnings per share after extraordinary items	(0.0211)	(0.0780)	(0.0770)	72.89
Diluted earnings per share	(0.0144)	(0.0735)	(0.0763)	80.43
Return on net assets (%)	(0.65)	(3.23)	(3.57)	Increase by 2.58 percent points
Net cash flow from operating activities	(218,076,368.45)	(45,407,230.71)	(32,076,301.96)	(380.27)
Net cash flow from operating activities per share	(0.3329)	(0.0693)	(0.0490)	(380.27)

Note: Net of extraordinary items and amounts

Unit: RMB

Item	Amount
Gains and losses from disposal of non-current assets	(5,200,720.91)
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	5,540,824.90
Profit and loss from debt restructuring	3,385,152.15
Other non-operating net income and expenses other than the aforesaid items	(19,382.81)
Impact on enterprise income tax	724,905.91
Net extraordinary profit and loss attributable to minority shareholders	(14,478.25)
Total	4,416,300.99

2. Key accounting and financial indices prepared under Hong Kong Financial Reporting Standards are set out on page 16 to page 31 of the financial report.
3. There is no difference between the interim financial statements prepared under Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises as applicable to net profit and net assets of the Company.

III. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

(I) Changes in share capital

As at 30 June 2010, there was no change in the total number of shares or the shareholding structure of the Company.

(II) Information of shareholders as at 30 June 2010

The total number of shareholders, the number of shares held by the top ten shareholders and top ten holders of circulating shares of the Company as at 30 June 2010 are as follows:

Unit: Share

Total number of shareholders at the end of the Reporting Period 20,912 shareholders, of which 20,863 were holders of A Shares and 49 were holders of H Shares

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders (state-owned or foreign shareholder)	Percentage of shareholding (%)	Number of shares held	Number of shares subject to trading moratorium	Number of shares pledged or frozen
Panda Electronics Group Limited ("PEGL")	State-owned shareholder	51.10	334,715,000	0	Nil
HKSCC (Nominees) Limited	Foreign shareholder	36.75	240,705,599	0	Unknown
Huang Jitang (黃紀棠)	Others	0.331	2,170,081	0	Unknown
Peng Hongwan (彭洪萬)	Others	0.142	933,050	0	Unknown
Cao Zhiqing (曹志清)	Others	0.094	616,121	0	Unknown
Zheng Xinhua (鄭新華)	Others	0.092	600,000	0	Unknown
Li Zhenling (李珍玲)	Others	0.076	500,000	0	Unknown
Xie Xiaoping (謝小萍)	Others	0.060	390,768	0	Unknown
Liu Xueqin (劉雪琴)	Others	0.057	376,000	0	Unknown
Wu Zhiyong (吳志勇)	Others	0.057	374,600	0	Unknown

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

Name of shareholders	Number of circulating shares held	Class of shares
PEGL	334,715,000	A
HKSCC (Nominees) Limited	240,705,599	H
Huang Jitang (黃紀棠)	2,170,081	A
Peng Hongwan (彭洪萬)	933,050	A
Cao Zhiqing (曹志清)	616,121	A
Zheng Xinhua (鄭新華)	600,000	A
Li Zhenling (李珍玲)	500,000	A
Xie Xiaoping (謝小萍)	390,768	A
Liu Xueqin (劉雪琴)	376,000	A
Wu Zhiyong (吳志勇)	374,600	A

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

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

Notes:

- (1) Among the shareholders named above, PEGL held 334,715,000 shares on behalf of the State, representing 51.10% of the issued share capital of the Company, which were circulating shares not subject to trading moratorium. Of which, 167,350,000 shares were pledged at the beginning of the Reporting Period and were discharged on 28 January 2010. As at 30 June 2010, none of the shares of the Company held by PEGL were pledged or frozen.

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

- (2) HKSCC (Nominees) Limited held 240,705,599 H Shares of the Company, representing 36.75% of the issued share capital of the Company, on behalf of a number of clients. The Company is not aware of any individual client holding more than 5% of share capital issued by the Company.
- (3) No shareholder of the Company holds shares subject to trading moratorium (refers to those arising from share reform only).

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

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

Note: Nanjing Electronics Information Industrial Corporation (南京中電熊猫信息产业集团有限公司) ("NEIIC") 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 Company Limited (江蘇省國信資產管理集團有限公司) ("Guo Xin Group") and China Electronics Corporation ("CEC") (of which CEC accounts for 70%, Nanjing SASAC and Guo Xin Group account for 15% each). Pursuant to the agreement, NEIIC will hold 47.98% equity interest in PEGL, the controlling shareholder of the Company, 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) (《關於南京熊猫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 State-owned 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 NEIIC. The completion of the agreement is still subject to the relevant approval procedures of the China Securities Regulatory Commission ("CSRC") and other relevant regulatory authorities.

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

On 30 June 2010, 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) as recorded in the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") of the Hong Kong Stock Exchange, were as follows: (1) PEGL held 334,715,000 domestic shares, accounting for approximately 81.04% of domestic shares in issue and approximately 51.10% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of beneficial owner; (2) Lewis Joseph held 20,260,000 H Shares, accounting for approximately 8.37% of H Shares in issue and approximately 3.10% of the total shares in issue. The nature of interests in such shares is personal interest which was held in the capacity of beneficial owner; and (3) Tuesday Thirteen Inc. held 16,920,000 H Shares, accounting for approximately 7.00% of H Shares in issue and approximately 2.59% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of controlled corporation. No short positions were found in any shares held by the above substantial shareholders.

Save as disclosed above, as at 30 June 2010, no other person has any interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept pursuant to section 336 of the SFO.

IV. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Shareholdings of Directors, Supervisors and senior management

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

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

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

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

(II) New appointment or dismissal of Directors, Supervisors and senior management during the Reporting Period

During the Reporting Period, the changes in the Directors, Supervisors and senior management of the Company were as follows:

1. Mr. Li Anjian resigned as the Chairman, the general manager, a member of the strategic committee and a member of the nomination committee of the Company on 22 March 2010 due to job re-allocation arrangement. Mr. Shi Qiusheng resigned as a Director, an authorized representative, the company secretary, a member of the strategic committee and a member of the audit committee of the Company on 9 April 2010 due to job re-allocation arrangement.
2. Mr. Lai Weide Mr. Deng Weiming were nominated as candidates for Directors of the sixth Board of the Company at the extraordinary meetings of the Board held on 22 March 2010 and 9 April 2010 respectively, and were subsequently elected at the 2010 first EGM of the Company held on 28 May 2010. Their term of office shall expire with the sixth Board.

The Company has appointed Mr. Lu Qing as the Authorized Representative of the Company according to relevant requirement of the Hong Kong Stock Exchange.

3. At the 14th meeting of the sixth Board held on 28 May 2010, Mr. Lai Weide was elected as Chairman of the Company.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 23 March 2010, 10 April 2010 and 29 May 2010 respectively and the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 22 March 2010, 9 April 2010 and 28 May 2010 respectively).

V. REPORT OF THE BOARD OF DIRECTORS

(I) Principal operations during the Reporting Period

1 Principal operations of the Company

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

In the first half of 2010, the Company continued to strengthen its corporate reforms and insisted on sustainable development. All activities proceeded as planned. Both operating income and profit increased along with the fast development of certain principal products of the Company in the first half of 2010. Meanwhile, the Company continued to enhance its control over the joint ventures so as to facilitate their growth. The Company's investment income for the first half of 2010 also obtained considerable increase.

Under the PRC Accounting Standards for Business Enterprises, operating income of the Company from January to June 2010 amounted to RMB742 million, representing an increase of 72.36% as compared with the corresponding period last year; and net loss was RMB9,429,200, representing an increase of 80.43% (a decrease in loss of RMB38,741,900) as compared with the corresponding period last year. Under the Hong Kong Financial Reporting Standards, operating income of the Company from January to June 2010 amounted to RMB731 million, representing an increase of 72.08% as compared with the corresponding period last year; and loss attributable to shareholders of the Company was RMB9,430,000, representing an increase of 80.43% as compared with the corresponding period last year.

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

Unit: RMB'000

Business or product	Income from principal activities	Cost of principal activities	Gross profit margin	Income from principal activities	Cost of principal activities	Gross profit margin
				increased/ (decreased) over the same period last year	increased/ (decreased) over the same period last year	increased/ (decreased) over the same period last year
			%	%	%	%
Electronic manufacturing products	258,817	227,991	11.91	73.60	73.64	(0.02)
Electronic intelligent products	209,083	188,008	10.08	202.47	226.54	(6.63)
Electronic equipment products	143,817	122,262	14.99	(0.02)	(1.86)	1.59
Others	114,477	109,517	4.33	344.54	479.39	(22.27)
Total	726,195	647,777	10.80	71.75	77.32	(2.80)

Of which, the total transaction amount of the connected transactions of sales of products and the provision of services to controlling shareholders and its subsidiaries by the Company was RMB30,329,800 during the Reporting Period.

3 Principal operations by geographical regions

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

4 Operation of the principal controlling and investee companies

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

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson, 26% by Ericsson (China), 20% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing Enterprise Company. ENC is mainly engaged in producing such products as mobile telecommunication system products and network communication systems. As one of the global logistic centres for Ericsson, ENC is also the largest supplier of mobile telecommunication equipment in the PRC. During the first half of 2010, ENC zealously explored markets and constantly enhanced the competitiveness of its products. Despite the decrease in sales revenue, better economic performance was achieved through efforts in expanding sales of radio base station products. Under the International Accounting Standards, ENC recorded operating income of RMB4,381 million from January to June 2010, representing a decrease of 28.69% as compared with the corresponding period last year and recorded net profit of RMB135 million, representing an increase of 184.24% as compared with the corresponding period last year.

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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited, 27% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing. BMC is mainly engaged in the manufacturing of mobile terminals (mobile phones) under the brand of Sony Ericsson, which is the most important production base and supply centre of Sony Ericsson mobile phones. In the first half of the year, the profit of BMC decreased due to the decrease in both sales revenue and overall gross profit margin impacted by unfavourable market conditions. Under the International Accounting Standards, BMC recorded operating income of RMB9,683 million from January to June 2010, representing a decrease of 14.55% as compared with the corresponding period last year and recorded net profit of RMB105 million, representing a decrease of 50.14% as compared to the corresponding period last year.

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

Hua Fei Company is held as to 25% by the Company, 20% by Nanjing Hua Dong Electronics Group Limited and 55% by 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, spare parts, materials and other related electronic products, as well as sale of self-produced products.

Under the PRC Accounting Standards for Business Enterprises, operating income of Hua Fei Company from January to June 2010 amounted to RMB4,155 million, representing an increase of 26.36% as compared with the corresponding period last year. In the Reporting Period, it incurred further loss of RMB131 million, which was RMB58 million lower than that of the corresponding period last year.

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

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

Unit: RMB

- (1) Major changes of accounts in balance sheet:

Items	30 June 2010	31 December 2009	Change (%)
Accounts receivable	357,982,120.27	225,724,139.03	58.59
Prepayments	129,532,731.68	64,834,617.63	99.79
Other receivables	37,631,446.53	20,079,161.67	87.42
Development expenses	836,091.07	—	—
Short-term loans	506,383,767.03	380,000,000.00	33.26
Bills payable	89,250,681.50	19,454,095.64	358.78
Taxes payable	10,596,204.86	26,906,223.41	(60.62)
Interest payable	645,755.00	469,360.36	37.58
Long-term payables	2,362,315.44	3,494,205.24	(32.39)

Explanation of the changes:

- (1) The increase in accounts receivable was mainly due to the increase in sales during the Reporting Period.
 - (2) The increase in prepayments was primarily due to the advance payments for material procurement and construction of the system engineering project.
 - (3) The increase in other receivables was mainly attributable to the increase in guarantee deposits and petty cash as at the end of the period.
 - (4) The increase in the development expenses was due to the purchase of software under development.
 - (5) The increase in short-term loans was mainly due to the additional working capital required by the expanded sales volume during the period.
 - (6) The increase in bills payable was mainly due to the settlement of bills for material purchase in the period.
 - (7) The decrease in taxes payable was primarily due to tax payment made on a timely basis during the period.
 - (8) The increase in interest payable was mainly attributable to the increase in the closing balance of loans from the opening balance.
 - (9) The decrease in long-term loans was mainly due to payment under finance lease settled as scheduled during the period.
- (2) Major changes of accounts in income statement:

Items	January - June 2010	January - June 2009	Change (%)
Operating income	741,785,644.63	430,358,398.28	72.36
Operating cost	657,837,656.83	373,726,797.61	76.02
Business taxes and surcharges	5,290,553.19	3,142,188.45	68.37
Financial expenses	10,267,781.73	20,016,887.76	(48.70)
Loss in assets impairment	(1,391,395.85)	(4,439,404.49)	68.66
Investment income	29,288,617.57	12,089,630.96	142.26
Operating profit	(7,880,621.96)	(44,526,690.24)	82.30
Non-operating income	9,222,475.73	1,769,898.75	421.07
Non-operating expenses	5,318,460.06	964,631.78	451.35
Total profit	(3,976,606.29)	(43,721,423.27)	90.90
Net profit	(6,922,050.27)	(46,341,125.43)	85.06

Explanation of the changes:

- (1) The increase in operating income was mainly due to the increased sales volume of electronic intelligent and electronic manufacture products.
 - (2) The increase in operating cost was mainly due to the increased sales volume of electronic intelligent and electronic manufacture products.
 - (3) The increase in business taxes and surcharges was primarily due to the rise in sales.
 - (4) The decrease in financial expenses was due to the decrease in both average interest rate and loan amount as compared with the same period last year.
 - (5) The increase in loss from assets impairment was primarily due to less reversals of provision for asset impairment during the period.
 - (6) The increase in investment income was mainly due to the improvement of operating results of the joint ventures as compared with the corresponding period last year.
 - (7) The increase in operating profit was mainly due to the increase in operating income.
 - (8) The increase in non-operating income was primarily due to the recognition of government subsidies.
 - (9) The increase in non-operating expenses was mainly attributable to the disposal of certain fixed assets during the period.
 - (10) The increase in total profit was mainly due to the increased operating income.
 - (11) The increase in net profit was primarily due to the increased operating income.
- (3) Major changes of accounts in cash flow statement:

Items	January - June 2010	January - June 2009	Change (%)
Net cash flow from operating activities	(218,076,368.45)	(45,407,230.71)	(380.27)
Net cash flow from investment activities	(49,302,510.63)	(153,595,923.20)	67.90
Net cash flow from financing activities	121,371,962.08	341,137.87	35,478.57

Explanation of the changes:

- (1) The decrease in net cash flow from operating activities was primarily due to the increase in procurement volume and in the repayment of loans of the parent group during the period.
- (2) The increase in net cash flow from investment activities was mainly attributable to the acquisition of subsidiaries in the previous period.
- (3) The increase in net cash flow from financing activities was mainly due to the increase in the proceeds from financing activities at the end of the period as compared with the beginning of the period.

2. Liquidity

In accordance with the Hong Kong Financial Reporting Standards, as at 30 June 2010, the Company's gearing ratio (the ratio of total liability to total assets) was 43.10%; current net liabilities value was RMB74 million; liquidity ratio was 1.07; quick ratio was 0.91; bank deposits and cash were RMB481 million; total loan amounted to approximately RMB600 million, and the standard annual interest rate was 5.31% for the Reporting Period, as shown in the consolidated financial statements of the Company.

(III) Investments in the Reporting Period

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

(IV) Business plan for the second half year of 2010

The Company will make further efforts in propelling adjustment for business structure to facilitate the growth of principal operations. The Company will further strengthen talent recruitment so as to sustain growth and achieve a rapid and sound development.

(V) Employees of the Company

As at 30 June 2010, the Company had 3,529 employees (1,679 were engaged in production, 1,061 in technology, 359 in sales, 145 in finance and 285 in administration and management.) In addition, there were 758 retirees, for whom the Company undertook to pay retirement pension.

VI. SIGNIFICANT EVENTS

(I) Corporate governance

During the Reporting Period, the Company has complied with such laws and regulations as the Company Law and 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 the Shanghai Stock Exchange, the Company continues to improve its corporate governance through setting up a modern corporate system, enhancing internal control and management and standardizing the operation of the Company.

Details of the work done by of the Company during the Reporting Period are as follows:

- (1) According to the relevant regulatory requirements, the Company has established a more comprehensive internal control system, which is monitored by the audit department of the Company regularly or from time to time. The supervisory committee, the audit committee, the Board and the independent Directors of the Company review the implementation of internal control regularly.
- (2) The 2009 "Self-assessment Report on the Internal Control of the Company" (《關於公司本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》) were considered and passed at the twelfth meeting of the sixth Board of the Company, which was convened on 29 March 2010. The reports were disclosed in the 2009 annual report as well.
- (3) Regulatory documents including the "Insider Information Management System", "Management System For External Information Users" and "Accountability System for Major Disclosure Errors in Annual Report" were considered and passed at the twelfth meeting of the sixth Board of the Company which was convened on 29 March 2010. The documents assisted the Company in enhancing and standardizing its operation, improving the quality of information disclosure and perfecting the management system for information disclosure.

(For details, please refer to the announcements published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 29 March 2010)

- (II) During the Reporting Period, the Company did not have any profit appropriation, transfer of public reserves to share capital or issue of new shares which were recommended in the previous period and implemented during the Reporting Period.

The Company does not recommend to make any profit distribution or to convert any capital reserve into share capital during the first half of 2010.

- (III) During the Reporting Period, the Company was not involved in any material litigation or arbitration which occurred during the Reporting Period or which had occurred in the previous periods but subsisted to the Reporting Period.

- (IV) There was no material acquisition, disposal of assets or asset reorganization which occurred during the Reporting Period or which had occurred in the previous periods but subsisted during the Reporting Period.

(V) Material connected transactions

1. During the Reporting Period, the Company had no other material connected transaction save and except for the continuing connected transactions for the period from 2010 to 2012 which were approved by the independent shareholders at the extraordinary general meeting of the Company held on 23 December 2009 (i.e. the continuing connected transactions which were conducted in the ordinary course of business and on normal commercial terms).

During the Reporting Period, the connected transactions relating to sale of products and provision of services to the controlling shareholder and its subsidiaries by the Company amounted to RMB30,329,800. (Please refer to the section headed "Relationship and transactions with related parties" set out in the Notes to the Financial Statements)

2. Transactions relating to creditor's rights and debt

Unit: RMB 0'000

Related parties	Provision of funds to related parties		Provision of funds to the Company by related parties	
	Amount of transaction	Balance	Amount of transaction	Balance
Panda Electronics Group Limited	0	0	(7,695.11)	836.25
Nanjing Thales Panda Transportation system Company Limited	0	0	(32.19)	2.78
Panda Electronics (Kunshan) Co., Ltd.	(1.55)	242.93	(30.00)	0.00
Intenna (Nanjing) Co. Ltd.	0	0	(9.92)	216.31
Nanjing Panda Electronics Transportation Company	0	0	71.54	264.89
Nanjing Panda Garden Property Management	0	0	(27.87)	4.94
Nanjing Lianhui Communication Technology Company Limited	0	0	5.12	5.12
Nanjing 21st Century Electronic and Technology Square Company Limited	0	0	(15.95)	15.05
Total	(1.55)	242.93	(7,734.38)	1,345.34

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

(V) **Material contracts**

1. During the Reporting Period, the Company did not hold any material trust, contract and lease of assets of other companies nor did other companies hold any material trust, contract and lease of assets of the Company.

2. Material guarantees

During the Reporting Period, the amount guaranteed by the Company for the controlled subsidiaries amounted to RMB59,072,900, the remaining amounted to RMB76,561,200. The details of which are as follows:

As at 30 June 2010, the Company provided guarantees to secure the following: a bank loan of RMB5,000,000 for Nanjing Panda Mechanical Manufacturing Co., Ltd., a controlled subsidiary of the Company; a bank loan of RMB15,000,000 and acceptance bills of RMB17,545,900 for Nanjing Panda Information Industry Co., Ltd.; a bank loan of RMB22,000,000 and acceptance bills of RMB9,527,000 for Nanjing Huage Appliance and Plastic Industrial Company Limited; and a bank loan of RMB5,000,000 and financing lease of RMB2,488,300 for Nanjing Panda Electronics Manufacturing Co., Ltd.

The guarantees above were granted to its controlled subsidiaries, totalling RMB76,561,200, representing 5.26% of the net asset value of the Company. Of the controlled subsidiaries above, the gearing ratio of Nanjing Panda Information Industry Co., Ltd. was over 70%, while that of the other companies did not exceed 70%.

Other than the controlled subsidiaries, the Company did not grant any guarantee to any independent third parties, its controlling shareholder, de facto controller or its connected parties.

