

PANDA

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Nanjing Panda Electronics Company Limited

2010 Annual Report

(H Share Stock code:0553)

(A Share Stock code:600775)



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Important Notice

1. The board of directors (the "Board"), supervisory committee (the "Supervisory Committee"), the directors ("Directors"), the supervisors ("Supervisors") and senior management staff of the Company confirm that the information in this report does not contain any misrepresentation, misleading statements, or material omissions, and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents.
2. Non-executive Directors Mr. Deng Weiming and Mr. Jason Hsuan, and Independent Non-executive Director Mr. Ma Chung Lai, Lawrence were engaged in other duties and unable to attend the Board meeting held on 25 March 2011, and appointed Vice Chairman Mr. Xu Guofei and Independent Non-executive Director Mr. Cai Lianglin to attend the meeting and to exercise the voting right on their behalves, respectively.
3. Both Vocation International Certified Public Accountants Co., Ltd. and Baker Tilly Hong Kong Limited, based on Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises, have issued an unqualified auditors' report for the Company respectively.
4. None of the controlling shareholders or its related parties has misappropriated the Company's funds for non-operating purposes.
5. The Company did not provide external guarantees in violation of any stipulated decision-making procedures.
6. Mr. Xu Guofei, the Vice Chairman of the Company, Mr. Shen Jianlong, the Chief Accountant, and Ms. Wu Yuzhen, the Finance Manager, declared that they confirmed the truthfulness and completeness of the financial statements in this 2010 annual report.

Definitions

Company	Nanjing Panda Electronics Company Limited (南京熊猫电子股份有限公司);
Group	Nanjing Panda Electronics Company Limited and its subsidiaries;
PEGL	Panda Electronics Group Limited (熊猫电子集团有限公司);
PEGL Group	Panda Electronics Group Limited and its subsidiaries;
CEC	China Electronics Corporation (中國電子信息產業集團有限公司);
NEIIC	Nanjing Electronics Information Industrial Corporation (南京中電熊猫信息產業集團有限公司);
CSRC	China Securities Regulatory Commission;
Shanghai Stock Exchange	Shanghai Stock Exchange;
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited;
ENC	Nanjing Ericsson Panda Communication Co., Ltd. (南京愛立信熊猫通信有限公司);
BMC	Beijing SE Putian Mobile Communication Co., Ltd. (北京索愛普天移動通信有限公司);
Hua Fei Company	Hua Fei Color Display Systems Company Limited (華飛彩色顯示系統有限公司).

Corporate Basic Information

(1) Corporate Information

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

Corporate Basic Information (Continued)

(1) Corporate Information (Continued)

6.	Stock Exchange, Stock Abbreviation and Stock Codes	
	H Shares	: The Stock Exchange of Hong Kong Limited
	Stock abbreviation	: Nanjing Panda
	Stock code	: 0553
	A Shares	: Shanghai Stock Exchange
	Stock abbreviation	: Nanjing Panda
	Stock code	: 600775
	Share Registrars and Transfer Office	:
	H Shares	: Hong Kong Registrars Limited 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
	A Shares	: China Securities Depository and Clearing Corporation Limited Shanghai Branch 36/F, China Insurance Building, 166 East Lu Jia Zui Road, Xin Qu, Pudong, Shanghai, the PRC
	Name of Custodian in respect of the Non-circulating Shares of the Company	: China Securities Depository and Clearing Corporation Limited Shanghai Branch 36/F, China Insurance Building, 166 East Lu Jia Zui Road, Xin Qu, Pudong, Shanghai, the PRC
7.	First Registration Date	: 29 April 1992
	Place of the Company	: Nanjing, the PRC
	Date of Latest Change in Registration	: 2 September 2010
	Place of the Company	: Nanjing, the PRC
	Legal Person Business License Registration Number of the Company	: 320100400008823
	Taxation Registration Number of the Company	: 320134134974572
	Organization Code	: 13497457-2
8.	Principal Bankers	: China Merchants Bank Bank of Nanjing Bank of Communications China Citic Bank Hua Xia Bank
9.	Auditors	: Hong Kong Baker Tilly Hong Kong Limited 12/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
		: The PRC Vocation International Certified Public Accountants Co., Ltd. Room 208-210, No. 19 Chegongzhuang Road Yi Haidian District Beijing, the PRC

Corporate Basic Information (Continued)

(1) Corporate Information (Continued)

10. Legal Advisers	:	Hong Kong Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors 23rd Floor, Admiralty Centre Tower II, 18 Harcourt Road, Queensway, Hong Kong
		The PRC Yongheng Partners 13/F, Changfa Science & Technology Building, 222 Zhujiang Road, Nanjing, the PRC

(2) Corporate Profile:

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

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

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

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

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

Accounting Information and Business Highlights

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

1. Profits of the Company during the year:

Unit: RMB'000

Items	Amount
Operating Profit	1,964.26
Total Profit	24,122.87
Net profit attributable to shareholders of the Company	9,192.40
Net profit attributable to shareholders of the Company after extraordinary items	(11,282.47)
Net cash flow from operations	(163,351.41)

2. Items and amounts of extraordinary items:

Unit: RMB'000

Items	Amount
Gains and losses from disposal of non-current assets	(11,520.51)
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	27,784.40
Profit and loss from debt restructuring	3,643.05
Other non-operating net income and expenses other than the aforesaid items	1,458.36
Impact on enterprise income tax	252.68
Net extraordinary profit and loss attributable to minority shareholders	(1,143.11)
Total	20,474.87

3. Major accounting information and financial indicators for the three years ended 31 December 2010

3.1 Major accounting information

Unit: RMB'000

	2010	2009	Increase/ decrease from last year (%)	2008 After the adjustment	2008 Before the adjustment
Operating Profit	1,674,972.07	1,284,864.42	30.36	1,279,703.37	1,131,037.17
Total Profit	24,122.87	31,398.25	(23.17)	50,364.91	44,799.43
Net profit attributable to shareholders of the Company	9,192.40	15,525.67	(40.79)	41,139.03	37,201.26
Net profit attributable to shareholders of the Company after extraordinary items	(11,282.47)	(21,271.22)	46.96	17,929.68	17,929.68
Net cash flow from operating activities	(163,351.41)	247,497.97	(166.00)	(110,628.67)	(140,967.52)

Accounting Information and Business Highlights *(Continued)*

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

3. Major accounting information and financial indicators for the three years ended 31 December 2010 *(Continued)*

3.1 Major accounting information *(Continued)*

	As of the end of 2010	As of the end of 2009	Increase/ decrease from last year (%)	As of the end of 2008 After the adjustment	Before the adjustment
Total assets	2,561,842.57	2,456,940.25	4.27	2,686,014.80	2,574,554.12
Owners' equity (or shareholders' equity)	1,476,137.18	1,465,004.52	0.76	1,574,625.36	1,493,301.42

3.2 Key financial indicators

Unit: RMB'000

	2010	2009	Increase/ decrease from last year (%)	2008 After the adjustment	Before the adjustment
Basic earnings per share	0.01	0.02	(40.79)	0.06	0.06
Diluted earnings per share	0.01	0.02	(40.79)	0.06	0.06
Basic earnings per share after extraordinary items	(0.02)	(0.03)	46.96	0.03	0.03
Fully diluted return on net assets (%)	0.62	1.06	Decreased by 0.44 percentage points	2.61	2.49
Weighted average return on net assets (%)	0.62	1.04	Decreased by 0.42 percentage points	2.60	2.48
Fully diluted return on net assets after extraordinary items (%)	(0.76)	(1.45)	Increased by 0.69 percentage points	1.14	1.20
Weighted average return on net assets after extraordinary items (%)	(0.77)	(1.44)	Increased by 0.67 percentage points	1.21	1.20
Net cash flow from operating activities per share	(0.25)	0.38	(166.00)	(0.17)	(0.22)

	As of the end of 2010	As of the end of 2009	Increase/ decrease from last year (%)	As of the end of 2008 After the adjustment	Before the adjustment
Net assets attributable to shareholders of the Company per share	2.25	2.24	0.76	2.40	2.28

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

Accounting Information and Business Highlights *(Continued)*

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

The following is a summary of the consolidated results of the Group for each of the five years ended 31 December 2010 and the combined pro forma results of the Group for the year ended 31 December 2009 prepared on the basis that the Group's structure had been in existence from the year ended 31 December 2005.