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

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

(VIII) **During the Reporting Period, the Company did not hold stocks or securities issued by other listed companies, nor did it acquire equities of unlisted financial enterprises.**

(IX) **It was resolved at the annual general meeting held on 30 June 2010 that Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited were reappointed as domestic and international auditors of the Company for 2010, respectively.**

(X) **No administrative penalty or public criticism by the CSRC or stock exchanges was made against the Company, the Board or its Directors during the Reporting Period.**

(XI) **The audit committee (the "Audit Committee") and the senior management of the Company have reviewed the accounting principles and accounting standards and methods adopted by the Company, and studied the matters relating to internal control. During the Reporting Period, the Audit Committee conducted various communications and coordination with the Company's certified public accountants according to the "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report" and advised and recommended significant audit issues that worth attention. In this way, the 2009 annual report was carefully prepared and audited and the financial conditions and operating results of the Company in 2009 were reflected in an objective and fair manner.**

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. The re-appointment of Vocation International Certified Public Accountants Co., Ltd. and UHY Vocation HK CPA Limited as the Company's domestic and international auditors for 2010 was agreed at the meeting and relevant proposal was submitted to the Board for review.

The unaudited financial report for the six months ended 30 June 2010 was reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial report complies with the applicable accounting standards and legal requirements and that adequate disclosure has been made.

(XII) Other matters

1. **Income tax**

The Company is registered in the Nanjing High and New Technology Development Zone which is approved by the State Council as a national high and new technology industry development zone. The Company was approved by 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 a preferential enterprise income tax rate treatment of 15% under relevant regulations.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

3. **Pre-emptive rights**

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

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

The Company has adopted and strived to comply with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the Reporting Period.

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	Six months ended	
		30 June 2010 (unaudited) RMB '000	30 June 2009 (unaudited) RMB '000 (Restated)
Turnover	4	731,159	424,888
Cost of sales		(656,521)	(373,560)
Gross profit		74,638	51,328
Other income	5	14,558	4,098
Other losses - net		(512)	(66)
Distribution costs		(17,542)	(16,917)
Administrative expenses		(94,937)	(75,111)
Operating loss	6	(23,795)	(36,668)
Finance income		2,395	1,175
Finance costs		(11,866)	(20,318)
Finance costs - net		(9,471)	(19,143)
Share of profits of associates		29,289	12,090
Loss before income tax		(3,977)	(43,721)
Income tax expenses	8	(2,945)	(2,620)
Loss for the period		(6,922)	(46,341)
Other comprehensive income		—	—
Total comprehensive loss for the period		(6,922)	(46,341)
Total comprehensive loss for the period attributable:			
Equity holders of the Company		(9,429)	(48,171)
Non-controlling interests		2,507	1,830
		(6,922)	(46,341)
Loss per share for loss attributable to the equity holders of the Company for the period (expressed in Renminbi per share)	9	(0.014)	(0.074)
Dividends	10	—	—

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2010

		30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
ASSETS			
Non-current assets			
		23,720	24,062
		565,379	553,013
		807,967	778,712
		2,581	2,782
		1,399,647	1,358,569
Current assets			
		169,031	157,430
		328,694	215,484
		166,118	84,343
		37,916	19,090
		63	91
		66,846	61,579
		414,296	560,354
		1,182,964	1,098,371
Total assets		2,582,611	2,456,940
Equity			
Capital and reserves attributable to equity holders of the Company			
		655,015	655,015
		800,561	809,990
		1,455,576	1,465,005
Non-controlling interests		13,861	11,785
Total equity		1,469,437	1,476,790

		30 June 2010 (unaudited) RMB'000	31 December 2009 (unaudited) RMB'000
	<i>Notes</i>		
LIABILITIES			
Non-current liabilities			
Long term borrowing	16	4,000	4,000
Finance lease obligations — non-current portion		<u>—</u>	<u>1,279</u>
		4,000	5,279
Current liabilities			
Borrowings	16	595,635	399,454
Trade payables	15	291,671	270,216
Accruals and other payables		187,221	177,763
Amounts due to fellow subsidiaries, associates and related companies		4,260	11,612
Amount due to the ultimate holding company		17,429	86,705
Finance lease obligations — current portion		2,362	2,215
Tax payables		10,596	26,906
		<u>1,109,174</u>	<u>974,871</u>
Total liabilities		<u>1,113,174</u>	<u>980,150</u>
Total equity and liabilities		<u>2,582,611</u>	<u>2,456,940</u>
Net current assets		<u>73,790</u>	<u>123,500</u>
Total assets less current liabilities		<u>1,473,437</u>	<u>1,482,069</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	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	Non-controlling interests 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 of an entity under common control	—	—	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
Loss for the period	—	—	—	—	—	(48,171)	(48,171)	1,830	(46,341)
Deemed distributions relating to business combination under common control	—	—	(121,989)	—	—	—	(121,989)	—	(121,989)
As at 30 June 2009, restated and unaudited	<u>655,015</u>	<u>389,338</u>	<u>(6,417)</u>	<u>202,222</u>	<u>35,688</u>	<u>128,620</u>	<u>1,404,466</u>	<u>15,188</u>	<u>1,419,654</u>
As at 1 January 2010	655,015	389,338	(9,575)	204,496	35,688	190,043	1,465,005	11,785	1,476,790
Loss for the period	—	—	—	—	—	(9,429)	(9,429)	2,507	(6,922)
Disposal of a subsidiary	—	—	—	—	—	—	—	(431)	(431)
As at 30 June 2010 (unaudited)	<u>655,015</u>	<u>389,338</u>	<u>(9,575)</u>	<u>204,496</u>	<u>35,688</u>	<u>180,614</u>	<u>1,455,576</u>	<u>13,861</u>	<u>1,469,437</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
 FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	Six months ended	
		30 June 2010 (unaudited) RMB'000	30 June 2009 (unaudited) RMB'000 (Restated)
Net cash used in operating activities		(234,942)	(79,512)
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(32,956)	(31,631)
Proceeds from disposal of property, plant and equipment		32	22
Cash paid for business combination under common control		—	(121,989)
Net cash outflow from disposal of a subsidiary	18	(425)	—
Interest received		2,395	1,175
Net cash used in investing activities		(30,954)	(152,423)
Cash flows from financing activities			
Proceeds from borrowings		263,339	162,000
Repayment of borrowings		(136,956)	(162,000)
Repayment of obligations under finance leases		(1,278)	(6,040)
(Increase)/decrease in restricted bank deposits		(5,267)	39,287
Net cash generated from financing activities		119,838	33,247
Decrease in cash and cash equivalents		(146,058)	(198,688)
Cash and cash equivalents at beginning of the period		560,354	416,445
Cash and cash equivalents at end of the period		414,296	217,757
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		481,142	240,049
Less: Restricted bank deposits		(66,846)	(22,292)
		414,296	217,757

NOTES TO THE CONDENSED CONSOLIDATED 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 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 (南京中電熊猫信息產業集團有限公司)" ("NEIIC") on 4 April 2007, 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)(「關於南京熊猫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 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 telecommunication 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.

The Company has disclosed in the 2009 Annual Report the acquisition of 100% and 70% equity interests in Nanjing Panda Technology Industrial Co., Ltd. ("Panda Technology Industrial") and Nanjing Panda Electromechanical Instruments Technology Co., Ltd ("NPEIT") from PEGL respectively. As PEGL is the ultimate holding company of the Company, therefore, the above two acquisitions have been regarded as business combinations under common control.

However, as the equity transfer agreement in relation to the acquisition of NPEIT was entered into on 10 July 2009, the interim consolidated financial statements of 2009 has not incorporated with this common control business combination.

As a result of the common control business combination of NPEIT, restatements have been made for the comparative figures of these consolidated interim financial statements. Details of the relevant adjustments for the common control combination and the Group's results for the six months ended 30 June 2009 are set out in note 17.

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

These condensed consolidated interim financial statements were not audited but have been reviewed by the Audit Committee. The financial statements have been approved for issue by the Board of Directors on 25 August 2010.

2. Basis of preparation

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

3. Principal accounting policies

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

Except as described below, the accounting policies applied in the financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2009.

The following new and revised standards, amendments and interpretations are mandatory for the first time for the financial period beginning 1 January 2010.

HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 28 (Amendment)	Investment in associates
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transaction
HKFRS 3 (Revised)	Business combinations
HK (IFRIC) 17	Distributions of non-cash assets to owners

HKAS 27 (Revised), "Consolidated and separate financial statements"

HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

The Group has applied this revised standard prospectively from 1 January 2010 and management have assessed that this revised standard does not have a significant impact on the Group's financial statements for the six months period ended 30 June 2010 since there was no transaction undertaken with non-controlling interests.

HKFRS 3 (Revised), "Business combinations"

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. As there was no transaction during the current interim period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The application of the other New or Revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but they are not effective for the financial period beginning 1 January 2010 and have not been early adopted:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (revised)	Related party disclosures
Amendment to HKAS 32	Classification of rights issues
Amendment to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for First - time adopters
HKFRS 9	Financial instruments
Amendment to HK (IFRIC) 14	Prepayments of a minimum funding requirement
HK (IFRIC) 19	Extinguishing financial liabilities with equity instruments

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. Turnover

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

5. **Other income**

	Six months ended	
	30 June 2010	30 June 2009
	(unaudited)	(unaudited)
	RMB'000	RMB'000
		(Restated)
Rental and property management fee income	5,335	2,328
Government subsidies	5,739	584
Writing off of trade and other payables	3,385	964
Sundry income	99	222
	<u>14,558</u>	<u>4,098</u>

6. **Operating loss**

	Six months ended	
	30 June 2010	30 June 2009
	(unaudited)	(unaudited)
	RMB'000	RMB'000
		(Restated)
Loss on disposal of property, plant and equipment, net	5,201	780
Depreciation of property, plant and equipment	21,609	22,275
Amortisation of land use rights	341	725
Impairment loss reversed		
— Inventories	(1,317)	(167)
— Trade receivables, other receivables and amounts due from related companies	(74)	(4,106)
Exchange losses, net	(512)	(66)
	<u>(512)</u>	<u>(66)</u>

7. **Depreciation**

During the period, depreciation of RMB21,609,000 (six months ended 30 June 2009: RMB 22,275,000) was charged in respect of the Group's property, plant and equipment.

8. Income tax expenses

Income tax expenses comprise:

	Six months ended	
	30 June 2010 (unaudited) RMB '000	30 June 2009 (unaudited) RMB '000 (Restated)
PRC enterprise income tax	2,859	2,318
Deferred tax	86	302
Income tax expenses	<u>2,945</u>	<u>2,620</u>

The Company is recognized by the Jiangsu Science and Technology Department as a high-tech enterprise on 21 October 2008 with a validity period of three years. Accordingly, it enjoys a preferential policy on income tax and pays income taxes as per 15% of taxable income since 1 January 2008. The enterprise income tax rate for 2010 is 15%.

The applicable enterprise income tax rates for subsidiaries of the Company range from 15% to 25%. Nanjing Panda Information Industry Co., Ltd, a subsidiary of the Company, is registered in Jiangning Economic and Technical Development Zone. As a foreign invested enterprise, it is entitled to a preferential enterprise income tax policy of two years exemption from income taxes followed by three years of 50% tax reduction. The year of 2008 was the first year of enterprise income tax exemption. The enterprise income tax rate for 2010 is 12.5%.

Nanjing Panda Appliance & Apparatus Co. Ltd, a subsidiary of the Company, has been recognized by the Jiangsu Science and Technology Department as a high-tech enterprise since 21 October 2008 with a validity period of three years. Accordingly, it enjoys an enterprise income tax rate of 15% since 1 January 2008. The enterprise income tax rate for 2010 is 15%.

Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, has been recognized as a high-tech enterprise by the Jiangsu Science and Technology Department since 9 December 2008, with a validity period of three years. Accordingly, it enjoys an enterprise income tax rate of 15% till 31 December 2010. The enterprise income tax rate for 2010 is 15%.

Pursuant to the approval from the taxation bureau of Nanjing Economic and Technical Development Zone, Nanjing Panda Electronic Manufacture Co., Ltd, a subsidiary of the Company, has an income tax rate of 18%, 20%, 22%, 24% and 25% from 2008 to 2012 respectively. It enjoyed a 50% tax deduction in year 2008 and 2009, and shall not be entitled to enjoy any preferential income tax policy starting from 2010. The enterprise income tax rate for 2010 is 22%.

9. Loss per share

The calculation of loss per share is based on the loss attributable to equity holders of the Company for the six months ended 30 June 2010 of RMB9,429,000 (six months ended 30 June 2009: Loss of RMB48,171,000) and on 655,015,000 shares in issue throughout the period.

No diluted earnings per share for the six months ended 30 June 2010 and 2009 has been presented as no issue of dilutive potential ordinary shares was made as at 30 June 2010 and 2009.

10. Dividends

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

The Directors do not recommend the payment of an interim dividend (six months ended 30 June 2009: Nil).

11. Segment information

(a) Primary reporting format - business segments

As at 30 June 2010, the Group is operating four types of 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 telecommunication 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 period ended 30 June 2010 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 six months ended 30 June 2010 and 2009.

For the six months ended 30 June 2010

	Electronic manufacturing products <small>(Unaudited)</small> <i>RMB'000</i>	Electronic equipment products <small>(Unaudited)</small> <i>RMB'000</i>	Satellite telecom- munication products <small>(Unaudited)</small> <i>RMB'000</i>	Electronic intelligent products <small>(Unaudited)</small> <i>RMB'000</i>	Other operations <small>(Unaudited)</small> <i>RMB'000</i>	Elimination <small>(Unaudited)</small> <i>RMB'000</i>	Consolidated <small>(Unaudited)</small> <i>RMB'000</i>
Revenue							
External sales	263,595	153,528	—	199,937	114,099	—	731,159
Internal sales	5,361	9,195	745	57,608	25,054	(97,963)	—
Total	268,956	162,723	745	257,545	139,153	(97,963)	731,159
Results							
Segment results	7,827	11,974	489	456	2,371		23,117
Unallocated corporate expenses							(46,912)
Interest income							2,395
Interest expenses							(11,866)
Share of profits of associates							29,289
Income tax expenses							(2,945)
Loss for the period							(6,922)

As at 30 June 2010

	Electronic manufacturing products (Unaudited) RMB'000	Electronic equipment products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic intelligent products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Elimination (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
Assets							
Segment assets	443,884	194,329	1,253	346,457	91,572	—	1,077,495
Investments in associates							807,967
Unallocated corporate assets							697,149
							<u>2,582,611</u>
Consolidated total assets							<u>2,582,611</u>
Liabilities							
Segment liabilities	171,916	100,109	801	263,636	42,584	—	579,046
Unallocated corporate liabilities							543,128
							<u>1,113,174</u>
Consolidated total liabilities							<u>1,113,174</u>
Other information							
Capital expenditure	3,659	4,002	—	668	24,627		
Depreciation and amortisation	12,184	2,831	—	301	168		

For the six months ended 30 June 2009

	Electronic manufacturing products (Unaudited) RMB'000 (restated)	Electronic equipment products (Unaudited) RMB'000 (restated)	Satellite telecom- munication products (Unaudited) RMB'000 (restated)	Electronic intelligent products (Unaudited) RMB'000 (restated)	Other operations (Unaudited) RMB'000 (restated)	Elimination (Unaudited) RMB'000 (restated)	Consolidated (Unaudited) RMB'000 (restated)
Revenue							
External sales	149,083	143,431	35,000	71,595	25,779	—	424,888
Internal sales	3,198	5,415	—	16,518	9,481	(34,612)	—
	<u>152,281</u>	<u>148,846</u>	<u>35,000</u>	<u>88,113</u>	<u>35,260</u>	<u>(34,612)</u>	<u>424,888</u>
Total	<u>152,281</u>	<u>148,846</u>	<u>35,000</u>	<u>88,113</u>	<u>35,260</u>	<u>(34,612)</u>	<u>424,888</u>
Results							
Segment results	8,384	4,383	3,513	(1,698)	(2,467)	—	12,115
	<u>8,384</u>	<u>4,383</u>	<u>3,513</u>	<u>(1,698)</u>	<u>(2,467)</u>	<u>—</u>	<u>12,115</u>
Unallocated corporate expenses							(48,783)
Interest income							1,175
Interest expenses							(20,318)
Share of profits of associates							12,090
Income tax expenses							(2,620)
							<u>(46,341)</u>
Loss for the period							<u>(46,341)</u>

As at 31 December 2009

	Electronic manufacturing products (Unaudited) RMB'000	Electronic equipment products (Unaudited) RMB'000	Satellite telecom- munication products (Unaudited) RMB'000	Electronic intelligent products (Unaudited) RMB'000	Other operations (Unaudited) RMB'000	Elimination (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
Assets							
Segment assets	393,179	219,697	153,279	365,161	78,525	—	1,209,841
Investments in associates							778,712
Unallocated corporate assets							468,387
							<u>2,456,940</u>
Consolidated total assets							<u>2,456,940</u>
Liabilities							
Segment liabilities	143,500	98,605	450	177,722	26,330	—	446,607
Unallocated corporate liabilities							533,543
							<u>980,150</u>
Consolidated total liabilities							<u>980,150</u>
Other information							
Capital expenditure	9,201	1,139	—	524	1,568		
Depreciation and amortisation	26,416	4,581	—	672	547		
	<u>35,617</u>	<u>5,720</u>	<u>—</u>	<u>1,196</u>	<u>2,115</u>		

(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.

12. Additions to property, plant and equipment

During the period, the Group spent approximately RMB32,956,000 (six months ended 30 June 2009: RMB31,631,000) on acquisition of property, plant and equipment.

13. Investments in associates

	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Share of net assets	804,524	775,269
Goodwill	3,443	3,443
	807,967	778,712

14. Trade and bills receivables

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

The following is an ageing analysis of trade and bill receivables net of provision for impairment as at 30 June 2010:

	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Within 1 year	294,422	182,720
1 to 2 years	32,515	32,010
2 to 3 years	1,251	686
Over 3 years	506	68
	328,694	215,484

15. Trade payables

The following is an ageing analysis of trade payables as at 30 June 2010:

	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Within 1 year	251,104	229,714
1 to 2 years	23,204	21,152
2 to 3 years	2,042	3,543
Over 3 years	15,321	15,807
	291,671	270,216

16. Borrowings

	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Borrowings		
– Short-term bank loans		
– Unsecured	431,384	380,000
– Secured (i)	75,000	—
– Bills payable (ii)	89,251	19,454
	<hr/>	<hr/>
	595,635	399,454
– Long-term loan (iii)	4,000	4,000
	<hr/>	<hr/>
	599,635	403,454
	<hr/> <hr/>	<hr/> <hr/>

(i) As at 30 June 2010, the Group's buildings with net book value approximately RMB123,013,000 was secured for the above borrowings (31 December 2009: Nil). There was neither bank deposits secured for the above borrowings as at 30 June 2010 and 31 December 2009.

(ii) Bills payables were issued with a term of 3 to 6 months and no bank balances are pledged (31 December 2009: 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, with an interest rate of 0.3% per annum.

17. Business combination under common control

The Company entered into an equity transfer agreement with the controlling shareholder, PEGL, on 10 July 2009 for the acquisition of 70% equity interests in Nanjing Panda Electromechanical Instruments Technology Co., Ltd. ("NPEIT") for an aggregate consideration of RMB 2,643,700.

The Group set the date of acquisition as 31 July 2009 at which the Group obtained the ultimate control of NPEIT.

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

	Date of acquisition 31 July 2009 RMB'000
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
	<hr/> <hr/>

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.

Since merger accounting for common control combination is adopted after the acquisition of NPEIT, adjustments on the Group's result for the six months ended 30 June 2009 are as follows:

	The Group before transferred subsidiary <i>RMB'000</i>	Transferred subsidiary <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Six months ended 30 June 2009 <i>RMB'000</i>
Six months ended 30 June 2009				
Income	393,752	33,440	(2,304)	424,888
Loss before income tax	(46,682)	2,961	—	(43,721)
Income tax expense	(2,226)	(394)	—	(2,620)
Loss for the period	(48,908)	2,567	—	(46,341)

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 combination to achieve consistency of accounting policies.

The Group has disclosed in the 2009 Annual Report the effects to the results of year 2009 and the consolidated balance sheet as at 31 December 2009 as a result of the adoption of common control business combinations on the two subsidiaries, Nanjing Panda Technology Industrial Co., Ltd. and NPEIT.

18. Disposal of equity interests in a subsidiary

In June 2010, the Company disposed of 70% equity interests in a subsidiary, Nanjing Electronic Calibration Co., Ltd, ("Electronic Calibration") to Nanjing Panda Handa Technology Company Limited, which is a subsidiary of PEGL, the controlling shareholder of the Company, at a consideration of approximately RMB 1,039,000. At the date of disposal, the net assets of Electronic Calibration were approximately RMB 1,438,000. The gain and net cash outflow arising from the disposal of Electronic Calibration amounted to approximately RMB 33,000 and RMB 425,000 respectively. For the six months ended 30 June 2010, the turnover and profit before income tax of Electronic Calibration was approximately RMB 3,541,000 and RMB 128,000 respectively.

19. Share capital

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

20. Contingent liabilities

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

21. Capital commitments

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

	30 June 2010 (unaudited) <i>RMB'000</i>	31 December 2009 (audited) <i>RMB'000</i>
Contracted but not provided for		
— Property, plant and equipment	65,556	82,250

22. Related party transactions

Other than those disclosed in note 18, the Group entered into the following transactions with its related parties during the Reporting Period:

	Fellow subsidiaries and associates		Ultimate holding company	
	Six months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
Sales of components and parts	47,498	39,432	62	66
Purchases of components and parts	1,770	3,166	121	193
Fees paid for welfare, support, sub-contracting and general services	622	263	213	87
Income from welfare, support, sub-contracting and general services	24,867	27,233	4	3
Rental income	137	173	35	—
Rental expenses	275	138	—	—
	=====	=====	=====	=====

23. Comparative figures

The Group has applied merger accounting to account for the purchase of the equity interests in the transferred subsidiaries during the period, as if the business combinations had been occurred from the beginning of the earliest financial year 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.

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

There were no differences between the interim financial statements prepared under Hong Kong Financial Reporting Standards and PRC accounting standards, including the condensed consolidated statements of comprehensive income for the six months ended 30 June 2010 and the condensed consolidated balance sheets as at 30 June 2010.

VIII. FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS) (UNAUDITED)

(I) The 2010 interim financial statements of the Company were unaudited

(II) Financial statements and notes thereto (prepared in accordance with the PRC Accounting Standards for Business Enterprises)

Consolidated Balance Sheet

As at 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	30 June 2010	1 January 2010
Current assets:		
Cash and bank deposits	481,142,490.60	621,932,597.32
Trading financial assets	—	—
Bills receivable	7,644,361.69	8,370,297.83
Accounts receivable	357,982,120.27	225,724,139.03
Prepayments	129,532,731.68	64,834,617.63
Interest receivable	—	—
Dividends receivable	—	—
Other receivables	37,631,446.53	20,079,161.67
Inventory	169,030,717.76	157,430,028.94
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	1,182,963,868.53	1,098,370,842.42
Non-current assets:		
Financial assets available for sale	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	807,967,808.82	778,712,065.54
Properties investment	—	—
Fixed assets	470,309,820.59	465,374,877.71
Construction in progress	92,285,902.66	85,591,336.05
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Gas assets	—	—
Intangible assets	25,667,395.62	26,109,128.25
Development expenses	836,091.07	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	2,580,503.21	2,781,999.75
Other non-current assets	—	—
Total non-current assets	1,399,647,521.97	1,358,569,407.30
Total assets	2,582,611,390.50	2,456,940,249.72

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Liabilities and shareholders' equity	30 June 2010	1 January 2010
Current liabilities		
Short-term loans	506,383,767.03	380,000,000.00
Trading financial liabilities	—	—
Bills payable	89,250,681.50	19,454,095.64
Accounts payable	299,761,669.87	276,239,639.25
Advances from customers	34,057,433.51	42,926,670.63
Salaries payable	41,242,260.26	44,696,054.89
Taxes payable	10,596,204.86	26,906,223.41
Interest payable	645,755.00	469,360.36
Dividends payable	—	—
Other payables	124,874,762.80	181,964,084.47
Non-current liabilities due within one year	2,362,315.44	2,215,375.85
Other current liabilities	—	—
Total current liabilities	1,109,174,850.27	974,871,504.50
Non-current liabilities:		
Long-term loans	4,000,000.00	4,000,000.00
Bonds payables	—	—
Long-term payables	—	1,278,829.39
Specific payables	—	—
Estimated liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	4,000,000.00	5,278,829.39
Total liabilities	1,113,174,850.27	980,150,333.89
Shareholders' equity:		
Share capital	655,015,000.00	655,015,000.00
Capital reserve	465,369,977.77	465,369,977.77
Less: treasury stock	—	—
Special reserve	—	—
Surplus reserve	202,784,405.42	202,784,405.42
Provision for general risks	—	—
Undistributed profits	132,405,912.70	141,835,133.81
Difference in translation of foreign currency statements	—	—
Sub-total of equity attributable to shareholders of the Company	1,455,575,295.89	1,465,004,517.00
Minority interests	13,861,244.34	11,785,398.83
Total shareholders' equity	1,469,436,540.23	1,476,789,915.83
Total liabilities and shareholders' equity	2,582,611,390.50	2,456,940,249.72

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Consolidated Income Statement
For the six months ended 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Amount for the period	Amount for the same period last year
1. Total operating income	741,785,644.63	430,358,398.28
Include: Operating income	741,785,644.63	430,358,398.28
2. Total operating cost	778,954,884.16	486,974,719.48
Include: Operating cost	657,837,656.83	373,726,797.61
Business taxes and surcharge	5,290,553.19	3,142,188.45
Sale expenses	17,541,943.42	16,917,033.67
Administrative expenses	89,408,344.84	77,611,216.48
Financial expenses	10,267,781.73	20,016,887.76
Loss in assets impairment	(1,391,395.85)	(4,439,404.49)
Add: Income from change in fair value (losses are represented by “—”)	—	—
Investment income (losses are represented by “—”)	29,288,617.57	12,089,630.96
Include: Investment income of associates and joint ventures	—	—
3. Operating profit (losses are represented by “—”)	(7,880,621.96)	(44,526,690.24)
Add: Non-operating income	9,222,475.73	1,769,898.75
Less: Non-operating expenses	5,318,460.06	964,631.78
Include: Loss from the disposal of non-current assets	—	—
4. Total profit (losses are represented by “—”)	(3,976,606.29)	(43,721,423.27)
Less: Income tax	2,945,443.98	2,619,702.16
5. Net profit (losses are represented by “—”)	(6,922,050.27)	(46,341,125.43)
Net profit attributable to the equity shareholders of the parent	(9,429,221.11)	(48,171,090.98)
Minority interest	2,507,170.84	1,829,965.55
6. Earnings per share		
(1) Basic earnings per share	(0.0144)	(0.0735)
(2) Diluted earnings per share	(0.0144)	(0.0735)
7. Other comprehensive income	—	—
8. Total comprehensive income	(6,922,050.27)	(46,341,125.43)
Total comprehensive income attributable to the equity holders of the parent company	(9,429,221.11)	(48,171,090.98)
Total comprehensive income attributable to minority interests	2,507,170.84	1,829,965.55

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Consolidated Cash Flow Statement
For the six months ended 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Amount for the period	Amount for the same period last year
1. Cash flow from operating activities		
Cash received from the sale of goods and services provided	648,978,363.03	555,587,702.59
Return of tax payment	1,953,053.74	392,800.14
Other cash received relating to operating activities	62,456,379.97	25,741,787.41
Sub-total of cash inflow from operating activities	713,387,796.74	581,722,290.14
Cash paid for purchase of goods and services	601,803,564.80	405,951,391.00
Cash paid to staff and paid on behalf of staff	126,870,603.92	112,843,184.54
Taxes paid	47,900,801.16	38,013,717.03
Cash paid relating to other operating activities	154,889,195.31	70,321,228.28
Sub-total of cash outflow from operating activities	931,464,165.19	627,129,520.85
Net cash flow from operating activities	(218,076,368.45)	(45,407,230.71)
2. Cash flows from investment activities		
Cash received from investment	—	1.00
Cash received from investment income	—	—
Net cash proceeds on the disposal of fixed assets, intangible assets and other long-term assets	32,000.00	21,850.00
Cash received from disposal of subsidiaries and other business units	(425,320.87)	—
Cash received relating to other operating activities	—	—
Sub-total of cash inflow from investment activities	(393,320.87)	21,851.00
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	48,909,189.76	31,628,574.20
Cash paid for investment	—	—
Net cash paid for acquisition of subsidiaries and other business units	—	121,989,200.00
Cash paid for other investment activities	—	—
Sub-total of cash outflow from investment activities	48,909,189.76	153,617,774.20
Net cash flow from investment activities	(49,302,510.63)	(153,595,923.20)
3. Cash flow from financing activities		
Cash received from investment	—	—
Including: cash received by subsidiaries from equity investment of minority shareholders	—	—
Cash received from borrowings	263,339,498.85	162,000,000.00
Cash received from other financing activities	6,981,352.82	26,131,173.26
Sub-total of cash inflows from financing activities	270,320,851.67	188,131,173.26
Cash paid for repayment of debts	136,955,731.82	162,000,000.00
Cash paid for distribution of dividends or profits, or interest repayment	10,715,115.87	19,235,248.27
Including: bonus and profit paid to minority shareholders by subsidiaries	—	—
Cash paid for other financing activities	1,278,041.90	6,554,787.12
Sub-total of cash outflow from financing activities	148,948,889.59	187,790,035.39
Net cash flow from financing activities	121,371,962.08	341,137.87
4. Effect on cash and cash equivalents due to foreign currency exchange	(51,083.73)	(25,734.47)
5. Net increase in cash and cash equivalents	(146,058,000.73)	(198,687,750.51)
Add: balance of cash and cash equivalents at the beginning of the period	560,354,017.93	416,445,310.81
6. Balance of cash and cash equivalents at the end of the period	414,296,017.20	217,757,560.30

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Consolidated Statement of Change in Shareholders' Equity
For the six months ended 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Amount for the period										Total									
	Equity attributable to shareholders of the parent company					Amount for the same period last year														
	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	Provision for general risks	Undistributed profits	Other	Minority interest	Total shareholders' equity	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	Provision for general risks	Undistributed profits	Other	Minority interest	Total shareholders' equity
I. Balance at the end of last year	65501500.00	465,366,877.77	-	202,794,465.42	-	-	141,635,133.81	-	11,785,288.83	1,476,788,945.83	65501500.00	467,397,288.42	-	203,511,047.29	-	-	140,414,733.05	-	12,147,265.62	1,535,465,665.38
Adj.: Change in accounting standards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Continuation of business under the same control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	65501500.00	465,366,877.77	-	202,794,465.42	-	-	141,635,133.81	-	11,785,288.83	1,476,788,945.83	65501500.00	500,614,466.81	-	203,511,047.29	-	-	117,687,254.73	-	12,741,413.88	1,624,803,532.32
III. Change of this year is increase & decrease respectively * (1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(1) Net profit	-	-	-	-	-	-	(84,922,211)	-	2,076,945.91	(7,433,375.68)	-	(121,389,203.00)	-	-	-	-	(48,171,033.98)	-	1,929,265.55	(108,291,325.43)
(2) Other comprehensive income	-	-	-	-	-	-	(84,922,211)	-	3,077,710.34	(8,020,282.7)	-	-	-	-	-	-	(48,171,033.98)	-	1,929,265.55	(48,241,125.43)
Statement (Item) 1 and (2) above	-	-	-	-	-	-	(84,922,211)	-	3,077,710.34	(8,020,282.7)	-	-	-	-	-	-	(48,171,033.98)	-	1,929,265.55	(48,241,125.43)
(3) Contribution and reduction of capital by shareholders	-	-	-	-	-	-	(84,922,211)	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Share repurchase payment receipt by shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Payment to general risks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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. Compression of debt term surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Appropriation and use of special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Use for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of this year	65501500.00	465,366,877.77	-	202,794,465.42	-	-	135,452,912.70	-	13,861,244.94	1,468,045,569.23	65501500.00	465,377,288.81	-	203,511,047.29	-	-	89,412,225.74	-	15,108,453.19	1,419,683,274.47

Person in charge of the Company:
Xu Guofei

Person in charge of accountant work:
Shen Jianlong

Person in charge of Accounting Department:
Wu Yuzhen

Balance Sheet

As at 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	30 June 2010	1 January 2010
Current assets:		
Cash and bank deposit	203,135,752.86	327,700,983.52
Trading financial assets	—	—
Bills receivable	—	300,000.00
Accounts receivable	21,056,919.08	24,536,091.11
Prepayments	32,479,128.91	25,270,980.90
Interest receivable	—	—
Dividends receivable	9,574,019.24	4,842,582.93
Other receivables	208,174,201.58	182,748,549.10
Inventories	12,116,818.07	10,163,724.18
Non-current assets due within one year	—	—
Other current assets	—	—
	<hr/>	<hr/>
Total current assets	486,536,839.74	575,562,911.74
	<hr/> <hr/>	<hr/> <hr/>
Non-current assets:		
Financial assets available for sale	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	1,162,500,375.68	1,113,461,382.90
Properties investment	—	—
Fixed assets	283,872,385.45	265,847,921.94
Construction in progress	92,094,384.82	85,509,336.05
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Gas assets	—	—
Intangible assets	13,351,351.78	13,614,113.40
Development expenses	836,091.07	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	—	—
Other non-current assets	—	—
	<hr/>	<hr/>
Total non-current assets	1,552,654,588.80	1,478,432,754.29
	<hr/> <hr/>	<hr/> <hr/>
Total assets	2,039,191,428.54	2,053,995,666.03
	<hr/> <hr/>	<hr/> <hr/>

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Assets	30 June 2010	1 January 2010
Liabilities and shareholders' equity		
Current liabilities:		
Short-term loans	433,000,000.00	338,000,000.00
Trading financial liabilities	—	—
Bills payable	40,548,808.57	8,354,095.64
Accounts payable	36,888,188.06	71,628,242.83
Advances from customers	2,575,648.99	3,783,687.81
Salaries payable	27,715,010.11	30,620,099.44
Taxes payable	2,483,587.73	17,374,556.53
Interest payable	645,755.00	469,360.36
Dividends payable	—	—
Other payables	135,703,468.34	204,856,900.73
Non-current liabilities due within one year	—	—
Other current liabilities	—	—
	<hr/>	<hr/>
Total current liabilities	679,560,466.80	675,086,943.34
	<hr/>	<hr/>
Non-current liabilities:		
Long-term loans	4,000,000.00	4,000,000.00
Bonds payables	—	—
Long-term payables	—	—
Specific payables	—	—
Estimated liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
	<hr/>	<hr/>
Total non-current liabilities	4,000,000.00	4,000,000.00
	<hr/>	<hr/>
Total liabilities	683,560,466.80	679,086,943.34
	<hr/>	<hr/>
Shareholders' equity:		
Share capital	655,015,000.00	655,015,000.00
Capital reserve	437,688,751.31	437,688,751.31
Less: treasury stock	—	—
Special reserve	—	—
Surplus reserve	202,784,405.42	202,784,405.42
Provision for general risks	—	—
Undistributed profits	60,142,805.01	79,420,565.96
	<hr/>	<hr/>
Total shareholders' equity	1,355,630,961.74	1,374,908,722.69
	<hr/>	<hr/>
Total liabilities and shareholders' equity	2,039,191,428.54	2,053,995,666.03
	<hr/>	<hr/>

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Income Statement

For the six months ended 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Amount for the period	Amount for the same period last year
1. Total operating income	91,333,186.48	62,835,420.73
Include: Operating income	91,333,186.48	62,835,420.73
2. Total operating cost	161,281,795.78	131,296,507.67
Include: Operating cost	87,378,892.66	59,461,144.26
Business taxes and surcharge	723,727.88	137,966.38
Selling expenses	4,474,654.47	1,846,439.81
Administrative expenses	59,181,515.53	51,361,150.29
Financial expenses	7,907,304.85	17,428,643.73
Loss in assets impairment	1,615,700.39	1,061,163.20
Add: Income from change in fair value (losses are represented by “—”)	—	—
Investment income (losses are represented by “—”)	47,708,949.12	14,432,213.89
Include: Investment income of associates and joint ventures	—	—
3. Operating profit (losses are represented by “—”)	(22,239,660.18)	(54,028,873.05)
Add: Non-operating income	3,015,104.60	964,141.40
Less: Non-operating expenses	53,205.37	777,389.37
Include: Loss from the disposal of non-current assets	—	—
4. Total profit (losses are represented by “—”)	(19,277,760.95)	(53,842,121.02)
Less: Income tax	—	—
5. Net profit (losses are represented by “—”)	(19,277,760.95)	(53,842,121.02)
6. Earnings per share		
(1) Basic earnings per share	—	—
(2) Diluted earnings per share	—	—
7. Other comprehensive income	—	—
8. Total comprehensive income	(19,277,760.95)	(53,842,121.02)

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Cash Flow Statement

For the six months ended 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Amount for the period	Amount for the same period last year
1. Cash flow from operating activities		
Cash received from the sale of goods and services provided	56,639,513.31	96,900,679.67
Return of tax payment	—	—
Other cash received relating to operating activities	75,222,442.15	84,842,769.32
Sub-total of cash inflow from operating activities	131,861,955.46	181,743,448.99
Cash paid on purchase of goods and services	52,038,056.94	43,167,253.13
Cash paid to staff and paid on behalf of staff	41,028,565.04	37,963,621.19
Taxes paid	11,378,047.80	3,878,197.88
Cash paid relating to other operating activities	219,720,529.40	61,252,783.95
Sub-total of cash outflows from operating activities	324,165,199.18	146,261,856.15
Net cash flows from operating activities	(192,303,243.72)	35,481,592.84
2. Cash flow from investment activities		
Cash received from investment	—	1.00
Cash received from investment income	13,382,469.53	2,701,820.22
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets	—	—
Cash received from disposal of subsidiaries and other business units	1,039,300.00	—
Cash received relating to other operating activities	—	—
Sub-total of cash inflows from investment activities	14,421,769.53	2,701,821.22
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	25,340,992.71	28,246,924.40
Cash paid for investment	20,483,249.50	121,989,200.00
Net cash paid for acquisition of subsidiaries and other business units	—	—
Cash paid for other investment activities	—	—
Sub-total of cash outflow from investment activities	45,824,242.21	150,236,124.40
Net cash flow from investment activities	(31,402,472.68)	(147,534,303.18)
3. Cash flow from financing activities		
Cash received from investment	—	—
Cash received from borrowings	195,000,000.00	150,000,000.00
Cash received from other financing activities	4,749,352.82	620,000.00
Sub-total of cash inflows from financing activities	199,749,352.82	150,620,000.00
Cash paid for repayment of debts	100,000,000.00	150,000,000.00
Cash paid for distribution of dividends or profits, or interest repayment	9,970,646.00	18,106,500.60
Cash paid for other financing activities	—	—
Sub-total of cash outflow from financing activities	109,970,646.00	168,106,500.60
Net cash flow from financing activities	89,778,706.82	(17,486,500.60)
4. Effect on cash and cash equivalents due to foreign currency exchange	44.28	(1,179.96)
5. Net increase in cash and cash equivalents	(133,926,965.30)	(129,540,390.90)
Add: balance of cash and cash equivalents at the beginning of the period	293,955,551.88	227,578,462.74
6. Balance of cash and cash equivalents at the end of the period	160,028,586.58	98,038,071.84

Person in charge
of the Company:
Xu Guofei

Person in charge of
accountant work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Statement of Change in Shareholders' Equity
For the six months ended 30 June 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Amount for the period					Amount for the same period last year					Total shareholders' equity		
	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve		Provision for general risks	Undistributed profits
I. Balance at end of last year	655,015,000.00	437,688,751.31	-	202,784,465.42	-	655,015,000.00	478,384,415.14	-	-	200,570,421.29	-	58,854,708.76	1,380,421,945.19
Adjustments in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of errors	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	655,015,000.00	437,688,751.31	-	202,784,465.42	-	655,015,000.00	478,384,415.14	-	-	200,570,421.29	-	58,854,708.76	1,380,421,945.19
III. Change of this year (to decrease is represented by "-")													
(I) Net profit	-	-	-	-	-	-	(62,718,946.68)	-	-	-	-	63,842,121.02	(67,000,667.68)
(2) Other comprehensive income	-	-	-	-	-	-	(62,718,946.68)	-	-	-	-	63,842,121.02	(63,842,121.02)
Subtotal of item (1) and (2) above	-	-	-	-	-	-	(125,437,893.36)	-	-	-	-	127,684,242.04	(130,824,788.72)
(3) Contribution and reduction of capital by shareholders	-	-	-	-	-	(19,277,768.95)	-	-	-	-	-	-	(19,277,768.95)
1. Capital contribution by shareholders	-	-	-	-	-	-	(19,277,768.95)	-	-	-	-	-	(19,277,768.95)
2. Share-based payment recognized in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	-	(62,718,946.68)	-	-	-	-	-	(62,718,946.68)
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Provision for general risks	-	-	-	-	-	-	-	-	-	-	-	-	-
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) Appropriation and use of special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Use for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of the year	655,015,000.00	437,688,751.31	-	202,784,465.42	-	655,015,000.00	458,722,468.48	-	-	200,570,421.29	-	5,112,867.74	1,296,360,471.51

Person in charge of the Company:
Xu Guofei

Person in charge of accountant work:
Shen Jianlong

Person in charge of Accounting Department:
Wu Yuzhen

NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2010 to 30 June 2010

(All amounts in RMB unless otherwise stated)

I. Introduction to the Company

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

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

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

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

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

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

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 on 18 April 1997. Its registered capital was RMB655,015,000. The authorized business scope includes: development, production and sale of communication equipments, computers and other electronic facilities; meters and instruments, cultural and office-based machinery; electrical machinery and equipments; plastic products; general equipments such as fans, scales and packaging equipments; special equipments for the processing of non-metallic products such as chemical and wood; transmission and distribution equipments; environmental, public safety and related equipments; financial and tax control devices; electricity source products; molds; computer services, software and system integration business; property management; as well as after-sale services and technical services for the aforesaid businesses. The registered address is floor 1 and 2 on North side of No.5 Building, Nanjing High Technology Development District. The parent of the Company is Panda Electronics Group Limited.