Unit: RMB'000

	2010	2009	2008 (restated)	2007	2006
Turnover	1,645,946	1,267,295	1,264,233	994,038	880,973
Operating profit (loss)	(48,078)	(82,618)	(107,415)	(64,333)	(68,214)
Share of results of associated companies	91,047	147,273	201,284	247,405	230,730
Profit (loss) before taxation	24,123	31,398	49,789	122,476	105,717
Taxation	(16,588)	(12,374)	(6,568)	(2,665)	(4,160)
Profit (loss) after taxation	7,535	19,024	43,221	119,811	101,557
Minority interests	1,657	(3,498)	(2,657)	(7,816)	(8,447)
Profit (loss) attributable to shareholders	9,192	15,526	40,564	111,995	93,110
Proposed final dividends	—	—	—	52,401	—

Summary of the total assets and liabilities for each of the five years ended 31 December 2010

Unit: RMB'000

	2010	2009	2008 (restated)	2007 (restated)	2006
Total asset	2,561,844	2,456,940	2,686,015	2,835,943	2,766,077
Total liabilities	1,079,125	980,150	1,098,031	1,188,165	1,346,112
Total net assets	1,482,719	1,476,790	1,587,984	1,647,778	1,419,965

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

Changes in Share Capital and Information of Shareholders

(1) Changes in shareholdings during the reporting period

Unit: Shares

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

Notes:

- (1) During the reporting period, there is no change in the total number of the Company's shares and the shareholding structure. The Company did not repurchase, sell or redeem its listed securities.
- (2) As at 25 March 2011, the most practicable and recent date for the announcement of the Annual Report, based on information that is publicly available to the Company and so far as the Directors are aware, the Company has complied with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to sufficient public float.

Changes of Shares subject to trading moratorium: As at 31 December 2010, there was no shareholder of the Company who holds shares subject to trading moratorium (limited to the shares involved in the share reform scheme).

Changes in Share Capital and Information of Shareholders (Continued)

(2) Shares in issue and listings

1. Shares in issue and listings

	H Shares	A Shares
Date of issue	24 April– 2 May 1996	7–18 November 1996
Par value	RMB1.00 per share	RMB1.00 per share
Issue price	HK\$2.13 per share	RMB5.10 per share
Number of shares issued (<i>share</i>)	242,000,000	23,000,000
Date of listing	2 May 1996	18 November 1996
Place of listing	Hong Kong	Shanghai
Aggregate number of shares permitted to be traded (<i>share</i>)	242,000,000	413,015,000
Opening price on the first trading day of listing	HK\$2.05	RMB11.00
Opening price on the first trading day of the year	HK\$2.16	RMB9.70
Closing price on the last trading day of the year	HK\$2.18	RMB8.43
The highest price during the year	HK\$2.62	RMB10.29
The lowest price during the year	HK\$1.76	RMB6.22
Total transaction volume during the year (<i>0'000 Shares</i>)	36,439.97	88,300.03

2. Issue of shares during the past three years

During the past three years ended 31 December 2010, the Company did not issue new shares or place new shares for listing, etc.

3. Existing internal employee's share

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

(3) Details of the Shareholders

The total number of shareholders, the number of shares held by the top ten shareholders and holders of shares not subject to trading moratorium of the Company as at 31 December 2010 are as follows:

Unit: Shares

Total number of shareholders as at the end of the reporting period:	19,271 shares, of which 19,224 were holders of A shares and 47 were holders of H shares
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Changes in Share Capital and Information of Shareholders (Continued)

(3) Details of the Shareholders (Continued)

Details of the top ten shareholders

Name of shareholders	Type of shareholders (State-owned or foreign shareholders)	Percentage of Shareholding (%)	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
PEGL	State-owned shareholder	51.10	334,715,000	—	nil
HKSCC (Nominees) Limited	Foreign Shareholder	36.76	240,815,599	—	Unknown
Huang Jitang	Others	0.331	2,170,081	—	Unknown
Peng Hongwan	Others	0.154	1,009,820	—	Unknown
Nanjing Changtai Electronic Technology Company Limited (南京長泰電子科技有限公司)	Others	0.153	1,000,000	—	Unknown
Lou Minzhi	Others	0.143	936,700	—	Unknown
Yan Hongbing	Others	0.101	659,670	—	Unknown
Zheng Xinhua	Others	0.098	640,000	—	Unknown
Zhang Xiufang	Others	0.089	580,000	—	Unknown
Yang Chunyan	Others	0.071	466,854	—	Unknown

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

Name of shareholders	Number of shares held not subject to trading moratorium	Class of shares
PEGL	334,715,000	A
HKSCC (Nominees) Limited	240,815,599	H
Huang Jitang	2,170,081	A
Peng Hongwan	1,009,820	A
Nanjing Changtai Electronic Technology Company Limited (南京長泰電子科技有限公司)	1,000,000	A
Lou Minzhi	936,700	A
Yan Hongbing	659,670	A
Zheng Xinhua	640,000	A
Zhang Xiufang	580,000	A
Yang Chunyan	466,854	A

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

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

Changes in Share Capital and Information of Shareholders (Continued)

(3) Details of the Shareholders (Continued)

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

Notes:

- (1) Among the shareholders named above, PEGL held 334,715,000 shares of the Company on behalf of the state, representing 51.10% of the issued share capital of the Company, which were circulating shares not subject to trading moratorium. Among the shares held by PEGL, 167,350,000 shares which were pledged at the beginning the reporting period were discharged on 28 January 2010. As at 31 December 2010, none of the shares of the Company held by PEGL are pledged or frozen.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 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 240,815,599 H Shares, representing 36.76% of the issued share capital of the Company, on behalf of a number of clients. The Company is not aware of any individual client holding more than 5% of the total share capital issued by the Company.

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

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

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

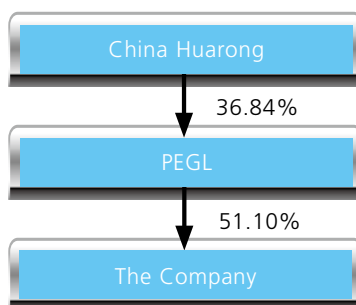
The predecessor of PEGL was established in 1936, which was converted into a limited company upon approval by the Nanjing Municipal Government on 5 July 1999 and subsequently completed the conversion of indebtedness into equity interests on 4 June 2003. The registered capital of PEGL is RMB1,266,060,000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

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

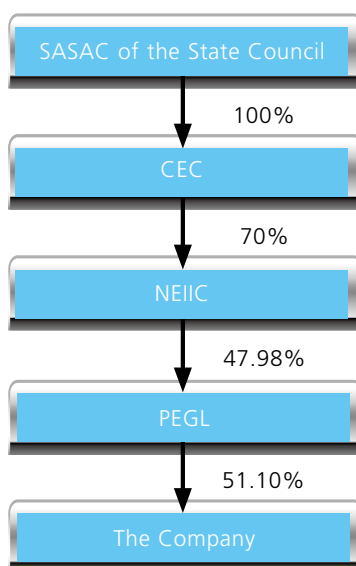
Changes in Share Capital and Information of Shareholders (Continued)