The Company received new business license with numbered 320100400008823 on 14 July 2009. The registered capital is RMB655,015,000. The approved scope of businesses include both certified business items and general business items. Certified business items include research, manufacture and sale of the transmission equipments of radio broadcasting and television, together with the after service, technical service, etc.. General business items include development, production and sale of communication equipments, computers and other electronic facilities; meters and instruments, cultural and office-based machinery; electrical machinery and equipments; plastic products; general equipments such as fans, scales and packaging equipments; special equipments for the processing of non-metallic products such as chemical and wood; transmission and distribution equipments; environmental, public safety and related equipments; financial and tax control devices; electricity source products; molds; computer services, software and system integration business; property management; as well as after-sale services and technical services for the such businesses. The registered address is floors 1 and 2 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 25 August 2010.

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

The financial statements of the Company are prepared under the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 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 the 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" or "China Accounting Standards"), as well as Interpretation II to Accounting Standard for Business Enterprises issued on 7 August 2008 by the Ministry of Finance and Interpretation III to Accounting Standard for Business Enterprises issued on 11 June 2009 by the Ministry of Finance.

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

1. Accounting Period

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

2. Measurement Currency

The Company uses Renminbi as its currency for recording transactions.

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

3. Principle Of Book-Keeping and Accounting Measurement Attribute

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

4. Recognition Standard for Cash Equivalents

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

5. Foreign Currency Businesses

(1) Foreign currency transaction

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

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

- (2) Translation of financial statements denominated in foreign currency

The asset and liability denominated in foreign currency shall be translated at the spot exchange rate on the balance sheet date. Among the owner's equity items, except "undistributed profits", other items shall be translated at the spot exchange rate when they are incurred. The foreign income and expense items in the income statements shall be translated at the spot exchange rate of the transaction date. The difference arising from the translation of foreign currency financial statements based on the aforesaid methods shall be presented separately under the owner's equity item in the balance sheets. Cash flows statements denominated by a foreign currency should be translated at the exchange rate at the date when the cash flows are generated. The effect of changes in exchange rate on cash should be regarded as a reconciling item and presented separately in the cash flow statement.

6. Financial Assets and Financial Liabilities

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

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

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

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

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

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

- (3) Recognition and calculation of transferral of financial assets

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

- (i) Transfer the rights for receiving cash flows from financial assets to another party;
- (ii) Transfer financial assets to another party but reserve the rights of acquiring cash flows from the financial assets and undertake the obligations of paying the cash flows to be received to the ultimate payee.

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

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

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

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

- (i) Contract rights of acquiring the cash flows from the financial assets are terminated.
- (ii) The financial assets have been transferred in conformity with the conditions of cease of recognition stipulated under Accounting Standards for Business Enterprises No. 23 - Transferral of Financial Assets.

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

(5) Impairment of financial assets

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

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

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

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

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

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

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

7. Receivables

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

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

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

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

8. Inventories

(1) Classification of inventories

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

(2) Measurement method for inventories received and delivered

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

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

(4) The Company adopts perpetual inventory record system.

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

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

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

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

9. Long-Term Equity Investment

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

- (1) Basis for confirmation of joint control or significant influences
 - (i) Joint control is the contractually agreed sharing of control over an economic activity. Basis for confirmation of joint control mainly includes: Any party to the joint venture shall not separately control production and operation activities of the joint venture; the decision concerning the elementary operation activities of the joint venture need unanimous consent from all parties to the joint venture.
 - (ii) Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. Basis for confirmation of significant influence mainly includes: when the Company directly or indirectly hold through subsidiaries 20% (inclusive) or above but less than 50% shares with voting rights of the investees, it will be recognized as having significant influence on the investees, except that there are clear evidences showing it cannot participate the production and operation decision of the investees thus constituting no significant influence; when the Company hold 20% (exclusive) below shares with voting rights of the investees, it generally will be recognized no significant influence on the investees. It can be recognized as having significant influence on the investees should the following conditions be satisfied:
 - A. Having representatives in the board of directors of investees or equivalent governing body;
 - B. Participating in the policy making process of investees;
 - C. Significant transactions occurred with investees;
 - D. Dispatching management staff to investees;
 - E. Providing key technology information to investees.

(2) Initial measurement of long-term equity investment

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

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

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

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

- (i) 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;
- (ii) 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;
- (iii) 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;
- (iv) The initial cost of a long-term investment acquired by the exchange of non-monetary assets shall be recognized in accordance with the Accounting Standards for Business Enterprises No. 7 - Exchange of Non-monetary Assets.
- (v) The initial cost of a long-term equity investment acquired by debt restructuring shall be recognized in accordance with Accounting Standards for Business Enterprises No. 12 - Debt Restructuring.

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

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

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

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

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

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

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

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

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

10. Accounting Method for Investment Properties

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

(1) Recognition of investment properties

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

- (i) The economic benefits pertinent to this investment property are likely to flow into the enterprise;
- (ii) The cost of the investment property can be reliably measured.

(2) Initial measurement of the investment property

- (i) The cost of a purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.
- (ii) 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.
- (iii) The cost of an investment property obtained by other means shall be recognized in accordance with the relevant accounting standards.
- (iv) Subsequent expenditures related to an investment property shall be included to the cost of the investment property if they meet the recognition conditions for investment property; otherwise, if they fail to meet the recognition conditions, they shall be included in the current profits and losses upon occurrence.

- (3) Subsequent measurement of the investment property

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

- (4) Conversion of the investment property

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

11. Fixed Assets

- (1) Recognition scope of fixed assets

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

- (i) The economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and
- (ii) The cost of the fixed asset can be measured reliably.

- (2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

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

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

- (ii) 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.
- (iii) 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.
- (iv) Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalised in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognized based on the amount incurred and charged to the current profit and loss. Improvement expenses on fixed assets leased by way of operating leasing are capitalised as long-term deferred expenses and amortised on a reasonable basis.
- (v) The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, merger of enterprises, and financial leasing shall be respectively ascertained in accordance with relevant requirements of the Accounting Standards for Business Enterprises No. 7 - Exchange of Non-monetary Assets, Accounting Standards for Business Enterprises No. 12 - Debt Restructuring, Accounting Standards for Business Enterprises No. 20 - Merger of Enterprises and Accounting Standards for Business Enterprises No. 21 - Leases.

(3) Categories of fixed assets

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

(4) Depreciation of fixed assets

- (i) Recognition of the depreciation methods and estimated useful life, estimated residual value and annual depreciation rate: fixed assets shall be depreciated by straight-line method. The annual depreciation rate based on categories, useful life, estimated residual value ratio of fixed assets are as follows:

Categories of fixed assets	Estimated useful life (year)	Estimated residual value ratio (%)	Annual depreciation Rate (%)
Buildings and structures	20-30	5	3.17-4.75
Machinery equipment	8-11	5	8.636-11.875
Transportation equipment	5-10	5	9.5-19
Electronic equipment	5-7	5	13.57-19
Other equipment	5	5	19

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

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

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

(5) Treatment of subsequent expenses related to fixed assets

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

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

(6) Fixed assets acquired under finance leases

(i) 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.

(ii) Measurement method for fixed assets acquired under finance leases

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

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

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

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

(iii) Depreciation method for fixed assets acquired under finance leases

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

12. Construction in Progress

Construction in progress is categorized by projects and measured at actual cost. The actual cost comprises construction costs and other costs necessarily incurred to bring construction to get ready for its intended use. Borrowing costs that are eligible for capitalisation are capitalised as part of the cost of assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. If a constructed fixed asset has reached the working condition for its intended use but the final project accounts have not been completed and approved, it will be accounted for at estimated value. An adjustment shall be made upon actual cost is determined.

13. Intangible Assets

(1) Recognition scope of intangible assets

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

- (i) Meet the definition of intangible assets;
- (ii) The economic benefits pertinent to the assets are likely to flow into the Company; and
- (iii) 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:

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

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

- A. It is technically feasible 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; and
- 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.

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

(3) Subsequent measurement of intangible assets

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

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

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

14. Goodwill

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

15. Accounting Methods of Long-Term Deferred Expenses

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

16. Impairment of Assets

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

- (2) Recognition of assets with potential impairment

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

- (i) The current market price of assets falls significantly, beyond the expectation based on the advance of time or normal use;
- (ii) Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the fixed assets is located, thus exerting an adverse effect on the Company;
- (iii) Market interest rates or any other investment return rate have increased significantly during the period, thus affecting the discount rate used in calculating the asset's present value of the expected future cash flows and resulting in a material decrease in the fixed asset's recoverable amount;

- (iv) Any evidence shows that the assets have become obsolete or physical damage occurred;
- (v) The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;
- (vi) Any evidence in the internal report of the Company shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.; or
- (vii) Other circumstances indicate that the asset may have been impaired.

(3) Measurement of recoverable amount of assets

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

(4) Recognition of asset impairment losses

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

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

(6) Impairment of goodwill

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

17. Borrowing Costs

(1) Recognition principles for borrowing cost capitalisation

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

- (i) Capital expenditure has been incurred;
- (ii) The borrowing costs have been incurred; and
- (iii) Having commenced the acquisition and construction or production activities which enable the assets reach the working condition for its intended use or sale.

(2) Period of capitalization of borrowing cost

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

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

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

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

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

- (i) 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;
- (ii) 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 general borrowings.

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

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

18. Employee Benefits

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

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

19. Share-based Payments

- (1) The equity-settled share-based payment
 - (i) 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.
 - (ii) 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.
 - (iii) 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.
 - (iv) 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 payment
 - (i) The cash-settled share-based payment is measured at the fair value of liabilities born by the Company.
 - (ii) 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.
 - (iii) 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 under taken by the Company.
 - (iv) Subsequent measurement
 - A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.
 - B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits and losses.

20. Provisions

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

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

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

21. Revenue

(1) Recognition method for the revenue from selling goods

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

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

(2) Recognition method for the provision of service

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

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

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

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

(i) Recognition Principles for the revenue from abalienating use right of assets

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

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

(ii) Specific recognition method

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

22. Construction Contract

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

The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: (i) the total contract revenue can be measured in a reliable way; (ii) the economic benefits pertinent to the contract are likely flow into the Company; (iii) the actual contract costs incurred can be clearly distinguished and measured reliably; and (iv) 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: (i) the economic benefits pertinent to the contract are likely flow into the Company; and (ii) 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: (i) 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; and (ii) if the contract costs can not be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

23. Government Subsidies

- (1) Recognition conditions of government subsidies

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

- (i) The Company can meet the conditions attached to the government subsidies; and
- (ii) The Company can obtain the government subsidies.

- (2) Measurement of government subsidies

- (i) 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 a non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount (RMB1.00).
- (ii) 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 enter prise shall be recognized as deferred income and shall be included in the current profits and losses during the period when the relevant expenses are recognized. Those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in the current profits and losses.
- (iii) 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; and 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.
 - (i) Non-monetary assets shall be recognized and measured, where a non-monetary assets transaction satisfies the following conditions at the same time:
 - A. The transaction is commercial in nature; and
 - B. The fair value of the assets received or surrendered can be measured reliably.
 - (ii) 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.
 - (iii) Treatment when boot occurs: where a boot is caused when the Company treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the profit or loss of the current period; the Company, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the profit or loss of the current period.
- (2) Where any non-monetary assets transaction does not meet such conditions at the same time, the carrying value and relevant payable taxes of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

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

25. Debt Restructuring

- (1) Definition and scope of debt restructuring

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

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

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

(3) Accounting treatments of the creditor

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

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

26. Leases

(1) Classification of leases

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

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

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

- (i) The ownership of the leased asset is transferred to the lessee when the term of lease expires.
- (ii) 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.
- (iii) Even if the ownership of the asset is not transferred, the lease term covers the major part of the useful life of the leased asset (75% or above, typically).
- (iv) 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.
- (v) The leased assets are of a specialized nature that only the Company (or the lessee) can use them without making major modifications.

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

(3) Main accounting treatment of finance lease

(i) 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.

- (ii) 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 Tax

- (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 their tax base. Where there is temporary difference between the carrying amount of the assets or liabilities and their tax base, the deferred income tax assets or the deferred income tax liabilities shall be recognized according to the provisions.

- (3) Recognition of deferred income tax assets

- (i) 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; and
B. At the time of the transaction, the accounting profits will not be affected, nor will the taxable income (or the deductible loss) be affected.

- (ii) 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; and
B. It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences in future.

- (iii) 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
- (i) 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; and
 - B. Initial recognition of assets or liabilities created in the transactions with the following characteristics:
 - a. The transaction is not a merger of enterprise; and
 - b. When the transaction occurs, neither of the accounting profit and taxable income (or deductible loss) is affected.
 - (ii) As for the taxable temporary differences related to the investments of subsidiaries, associated enterprises and joint venture enterprises, the Company shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded:
 - A. The investing enterprise can control the time of the reverse of temporary differences;
 - B. The temporary differences are unlikely to be reversed in the expected future.
- (5) Measurement of income tax
- 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:
- (i) Merger of enterprises; and
 - (ii) The transactions or events directly recognized as the owner's equity.
- (6) Impairment of deferred income tax assets
- (i) 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.
 - (ii) Where it is likely to obtain sufficient taxable income taxes, the book value of deferred tax assets reduced can be recovered.

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

1. Statement of Change in Main Accounting Policies

There was no change in accounting policies of the Company during the period.

2. Change in Accounting Estimates and Correction of Previous Errors

There was no change in accounting estimates or correction of previous errors of the Company during the period.

VI. Tax

1. Value-added Tax

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

The value-added tax paid for purchase of raw materials can be offset against sales tax. The tax rate is 17%. Wherein 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 as 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 are 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.

Wherein the tax rate of revenue from lease of premises is 5% and 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 the Jiangsu Science and Technology Department as a high-tech enterprise on 21 October 2008 with a validity period of three years. Accordingly, it enjoys a preferential policy on income tax and pays income taxes as per 15% of taxable income from 1 January 2008 to 31 December 2010.

The applicable enterprise income tax rates for subsidiaries of the Company range from 15% to 25%. Nanjing Panda Information Industry Co., Ltd, a subsidiary of the Company, is registered in Jiangning Economic and Technical Development Zone. As a foreign invested enterprise, it is entitled to a preferential enterprise income tax policy of two years exemption from income taxes followed by three years of 50% tax reduction. The year of 2008 was the first year of enterprise income tax exemption and the tax rate for 2010 is 12.5%.

Nanjing Panda Appliance & Apparatus Co. Ltd, a subsidiary of the Company, has been recognized by the Jiangsu Science and Technology Department as a high-tech enterprise since 21 October 2008 with a validity period of three years. Accordingly, it enjoys an enterprise income tax rate of 15% from 1 January 2008 to 31 December 2010.

Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, has been recognized as a high-tech enterprise by the Jiangsu Science and Technology Department since 9 December 2008, with a validity period of three years. Accordingly, it enjoys an enterprise income rate of 15% from 1 January 2008 to 31 December 2010.

Pursuant to the approval from the taxation bureau of Nanjing Economic and Technical Development Zone, Nanjing Panda Electronic Manufacture Co., Ltd, a subsidiary of the Company, has an income tax rate of 18%, 20%, 22%, 24% and 25% from 2008 to 2012 respectively. It enjoyed a 50% tax deduction in year 2009 with an enterprise income tax rate of 10%, and shall not be entitled to enjoy any preferential income tax policy starting from 2010. The enterprise income tax rate for 2010 is 22%.

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 is 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 range 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

(i) 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:

- 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.

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

- (iii) 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.

- (iv) Treatment method of the merger expenses

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

(2) Merger of enterprises not under same control

- (i) 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(s).

- (ii) 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(s), i.e. the date when the control right of net assets or production and operation decisions of the acquiree(s) is transferred to the Company. Basis for determination of the acquisition date is the same as determination of the merger date.

- (iii) Determination of the merger cost

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

- (iv) 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.

- (v) 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.

(vi) 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(s).

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

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

(3) Merger by absorption

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

- (i) 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(s). If the accounting policy adopted by the acquiree(s) 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(s) 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.
- (ii) As for the merger by absorption not under same control, all the identifiable assets and liabilities which meet the recognition requirements acquired by the Company on the merger date shall be recognized as assets and liabilities of the Company at its fair value.

2. Consolidated Financial Statements

(1) Consolidation scope

(i) 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.

(ii) Major subsidiaries and determination of consolidation scope for 2010:

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 preschool 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 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 and stampings
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 sale of computer software
Nanjing Panda Electronic Manufacture Co., Ltd.	Nanjing	Industry	USD2,000	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 Supply Technology Co., Ltd.	Nanjing	Industry	1,100	Design, production and sales of power sources and special power transformers

Company name	Registration address	Nature of business	Registered capital (RMB'000)	Business scope
Nanjing Guanghua Electronics Co., Ltd.	Nanjing	Industry	1,149.76	PVC and ABS products
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 and electronic products, construction materials and office supplies
Galant Limited	Hong Kong	R & D	HKD1	R&D of communication products

Company name	The Company's Actual Investment (RMB'000)	Balance of effective net investment in subsidiaries (RMB'000)	Shareholding Percentage (%)	Percentage of voting rights (%)	Whether consolidated
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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 Panda Appliance & Apparatus Co. Ltd.	70		70	70	Yes
Nanjing Panda Mechanical Manufacturing Co., Ltd.	700		70	70	Yes
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

Company name	The Company's Actual Investment (RMB0'000)	Balance of effective net investment in subsidiaries (RMB0'000)	Shareholding Percentage (%)	Percentage of voting rights (%)	Whether consolidated
Nanjing Panda Electronic Manufacture Co., Ltd.	14,653.83		100	100	Yes
Nanjing Huage Appliance and Plastic Industrial Company Limited	3,462.28		100	100	Yes
Nanjing Panda Power Supply 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)	2000		100	100	Yes
Nanjing Panda Electronics Equipment Co., Ltd. (d)	2000		100	100	Yes
Galant Limited	HKD1		100	100	Yes

(iii) Explanation on the change in consolidation scope for 2010

Pursuant to the agreement between the Company and Nanjing Panda Handa Technology Co., Ltd., the Company undertook to transfer the 70% equity interests in Nanjing Electronic Calibration Co., Ltd at a consideration of RMB1,039,300 which was the listing price on the Shanghai United Assets and Equity Exchange. As relevant change of registration has been completed during the Reporting Period, Nanjing Electronic Calibration Co., Ltd was no longer consolidated for the period.

(2) Preparation method of consolidated financial statements

(i) 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.

(ii) 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 no adjustment in its preparation. For disposal of subsidiaries during the Reporting Period, the opening balance of consolidated balance sheet needs no 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 during 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.

(iii) 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

(i) Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Electronic Calibration Co., Ltd.		400,683.91
Nanjing Panda Appliance & Apparatus Co. Ltd.	1,792,778.12	1,486,677.58
Nanjing Panda Mechanical Manufacturing Co. Ltd.	7,757,388.94	5,849,818.23
Nanjing Panda Mechanical Co., Ltd.	1,031,689.75	1,098,685.88
Nanjing Panda System Integration Co., Ltd.	72,082.06	560,530.01
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	3,207,305.47	2,389,003.22
Total	13,861,244.34	11,785,398.83

(ii) Additional loss borne by the Company

Company name	Closing balance	Opening balance
Nanjing Panda Technology Equipment Co., Ltd.	8,392,530.47	8,021,730.14
Nanjing Panda International Telecommunication System Co., Ltd.	10,217,480.87	11,775,085.31
Nanjing Panda Power Supply Technology Co., Ltd.	10,791,466.02	11,379,310.81
Total	29,401,477.36	31,176,126.26

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 2010 and 30 June 2010 respectively, and the terms "previous period" and "the period" refer to January to June 2009 and January to June 2010 respectively.