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

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



Note: Nanjing Electronics Information Industrial Corporation (南京中電熊猫信息產業集團有限公司) (“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 Ltd (江蘇省國信資產管理集團有限公司) (“Guo Xin Group”) and China Electronics Corporation (中國電子信息產業集團有限公司) (“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, and hence becoming the largest shareholder of PEGL. Pursuant to the approval of the change in the ultimate controller of the Company (Guo Zi Chan Quan [2009] No. 843) (《關於南京熊猫電子股份有限公司實際控制人變更有關問題的批文》(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. Hence, when going through relevant approval procedures, according to the relevant requirements set out in the “Administrative Measures for the Takeover of Listed Companies” (Zheng Jian Hui Lin [2006] No. 35) issued by the CSRC, CEC reported the change of ultimate controller of the Company to the CSRC and applied to CSRC for a waiver from compliance with the general offer requirement. As the grounds for waiver from general offer in the proposed acquisition does not satisfy the relevant requirements set out in Clause 1 of Rule 63 of the “Administrative Measures for the Takeover of Listed Companies”, CEC intends to withdraw the said submission and resubmit the application with necessary amendments and supplemental documents to the CSRC. Upon completion of the relevant approval procedures, the diagram of property rights and controlling relationship between the Company and the ultimate controller shall become:



(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 8 September 2009 and 4 December 2010, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 7 September 2009 and 3 December 2010.)

Changes in Share Capital and Information of Shareholders (Continued)

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

On 31 December 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) which were required pursuant to section 336 of the Securities and Futures Ordinance (Cap 571) ("SFO") of the Hong Kong Stock Exchange to be filed in the register were as follows: (1) PEGL held 334,715,000 domestic shares, accounting for approximately 81.04% of domestic shares in issue and approximately 51.10% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of beneficial owner. (2) Lewis Joseph held 20,260,000 H Shares, accounting for approximately 8.37% of H Shares in issue and approximately 3.10% of the total shares in issue. The nature of interests in such shares is personal interest which was held in the capacity of beneficial owner. (3) Tuesday Thirteen Inc., held 16,920,000 H Shares, accounting for approximately 7.00% of H Shares in issue and approximately 2.59% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of controlled corporation. No short positions were found in any shares held by the above substantial shareholders.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2010.

Profiles of Directors, Supervisors, Senior Management and Staff

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

1. Non-executive Directors

Mr. LAI Weide, born in 1958, is the Chairman of the Company, Deputy General Manager of China Electronics Corporation, the Chairman of Nanjing Electronics Information Industrial Corporation, the Chairman of PEGL. He is a senior accountant and holds a master's degree. He joined the Company in 2010. Mr. Lai has engaged in operation and management in central enterprises for many years and has advanced concepts and experience in business management.

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

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

Mr. DENG Weiming, born in 1964, is a Director of the Company, Deputy General Manager of PEGL and a senior engineer. He holds a master's degree. He graduated from Information Engineering faculty of Huazhong Industrial College in 1987, and graduated from the management and engineering postgraduate class of Nanjing University of Aeronautics and Astronautics in 2004. Mr. Deng has been engaged in communication technology development and management for years, and has extensive experience in electronic technology and management.

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

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

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

1. Non-executive Directors *(Continued)*

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

2. Independent Non-executive Directors

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

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

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

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

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

3. Supervisors

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

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

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

4. Independent Supervisors

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

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

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

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

5. Senior Management Staff

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

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

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

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

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

As of 31 December 2010, interests of the Directors, Supervisors and senior management staff of the Company in the domestic shares of the Company which were recorded in the register require to be kept by the Company under Section 352 of the SFO are as follows (the nature of such interests is personal interest):

Name	Position	Sex	Age	Term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB0'000)	Whether received out of shareholders or connected parties
Lai Weide	Non-executive Director, Chairman	M	52	2010.05.28-2010.6.12	—	—	—	—	No
Xu Guofei	Non-executive Director, Vice Chairman	M	48	2007.06.12-2010.06.12	2,546	2,546	—	34	No
Zhu Lifeng	Non-executive Director	M	46	2007.06.12-2010.06.12	4,378	4,378	—	28	No
Deng Weiming	Non-executive Director	M	46	2010.05.28-2010.6.12	—	—	—	28	No
Lu Qing	Non-executive Director	M	45	2007.06.12-2010.06.12	—	—	—	28	No
Jason Hsuan	Non-executive Director	M	66	2009.12.23-2010.06.12	—	—	—	—	No
Cai Lianglin	Independent Non-executive Directors	M	69	2007.06.12-2010.06.12	—	—	—	—	No
Tang Yousong	Independent Non-executive Directors	M	59	2007.06.12-2010.06.12	—	—	—	—	No
Ma Chung Lai, Lawrence	Independent Non-executive Directors	M	56	2007.06.12-2010.06.12	—	—	—	6.8	Note
Zhang Zhengping	Chairman of the Supervisory Committee	F	54	2007.06.12-2010.06.12	4,648	4,648	—	30	No
Tang Min	Supervisor	F	53	2007.06.12-2010.06.12	—	—	—	14	No
Zhou Yuxin	Supervisor	M	46	2008.10.28-2010.06.12	—	—	—	14	No
Sun Suhua	Independent Supervisor	F	68	2007.06.12-2010.06.12	—	—	—	—	No
Wang Fei	Independent Supervisor	M	51	2008.12.31-2010.06.12	—	—	—	—	No
Liu Kun	Deputy General Manager	M	44	2007.06.12-2010.06.12	—	—	—	26	No
Shen Jianlong	Chief Accountant, Secretary to the Board, the company secretary	M	47	2007.06.12-2010.06.12	—	—	—	26	No
Xia Dechuan	Deputy General Manager	M	40	2008.06.30-2010.06.12	—	—	—	26	No
Total					11,572	11,572	—	260.8	

Note: Independent non-executive Director Mr. Ma Chung Lai, Lawrence received remuneration of HK\$80,000 (based on the conversion of HK\$1=RMB0.85 as at 31 December 2010).

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

Save as disclosed above, none of the Directors, Supervisors and senior management staff of the Company or their associates had any interest in the share of the Company or any of its associated corporations (as defined in Part XV of the SFO) as of 31 December 2010, and none of the Directors or Supervisors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

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

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

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

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

Name	Name of other units	Position held	Term of appointment
Lai Weide	NEIIC	Chairman	From July 2010
Xu Guofei	NEIIC	General manager	From July 2010
Tang Yousong	Industrial and Commercial Bank of China, Jiangsu Province Branch	Researcher	From 2007
Ma Chung Lai, Lawrence	Hong Kong Taching Petroleum Co., Ltd.	General manager	From 1982
Jason Hsuan	TPV Technology Ltd.	Chairman & CEO	From 1990
Wang Fei	Business School of Hehai University	Department Head	From 1999

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

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

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

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

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

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 and 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).

4. In accordance with the relevant requirements of the Hong Kong Stock Exchange, the Company appointed Mr. Shen Jianlong as the Company Secretary on 18 February 2011.

(For details, please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 18 February 2011.)

(VII) Employees of the Company

As at 31 December 2010, there were 3,147 employees in the Company, of which 1,369 were engaged in production, 1,038 in technology, 339 in sales, 145 in finance and 256 in administration and management. Of these employees, 1,359 were graduates of tertiary institutions or above and 63 were masters or doctors. There were 367 retirees, for whom the Company undertook to pay retirement pension.

Corporate Governance Report

(I) Corporate Governance

During the reporting period, the Company has complied with the relevant laws and regulations including the Company Law, the Securities Law. In accordance with documents relating to corporate governance and proper operation issued by CSRC, and the requirements of the Listing Rules of the Hong Kong Stock Exchange and Shanghai Stock Exchange, the Company continues to improve its corporate governance system as a corporate legal person, set up a modern corporate system, enhance internal control and management and standardize the operation of the Company.

During the reporting period, the Company adopted and strived to comply with the Code of Corporate Governance Practice (“CGP Code”) as set out in Appendix 14 of the Listing Rules.

1. In accordance with domestic and Hong Kong securities laws, regulations and relevant regulatory requirements, the Company has established a governance structure which complies with the requirements of modern business management and formed a scientific and effective system on function assignment and checks and balances. Four special committees including Strategy and Investment Committee, Audit Committee, Remuneration Committee and Nomination Committee were established under the Board to ensure the scientific and accurate nature of decision making of the Board. The Company established and improved various basic systems such as Rules of Procedure of General Meetings, Rules of Procedure of the Board, Rules of Procedure of the Supervisory Committee and Work Systems of Independent Directors and specifies their respective responsibility range, rights, obligations and work procedures. Rights and responsibilities between power institution, decision-making institution, supervisory institution and operating management are clear, and they are operated on a standard basis. Both Directors and Supervisors exercise their own rights and perform their own obligations in accordance with requirements. The Company further strengthens the awareness of standardized operation and enhances corporate governance level based on various assignments designed to continuously and deeply conduct special activities of legal person governance.
2. The “Self-assessment Report on the Internal Control of the Company” (關於公司內部控制的自我評估報告) and the “Report on Performance of Social Responsibilities of the Company” (公司履行社會責任報告) of the Company for year 2010 were considered and passed at the seventeenth meeting of the sixth Board of the Company convened on 25 March 2011 and were disclosed simultaneously with the 2010 annual report.

(For details, please refer to the announcements published on the websites of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited on 25 March 2011.)

3. During the year, the Company proactively organized training on, and invited experts to the Company to explain, the Application Guidelines for Enterprise Internal Control jointly issued by Ministry of Finance, China Securities Regulatory Commission, National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission and preliminarily established the work plan for the implementation of the Application Guidelines for Enterprise Internal Control.
4. In order to enhance the standardized operation of the Company, improve the quality of information disclosure and perfect the management system for information disclosure, the Company established an “Insider Information Management System”, “Management System for External Information Users” and “Accountability System for Major Disclosure Errors in Annual Report”, “Investor Relations Management Systems”, “Management System for Information Disclosure” and etc. to ensure authenticity, accuracy and completeness of information disclosure.

Corporate Governance Report (Continued)

(I) Corporate Governance (Continued)

5. According to relevant regulatory requirements, the Company has established a comprehensive internal control system which is examined by the audit department of the Company regularly or from time to time. The Audit Committee, Supervisory Committee and Independent Non-executive Directors of the Company review the implementation of internal control regularly. On 25 March 2011, the Board of the Company considered and approved the "Self-assessment Report on the Internal Control of the Company" and the "Report on the Company's Fulfilment of Social Responsibility" for 2010.

(II) Securities Transactions by Directors

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

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

(III) The Board

1. Board Composition

During the reporting period, the sixth Board continued to hold office and its Board members were elected at the annual general meeting held on 12 June 2007. During the reporting period, former Directors, Mr. Li Anjian and Mr. Shi Qiusheng, resigned from their positions as Directors of the Company on 22 March 2010 and 9 April 2010 respectively due to job re-allocation arrangement; while Mr. Lai Weide and Mr. Deng Weiming were elected as Directors of the sixth Board of the Company at the 2010 first extraordinary general meeting held on 28 May 2010. Other Directors remained unchanged.

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

The Board members for the year ended 31 December 2010 and the brief biographies of each Director are set out in Section V headed "Profiles of Directors, Supervisors, Senior Management and Staff" of the Annual Report.

Non-executive Director

Mr. Lai Weide (*Chairman*)
Mr. Xu Guofei (*Vice Chairman*)
Mr. Zhu Lifeng
Mr. Deng Weiming
Mr. Lu Qing
Mr. Jason Hsuan

Corporate Governance Report (Continued)

(III) The Board (Continued)

1. Board Composition (Continued)

Independent Non-executive Directors

Mr. Cai Lianglin
Mr. Tang Yousong
Mr. Ma Chung Lai, Lawrence

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

2. Nomination of Directors

The Board established the sixth Nomination Committee on 12 June 2007 which comprised Mr. Li Anjian, Mr. Xu Guofei, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong. Mr. Tang Yousong was the Chairman. During the reporting period, the former member of the Nomination Committee, Mr. Li Anjian resigned as a member of the Nomination Committee due to job re-allocation arrangement.

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

During the reporting period, the Nomination Committee convened two meetings by way of written resolutions in accordance with the Articles of Association and Rules of Procedures of Nomination Committee. All members of the committee attended the meeting at which it was resolved to propose the nomination of Mr. Lai Weide and Mr. Deng Weiming as candidates for director of the sixth Board of the Company. The proposal was submitted to the Board for discussion.

3. Chairman and Chief Executive Officer

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

General Manager (Chief Executive Officer) is responsible to the Board. His principal duties include presiding over the production, operation and management of the Company, to organize the implementation of resolutions of the Board, to organize the implementation of the annual operation plan and investment proposal. (Details were set out in the Article 153 of Chapter 12 of the Articles of Association.) Since Mr. Li Anjian resigned his position as General Manager of the Company on 22 March 2010, the position of General Manager of the Company has been vacant temporarily. The Company is actively identifying a suitable candidate for General Manager.

Corporate Governance Report (Continued)

(III) The Board (Continued)

4. Board Practices

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

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

The Board held five meetings for the year ended 31 December 2010 (details are set out in Section IX headed "Report of the Board" of the Annual Report) and the attendance of each director is as follows:

Name of Directors	Required attendances at the Board meetings	Attendances in person	Attendances by proxy	Absences
Lai Weide	3	3	—	—
Xu Guofei	5	5	—	—
Zhu Lifeng	5	5	—	—
Deng Weiming	3	3	—	—
Lu Qing	5	4	1	—
Jason Hsuan	5	4	1	—

5. Performance of Duties by Independent Non-executive Directors

- (1) The three Independent Non-executive Directors of Company diligently carried out their duties in accordance with the relevant laws, regulations and the Articles of Association. They participated in Board Meetings for the decision-making on material events. With their professional knowledge and experience, the Independent Non-executive Directors advised the Company on its operation and management; reviewed the impartiality and fairness of connected transactions and whether the Company has complied with the wavier conditions granted by the Hong Kong Stock Exchange in respect of its connected transactions, offer independent advice on significant events such as external guarantee, proposal for profit appropriation, appointment of senior management, assets acquisition and continuing connected transactions during the reporting period. They also participated in the work of audit committee to audit the Company's financial statements. During the preparation and disclosure of the 2010 Annual Report of the Company, the Independent Non-executive Directors had diligently fulfilled their duties and obligations. They have considered the reports submitted by the management regarding the Company's production and operation as well as the development of significant events for the year. On-site inspections of certain subsidiaries were conducted. They had also communicated with certified public accountants for annual auditing, reviewed the relevant information and provided comments and advices. The Independent Non-executive Directors have made active contributions to protect the overall interests of the Company and the legitimate rights of shareholders as a whole and promote the development of the Company.