1. Cash and Bank Balances

	Closing balance	Opening balance
Cash	658,797.17	795,860.71
Bank balances	413,637,220.03	559,558,157.22
Other cash and bank balances	66,846,473.40	61,578,579.39
	<hr/>	<hr/>
Total	481,142,490.60	621,932,597.32
	<hr/> <hr/>	<hr/> <hr/>

Cash and bank balances includes the following foreign currencies:

	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Equivalent amount in Renminbi	Amount in foreign currency	Exchange rate	Equivalent amount in Renminbi
US dollar	1,785,759.99	6.7909	12,126,917.51	2,654,269.01	6.8282	19,489,519.65
HK dollar	1,640.61	0.8724	1,431.27	1,640.45	0.8805	1,444.42
Euro	28,449.55	8.2710	235,306.23	15,394.62	9.7971	150,822.63
			<hr/>			<hr/>
Total			12,363,655.01			19,641,786.70
			<hr/> <hr/>			<hr/> <hr/>

- (1) The closing balance of restricted other cash and bank balances amounting to RMB66,846,473.40 (end of 2009: RMB61,578,579.39) mainly included bid deposits and performance guarantee money.
- (2) The closing balance of bank balances included call deposits totaling RMB190,214,623.33 (end of 2009: RMB136,845,000.00).
- (3) The closing balance of cash and bank balances decreased by 22.64% from the opening balance, mainly due to repayment of loan of Panda Electronic Group Company Limited.

2. Bills Receivable

- (1) Details of bills receivable

Types of Bills	Closing balance	Opening balance
Bank acceptance notes	7,644,361.69	8,370,297.83
	<hr/>	<hr/>
Total	7,644,361.69	8,370,297.83
	<hr/> <hr/>	<hr/> <hr/>

- (2) The closing balance of bills receivable included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (3) The closing balance of bills receivable had no pledge or security.
- (4) The closing balance of bills receivable decreased by 8.67% from the opening balance, mainly due to the reduced trade clearance by bill receivable during the Reporting Period.

3. Accounts Receivable

(1) Break-down of accounts receivable by category

Items	Closing balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Substantial amount of single account receivable	283,786,241.29	73.45	6,792,926.93	2.39
Other unsubstantial amount of accounts receivable	102,556,529.86	26.55	21,567,723.95	21.03
Total	386,342,771.15	100.00	28,360,650.88	7.34
Opening balance				
Items	Balance	Percentage %	Provision for bad debt	Percentage of 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

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

(2) Break-down of accounts receivable by ageing

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Within 1 year	324,803,653.47	84.07	2,334,011.21	0.72	196,600,851.44	77.22	3,722,159.47	1.89
1-2 years	39,488,727.01	10.22	5,953,361.66	15.08	39,028,067.28	15.33	6,898,162.38	17.67
2-3 years	5,044,906.11	1.31	3,513,022.91	69.64	5,818,742.15	2.29	5,171,411.49	88.88
3-5 years	9,711,593.89	2.51	9,266,364.43	95.42	7,821,955.62	3.07	7,753,744.12	99.13
More than 5 years	7,293,890.67	1.89	7,293,890.67	100.00	5,323,984.77	2.09	5,323,984.77	100.00
Total	386,342,771.15	100.00	28,360,650.88	7.34	254,593,601.26	100.00	28,869,462.23	11.34

- (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 Sharp Electronics Co., Ltd.	49,503,989.65	12.81	Within 1 year
Yunnan Radio & Television Department	38,255,480.62	9.90	Within 1 year
PACIC DIGIT CORP	25,061,218.37	6.49	1-2 years
Shaanxi Radio, Film & Television Department	20,458,620.00	5.30	Within 1 year
Nanjing Ericsson Panda Communication Company Limited	18,865,020.12	4.88	Within 1 year
Total	152,144,328.76	39.38	

- (4) The closing balance of accounts receivable included RMB1,433,146.71 due from Panda Electronics Group Limited, the shareholder holding 51.10% shares with voting rights of the Company.
- (5) The closing balance of accounts receivable included RMB45,502,278.62 (the opening balance: RMB28,758,105.62) due from related parties, representing 11.78% (the opening balance: 11.30%) of the total accounts receivable. Please refer to Note X (III) 9 for disclosure of relevant related party transactions.
- (6) The closing balance of accounts receivable increased by 51.75% from the opening balance, mainly due to increased sales volume during the Reporting Period.

4. Prepayment

- (1) Details of prepayment

Ageing	Closing balance				Opening balance			Percentage of provision for bad debt %
	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %	Amount	Percentage %	Provision for bad debt	
Within 1 year	122,058,729.37	90.18	652,594.73	0.53	51,602,126.50	72.96	1,307,869.46	2.53
1-2 years	8,245,936.68	6.09	1,704,032.22	20.67	11,433,315.98	16.17	1,345,118.70	11.76
2-3 years	2,167,306.24	1.60	675,010.12	31.15	5,213,800.29	7.37	900,568.42	17.27
3-5 years	2,680,230.98	1.98	2,587,834.52	96.55	1,804,883.95	2.74	1,795,962.51	92.82
More than 5 years	191,575.00	0.15	191,575.00	100.00	538,159.94	0.76	538,159.94	100.00
Total	135,343,778.27	100.00	5,811,046.59	4.29	70,722,286.66	100.00	5,887,669.03	8.33

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

Customer	Amount	Reason for not being settled more than 1 year
Nanjing Anjing Technology Industry Co., Ltd.	5,040,949.62	Construction not completed
Nanjing Duolian Technology Co., Ltd.	2,620,000.00	Project not completed
China Railway Signal & Communication Shanghai Engineering Company	1,987,628.00	Project not completed
Nanjing Xiliou Auto Parts Co., Ltd.	1,856,150.00	Project not completed
Jiangyin Fastway Intelligent System Co., Ltd.	1,253,680.00	Project not completed
Total	12,758,407.62	

- (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 RMB1,495,947.67 prepaid to related parties (the opening balance: 1,305,655.97), accounting for 1.11% of the total prepayment (the opening balance: 1.85%). Please refer to Note X (III) 9 for disclosure of relevant related party transactions.
- (5) The closing balance of prepayment increased by 91.37% from the opening balance, mainly due to prepayments for purchase of materials and construction of system projects during the period.

5. Other Receivables

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

Items	Closing balance		Provision for bad debt	Percentage of provision for bad debt %
	Balance	Percentage %		
Substantial amount of single other receivables	7,365,548.06	13.36	3,540,000.00	48.06
Other unsubstantial amount of other receivables	47,759,748.78	86.64	13,953,850.31	29.22
Total	55,125,296.84	100.00	17,493,850.31	31.73

Items	Opening balance		Provision for bad debt	Percentage of provision for bad debt %
	Balance	Percentage %		
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

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

- (2) Break-down of other receivables by ageing

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Within 1 year	36,116,774.34	65.52	913,805.33	2.53	16,250,255.75	43.10	2,016,245.26	12.41
1-2 years	3,755,398.34	6.81	1,645,014.60	43.80	4,911,615.44	13.03	1,423,147.32	28.98
2-3 years	1,917,324.85	3.48	1,769,148.90	92.27	4,659,828.42	12.36	2,397,468.36	51.45
3-5 years	2,101,650.95	3.81	2,032,733.12	96.72	2,609,196.06	6.92	2,519,873.06	96.58
More than 5 years	11,234,148.36	20.38	11,133,148.36	99.10	9,272,304.06	24.59	9,267,304.06	99.95
Total	55,125,296.84	100.00	17,493,850.31	31.73	37,703,199.73	100.00	17,624,038.06	46.74

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

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Yunnan Radio & Television Department	3,825,548.06	6.94	Within 1 year
Nanjing Panda Digital Technology Development Co., Ltd.	3,540,000.00	6.42	More than 2 years
Nanjing Electronics (Kunshan) Co. Ltd.	2,429,333.36	4.41	1-5 years
PICC Life Insurance Co., Ltd.	2,104,293.33	3.82	Within 1 year
Nanjing Xingshenwei Customs of the PRC	1,756,400.00	3.19	Within 1 year
Total	13,655,574.75	24.78	

- (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 RMB2,429,333.36 due from related parties (the opening balance: RMB2,462,824.92), representing 4.41% of the total other receivables (the opening balance: 6.53%). Please refer to Note X (III) 9 for disclosure of relevant related party transactions.
- (6) The closing balance of other receivables increased by 46.21% from the opening balance, mainly due to more guarantee deposits and petty cash advanced at the end of the period.

6. Inventories

- (1) Details of inventories

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Raw materials	45,821,482.64	328,480,659.27	308,438,074.38	65,864,067.53
Packaging materials	161,413.80	1,857,708.43	1,806,775.20	212,347.03
Low-value consumables	588,275.99	351,299.83	190,878.97	748,696.85
Work in progress	57,325,891.50	409,934,526.89	401,064,580.81	66,195,837.58
Stored commodities	73,422,792.40	455,747,127.22	472,429,234.89	56,740,684.73
Sub-contracting materials	8,913,882.12	33,604,455.08	35,980,501.27	6,537,835.93
Delivered commodities	4,990,582.75	9,635,210.60	9,417,183.42	5,208,609.93
Total	191,224,321.20	1,239,610,987.32	1,229,327,228.94	201,508,079.58

(2) Provision for diminution in value of inventories

Items	Opening balance	Provision in the period	Decrease in the period			Closing balance
			Reversal	Write-off	Total	
Raw materials	11,951,100.19	118,576.90	386,119.20		386,119.20	11,663,557.89
Work in progress	3,720,498.72					3,720,498.72
Stored commodities	16,248,561.29	363,690.36	1,377,985.32		1,377,985.32	15,234,266.33
Sub-contracting materials	299,182.75					299,182.75
Delivered commodities	1,574,949.31		35,093.18		35,093.18	1,539,856.13
Total	<u>33,794,292.26</u>	<u>482,267.26</u>	<u>1,799,197.70</u>		<u>1,799,197.70</u>	<u>32,477,361.82</u>

(i) 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.

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

(3) The closing balance of inventories increased by 5.38% from the opening balance, mainly due to increased sales volume which led to increased stocks.

7. Long-term equity investment

(1) Details of long-term equity investment

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Investment in associated companies	781,668,702.41	29,255,743.28		810,924,445.69
Less: provision for impairment of long term investment	<u>2,956,636.87</u>			<u>2,956,636.87</u>
Total	<u>778,712,065.54</u>	<u>29,255,743.28</u>		<u>807,967,808.82</u>

(2) Details of investment in associated companies and major financial data of the associated companies during this period

Name of investee	Opening balance	Increase in the period	Decrease in the period	Closing balance	Registered Address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd.	203,224,200.00	21,021,418.72		224,245,618.72	Beijing	Manufacture Technology
Nanjing Huaxian High Technology Company Limited	1,842,979.38	(9,591.47)		1,833,387.91	Nanjing	Development
Hua Fei Colour Display Systems Company Limited	160,337,169.17	(32,850,358.79)		127,486,810.38	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.					Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	306,993,000.00	36,477,985.50		343,440,985.50	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	95,174,867.22	4,715,534.46		99,890,401.68	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,317,806.82	(99,245.14)		1,218,561.68	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.					Nanjing	Manufacture
Nanjing Electronics (Kunshan) Co. Ltd.					Kunshan	Manufacture
Nanjing Panda Medical Electronics Co. Ltd.	200,111.87			200,111.87	Nanjing	Manufacture
Nanjing Thales Panda Transportation System Company Limited	9,852,042.95			9,852,042.95	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00			2,756,525.00	Korea	
Total	781,668,702.41	29,255,743.28		810,924,445.69		
Proportion of voting rights of the Company in the investee						
Name of investee	Shareholding of the Company %	Proportion of voting rights of the Company in the investee %	Total operating income for this period	Net profit/(loss) for this period		
Associates						
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	9,682,760,425.90	105,107,093.60		
Hua Fei Colour Display Systems Company Limited	25	25	415,496,436.95	(131,401,435.17)		
Nanjing Ericsson Panda Communication Company Limited	27	27	4,381,457,003.33	135,103,650.01		
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	244,871,080.90	12,399,512.13		
Intenna (Nanjing) Co. Ltd.	35	35		(283,557.55)		

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

Name of investee	Initial investment	Opening balance	Investment Amount increased during the period	Increase/decrease of the investee's equity	Cash bonus received	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd.	50,361,373.68	203,224,200.00		21,021,418.72		224,245,618.72
Nanjing Huaxian High Technology Company Limited	10,000,000.00	1,842,979.38		(9,591.47)		1,833,387.91
Hua Fei Colour Display Systems Company Limited	392,892,722.42	160,337,169.17		(32,850,358.79)		127,486,810.38
MPOWER Batteries (Nanjing) Ltd.	4,200,000.00					
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	306,963,000.00		36,477,985.50		343,440,985.50
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	95,174,867.22		4,715,534.46		99,890,401.68
Interna (Nanjing) Co. Ltd.	1,750,000.00	1,317,806.82		(99,245.14)		1,218,561.68
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.68					
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	9,852,042.95				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	781,668,702.41		29,255,743.28		810,924,445.69

(4) Impairment for the long-term equity investment

Items	Opening balance	Provision in the period	Reversal	Decrease in the period 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 and structures	Machinery and equipment	Transportation equipment	Electronic equipment	Other equipment	Total
Original cost						
Opening 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
Construction in progress						
transferred to fixed assets	23,684,167.09	2,096,837.60	607,946.44	95,081.19	272,649.58	26,756,681.90
Other current period additions		3,798,957.97	843,090.58	670,257.94	886,801.29	6,199,107.78
Decrease in the period		(10,717,244.13)	(897,964.25)	(5,890,366.51)		(17,505,574.89)
Closing balance	<u>426,008,889.39</u>	<u>273,724,913.91</u>	<u>12,476,569.40</u>	<u>37,127,545.32</u>	<u>15,023,787.33</u>	<u>764,361,705.35</u>
Accumulated depreciation						
Opening 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
Provision in the period	6,279,436.79	11,380,104.38	569,827.97	1,886,870.54	1,195,268.12	21,311,507.80
Decrease in the period		(5,718,275.18)	(278,090.96)	(4,769,287.21)		(10,765,653.35)
Closing balance	<u>123,959,773.16</u>	<u>122,516,023.68</u>	<u>4,574,093.51</u>	<u>25,088,295.66</u>	<u>7,227,971.53</u>	<u>283,366,157.54</u>
Impairment provision						
Opening balance	8,325,948.02	757,309.68		1,633,052.06		10,716,309.76
Increase in the period						
Other decrease				(30,582.54)		(30,582.54)
Closing balance	<u>8,325,948.02</u>	<u>757,309.68</u>		<u>1,602,469.52</u>		<u>10,685,727.22</u>
Net book value						
Closing balance	<u>293,723,168.21</u>	<u>150,451,580.55</u>	<u>7,902,475.89</u>	<u>10,436,780.14</u>	<u>7,795,815.80</u>	<u>470,309,820.59</u>
Opening balance	<u>276,318,437.91</u>	<u>160,934,858.31</u>	<u>7,641,140.13</u>	<u>12,648,808.31</u>	<u>7,831,633.05</u>	<u>465,374,877.71</u>

(2) Fixed assets acquired under finance leases

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	<u>6,912,275.00</u>	<u>1,244,209.50</u>		<u>5,668,065.50</u>
Total	<u>6,912,275.00</u>	<u>1,244,209.50</u>		<u>5,668,065.50</u>

(3) Fixed assets leased out by operating lease

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings and structures	251,028,574.08	79,870,158.83	3,337,418.19	167,820,997.06
Total	251,028,574.08	79,870,158.83	3,337,418.19	167,820,997.06

(4) Fixed assets without certificate

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings and structures	183,519,889.35	45,322,407.11	8,325,948.02	129,871,534.22
Total	183,519,889.35	45,322,407.11	8,325,948.02	129,871,534.22

(5) Fixed assets pledged

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings and structures	193,082,652.14	70,069,895.95		123,012,756.19
Total	193,082,652.14	70,069,895.95		123,012,756.19

(6) Impairment provision of fixed assets

Items	Opening balance	Provision in the period	Decrease in the period		Total	Closing balance
			Reversal	Write-off		
Buildings and structures	8,325,948.02					8,325,948.02
Machinery and equipment	757,309.68					757,309.68
Electronic equipment	1,633,052.06			30,582.54	30,582.54	1,602,469.52
Total	10,716,309.76			30,582.54	30,582.54	10,685,727.22

9. Construction in progress

(1) Details of Construction in progress

Name of project	Budget	Opening balance	Increase in the period	Transferred to fixed assets in the period	Other decrease	Closing balance	Investment as a percentage of budget%	Resource of fund
Xingang No. 4 and 5 plant project	RMB180,000,000	61,165,855.42	26,550,587.51			87,736,442.93	48.74	Internal capital
Xingang No.3 plant project	RMB9,040,000	8,935,279.48		8,935,279.48			98.84	Internal capital
Xingang project No. 1 and 2 plant, No. 9 and 10 canteens)	RMB120,000,000	15,388,201.15	3,716,628.35	14,748,867.61		4,357,941.89	21.08	Internal capital
Machinery and equipment		10,000.00	2,193,375.10	2,191,918.79		11,456.31		Internal capital
Transportation equipment			607,946.44	607,946.44				Internal capital
Mould		72,000.00	371,111.11	272,649.58		170,461.53		Internal capital
Others			9,600.00			9,600.00		
Total		85,591,336.05	33,451,248.51	26,756,681.90		92,285,902.66		

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

(3) The closing balance of the construction in progress increased by 7.82% over the opening balance, primarily due to the increase in construction of Xingang No. 4 and 5 plant project.

10. Intangible assets

(1) Details of intangible assets

Items	Initial cost	Opening balance	Increase in the period	Transferred -out in the period	Amortisation in the period	Accumulative amortisation	Closing balance
Land use rights	27,219,260.67	24,061,861.79			341,421.37	3,498,820.25	23,720,440.42
Trademark use right	158,640,000.00	210,000.00				158,430,000.00	210,000.00
Others	3,492,880.20	2,047,266.46	196,581.20		296,692.46	1,545,925.00	1,946,955.20
Total	189,352,140.87	26,319,128.25	196,581.20		638,313.83	163,474,745.25	25,877,395.62

(2) Impairment provision for intangible assets

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

11. 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	1,839,172.95	10,618,492.93	2,042,840.56	11,858,657.26
Depreciation of fixed assets	219,480.72	958,006.10	225,639.11	999,062.02
Intangible assets amortization	51,919.24	229,461.73	51,919.24	229,461.75
Accounts payable	23,758.47	158,389.81		
Long-term payables			12,843.53	58,379.68
Salaries payable	440,013.44	2,043,866.26	448,757.31	2,151,929.40
Others	6,158.39	41,055.92		
	<u>2,580,503.21</u>	<u>14,049,272.75</u>	<u>2,781,999.75</u>	<u>15,297,490.11</u>
Total	<u>2,580,503.21</u>	<u>14,049,272.75</u>	<u>2,781,999.75</u>	<u>15,297,490.11</u>

12. Details of Provision for Impairment of Assets

Items	Opening balance	Provision in the period	Decrease in the period			Closing balance
			Reversal	Write-off	Total	
1. Total provision for bad debt	52,381,169.32	626,226.66	700,692.07	641,156.13	1,341,848.20	51,665,547.78
Including: Accounts receivable	28,869,462.23	383,186.70	548,355.92	343,642.13	691,998.05	28,360,650.88
Other receivables	17,624,038.06	25,293.18	63,155.93	92,325.00	155,480.93	17,493,850.31
Prepayment	5,887,669.03	217,746.78	89,180.22	205,169.00	294,369.22	5,811,046.59
2. Total provision for impairment of inventories	33,794,292.26	482,267.26	1,799,197.70		1,799,197.70	32,477,361.82
Including: Raw materials	11,951,100.19	118,576.90	386,119.20		386,119.20	11,683,557.89
Work in progress	3,720,498.72					3,720,498.72
Commodity inventories	16,248,561.29	363,690.36	1,377,985.32		1,377,985.32	15,234,266.33
Sub-contracting materials	299,182.75					299,182.75
Delivered commodities	1,574,949.31		35,093.18		35,093.18	1,539,856.13
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	10,716,309.76			30,582.54	30,582.54	10,685,727.22
Including: buildings and structures	8,325,948.02					8,325,948.02
Machinery and equipment	757,309.68					757,309.68
Electronic equipment	1,633,052.06			30,582.54	30,582.54	1,602,469.52
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
	<u>100,056,408.21</u>	<u>1,108,493.92</u>	<u>2,499,889.77</u>	<u>671,738.67</u>	<u>3,171,628.44</u>	<u>97,995,273.69</u>
Total	<u>100,056,408.21</u>	<u>1,108,493.92</u>	<u>2,499,889.77</u>	<u>671,738.67</u>	<u>3,171,628.44</u>	<u>97,995,273.69</u>

13. Short Term Loans

(1) Details of short-term loans

Type of loan	Closing balance	Opening balance
Secured loan	75,000,000.00	
Guaranteed loan	405,000,000.00	358,000,000.00
Trade facilities	26,383,767.03	
Credit loan		22,000,000.00
Total	<u>506,383,767.03</u>	<u>380,000,000.00</u>

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

(3) The closing balance of secured bank loans amounting to RMB75,000,000.00 (end of 2009: nil) from Shanghai Pudong Development Bank Co., Ltd.-Nanjing Branch was secured by buildings and structures (please refer to Note VIII 8) with net book value of RMB123,012,756.19 (original cost:RMB193,082,652.14) with assessed value of RMB275,500,000.00. Detailed breakdown of loans are as follows:

Name of borrower	Amount	Period
Nanjing Panda Electronics Company Limited	40,000,000.00	2010.04.16-2011.04.16
Nanjing Panda Electronics Company Limited	35,000,000.00	2010.06.13-2011.06.13
Total	<u>75,000,000.00</u>	

(4) The closing balance of trade facilities amounting to RMB26,383,767.03 (end of 2009: nil) was derived from transfer agreement in respect of short-term import and export credit insurance indemnity entered into among Nanjing Panda Information Industrial Co., Ltd., a subsidiary of the Company, China Export & Credit Insurance Corporation and Bank of Nanjing Co., LTD.

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

(6) The closing balance of the short-term loan increased by 33.26% from the opening, mainly due to more working capital required as a result of increased sales volume.

14. Bills Payable

Types of bills	Closing balance	Opening balance	Amount due in the next accounting period
Bank acceptance notes	89,250,681.50	19,454,095.64	89,250,681.50
Total	<u>89,250,681.50</u>	<u>19,454,095.64</u>	<u>89,250,681.50</u>

The closing balance of bills payable increased from the opening balance by 358.78%, mainly due to the increased use of bank notes to settle the trade payment.

15. Accounts Payable

(1) Details of accounts payable

Ageing	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	253,285,536.78	84.50	230,875,610.98	83.58
1-2 years	24,139,605.78	8.05	21,196,943.42	7.67
2-3 years	2,241,441.00	0.75	3,606,635.44	1.31
More than 3 years	20,095,086.31	6.70	20,560,449.41	7.44
Total	299,761,669.87	100.00	276,239,639.25	100.00

(2) The closing balance of accounts payable includes RMB2,113,674.15 due to Panda Electronics Group Limited, the shareholder with 51.10% of shareholding with voting power in the Company.

(3) The closing balance of accounts payable included RMB6,772,435.57 (the opening balance: RMB6,023,699.80) due to related parties. Please refer to Note X (III) 9 for disclosure of relevant related party transactions.

(4) Other payables in large amount with ageing over one year

Name of creditor	Amount	Reason for failure to repay	Whether repaid after the date of financial statement
Thales Software Systems (Shanghai) Co., Ltd. (泰雷茲軟件系統(上海)有限公司)	8,791,317.25	Payment conditions not satisfied	No
THALES CO. LTD.	1,366,358.22	Payment conditions not satisfied	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 conditions not satisfied	No
ShenZhen Kingwe Technology Co.,Ltd (銳威科技(深圳)有限公司)	427,350.43	Payment conditions not satisfied	No
Total	12,592,267.82		

16. Advances From Customers

(1) Details of advances from customers

Ageing	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	18,930,701.87	55.58	23,709,699.68	55.23
1-2 years	13,964,768.70	41.00	13,282,607.03	30.94
2-3 years	369,574.75	1.09	5,434,220.05	12.66
More than 3 years	792,388.19	2.33	500,143.87	1.17
Total	34,057,433.51	100.00	42,926,670.63	100.00

- (2) The closing balance of advances from customers includes RMB26,900.17 from 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 RMB143,682.29 (the opening balance: RMB1,495,547.72) from related parties. Please refer to Note X (III) 9 for disclosure of relevant related party transactions.
- (4) The receipts in advance aged more than 1 year had not yet carried forward mainly because the receipt of advance is more than the unsettled payment subject to the construction progress.

17. Salaries Payable

	Opening balance	Increase in the period	Decrease in the period	Closing balance
I. Salary, bonus, allowance and subsidy	3,373,292.40	69,873,550.35	70,085,623.08	3,161,219.67
II. Expenses for employee benefits		5,690,685.77	5,690,685.77	
III. Expenses for social security	2,614,595.25	21,828,863.58	21,192,696.33	3,250,762.50
Including: Medical insurance	403,577.18	6,149,991.04	6,001,236.66	552,331.56
Pension fund	2,078,785.06	14,066,060.72	13,636,132.75	2,508,713.03
Unemployment insurance	89,656.02	1,007,311.26	975,289.84	121,677.44
Work injury insurance	13,195.60	250,442.72	235,629.78	28,008.54
Maternity insurance	29,381.39	355,057.84	344,407.30	40,031.93
IV. Housing reserve fund	778,425.01	8,786,296.23	8,693,743.63	870,977.61
V. Labour union funds and employee education fund	2,410,145.99	1,286,156.88	1,083,074.90	2,613,227.97
VI. Compensation for employment termination	108,000.00	90,967.00	82,783.32	116,183.68
VII. Laid-off benefits	35,361,328.84	202,321.16	4,381,774.17	31,181,875.83
VIII. Others	50,267.40	511,075.00	513,329.40	48,013.00
Total	44,696,054.89	108,269,915.97	111,723,710.60	41,242,260.26

Laid-off benefits are the total accrued expenses of laid-off staff since 1 July 2010 to the retirement date, including the unrecognized financing expenses amounting to RMB2,191,014.21 (the opening balance: 2,661,690.88). The unrecognized financing cost is amortized by the effective interest method.

18. Taxes Payable

Items	Tax rate	Closing balance	Opening balance
Value-added tax	Refer to Note VI: Taxation	5,387,229.23	17,136,520.50
Business tax	Refer to Note VI: Taxation	100,723.67	351,069.48
City maintenance tax	Refer to Note VI: Taxation	538,041.64	507,203.05
Education surcharges	Refer to Note VI: Taxation	301,652.16	2,280,060.83
Enterprise income tax	Refer to Note VI: Taxation	308,897.63	2,750,322.16
Land appreciation tax*	Refer to Note VI: Taxation	3,422,006.97	3,422,006.97
Individual income tax		527,476.27	451,665.01
Others		10,177.29	7,375.41
Total		10,596,204.86	26,906,223.41

* It is caused by the transfer of land use right by Nanjing Huage Appliance and Plastic Industrial Company Limited, the subsidiary of the Company.

19. Interest Payable

Item	Closing balance	Opening balance
Short-term loan interest	645,755.00	469,360.36
Total	645,755.00	469,360.36

20. Other Payables

Ageing	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	86,885,876.00	69.58	136,597,053.77	75.07
1-2 years	3,813,285.57	3.05	4,945,660.42	2.72
2-3 years	1,103,515.99	0.88	2,308,569.67	1.27
More than 3 years	33,072,085.24	26.49	38,112,800.61	20.94
Total	124,874,762.80	100.00	181,964,084.47	100.00

(1) The closing balance of other payables included RMB8,362,533.60 payables to Panda Electronics Group Limited, the shareholder with 51.10% of shareholding with voting power in the Company.

(2) The closing balance of other payables includes RMB13,453,520.55 payable to related parties (the opening balance:RMB90,797,320.40). Please refer to Note X (III) 9 for disclosure of relevant related party transactions.

(3) Other payables in large amount

Name of creditor	Amount	Nature (or content)
Ministry of Finance, China	28,244,519.34	Project Fund
Jiangsu Hai Fu Motor & Auto Parts Trade Center	2,426,335.99	Lease deposit
Intenna (Nanjing) Co. Ltd.	2,163,142.55	Daily operating expenses
Chongqing Cluture, Radio & Television Department	2,114,707.84	Transportation and installation charges
Nanjing Pengda Labour Consulting Services Co., Ltd.	1,348,092.33	Labour cost payable
Total	36,296,798.05	

(4) The closing balance of other payables decreased by 31.37% from the opening balance because the Company repaid RMB80,000,000 to Panda Electronics Group Co., Ltd., the parent company, during daily operation.

21. Long-term Loan

	Closing balance	Opening balance
Credit loan	4,000,000.00	4,000,000.00
Less: Long-term loan due within one year		
	<u>4,000,000.00</u>	<u>4,000,000.00</u>
Total	<u>4,000,000.00</u>	<u>4,000,000.00</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 of the Company. The loan period is from 27 November, 2009 to 27 February, 2012. The principal and interest will be paid when due.

22. Long-term Payables

	Closing balance	Opening balance
Finance lease payables	2,362,315.44	3,494,205.24
Less: Finance lease payables due within 1 year	2,362,315.44	2,215,375.85
	<u>2,362,315.44</u>	<u>2,215,375.85</u>
Total	<u>2,362,315.44</u>	<u>1,278,829.39</u>

Analysis of due date of long term payables:

	Closing balance	Opening balance
Within one year	2,362,315.44	2,215,375.85
1-2 years		1,278,829.39
	<u>2,362,315.44</u>	<u>1,278,829.39</u>
Total	<u>2,362,315.44</u>	<u>3,494,205.24</u>

The closing balance of long-term payables decreased by 32.39% from the opening balance, because the Company paid finance lease payment due in the period and there was no addition of finance lease in the period.

23. Share Capital

	Opening balance	Increase in the period	Decrease in the period	Closing balance
Shares subject to trading moratorium-				
State owned shares				
State-owned legal person shares				
Other domestic shares				
Foreign shares				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Shares not subject to trading moratorium-				
RMB denominated ordinary shares	413,015,000.00			413,015,000.00
Overseas-listed foreign shares	242,000,000.00			242,000,000.00
Others				
	<u>655,015,000.00</u>	<u> </u>	<u> </u>	<u>655,015,000.00</u>
Subtotal	<u>655,015,000.00</u>	<u> </u>	<u> </u>	<u>655,015,000.00</u>
Total	<u>655,015,000.00</u>	<u> </u>	<u> </u>	<u>655,015,000.00</u>

Pursuant to the "Approval of state-owned share administration for share distribution and circulation reform of Nanjing Panda Electronics Company Limited" issued by Jiangsu Provincial State-owned Assets Supervision and Administration Commission of the PRC ("Jiangsu SASAC") (Suguo Zifu No. 123 [2006]) on 21 July 2006, the shareholders' resolution of the Company held on 28 July 2006 on the reform of share distribution and circulation, and the "Approval of transfer of shares of Nanjing Panda Electronics Company Limited" issued by Ministry of Commerce (Shang Zi Pi No. 1711 [2006]) on 24 August 2006, the Company's sole non-circulating shareholder, Panda Electronics Group Limited ("PEGL"), paid shares to all shareholders of circulating A shares, and acquired the right to circulate its non-circulating shares. PEGL paid 20.30 million shares to shareholders of circulating A shares, i.e. 3.5 shares per 10 circulating A shares.

PEGL committed that its 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. On 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.

24. Capital Reserve

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Capital premium	451,004,560.61			451,004,560.61
Other capital reserve	14,365,417.16			14,365,417.16
Total	465,369,977.77			465,369,977.77

25. Surplus Reserve

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Statutory surplus reserve	132,407,764.09			132,407,764.09
Discretionary surplus reserve	70,376,641.33			70,376,641.33
Total	202,784,405.42			202,784,405.42

26. Undistributed Profit

Items	Amount for the period	Opening balance
Closing balance of previous year	141,835,133.81	140,414,701.05
Add: changes in accounting policies		
Correction of previous period errors		
Merger of enterprises under common control		(11,831,254.73)
Opening balance of the year	141,835,133.81	128,583,446.32
Add: Consolidated net profit attributable to the Company	(9,429,221.11)	(48,171,090.98)
Compensation of loss from surplus reserve		
Other transfer-in		
Less: Transfer to statutory surplus reserve		
Transfer to discretionary surplus reserve		
Distribution to shareholders		
Closing balance of the period	132,405,912.70	80,412,355.34

Pursuant to the 2010 Interim Profit Distribution Proposal passed at the fifth meeting of the sixth Board, the Company decided not to distribute interim profits for the year 2010.

27. Operating Income and Operating Costs

(1) Income from principal activities and other activities

Items	Amount for the period	Amount for previous period
Income from principal activities	726,194,553.70	422,813,264.12
Income from other activities	15,591,090.93	7,545,134.16
Total operating income	<u>741,785,644.63</u>	<u>430,358,398.28</u>
Cost of principal activities	647,777,384.00	365,308,799.40
Cost of other activities	10,060,272.83	8,417,998.21
Total operating cost	<u>657,837,656.83</u>	<u>373,726,797.61</u>

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

Business segment	Amount for the period		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	258,817,221.06	227,990,629.59	30,826,591.47
Electronic intelligent products	209,083,466.54	188,008,233.17	21,075,233.37
Electronic equipment products	143,816,717.20	122,261,734.55	21,554,982.65
Satellite telecommunication products			
Others	114,477,148.90	109,516,786.69	4,960,362.21
Total	<u>726,194,553.70</u>	<u>647,777,384.00</u>	<u>78,417,169.70</u>
		Amount for previous period	
Business segment	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	149,090,335.01	131,297,240.79	17,793,094.22
Electronic intelligent products	69,125,002.62	57,575,231.97	11,549,770.65
Electronic equipment products	143,846,386.31	124,574,267.29	19,272,119.02
Satellite telecommunication products	35,000,000.00	32,960,000.00	2,040,000.00
Others	25,751,540.18	18,902,059.35	6,849,480.83
Total	<u>422,813,264.12</u>	<u>365,308,799.40</u>	<u>57,504,464.72</u>

(3) Sales revenue from the largest five customers totaled RMB226,872,276.78 (January - June 2009: RMB186,882,593.42), accounting for 31.24% of total sales revenue of the Company during January - June 2010 (January - June 2009: 44.20%).

28. Sales Tax and Surcharges

Items	Amount for the period		Amount for previous period	
	Calculation basis	Amount	Calculation basis	Amount
Business tax	5% of lease income and others	3,136,506.40	5% of lease income and others	1,644,276.57
City maintenance tax	7% of turnover tax	1,360,938.39	7% of turnover tax	951,393.19
Education surcharges	4% of turnover tax	793,108.40	4% of turnover tax	546,518.69
Total		<u>5,290,553.19</u>		<u>3,142,188.45</u>

29. Financial Costs

Items	Amount for the period	Amount for previous period
Interest expenses	11,249,168.39	18,492,464.51
Less: Interest income	2,394,986.49	1,174,570.81
Exchange difference	511,951.35	66,497.19
Handling charges	238,926.01	98,847.77
Unrecognized financing expenses	616,828.77	1,825,494.10
Others	45,893.70	708,155.00
Total	<u>10,267,781.73</u>	<u>20,016,887.76</u>

Financial costs for the period decreased by 48.70% from previous period, mainly due to the decrease in average interest rate and amount of loans for the period as compared to the previous period.

30. Assets Impairment Loss

Items	Amount for the period	Amount for previous period
Bad debt losses	(74,465.41)	(4,272,719.98)
Loss from inventory impairment	(1,316,930.44)	(166,684.51)
Total	<u>(1,391,395.85)</u>	<u>(4,439,404.49)</u>

The decrease in assets impairment loss for the period increased by 68.66% from previous period, mainly attributable to the recovery of certain accounts payable for which impairment provision had been made in the previous period while there was few such case occurred in the Reporting Period.

31. Investment Income

(1) Listed by Items

Items	Amount for the period	Amount for previous period
Investment income from long-term equity investment accounted for using equity method	29,255,743.28	12,089,629.96
Income on disposal of long-term equity investments	<u>32,874.29</u>	<u>1.00</u>
Total	<u>29,288,617.57</u>	<u>12,089,630.96</u>

(2) Investment income listed by investees

Name of investees	Amount for the period	Amount for previous period	Note
Nanjing Ericsson Panda Communication Company Limited	36,477,985.50	12,833,526.23	
Beijing SE Putian Mobile Communications Co., Ltd.	21,021,418.72	42,163,589.91	
Hua Fei Colour Display Systems Company Limited	(32,850,358.79)	(47,474,098.35)	
Shenzhen Jingwah Electronics Co., Ltd.	4,715,534.46	4,867,627.00	
Intenna (Nanjing) Co. Ltd.	(99,245.14)	(189,806.36)	
Nanjing Huaxian High Technology Company Limited	(9,591.47)	(111,208.47)	
Nanjing Electronic Calibration Co., Ltd. (南京電子計量有限公司)	32,874.29		(ii)
Nanjing Panda Tamura Communications Power Supply Co., Ltd.		1.00	
Total	<u>29,288,617.57</u>	<u>12,089,630.96</u>	

(i) Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company; ii) there was no issue affecting the net profit of the investee for the period arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs offset between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit.

The investment income or loss was recognized based on the share of profit or loss of investees under equity method of accounting.

(ii) In June 2010, the Company transferred its 70% equity interests in Nanjing Electronic Calibration Co., Ltd.(南京電子計量有限公司) to Nanjing Panda Handa Technology Company Limited at a consideration of RMB1,039,300.00. The net assets value of Nanjing Electronic Calibration Co., Ltd.(南京電子計量有限公司) at the disposal date was RMB1,437,751.04, and those attributable to the equity interests of the Company was RMB1,006,425.71. The gain from the disposal was RMB32,874.29.

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

(iv) The investment income for January to June 2010 increased by 142.26% from January to June 2009, principally owing to the decreased losses incurred by Hua Fei Colour Display Systems Company Limited in the period.

32. Non-operating Income

(1) Details of Non-operating income

Items	Amount for the period	Amount for previous period
Gains from disposal of non-current assets	16,333.37	5,199.20
Including: Gains from disposal of fixed assets	16,333.37	5,199.20
Gains from disposal of other non-current fixed assets		
Gains from debt restructuring	3,385,152.15	964,141.40
Governmental subsidy	5,738,967.24	584,286.98
Net gain from fine payments	3,550.00	3,134.70
Others	78,472.97	213,136.47
Total	<u>9,222,475.73</u>	<u>1,769,898.75</u>

(2) Governmental subsidy

Items	Amount for the period		Amount for previous period	
	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	198,142.34	198,142.34	9,237.49	9,237.49
Financial subsidy and financial grant	5,540,824.90	5,540,824.90	575,049.49	575,049.49
Total	<u>5,738,967.24</u>	<u>5,738,967.24</u>	<u>584,286.98</u>	<u>584,286.98</u>

(3) Non-operating income for January to June 2010 increased by 421.07% year-on-year, mainly due to the increase in government subsidy recognized in the Reporting Period.

33. Non-operating Expenses

Items	Amount for the period	Amount for previous period
Loss from the disposal of non-current assets	5,217,054.28	785,043.40
Including: loss from disposal of fixed assets	5,217,054.28	785,043.40
Loss from the disposal of other non-current assets		
Loss from debt restructuring		
Donation expenses	43,000.00	25,000.00
Fine payment expenses	2,400.00	93,461.61
Compensation expenses	4,774.00	35,000.00
Others	51,231.78	26,126.77
Total	<u>5,318,460.06</u>	<u>964,631.78</u>

Non-operating Expenses for January to June 2010 increased by 451.35% year-on-year, mainly due to the disposal of certain machinery equipments by the Company in the period.

34. Income Tax Expenses

Composition of income tax expenses (gains)

Items	Amount for the period	Amount for previous period
Income tax expense in the period	2,859,006.82	2,318,115.80
Deferred income tax expense	86,437.16	301,586.36
	<u>2,945,443.98</u>	<u>2,619,702.16</u>

35. Basic Earnings per Share and Diluted Earnings per Share

Items	The period	Previous Period
Basic earnings per share	(0.01)	(0.07)
Diluted earnings per share	(0.01)	(0.07)

Note:

- (1) Calculation of basic earnings per share

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

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

where: "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.

- (2) Calculation of diluted earnings per share

Diluted earnings per share = $P_1 \div (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{increase of weighted average number of ordinary shares due to warrant, share option or convertible bond})$

P₁ represents net profit attributable to ordinary shares holders of the Company, considering the effects of the dilution potential ordinary shares and modulate it according to "Accounting Standards for Business Enterprises" and the relevant regulations. When calculating the diluted earning per share, all effects of diluted potential ordinary shares on net profit attributable to ordinary shares holders of the Company and weighted average shares shall be taken into consideration. The dilution potential ordinary shares shall be included in diluted EPS according to the degree of dilution in descending order, until the diluted earning per share reach the minimum amount.