Corporate Governance Report (Continued)

(III) The Board (Continued)

5. Performance of Duties by Independent Non-executive Directors (Continued)

- (2) The Board held five meetings for the year ended 31 December 2010 and attendance of each Independent Non-executive Director at the Board Meetings were as follows:

Name of independent Non-executive Directors	Required attendances at the Board meetings	Attendances in person	Attendances by proxy	Absences
Cai Lianglin	5	5	—	—
Tang Yousong	5	4	1	—
Ma Chung Lai, Lawrence	5	4	1	—

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

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

6. Directors' Responsibility for the Financial Statements

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

7. Remuneration of Directors

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

Roles and functions of the Remuneration and Evaluation Committee include formulating and reviewing remuneration policies and proposal of Directors and the senior management and formulating relevant appraisal standards and conducting appraisals. The Remuneration and Evaluation Committee convened a meeting on 24 March 2011 during the reporting period. During the meeting appraisals of the Directors, Supervisors and the senior management of the Company were conducted and their remuneration were reviewed. The remuneration of Directors, Supervisors and the senior management were set in accordance with the results of appraisals. The remuneration committee has not convened any meeting during the reporting period. The remuneration of Directors is set out in Section V. headed "Profiles of Directors, Supervisors, Senior Management and Staff" in this Annual Report.

Corporate Governance Report (Continued)

(IV) Audit Committee

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

The Board established the Sixth Audit Committee on 12 June 2007 which comprised Ms. Liu Ailian, Mr. Shi Qiusheng, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong. Mr. Cai Lianglin was the Chairman. During the reporting period, Ms. Liu Ailian and Mr. Shi Qiusheng, the former members of the Audit Committee resigned as members of the Audit Committee due to old age and job re-allocation respectively.

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

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

1. The first meeting of 2010 was convened on 26 March 2010. All members of the Audit Committee attended the meeting to review the 2009 financial report and agreed to submit it to the Board for consideration. 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 resolved at the meeting and relevant proposal was submitted to the Board for consideration.
2. The second meeting of 2010 was convened by way of written resolutions on 24 August 2010. All members of the Audit Committee attended the meeting to review the 2010 interim financial report of the Company, the report was appointed and was submitted to the Board for consideration.

During the preparation and disclosure of the 2010 financial report, the Audit Committee had conducted various communications and coordination with the Company's certified public accountants for annual auditing in accordance with the "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report". The Audit Committee reviewed and agreed with the "2010 Overall Audit Plan" submitted by the certified public accountants for annual auditing, and confirmed the schedule of the financial report for this year. The Audit Committee requested full attention and diligent performance from the accountants and the finance department of the Company in preparing the 2010 financial report and comply with regulations of regulatory authorities and the new accounting standards. The financial conditions and operating results of the Company in 2010 were reflected in an objective and fair manner. The Audit Committee also advised and recommended on significant audit issues that worth attention.

The Audit Committee convened a meeting on 24 March 2011. All members of the Audit Committee attended the meeting to review the 2010 financial report and the summary report on the 2010 annual audit conducted by the accounting firms and agreed to submit such reports to the Board for consideration. In addition, the re-appointment of Vocation International Certified Public Accountants Co., Ltd. and Baker Tilly Hong Kong Limited as the Company's PRC and international auditors for 2011 was approved at the meeting and was submitted to the Board for consideration.

Corporate Governance Report (Continued)

(V) Strategy Committee

The Company established the Strategy Committee of the sixth Board on 12 June 2007. Members included Mr. Li Anjian, Mr. Xu Guofei, Ms. Liu Ailian, Mr. Zhu Lifeng, Mr. Shi Qiusheng, Mr. Lu Qing and Mr. Ma Chung Lai, Lawrence. Mr. Xu Guofei was the Chairman of the committee. During the reporting period, Mr. Li Anjian, Ms. Liu Ailian and Mr. Shi Qiusheng, the former members of the Strategy Committee resigned as a member of the Strategy Committee due to job re-allocation and old age respectively.

Main functions of the Strategy Committee include studying issues such as the Company's long-term development and material investment, financing and material capital restructuring and providing relevant suggestions to the Company. A Strategy Committee meeting was held on 24 March 2010 during the reporting period. The meeting discussed and studied the Company's development and recommended the Board to further enhance the development of its principal operations while facing the ongoing international financial crisis. The meeting also suggested the Company to strengthen the research and development of its core business, develop products with intellectual property rights diligently, facilitate the development of joint venture companies and ensure sustainable growth of such business through further international cooperation.

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

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

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

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

Corporate Governance Report (Continued)

(VIII) Auditors' Remunerations

Baker Tilly Hong Kong Limited and Vocation International Certified Public Accountants Co., Ltd. were engaged as the Company's international and PRC auditors for 2010, respectively. Remunerations paid by the Company to the abovementioned two certified public accountants for their audit services in 2010 for the annual report were RMB909,000 and RMB1,111,000 respectively, totaling RMB2,020,000 (the aggregate amount of 2009: RMB2,019,900).

(IX) General Meeting

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

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

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

(X) Communications with Shareholders and Investor Relations

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

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

Corporate Governance Report (Continued)

(XI) Disclosure of the Board's Self-Assessment Report on the Internal Control of the Company ("Internal Control Report")

Please refer to the announcement dated 25 March 2011 published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange for the full text of the Internal Control Report.

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

(XII) Disclosure of the Report on the Company's Fulfillment of Social Responsibility ("Social Responsibility Report")

Please refer to the announcement dated 25 March 2011 published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange for the full text of the Social Responsibility Report.

Shareholders' General Meetings

(I) The Company held its first Extraordinary General Meeting for 2010 on 28 May 2010 at its headquarters. Notice of meeting was published in China Securities Journal and Shanghai Securities News on 10 April 2010 and on websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 9 April 2010. A total of 18 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,333,280 shares or 87.84% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company.

1. The following resolutions were considered and approved at the Extraordinary General Meeting as ordinary resolutions:

Mr. Lai Weide and Mr. Deng Weiming were elected as Directors of the sixth Board of the Company until the expiry of the sixth Board, and to authorize the Board to fix their remunerations which shall not exceed the limit of RMB2,600,000, being the total directors' fees for the sixth Board.

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

The announcement of the above resolutions was published in the China Securities Journal and Shanghai Securities News on 29 May 2010 and the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 28 May 2010.

(II) The Company held its 2009 Annual General Meeting ("AGM") on 30 June 2010 at its headquarters. Notice of meeting was published in China Securities Journal and Shanghai Securities News on 13 May 2010 and on websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 12 May 2010. A total of 32 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,441,254 shares or 87.85% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company.

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

- (1) To consider and approve the Report of the Board of the Company for the year 2009.
- (2) To consider and approve the Report of the Supervisory Committee of the Company for the year 2009.
- (3) To consider and approve the financial reports of the Company for the year 2009 audited by international and domestic auditors.
- (4) To consider and approve the profit appropriation plan (after tax) for the financial year of 2009. It was resolved that the Company would not declare any final dividend for the year ended 31 December 2009 nor make any capitalization of capital reserve.

Shareholders' General Meetings (Continued)

(II) The Company held its 2009 Annual General Meeting (“AGM”) on 30 June 2010 at its headquarters. Notice of meeting was published in China Securities Journal and Shanghai Securities News on 13 May 2010 and on websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 12 May 2010. A total of 32 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,441,254 shares or 87.85% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the People’s Republic of China and the Articles of Association of the Company. (Continued)

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

- (5) To consider and approve the re-appointment of UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. as the Company’s international and PRC auditors respectively for 2010, and authorize the Board to determine their remunerations.
- (6) To consider and approve the provision of a guarantee to Nanjing Panda Information Industry Co., Ltd. (南京熊猫信息产业有限公司), a subsidiary controlled by the Company, for financing in the sum of RMB80,000,000 for a term of three years.
- (7) To consider and approve the provision of a guarantee to Nanjing Panda Electronic Manufacture Co., Ltd (南京熊猫电子製造有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB50,000,000 for a term of three years.
- (8) To consider and approve the provision of a guarantee to Nanjing Huage Appliance and Plastic Industrial Company Limited (南京華格電汽塑業有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB60,000,000 for a term of three years.
- (9) To consider and approve the provision of a guarantee to Nanjing Panda Mechanical Manufacturing Co., Ltd. (南京熊猫機電製造有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB15,000,000 for a term of three years.
- (10) To consider and approve the provision of a guarantee to Nanjing Panda Electronic Equipment Co., Ltd. (南京熊猫电子裝備有限公司), a subsidiary controlled by the Company, for financing in the sum of not exceeding RMB20,000,000 for a term of three years.