36. Cash Received Relating to Other Operating Activities

Among the "Cash Received Relating to Other Operating Activities", the items with large amount are listed as follows:

Items	Amount for the period	Amount for previous period
R&D fund from the Ministry of Finance of PRC	10,000,000.00	
Contract performance guarantee recovered	26,378,165.07	
Government subsidy	2,143,142.34	819,286.98
Commissioned collection of water and electricity charges		1,030,832.50
Collection for parking and house rental	2,190,140.00	2,010,449.08
Others	21,744,932.56	21,881,218.85
Total	<u>62,456,379.97</u>	<u>25,741,787.41</u>

37. Cash Paid Relating to Other Operating Activities

Among the "Cash Paid Relating to Other Operating Activities", the items with large amount are listed as follows:

Items	Amount for the period	Amount for previous period
Repayment of working capital funds to Panda Electronics Group	80,000,000.00	
Deposits as margin	38,085,292.97	15,163,951.92
Technology development fee	9,006,913.30	7,092,429.25
Office expenses	7,455,214.42	7,928,843.56
Entertainment expenses	7,219,716.29	6,302,155.38
Travelling expenses	3,505,342.15	3,418,550.71
Others	9,616,716.18	30,415,297.46
Total	154,889,195.31	70,321,228.28

38. Cash Received from Other Financing Activities

Among the "Cash Received from Other Financing Activities", the items with large amount are listed as follows:

Items	Amount for the period	Amount for previous period
Deposits as margin	6,981,352.82	26,131,173.26
Total	6,981,352.82	26,131,173.26

39. Cash Paid Relating to Other Financing Activities

Among the "Cash Paid Relating to Other Financing Activities", the items with large amount are listed as follows:

Items	Amount for the period	Amount for previous period
Payment of amount under finance lease	1,278,041.90	6,554,787.12
Total	1,278,041.90	6,554,787.12

40. Supplemental Information of Cash Flow Statements

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

Items	Amount for the period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	(6,922,050.27)	(46,341,125.43)
Add: Provision for asset impairment	(1,391,395.85)	(4,439,404.49)
Depreciation of fixed assets	21,311,507.80	21,555,750.94
Amortization of intangible assets	638,313.83	1,065,797.68
Amortization of long term deferred expenses		446,259.06
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	5,200,720.91	779,844.20
Loss from fixed assets scrapped (gains are represented by "-")		
Losses from change in fair value (gains are represented by "-")		
Financial expense (gains are represented by "-")	10,920,778.13	18,492,464.51
Loss on investment (gains are represented by "-")	(29,288,617.57)	(12,089,630.96)
Decrease in deferred income tax assets (Increase is represented by "-")	201,496.54	301,586.36
Increase in deferred income tax liabilities (decrease is represented by "-")		
Decrease in inventories (increase is represented by "-")	(10,283,758.38)	(7,111,258.32)
Decrease in trade receivables (Increase is represented by "-")	(215,104,112.94)	25,746,740.39
Increase in trade payables (Decrease is represented by "-")	6,640,749.35	(43,814,254.65)
	<u>6,640,749.35</u>	<u>(43,814,254.65)</u>
Net cash flow from operating activities	<u>(218,076,368.45)</u>	<u>(45,407,230.71)</u>
2. Material investment and financing activities not involving cash:		
Debt capitalization		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance lease		
3. Net change in cash and cash equivalents:		
Cash balance as at the end of the period	414,296,017.20	217,757,560.30
Less: cash balance as at beginning of the period	560,354,017.93	416,445,310.81
Add: balance of cash equivalents as at the end of the period		
Less: balance of cash equivalents as at the beginning of the period		
Net increase in cash and cash equivalents	<u>(146,058,000.73)</u>	<u>(198,687,750.51)</u>

(2) Information on cash and cash equivalents

Items	Amount for the period	Amount for previous period
I. Cash	414,296,017.20	217,757,560.30
Including: Cash on hand	658,797.17	557,369.46
Bank deposit available for payments at any time	413,637,220.03	217,200,190.84
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	414,296,017.20	217,757,560.30

41. Disposal of Subsidiaries

On 2 June 2010, the Company transferred the 70% equity interest in Nanjing Electronic Calibration Co., Ltd. (南京電子計量有限公司) held by it to Nanjing Panda Handa Technology Co., Ltd. (南京熊猫漢達科技有限公司).

Relevant information as at the date of disposal are as follows:

Disposal price	1,039,300.00
Cash and cash equivalents received from the disposal	1,039,300.00
Less: Cash and cash equivalents held by Nanjing Electronic Calibration Co., Ltd.	1,464,620.87
Net cash received from the disposal	(425,320.87)

Net assets of Nanjing Electronic Calibration Co., Ltd.:

Book value

	Date of disposal	31 December 2009
Current assets	2,475,739.43	3,175,327.30
Non-current assets	1,820,030.96	1,750,998.49
Current liabilities	2,858,019.35	3,590,712.81
Non-current liabilities		
Net assets	1,437,751.04	1,335,612.98

Revenue, expenses and profit of Nanjing Electronic Calibration Co., Ltd. for the period from 1 January 2010 to the date of disposal:

	From 1 January 2010 to the date of disposal	31 December 2009
Revenue	3,540,560.09	6,416,375.16
Less: costs and expenses	3,592,887.52	6,554,558.51
Total profit	127,672.57	353,259.85
Less: Income tax expenses	25,534.51	62,873.07
Net profit	102,138.06	290,386.78

IX. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY

1. Accounts Receivable

(1) Break-down of accounts receivable by category

Items	Closing balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Substantial amount of single account receivable	17,584,061.90	74.40	160,000.00	0.91
Other unsubstantial amount of accounts receivable	6,050,626.24	25.60	2,417,769.06	39.96
Total	23,634,688.14	100.00	2,577,769.06	10.91

Items	Opening balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Substantial amount of single account 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

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

(2) Break-down of accounts receivable by ageing

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Within 1 year	15,657,329.08	66.24	219,510.00	1.40	18,415,359.11	66.94	28,368.00	0.15
1-2 years	6,307,783.25	27.03	766,683.25	12.03	7,418,954.74	26.97	1,269,654.74	17.12
2-3 years	511,999.99	2.17	511,999.99	100.00	647,825.00	2.36	647,825.00	100.00
3-5 years	1,077,453.82	4.55	1,077,453.82	100.00	1,027,278.82	3.73	1,027,278.82	100.00
More than 5 years	122.00	0.01	122.00	100.00				
Total	23,634,688.14	100.00	2,577,769.06	10.91	27,509,217.67	100.00	2,973,126.56	10.81

(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.	6,118,461.90	25.89	Within 1 year
Yancheng SVA Information Development Company Limited (鹽城廣電信息發展有限公司)	5,779,100.00	24.45	1-2 years
Shenzhen No.1 Environment Technology Co., Ltd. (深圳市第一環境技術有限公司)	5,686,500.00	24.06	Within 1 year
Nanjing Electronic Calibration Co., Ltd.	1,603,285.08	6.78	Within 1 year
Shenzhen Securities Communication Co., Ltd. (深圳證券通信有限公司)	668,120.00	2.83	Within 1 year
Total	<u>19,855,466.98</u>	<u>84.01</u>	

2. Other Receivables

(1) Break-down of other receivables by categories

Items	Closing balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Substantial amount of single other receivables	218,555,697.80	88.36	31,355,015.74	14.35
Other unsubstantial amount of other receivables	<u>28,804,960.62</u>	<u>11.64</u>	<u>7,831,441.10</u>	<u>27.19</u>
Total	<u>247,360,658.42</u>	<u>100.00</u>	<u>39,186,456.84</u>	<u>15.84</u>
Opening balance				
Items	Balance	Percentage %	Provision for bad debt	Percentage of 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>

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

(2) Break-down of other receivables by ageing

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Within 1 year	189,147,234.28	76.47	5,389,710.38	2.85	155,312,212.84	70.70	4,988,094.31	3.19
1-2 years	5,227,275.86	2.11	630,977.59	12.07	12,755,335.94	5.81	1,262,522.91	9.90
2-3 years	39,221,471.24	15.86	20,015,019.91	51.03	40,222,547.06	18.31	19,373,133.23	48.16
3-5 years	4,647,695.64	1.88	4,033,767.56	86.79	1,831,331.79	0.83	1,779,128.08	97.15
More than 5 years	9,116,981.40	3.68	9,116,981.40	100.00	9,548,765.61	4.35	9,548,765.61	100.00
Total	<u>247,360,658.42</u>	<u>100.00</u>	<u>39,196,456.84</u>	<u>15.84</u>	<u>219,670,193.24</u>	<u>100.00</u>	<u>39,921,644.14</u>	<u>16.81</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 other receivables %	Ageing
Nanjing Panda Information Industry Co., Ltd.	101,718,754.65	41.12	Within 1 year
Galant Limited	48,491,600.00	19.60	Within 1 year, 2-3 years
Nanjing Panda International Telecommunication System Co., Ltd.	34,444,364.04	13.92	Within 1 year, 1-2 years
Nanjing Panda Accurate Machinery Co., Ltd.	13,772,510.79	5.67	Within 1 year, 1-3 years
Nanjing Panda Technology Equipment Co., Ltd.	7,046,889.41	2.85	Within 1 year, 1-2 years
Total	<u>205,474,118.89</u>	<u>83.06</u>	

3. Long-term Equity Investment

(1) Details of long-term equity investment

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Investment in subsidiaries	366,038,304.89	20,483,249.50	700,000.00	385,821,554.39
Investment in associated companies	768,860,022.59	29,255,743.28		798,115,765.87
Less: provision for impairment of long term investment	21,436,944.58			21,436,944.58
Total	<u>1,113,461,382.90</u>	<u>49,738,992.78</u>	<u>700,000.00</u>	<u>1,162,500,375.68</u>

- (2) Details of investment in associated companies and major financial data of the associated companies this period

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd	203,224,200.00	21,021,418.72		224,245,618.72	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	1,842,979.38	(9,591.47)		1,833,387.91	Nanjing	Technology Development
Hua Fei Colour Display Systems Company Limited	180,337,169.17	(32,850,358.79)		127,486,810.38	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.					Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	306,963,000.00	36,477,985.50		343,440,985.50	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	95,174,867.22	4,715,534.46		99,890,401.68	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,317,806.82	(99,245.14)		1,218,561.68	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.					Nanjing	Manufacture
Total	768,860,022.59	29,255,743.28		798,115,765.87		

Name of investee	Shareholding of the Company %	Proportion of voting rights in investee %	Total operating income for this period	Net profit/(loss) for this period
Associates				
Beijing SE Putian Mobile Communications Co., Ltd	20	20	9,682,760,425.90	105,107,093.60
Hua Fei Colour Display Systems Company Limited	25	25	415,496,436.95	(131,401,435.17)
Nanjing Ericsson Panda Communication Company Limited	27	27	4,381,457,003.33	135,103,650.01
Shenzhen Jing Wah Electronics Company Limited	38.03	38.03	244,871,080.90	12,399,512.13
Intenna (Nanjing) Co. Ltd.	35	35		(283,557.55)

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

Name of investee	Initial investment	Opening balance	Investment amount increased during the period (less the equity transfer for the period)	Increase/decrease of the investee's equity	Cash bonus distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd	50,361,373.68	203,224,200.00		21,021,418.72		224,245,618.72
Nanjing Huaxian High Technology Company Limited	10,000,000.00	1,842,979.38		(9,591.47)		1,833,387.91
Hua Fei Colour Display Systems Company Limited	392,892,722.42	180,337,169.17		(32,850,358.79)		127,486,810.38
MPower Batteries (Nanjing) Ltd.	4,200,000.00					
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	306,963,000.00		36,477,985.50		343,440,985.50
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	95,174,867.22		4,715,534.46		99,890,401.68
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,317,806.82		(99,245.14)		1,218,561.68
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Total	624,524,177.45	768,860,022.59		29,255,743.28		798,115,765.87

(4) Long-term equity investment accounted for using cost method

Name of investee	Initial investment	Opening balance	Increase in the period	Decrease in the period	Closing Balance	Cash bonus
Subsidiaries						
Nanjing Electronic Calibration Co., Ltd.(南京电子计量有限公司)	700,000.00	700,000.00		700,000.00		
Nanjing Panda Appliance & Apparatus Co., Ltd.	700,000.00	700,000.00			700,000.00	
Panda Mechanical Manufacturing Co. Ltd.	3,500,000.00	7,000,000.00			7,000,000.00	
Nanjing Panda Accurate Machinery Co., Ltd.	3,625,300.00	7,569,625.13			7,569,625.13	5,882,469.53
Nanjing Panda Technology Equipment Co., Ltd.	5,031,944.58	5,031,944.58			5,031,944.58	
Nanjing Panda Machinery 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 Electronic Manufacturing Company Limited	60,012,744.60	90,738,744.60	20,483,249.50		111,221,994.10	7,500,000.00
Nanjing Huage Electronics&Automobile Plastic Industry Co., Ltd.	34,622,830.35	34,622,830.35			34,622,830.35	4,731,436.31
Nanjing Panda Power Supply Technology Co., Ltd.	8,750,000.00	8,750,000.00			8,750,000.00	
Nanjing Guanghua Electronics Plastic Casings Factory	8,271,096.45	8,271,096.45			8,271,096.45	
Nanjing Panda International Telecommunication System Co., Ltd.	7,655,000.00	7,655,000.00			7,655,000.00	
Nanjing Panda Technology Industrial Co., Ltd.	78,770,253.34	78,770,253.34			78,770,253.34	
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						
Total	328,379,736.37	366,038,304.89	20,483,249.50	700,000.00	385,821,554.39	18,113,905.84

(5) Impairment provision of long-term equity investment

Name of investee	Opening balance	provision during the period	Decrease in the period		Total	Closing balance
			Reversal	Write-off		
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
Total	21,436,944.58					21,436,944.58

4. Operating Income and Operating Cost

(1) Income from principal activities and other activities

Items	Amount for the period	Amount for previous period
Income from principal activities	88,330,257.74	58,756,171.98
Income from other activities	3,002,928.74	4,079,248.75
Total operating income	<u>91,333,186.48</u>	<u>62,835,420.73</u>
Cost of principal activities	85,482,537.90	56,248,980.51
Cost of other activities	1,896,354.76	3,212,163.75
Total operating cost	<u>87,378,892.66</u>	<u>59,461,144.26</u>

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

Business segment	Amount for the period		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	3,345,346.16	1,879,383.02	1,465,963.14
Electronic Intelligent products	49,947,269.23	50,658,194.75	(710,925.52)
Electronic equipment products	4,052,578.19	4,535,654.88	(483,076.69)
Satellite telecommunication products			
Other	30,985,064.16	28,409,305.25	2,575,758.91
Total	<u>88,330,257.74</u>	<u>85,482,537.90</u>	<u>2,847,719.84</u>
		Amount for previous period	
Business segment	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products			
Electronic Intelligent products	19,363,837.59	18,830,476.46	533,361.13
Electronic equipment products	3,002,078.84	3,117,302.29	(115,223.45)
Satellite telecommunication products	35,000,000.00	32,960,000.00	2,040,000.00
Others	1,390,255.55	1,341,201.76	49,053.79
Total	<u>58,756,171.98</u>	<u>56,248,980.51</u>	<u>2,507,191.47</u>

5. Investment Income

Name of investee	Amount for the period	Amount for previous period	Note
Nanjing Ericsson Panda Communication Company Limited	36,477,985.50	12,833,526.23	
Beijing SE Putian Mobile Communications Co., Ltd.	21,021,418.72	42,163,589.91	
Hua Fei Colour Display Systems Company Limited	(32,850,358.79)	(47,474,098.35)	
Shenzhen Jingwah Electronics Co., Ltd.	4,715,534.46	4,867,627.00	
Intenna (Nanjing) Co. Ltd.	(99,245.14)	(189,806.36)	
Nanjing Panda Tamura Communications Power Supply Co., Ltd.		1.00	
Nanjing Huaxian High Technology Company Limited	(9,591.47)	(111,208.47)	
Nanjing Panda Accurate Machinery Co., Ltd.	5,882,469.53		
Nanjing Panda Electronic Manufacturing Company Limited	7,500,000.00		
Nanjing Huage Electronics&Automobile Plastic Industry Co., Ltd.	4,731,436.31		
Nanjing Electronic Calibration Co., Ltd. (南京電子計量有限公司)	339,300.00		(2)
Nanjing Guanghua Electronics Plastic Casings Factory		2,342,582.93	
	47,708,949.12	14,432,213.89	

- (1) Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company; ii) there was no issue affecting the net profit of the investee for the period arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs offset between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit.
- (2) In June 2010, the Company transferred its 70% equity interest in Nanjing Electronic Calibration Co., Ltd. to Nanjing Panda Handa Technology Co., Ltd. at a consideration of RMB1,039,300.00. The book value of long term equity investment cost in Nanjing Electronic Calibration Co., Ltd. accounted for using cost method was RMB700,000.00, and gain from disposal attributable to the Company was RMB339,300.00.
- (3) There was no material restriction on the remittance of the investment income to the Company.
- (4) Investment income for January to June 2010 increased by 230.57% year-on-year, principally owing to the reduced losses of Hua Fei Colour Display Systems Company Limited and increased bonus from subsidiaries.

6. Supplemental Information of Cash Flow Statements

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

Items	Amount for the period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	(19,277,760.95)	(53,842,121.02)
Add: Provision for asset impairment	1,615,700.39	1,061,163.20
Depreciation of fixed assets	6,535,093.53	6,490,842.75
Amortization of intangible assets	459,342.82	485,487.42
Amortization of long term deferred expenses		
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	30,441.19	754,186.60
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 "-")	10,147,040.64	16,579,149.72
Loss on investment (gains are represented by "-")	(47,708,949.12)	(14,432,213.89)
Decrease in deferred income tax assets (Increase is represented by "-")		
Increase in deferred income tax liabilities (decrease is represented by "-")		
Decrease in inventories (increase is represented by "-")	(1,724,642.21)	(3,629,045.66)
Decrease in trade receivables (Increase is represented by "-")	(42,853,033.47)	30,430,901.95
Increase in trade payables (Decrease is represented by "-")	(99,526,476.54)	51,583,241.77
Others		
	<hr/>	<hr/>
Net cash flow from operating activities	<u>(192,303,243.72)</u>	<u>35,481,592.84</u>
2. Material investment and financing activities not involving cash:		
Debt capitalization		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance lease		
3. Net change in cash and cash equivalents:		
Cash balance as at the end of the period	160,028,586.58	98,038,071.84
Less: cash balance as at beginning of the period	293,955,551.88	227,578,462.74
Add: balance of cash equivalents as at the end of the period		
Less: balance of cash equivalents as at the beginning of the period		
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<u>(133,926,965.30)</u>	<u>(129,540,390.90)</u>

(2) Information on cash and cash equivalents

Items	Amount for the period	Amount for previous period
I. Cash	160,028,586.58	98,038,071.84
Including: Cash on hand	378,321.04	254,467.08
Bank deposit available for payment at any time	159,650,265.54	97,783,604.76
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	160,028,586.58	98,038,071.84

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 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
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	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	USD1,240,000	72	72
Nanjing Panda Electronic Manufacture Company Limited	76214760-7	Nanjing	Manufacture	USD20,000,000	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

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 parent group
Nanjing 21st Century Electronic and Technology Square Company Limited (南京二十一世紀電子科技廣場有限公司)	71627148X	Subsidiary of the parent group
Nanjing Panda Garden Property Management Centre (南京熊猫花園物業管理中心)	134961667	Subsidiary of the parent group
Nanjing Panda Electronics Technology Development Company Limited (南京熊猫電子技術開發公司)	134870044	Subsidiary of the parent group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the parent group
Nanjing Panda Construction And Decoration Engineering Co., Ltd.(南京熊猫建築裝飾工程公司)	134941148	Subsidiary of the parent group
Nanjing Panda Piezoelectric Technique Co., Ltd.	742394272	Subsidiary of the parent group
Nanjing Zhen Hua Packing Material Plant	13487319X	Subsidiary of the parent group
Nanjing Lianhui Communication Technology Company Limited	777014380	Subsidiary of the Group
Nanjing Panda Electronic Import/Export Company	134850684	Subsidiary of the parent group
Nanjing Panda Handa Technology Co., Ltd.	79710227-3	Subsidiary of the parent group
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	79712003-3	Subsidiary of the parent group
Panda (Beijing) International Information Technology Co., Ltd (熊猫(北京)國際信息技術有限公司)	765031909	Subsidiary of the parent group
Panda Electronics Material Usage Co., Ltd.	134888156	Subsidiary of the parent group
Nanjing Electronic Calibration Co., Ltd. (南京電子計量有限公司)	13487289-1	Indirect subsidiary of the parent group
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	608977514	Associated company
Nanjing Electronics (Kunshan) Co. Ltd.	718679729	Associated enterprise of a subsidiary
Nanjing Ericsson Panda Communication Company Limited	60891684-2	Associated company
Nanjing Huaxian High Technology Company Limited	78711237-1	Associated company
Intenna (Nanjing) Co. Ltd.	60898216-1	Associated company
Nanjing Thales Panda Transportation System Company Limited	76819214-2	Associated enterprise of a subsidiary

(2) Pricing policy

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

(3) Transactions with related parties

1. Purchase of goods

Name of related parties	Amount for the period	Amount for previous period
Nanjing Zhen Hua Packing Material Plant	824,745.99	1,148,804.04
Panda Electronic Group Company Limited	120,991.56	
Nanjing Panda Electronic Import/Export Company	785,625.95	
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	159,296.83	
Total	1,890,660.33	1,148,804.04

2. Receipt of services

Name of related parties	Amount for the period	Amount for previous period
Nanjing Panda Electronics Transportation Company	622,080.01	258,030.70
Panda Electronic Group Company Limited	212,822.25	86,675.82
Nanjing Panda Construction And Decoration Engineering Co., Ltd. (南京熊猫建筑装饰工程公司)		5,400.00
Total	834,902.26	350,106.52

3. Sales of goods

Name of related parties	Amount for the period	Amount for previous period
Nanjing Ericsson Panda Communication Company Limited	14,806,382.54	24,494,952.93
Nanjing Thales Panda Transportation System Company Limited	12,746,086.41	8,345,665.42
Nanjing Panda Handa Technology Co., Ltd.	9,787,326.47	3,705,813.82
Nanjing Panda Electronic Import/Export Company	5,922,904.26	170,500.85
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	2,556,903.74	2,559,115.05
Panda Electronic Group Company Limited	62,502.56	63,059.83
Nanjing Panda Electronics Transportation Company	14,956.59	
Nanjing Panda Electronic Appliance Co., Ltd.	1,363,397.44	
Nanjing Electronics (Kunshan) Co. Ltd.	252,844.22	
Nanjing Lianhui Communication Technology Company Limited	47,078.63	
Nanjing Huaxian High Technology Company Limited		120,719.49
Nanjing Lianhui Communication Technology Company Limited		9,659.40
Nanjing Zhen Hua Packing Material Plant		2,991.45
Total	47,560,382.86	39,472,478.24

4. Provision of services

Name of related parties	Amount for the period	Amount for previous period
Nanjing Ericsson Panda Communication Company Limited	14,296,975.42	24,322,280.46
Nanjing Panda Handa Technology Co., Ltd.	8,668,825.19	2,340,753.81
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	995,447.56	299,614.29
Nanjing Panda Material Usage Co., Ltd.	427,350.44	213,675.22
Nanjing Lianhui Communication Technology Company Limited	69,408.53	26,436.41
Panda Electronic Group Company Limited	4,412.95	6,253.05
Nanjing Panda Electronic Appliance Co., Ltd.	397,222.22	
Nanjing Panda Construction And Decoration Engineering Co., Ltd.(南京熊猫建筑装饰工程公司)	6,095.25	
Nanjing 21st Century Electronic and Technology Square Company Limited (南京二十一世紀電子科技廣場有限公司)	5,988.33	
Nanjing Huaxian High Technology Company Limited		25,085.64
Nanjing Panda Electronics Transportation Company Limited		4,737.53
Total	24,871,725.89	27,238,836.41

5. Provision of guarantee

(1) 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 30 June 2010, the loan amounted to RMB5,000,000.00 with a term from 11 December 2009 to 26 September 2010.