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

The announcement of the above resolutions was published in the China Securities Journal and Shanghai Securities News on 1 July 2010 and on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 30 June 2010.

Chairman's Statement

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

1. Principal operations of the Company

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

In 2010, the management team of the Company comprehensively implemented each work deployment in accordance with the requirements of the Board and led the staff to seek development opportunities and breakthroughs in adversities. Through firmly grasping the fleeting rare opportunities in domestic and overseas market, we further strengthened R&D of new products and market development, deepened industrial reorganization and further standardized corporate management. All these efforts achieved satisfactory outcomes, which draw a successful end to the Company's Eleventh Five-Year Plan and laid a solid foundation for starting its Twelfth Five-Year Plan. While the Company had made great strides in principal businesses such as electronic equipment products, electronic intelligent products and electronic manufacturing, the Company had also improved its management control to its joint ventures so as to promote their healthy development.



Chairman's Statement (Continued)

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

1. Principal operations of the Company (Continued)

According to the PRC Accounting Standards for Business Enterprises, revenue from operations of the Company for the year amounted to RMB 1,675,000,000, representing an increase of 30.36% as compared with the same time last year; profit of operations for the year amounted to RMB1,964,300 (2009: an operating loss of RMB5,850,700); net profit amounted to RMB9,192,400, representing a decrease of 40.79% as compared with the same time last year. Under the HKFRSs, revenue from principal operations of the Company for the year amounted to RMB1,646,000,000, representing an increase of 29.88% as compared with the same time last year; profit of principal operations amounted to RMB211,545,000, representing an increase of 131.38% as compared with the same time last year; net profit attributable to shareholders amounted to RMB9,192,400, representing a decrease of 40.79% as compared with the same time last year.

Chairman's Statement (Continued)

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

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

Unit: RMB'000

Business or product	Principal operating income	Principal operating costs	Principal operating profit margin %	Increase/decrease in revenues from principal operation from last year %	Increase/decrease in principal operating costs from last year %	Increase/decrease in principal operating profit margin from last year %
Electronic manufacturing	607,864	432,596	28.83	65.66	28.42	20.64
Electronic intelligent products	338,569	294,219	13.10	23.50	26.84	(2.29)
Electronic equipment products	460,495	447,100	2.91	66.64	87.42	(10.76)
Others	226,705	224,824	0.83	63.37	56.30	4.49
Total	1,633,633	1,398,739	14.38	29.66	22.02	5.36

3. Principal operations by geographical regions

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

4. Operation of the principal controlling and investee companies

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

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson ("Ericsson Sweden"), 26% by Ericsson (China) Company Limited, 20% by China Potevio Co., Ltd., and 2% by Hong Kong Yung Shing Enterprise Company ("Hong Kong Yung Shing"). ENC is mainly engaged in producing products, such as mobile telecommunication system products and network communication systems. ENC is one of the supply pivots for Ericsson in the world, and is the largest supplier of mobile telecommunication equipments in China. In 2010, ENC took initiative to explore markets and constantly enhanced the competitiveness of its products. However, net profit decreased due to the impact of the global financial crisis.

Operating revenue of ENC for 2010 amounted to RMB14,482,000,000, representing a decrease of 6.46% as compared to the corresponding period of last year; net profits amounted to RMB451,000,000, representing a decrease of 6.24% as compared to the corresponding period of last year.

Chairman's Statement (Continued)



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

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

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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited ("Sony Ericsson"), 27% by China Potevio Co., Ltd. and 2% by Hong Kong Yung Shing. BMC is mainly engaged in mobile terminals (mobile phones) under the brand of Sony Ericsson and is the principal production base and supply centre of Sony Ericsson mobiles. In 2010, as affected by aftermath of financial crisis and intense competition, BMC's revenue from principal business and gross profit decreased with that of last year. BMC will actively take various effective measures to cost control and increase market share.

Operating revenue of BMC for 2010 amounted to RMB19,362,000,000, representing a decrease of 15.24% as compared to the corresponding period of last year; net profits amounted to RMB175,000,000, representing a decrease of 59.11% as compared to the corresponding period of last year.

Chairman's Statement (Continued)

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

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

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

Hua Fei Company is held as to 25% by the Company, 20% by Nanjing Hua Dong Electronics Group Limited and 55% by LG. Philips Displays International Ltd. (樂金•飛利浦顯示件國際有限公司). Its principal operations include development, design and manufacture of colour image tubes, colour monitor tubes and other colour display system products, their spare parts and materials and related electronic products, as well as sales of self-produced products.

Sales income for 2010 amounted to RMB757,000,000, representing a decrease of 2.07% as compared to the corresponding period of last year. It continued to suffer a loss of RMB307 million during the reporting period.

5. Major suppliers and customers

As at 31 December 2010, the aggregate turnover from top five customers of the Company accounted for 25.49% of the turnover of the Company for the year, of which turnover from the largest customer accounted for 10.27% of turnover of the Company for the year.

The aggregate amount of purchase from the top five suppliers of the Company accounted for 13.51% of the total amount of purchase made by the Company for the year, of which the purchase amount from the largest supplier accounted for 4.49% of the total amount of purchase made by the Company for the year.

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

6. Outlook of the Company's future development

(1) Development trend of the industry where the Company operates and the market pattern which the Company is facing.

After business structure adjustment and business layout optimization in recent years, the Company has primarily set its development direction towards electronic equipment, electronic intelligence, electronic manufacturing and gradually developed intelligent and environment friendly products.

Electronic equipment industry is a strategic industry which provides technical equipments for various industries of national economy and is an important guarantee to promote the industrial upgrade and technical advancements of various industries. Electronic equipment products which integrate mechanics, electronics, optics, control tech, computer and information are currently developing towards the intelligent and systematic direction.

Chairman's Statement (Continued)



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

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

- (1) Development trend of the industry where the Company operates and the market pattern which the Company is facing. (Continued)

Electronic intelligent industry is gradually developing toward digital, network and artificial intelligence. As electronic intelligent technology and products around the world continue to maintain a rapid growth momentum, the advancement in technology and rising needs from the society for electronic intelligent products and network services provides enormous potential for further development in the electronic intelligent industry.

Electronic manufacturing industry has become a pillar of the national economy. The overall industry is still at its growth stage. With constant application of innovative technology and production processes and the improvement of core competitiveness of manufacturing industry, electronic manufacturing will continue to grow at a steady pace.

Since electronic and intelligent products are heavy technologically based, the replacement speed of the products is fast. Together with constant market change and intense product competition, the Company is expected to gain both good growth opportunities and great challenges.

Chairman's Statement (Continued)

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

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

(2) Development strategy of the Company

The Company always gives priority to technical innovation. Through increasing investments in technical transformation and innovation to constantly improve capability of technical innovation, optimize industry structure and enhance industry level, the Company aims to continuously enhance its competitiveness in the electronic equipment industry, electronic intelligence business and electronic manufacturing industry, so as to develop the Company into a comprehensive and international high technology enterprise.

(3) Risk factors

"The Twelfth Five-Year Plan" of the Country will emphasize on transforming economic development mode and expanding domestic demand, while technological advancements and innovation will play an important role in transforming economic development mode, which provides a favorable environment for the Company's principal operations which include electronic equipment, electronic intelligent and electronic manufacturing products. However, the Company still faces the risks related to policy adjustment due to some factors such as inflation. Secondly, the Company faces market risk in the increasingly competitive market as the market competitiveness of the Company's main products is relatively weak. Thirdly, as technology is pivotal in electronic products, the Company faces technology-related risks due to the emerging of more advanced generation in a short period and rapid changing technological development.