(2) The Company provided guarantee for borrowings of RMB17,000,000 granted to Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, from Nanjing Branch of Citic Bank. As at 30 June 2010, 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	2010.01.04-2011.01.04
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		17,000,000.00	

The Company provided a maximum amount guarantee for bank loan of RMB5,000,000 granted to Nanjing Huage Appliance and Plastic Industrial Company Limited borrowed from Sales Department of Jiangsu Bank Co., Ltd., with the guarantee period from 2 November 2009 to 26 September 2010. As at 30 June 2010, the loan amounted to RMB5,000,000.00 with a loan term from 7 May 2010 to 6 November 2010.

The Company provided a maximum amount guarantee for bank credit of RMB15,000,000 granted to Nanjing Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, borrowed from Nanjing Branch of Shenzhen Development Bank Co., Ltd. As at 30 June 2010, the Company provided a guarantee of RMB9,527,000.00 for the bank acceptance of Nanjing Huage Appliance and Plastic Industrial Company Limited.

(3) The Company provided an irrevocable letter of guarantee with maximum amount for Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, for its borrowings of RMB5,000,000 from Nanjing Branch of China Merchants Bank during the credit period from 2 February 2010 to 2 February 2011. As at 30 June 2010, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 2 February 2010 to 2 February 2011.

- (4) The Company provided an irrevocable letter of guarantee with maximum amount for borrowings of RMB25,000,000 from Nanjing Branch of China Merchants Bank granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company, to guarantee for the loan granted to Nanjing Panda Information Industry Co., Ltd. during the credit period, from 27 January 2010 to 27 January 2011. As at 30 June 2010, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 5 March 2010 to 5 September 2010. In addition, the Nanjing Panda Information Industry Co., Ltd. had a borrowing of RMB5,000,000 with a loan term from 11 March 2010 to 11 September 2010

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	2010.03.05-2010.09.05
Nanjing Panda Information Industry Co., Ltd.	Nanjing Branch of China Merchants Bank	5,000,000.00	2010.03.11-2010.09.11
Total		<u>10,000,000.00</u>	

The Company provided a maximum amount guarantee for bank loan of RMB5,000,000 granted to Nanjing Panda Information Industry Co., Ltd. borrowed from Sales Department of Jiangsu Bank Co., Ltd. As at 30 June 2010, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 29 June 2010 to 28 June 2011.

The Company provided a maximum amount guarantee for bank loan of RMB35,000,000 granted to Nanjing Panda Information Industry Co., Ltd. borrowed from Nanjing Branch of Ningbo Bank. As at 30 June 2010, the Company provided a guarantee of RMB17,545,936.47 for the bank acceptance of Nanjing Panda Information Industry Co., Ltd..

- (5) The Company provided finance lease guarantees for Nanjing Panda Electronic Manufacture Co., Ltd, a subsidiary of the Company, details of which are as follows:

No. of Lease Contract	Lessor	Lessee	Warrantor	Leasing Period	Amount of contract	Outstanding amount as at 30 June 2010
201010	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacture Co., Ltd	The Company	2008.07-2011.07	7,917,712.70	2,488,267.28
Total					<u>7,917,712.70</u>	<u>2,488,267.28</u>

As at 30 June 2010, the Company provided guarantee to its subsidiaries with an amount of RMB76,561,203.75 (year 2009: RMB27,591,234.88).

6. Acceptance of guarantee

- (1) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount irrevocable letter of guarantee with Nanjing Branch of China Merchants Bank, providing guarantee for credit facilities of RMB120,000,000 granted to the Company from Nanjing Branch of China Merchants Bank during the credit. As at 30 June 2010, details of outstanding 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	40,000,000.00	2010.02.01-2011.02.01
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2010.02.03-2011.02.03
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2010.04.08-2011.04.08
Total		<u>120,000,000.00</u>	

- (2) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Chengdong Sub-branch of Bank of Nanjing Co., Ltd., providing guarantee for borrowings of the Company from Chengdong Sub-branch of Bank of Nanjing Co., Ltd. As at 30 June 2010, 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
Total		<u>58,000,000.00</u>	

- (3) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Citic Bank in December 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 30 June 2010, 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	50,000,000.00	2009.12.02-2010.12.02
Total		<u>80,000,000.00</u>	

- (4) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Hua Xia Bank in September 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.
- (5) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Bank of Communications in November 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 30 June 2010, the Company received guarantee provided by Panda Electronics Group Limited, the controlling shareholder of the Company with an amount of RMB358,000,000.00 (year 2009: RMB338,000,000.00).

7. Asset leased to the Company

Name of related parties	Amount for the period	Amount for previous period
Nanjing Panda Electronics Technology Development Company Limited	136,999.85	
Panda Electronic Group Company Limited	34,813.25	193,478.47
Total	171,813.10	193,478.47

8. Assets leased to related parties

Name of related parties	Amount for the period	Amount for previous period
Nanjing Panda Electronics Transportation Company Limited	274,750.02	11,988.00
Nanjing Panda Huaxin Technology Industrial Co., Ltd.		160,762.32
Total	274,750.02	172,750.32

9. Balance of due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether received or provided guarantee
Accounts receivable				
Nanjing Ericsson Panda Communication Company Limited	18,865,020.12	7,443,817.33		
Nanjing Panda Television Co. Ltd.	8,673,512.96	8,673,512.96		
Nanjing Thales Panda Transportation System Company Limited	6,569,765.40	5,052,952.31		
Nanjing Panda Handa Technology Co., Ltd.	4,711,733.63	2,875,403.52		
Nanjing Panda Electronic Import/Export Company	2,186,239.76	2,525,498.51		
Nanjing Panda Electronic Appliance Co., Ltd.	1,738,363.81	78,488.82		
Panda Electronic Group Company Limited	1,433,146.71	103,935.33		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	541,389.47	1,141,840.19		
Nanjing Electronics (Kunshan) Co. Ltd.	359,553.37	621,568.44		
Nanjing Panda Electronics Transportation Company Limited	182,295.77	47,152.92		
Panda (Beijing) International Information Technology Co., Ltd. (熊貓(北京)國際信息技術有限公司)	107,685.29	147,885.29		
Hua Fei Colour Display Systems Company Limited	33,450.00	33,450.00		
Nanjing Huaxian High Technology Company Limited	12,600.00	12,600.00		
Nanjing Lianhui Communication Technology Company Limited	81,534.00			
Nanjing 21st Century Electronic and Technology Square Company Limited (南京二十一世紀電子科技廣場有限公司)	5,988.33			
Total	45,502,278.62	28,758,105.62		
Accounts receivable-provision for bad debt				
Nanjing Panda Television Co. Ltd.	8,673,512.96	8,673,512.96		
Nanjing Ericsson Panda Communication Company Limited	160,644.51	136,722.94		
Nanjing Panda Electronic Import/Export Company	100,393.89	126,692.63		
Nanjing Electronics (Kunshan) Co. Ltd.	100,282.41	621,568.44		
Nanjing Panda Handa Technology Co., Ltd.	79,507.82	430,671.23		
Panda Electronic Group Company Limited	76,634.00	12,527.00		
Nanjing Thales Panda Transportation System Company Limited	73,165.93	73,162.93		
Hua Fei Colour Display Systems Company Limited	33,450.00	33,450.00		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	15,570.41			
Panda (Beijing) International Information Technology Co., Ltd. (熊貓(北京)國際信息技術有限公司)	10,478.53			
Nanjing Panda Electronics Transportation Company Limited	6,868.75			
Nanjing Lianhui Communication Technology Company Limited	4,060.40			
Nanjing Panda Electronic Appliance Co., Ltd.	3,924.44			
Nanjing 21st Century Electronic and Technology Square Company Limited (南京二十一世紀電子科技廣場有限公司)	299.42			
Panda (Beijing) International Information Technology Co., Ltd. (熊貓(北京)國際信息技術有限公司)		14,498.53		
Total	9,338,793.47	10,122,806.66		

Item	Closing amount	Opening amount	Terms and conditions	Whether received or provided guarantee
Prepayments				
Nanjing Lianhui Communication Technology Company Limited	669,364.00	679,664.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd. (南京熊猫建筑装饰工程公司)	235,977.13	118,500.00		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	208,306.54	62,491.97		
Nanjing Panda Electronic Import/Export Company	85,300.00	445,000.00		
Nanjing Panda Electronics Technology Development Company Limited	297,000.00			
Total	1,495,947.67	1,305,655.97		
Prepayments-provision for bad debt				
Nanjing Lianhui Communication Technology Company Limited	667,610.77	670,664.00		
Nanjing Panda Electronic Import/Export Company	4,265.00	22,250.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd. (南京熊猫建筑装饰工程公司)		59,250.00		
Total	671,875.77	752,164.00		
Other receivables				
Nanjing Electronics (Kunshan) Co. Ltd.	2,429,333.36	2,462,824.92		
Total	2,429,333.36	2,462,824.92		
Other receivables-provision for bad debt				
Nanjing Electronics (Kunshan) Co. Ltd.	2,429,333.36	2,444,824.92		
Total	2,429,333.36	2,444,824.92		
Accounts Payable				
Nanjing Panda Electronic Import/Export Company	3,948,285.40	3,568,576.08		
Panda Electronic Group Company Limited	2,113,674.15	1,370,111.38		
Nanjing Zhen Hua Packing Material Plant	279,596.62	948,556.59		
Nanjing Panda Piezoelectric Technique Co., Ltd.	72,883.96	94,288.46		
Nanjing Panda Electronics Technology Development Company Limited	17,692.05	17,692.05		
Nanjing Thales Panda Transportation System Company Limited	16,410.02	16,410.02		
Nanjing Panda Handa Technology Co., Ltd.	3,300.00	3,300.00		
Nanjing Lianhui Communication Technology Company Limited	1,753.23	3,053.23		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	1,290.75	1,711.99		
Nanjing Panda Electronics Transportation Company	317,549.39			
Total	6,772,435.57	6,023,699.80		

Item	Closing amount	Opening amount	Terms and conditions	Whether received or provided guarantee
Advances from customers				
Nanjing Panda Handa Technology Co., Ltd.	65,820.80	852,736.25		
Panda (Beijing) International Information Technology Co., Ltd (熊猫(北京)國際信息技術有限公司).	45,588.91	45,588.91		
Panda Electronic Group Company Limited	26,900.17	21,746.60		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	5,372.41			
Nanjing Panda Electronic Appliance Co., Ltd.		393,532.27		
Nanjing Panda Electronic Import/Export Company		98,823.44		
Nanjing Panda Television Co. Ltd.		82,887.19		
Nanjing Panda Piezoelectric Technique Co., Ltd.		200.00		
Nanjing Thales Panda Transportation System Company Limited		33.06		
Total	143,682.29	1,495,547.72		
Other Payables				
Panda Electronic Group Company Limited	8,362,533.60	85,313,589.70		
Nanjing Panda Electronics Transportation Company	2,648,924.96	1,933,562.60		
Intenna (Nanjing) Co. Ltd.	2,163,142.55	2,262,342.55		
Nanjing 21st Century Electronic and Technology Square Company Limited (南京二十一世紀電子科技廣場有限公司)	150,500.00	310,000.00		
Nanjing Panda Garden Property Management Centre (南京熊猫花園物業管理中心)	49,394.71	328,071.55		
Nanjing Thales Panda Transportation System Company Limited	27,824.73	349,754.00		
Nanjing Lianhui Communication Technology Company Limited	51,200.00			
Nanjing Electronics (Kunshan) Co. Ltd.		300,000.00		
Total	13,453,520.55	90,797,320.40		

XI. CONTINGENCIES

1. Please refer to Note X (III) 5 for the guarantees provided by the Company for bank borrowings of its subsidiaries.
2. As at 30 June 2010, the Company did not have any material contingent issues required to be disclosed other than the aforesaid.

XII. COMMITMENTS

1. Capital Expenditure Commitment

Capital expenditures contracted for at the balance sheet date but not recognised in the balance sheet of the Group are as follows:

	Closing balance	Opening balance
Houses and buildings	<u>65,556,223.87</u>	<u>82,250,023.90</u>

2. Committed Material External Investment

- (1) As approved by the provisional board meeting of the Company in 2007, 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 invested a total of US\$7.1 million to GALANT LIMITED as at 30 June 2010.
- (2) Save as the above commitments, as of 30 June 2010, the Company did not have any other material commitments discloseable.

XIII. POST BALANCE SHEET EVENTS

There were no discloseable material post balance sheet events of the Company as at the date when the financial report was approved for issue.

XIV. OTHER SIGNIFICANT EVENTS

- 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. Lease

- 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>6,912,275.00</u>	11,402,829.76
Total	<u>6,912,275.00</u>	<u>11,402,829.76</u>
Accumulated depreciation		
Machinery and equipment	<u>1,244,209.50</u>	2,246,584.60
Total	<u>1,244,209.50</u>	<u>2,246,584.60</u>
Accumulated amount of provision for impairment		
Machinery and equipment	_____	_____
Total	<u>_____</u>	<u>_____</u>
Carrying value		
Machinery and equipment	<u>5,668,065.50</u>	9,156,245.16
Total	<u>5,668,065.50</u>	<u>9,156,245.16</u>
Minimum lease payments in the following years		
Remaining lease term		Minimum lease payments
Within 1 year (including 1 year)		<u>2,488,267.28</u>
Total		<u>2,488,267.28</u>

As at 30 June 2010, the balance of unrecognized financing expenses amounted to RMB125,951.84 (the opening balance: RMB272,103.94), which was amortized by the effective interest method.

- Details of operating lease from the Company during the Reporting Period are as follows:

Categories of assets leased out	Closing balance	Opening balance
Buildings	<u>167,820,997.06</u>	171,766,419.23
Total	<u>167,820,997.06</u>	<u>171,766,419.23</u>

XV. RECONCILIATION OF HONG KONG AND PRC ACCOUNTING STANDARDS DIFFERENCES (UNIT: RMB THOUSANDS)

Items	Closing balance	Opening balance
Net assets attributable to the shareholders of the Company under HKFRS and PRC Accounting Standards for Business Enterprises	<u>1,455,576</u>	<u>1,465,005</u>
Items	Closing balance	Opening balance
Net profit attributable to the shareholders of the Company under HKFRS	<u>(9,429)</u>	<u>(48,171)</u>
Net profit attributable to the shareholders of the Company under PRC Accounting Standards for Business Enterprises	<u>(9,429)</u>	<u>(48,171)</u>

XVI. COMPARATIVE FIGURE

Some comparative figures for the period from January to June 2009 have been reclassified in accordance with the current period presentation.

SUPPLEMENTARY INFORMATION

I. Related financial indicators

Profit during the Reporting Period	Reporting Period	Return on net assets		Earnings per share	
		Weighted average	(%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	Jan-Jun 2010	(0.65)		(0.01)	(0.01)
	Jan-Jun 2009	(3.23)		(0.07)	(0.07)
Net profit attributable to holders ordinary shares after extraordinary items	Jan-Jun 2010	(0.95)		(0.02)	(0.02)
	Jan-Jun 2009	(3.43)		(0.08)	(0.08)

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

- (1) Fully diluted return on net assets

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

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

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

- (2) Weighted average return on net assets

$$\text{Weighted average return on net assets} = P / (E_0 + NP \div 2 + E_i \times M_i - M_0 - E_j \times M_j + M_0 \pm E_k \times M_k - M_0)$$

where: "P" respectively represents net profit attributable to holders of ordinary shares of the Company and the net profit attributable to holders of ordinary shares of the Company after extraordinary items; "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 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 net assets to the end of the Reporting Period; "M_j" represents the months from the next month of the decrease of net assets to the end of the Reporting Period; "E_k" represents the increase or decrease of net assets arising from other transactions or matters; "M_k" represents the months from the next month of the increase or decrease of other net assets to the end of the Reporting Period;

- (3) Basic earnings per share

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

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

where: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company; "S" represents the weighted average of outstanding ordinary shares; "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 Reporting Period; "S_i" represents shares increased from issue of new shares or debt to equity during the Reporting Period; "S_j" represents the reduced shares arising from repurchase during Reporting Period; "S_k" represents the number of reduced shares during the Reporting Period; "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 = $[P + (\text{The interests of the diluted potential ordinary shares recognized to be expenses} - \text{conversion expenses}) \times (1 - \text{Income tax ratio})] / \{S_0 + S_1 + S_i \times M_i - M_0 - S_j \times M_j - M_0 - S_k + \text{The weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond}\}$

where: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company. "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 Reporting Period; "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.

II. STATEMENT OF EXTRAORDINARY ITEMS

Unit: RMB

Item	Amount for the period	Amount for previous period
(1) Profit and loss of disposal of non-current assets, including the part written off in provision for assets impairment	(5,200,720.91)	(779,844.20)
(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)	5,540,824.90	575,049.49
(4) Capital occupation fee received from non-financial enterprises and recorded into the current gains and losses		
(5) Profit 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	3,385,152.15	964,141.40
(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 subsidiaries arising from mergers of enterprises under common control from the beginning of period to the date of merger		3,688,795.65
(13) Loss and profit from estimated accrued liabilities having no relation to principal business of the Company		
(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	(19,382.81)	35,428.09
(21) Other qualified non-recurring profit and loss item		
Total non-recurring profit and loss	3,705,873.33	4,483,570.43
Less: the impact of income tax	(724,905.91)	652,063.87
Non-recurring profit and loss net of the impact of income tax	4,430,779.24	3,831,506.56
Include: Net non-recurring profit and loss attributable to ordinary shareholders of the Company	4,416,300.99	2,906,322.69
Net non-recurring profit and loss attributable to minority shareholders	14,478.25	925,183.87

Notes: "0" represents loss or expenses.

IX. DOCUMENTS AVAILABLE FOR INSPECTION

1. The Interim Report signed by the Chairman;
2. The financial report signed and stamped by the person in charge of the Company, person in charge of accounting work and person in charge of Accounting Department (person in charge of accounting matters) of the Company;
3. All announcements publicly disclosed in Shanghai Securities News and China Securities Journal, and on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange during the Reporting Period;
4. The text of articles of association of the Company; and
5. The text of the Interim Report published in Hong Kong and Shanghai securities market.

Nanjing Panda Electronics Company Limited

The Board of Directors

25 August 2010