Chairman's Statement (Continued)

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

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

(4) Development plans for 2010

2011 is a crucial year for the continuous healthy development of the Company and also the first year for the Company to implement its "Twelfth Five-year Plan". The Company will, based on actual situations and with innovative work approach and pragmatic attitude, continue to deepen and promote its various reforms to strengthen its sustainable growth capacity and ensure the healthy development of the Company. The main tasks in the forthcoming year are as follows:

- (i) We will endeavor to build a brand-new marketing platform, pay higher attention in seizing market share. We will further improve the marketing platforms including competitive marketing platform, centralized purchase market platform and E-commerce platform and seriously summarize previous marketing experiences and lessons to further improve market adaptability. We will strive to build a marketing team which could deeply analyze and accurately grasp laws of market, excels at capturing market opportunities and has flexible marketing strategies, to further enhance ability in product sales.
- (ii) We will further promote corporate reforms and pay higher attention in concentrating advantageous resources, constructing overall competitive strengths, strongly supporting major business and bringing talent advantage into full play, so as to ensure constant growth of economic benefits.
- (iii) We will actively build the scientific and technological research and development centre and pay higher attention in combining industry development and market demand. Adhering to market demand orientation, we will vigorously implement the strategy of "developing enterprise through talents and science", foster proprietary intelligent property rights and endeavor to increase core competitiveness of products.
- (iv) We will reinforce international collaboration, continue to focus on strategic cooperation with joint-ventures and partners, further reinforce management and service of joint-venture corporations and facilitate continued rapid growth of joint-ventures, so as to increase income from investment.

- (5) The target operating revenue of the Company in 2011 is RMB1,772,440,000. The operating expenses during the period will be limited to RMB308,510,000 or below, out of which selling expenses to be at RMB45,160,000, administrative costs to be at RMB229,130,000 and finance costs RMB34,220,000.

(II) Investments of the Company

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

Chairman's Statement (Continued)

(III) Analysis on financial status of the Company

1. Financial status

According to the PRC Accounting Standards for Business Enterprises, changes in major financial indices are as follows:

Unit: RMB'000

1.1 Major changes of accounts in balance sheet:

Item	31 December 2010	31 December 2009	Increase/ (decrease) (%)	Reasons for changes
Bills receivable	14,315.38	8,370.30	71.03	Increase in bills receivables is mainly attributable to the increase in bills received in the year;
Accounts receivable	299,422.24	225,724.14	32.65	Increase in accounts receivable is mainly attributable to increase in sales arising from the recovery of economy and strong demand for electronic products;
Accounts payable	87,963.02	64,834.62	35.67	Increase in accounts payable is mainly attributable to increase in prepaid material payment arising from increase in order items of the Company;
Other receivables	198,594.33	20,079.16	889.06	Increase in other receivables is mainly attributable to the investment payment paid by the Company to Nanjing Panda Electronic Science Development Company Limited (南京熊猫电子科技发展有限公司), which has not been incorporated. So the payment is classified as other receivables temporarily;
Inventory	214,361.82	157,430.03	36.16	Increase in inventory is mainly attributable to the increase in orders of the Company and the development of new products;
Fixed assets	603,996.40	465,374.88	29.79	Increase in fixed assets is mainly because Xingang plant projects has reached intended use and has been transferred into fixed assets;
Construction in progress	3,883.49	85,591.34	(95.46)	Decrease in construction in progress is mainly because Xingang plant projects has reached intended use and has been transferred into fixed assets;

Chairman's Statement (Continued)

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

1. Financial status (Continued)

1.1 Major changes of accounts in balance sheet: (Continued)

Reasons for changes: (Continued)

Item	31 December 2010	31 December 2009	Increase/ (decrease) (%)	Reasons for changes
Deferred income tax assets	6,509.26	2,782.00	133.98	Increase in deferred income tax assets is mainly because there exist circumstances where certain subsidiaries are not required to pay income tax in the foreseeable future;
Bills payable	42,573.51	19,454.10	118.84	Increase in bills payable is mainly attributable to the increase in purchases which use bills for settlement in the year;
Advances from customers	66,085.65	42,926.67	53.95	Increase in advances from customers is mainly attributable to the expansion of businesses of the Company;
Taxes payable	14,962.89	26,906.22	(44.39)	Decrease in taxes payable is mainly attributable to the due payment of taxes by the Company;
Interest payable	691.70	469.36	47.37	Increase in interest payable is mainly because total loans as at the end of the period increased as compared with total loans as at the beginning of the period;
Dividend payable	238.82			Increase in dividend payable represents the dividends payable to minority shareholders which have not yet been paid by subsidiaries;
Other payables	99,209.40	181,964.08	(45.48)	Decrease in other payables is mainly attributable to the repayment of amounts due to a shareholder, Panda Electronics Group Limited in the year;
Long term payables	1,278.67	3,494.21	(63.41)	Decrease in long term payables is mainly attributable to the due payment of obligations under finance lease;
Deferred income tax liabilities	68.91			Increase in deferred income tax liabilities is mainly because there are circumstances where certain subsidiaries are required to pay income tax in the foreseeable future.

Chairman's Statement (Continued)

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

1. Financial status (Continued)

Unit: RMB'000

1.2 Major Changes of accounts in income statement:

Items	January– December 2010	January– December 2009	Increase/ (decrease) (%)	Reasons for changes
Operating income	1,674,972.07	1,284,864.42	30.36	Increase in operating income is mainly attributable to the recovery of economy and the increase in orders;
Business taxes and surcharges	11,859.02	6,970.27	70.14	Increase in business taxes and surcharges is mainly attributable to the increase in sales;
Selling expenses	41,416.08	22,538.23	83.76	Increase in selling expenses is mainly attributable to the increase in sales and the expansion of operations in the year;
Finance expenses	23,342.21	34,408.14	(32.16)	Decrease in finance expenses is mainly attributable to the decrease in interest rate and the increase in interest income arising from financial planning;
Loss in assets impairment	44,028.13	20,440.53	115.40	Increase in loss in assets impairment is mainly attributable to significant provision made for bad debts in the year;
Investment income	91,080.36	147,273.46	(38.16)	Decrease in investment income is mainly attributable to the decrease in investment income from some joint ventures in the period;
Operating profit	1,964.26	(5,850.72)	133.57	Increase in operating profit is mainly attributable to the increase in the profit of principal operations in the year;
Non-operating expenses	13,485.12	2,062.10	553.95	Increase in non-operating expenses is mainly attributable to the renewal of machinery equipments of the Group and the disposal of a batch of old equipments;
Income tax expenses	16,587.52	12,374.07	34.05	Increase in income tax expenses is mainly attributable to the increase in profit of subsidiaries;
Minority interests	(1,657.04)	3,498.51	(147.36)	Decrease in minority interests is mainly attributable to the recognition of loss of certain subsidiaries.

Chairman's Statement (Continued)

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

1. Financial status (Continued)

Unit: RMB'000

1.3 Major changes of accounts in cash flow statement:

Items	January– December 2010	January– December 2009	Increase/ (decrease) (%)	Reasons for changes
Net cash flows from operating activities	(163,351.41)	247,497.97	(166.00)	Decrease in net cash flows from operating activities is mainly attributable to the increase in credit sales and the repayment of amounts due to Panda Electronics Group Limited;
Net cash flows from investment activities	(76,633.39)	136,584.13	(156.11)	Decrease in net cash flows from investment activities is mainly attributable to the decrease in dividends from joint ventures in the year as compared with previous year;
Net cash flows from financing activities	70,043.76	(240,161.23)	129.17	Increase in net cash flows from financing activities is mainly attributable to the increase in bank loans in the year.

2. Liquidity of capital

In accordance with the HKFRSs, the gearing ratio of the Company (the ratio between total liabilities and total assets), current liabilities, liquidity ratio and quick ratio were 42.12%, RMB1,075,000,000, 1.17 and 1.00 respectively as at 31 December 2010 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB620,000,000 as at 31 December 2010 as shown in the consolidated financial statements of the Company.

Loans: short-term bank loans amounted to RMB521,000,000 as at 31 December 2010 as shown in the consolidated financial statements of the Company.

During the reporting period, benchmark interest rate per annum from the beginning of the period to 19 October 2010 was 5.31%; benchmark interest rate per annum from 20 October 2010 to 25 December 2010 was 5.56%; benchmark interest rate per annum from 26 December 2010 to the end of the period was 5.81%.

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

Lai Weide
Chairman

Nanjing, the PRC
25 March 2011

Report of the Board

The Board is pleased to submit its report together with the audited financial statements for the year ended 31 December 2010.

Day-to-day Operation of the Board

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

- (1) On 29 March 2010, the Company held the twelfth meeting of the sixth Board at its headquarters. The meeting approved the 2009 annual report and the summary thereof, report of the Board, 2009 financial statements as audited respectively by the international and domestic auditors and the profit appropriation plan for 2009. The re-appointment of UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Co., Ltd. as the international and domestic auditors of the Company for 2010 was approved. The "Management System of Personnel in Charge of Internal Information", "Management System for Application of External Information Users", "Inquiry System for Material Mistakes made in Information Disclosure of Annual Reports", the "2009 Self-assessment Report on the Internal Control of the Company by the Board" and the "2009 Report on the Company's Fulfillment of Social Responsibility" were considered and approved. The relevant matters in relation to convening of the 2009 annual general meeting were passed.

(The announcement of the aforesaid resolutions passed by the Board was published in the Shanghai Securities News, China Securities Journal on 30 March 2010, and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 29 March 2010.)

- (2) On 21 April 2010, the Company held the thirteenth meeting of the sixth Board by way of written resolutions, at which the 2010 First Quarterly Report of the Company was approved.
- (3) On 28 May 2010, the Company held the fourteenth meeting of the sixth Board at its headquarters, at which Mr. Lai Weide was elected as the Chairman of the Board of the Company.

(The announcement of the aforesaid resolutions passed by the Board was published in the Shanghai Securities News, China Securities Journal on 29 May 2010, and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 28 May 2010.)

- (4) On 25 August 2010, the Company held the fifteenth meeting of the sixth Board by way of written resolutions, at which the 2010 Interim Report and its summary were approved.
- (5) On 26 October 2010, the Company held the sixteenth meeting of the sixth Board by way of written resolutions, at which the 2010 Third Quarterly Report of the Company was approved.

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

Newspapers and Websites for Information Disclosure

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

Report of the Board (Continued)

Principal Activities

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

Turnover and Contribution by Business Segment

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

Type of products	Turnover RMB'000	Contribution to the Group's operating profit (loss) RMB'000
Electronic manufacturing products	613,570	45,678
Electronic equipment products	343,272	17,541
Electronic intelligent products	458,638	(4,364)
Other operations	229,966	5,642
Operating profit		64,497
Unallocated corporate expense		(112,575)
Interest income		6,092
Interest expenses		(24,938)
Share of results of associates		91,047
Profit before taxation		24,123

Financial Summary

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

Net Assets Per Share

The details of the net assets per share as at the balance sheet date for each of the three years ended 31 December 2010 are as follows.

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

	2010	2009	2008
Net assets per share (Net assets/Total number of shares) (RMB)	2.25	2.24	2.40
Increase/(decrease)	0.76%	(6.67)%	(3.97)%

Report of the Board (Continued)

Net Assets Per Share (Continued)

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

	2010	2009	2008
Net assets per share (Net assets/Total number of shares) (Unit: RMB)	2.25	2.24	2.40
Increase/(decrease)	0.76%	(6.67)%	—

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

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

Pre-emptive Rights

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

Directors' and Supervisors' Remuneration

During the year, the aggregate remuneration of the Directors and Supervisors amounted to RMB1,248,000 and RMB580,000 respectively, exclusive of their pension scheme contributions. Save as disclosed above, the Company did not offer other remuneration, allowances, or bonuses to the Directors and Supervisors.

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

Highest Paid Individuals

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

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

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

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

At no time during the year had the Group entered into any significant contract which a director, supervisor and senior management staff of the Company had a material interest.

Report of the Board (Continued)

Service Agreements for Directors and Supervisors

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

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

Privileges of Directors, Supervisors and Senior Management Staff

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

Material Contracts with Panda Electronics Group Limited

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

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

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

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

Report of the Board (Continued)

Convertible Securities, Options, Warrants or Similar Rights

The Company had not issued or granted any convertible securities, options, warrants or similar rights as at 31 December 2010.

Pension Scheme

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

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

Management Contracts

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

Results and Profit Distribution

The results of the Group for the year ended 31 December 2010 and the financial status of the Company and the Group on that date are set out in the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and the PRC accounting standards.

After being audited by Vocation International Certified Public Accountants Co., Ltd. and Baker Tilly Hong Kong Limited, the Company realized a net profit after taxation of RMB9,192,400 in 2010 under the PRC Accounting Standards for Business Enterprises; the Company's net profit was RMB9,192,400 in 2010 under Hong Kong Financial Reporting Standards.

Under the relevant accounting policies and the Articles of Association, the withdrawal from the statutory common fund was RMB247,220. In addition, the undistributed profit for 2009 was RMB141,835,130. Hence the actual profit attributable to shareholders in this year amounted to RMB150,780,310.

In view of the actual situations of the Company, the Board resolved not to distribute any final dividends as at 31 December 2010 in order to cater for the need to meet capital requirements of production, operation and sustainable development of the Company. The earnings for the year were used as supplementary working capital. The remaining distributable profit is to be carried forward to next year.

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

The aforesaid profit distribution proposal is subject to the shareholders' approval at the 2010 annual general meeting.

Report of the Board (Continued)

Distribution of the last three years of the Company

Unit: RMB'000

Year	Cash Dividend (tax inclusive)	Net Profit of the Year	Ratio (%)
2008	—	41,139.03	—
2009	—	—	—
2010	—	—	—

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group, as of 31 December 2010, are set out in the notes to the financial statements prepared under Hong Kong Financial Reporting Standards.

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

Reserves

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

Fixed Assets

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

Subsidiaries

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

Code of Corporate Governance Practices and Model Code

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

Report of the Board (*Continued*)

Confirmation by Independent Non-executive Directors on Connected Transactions

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

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

Annual General Meeting

The Board proposes to convene the annual general meeting before 30 June 2011. Announcement will be made separately for relevant matters.

By Order of the Board
Lai Weide
Chairman

Nanjing, the PRC
25 March 2011

Report of the Supervisory Committee

To all shareholders,

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

(I) Operation of the Supervisory Committee

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

- (1) On 29 March 2010, the tenth meeting of the sixth Supervisory Committee was held at the Company's conference room, at which the 2009 report of the Supervisory Committee was approved, the 2009 audited financial statements and 2009 Annual Report and its summary were reviewed, the review opinions on 2009 Annual Report prepared by the Board were considered and approved, the summary of Supervisory Committee work for 2010 were passed and Internal Control Report and Report on Social Responsibilities of the Company were considered and approved.
- (2) On 21 April 2010, the eleventh meeting of the sixth Supervisory Committee was held by way of written resolutions, at which the 2010 First Quarterly Report was reviewed, and the review opinion on the 2010 First Quarterly Report prepared by the Board was considered and approved.
- (3) On 25 August 2010, the twelfth meeting of the sixth Supervisory Committee was held at the Company's conference room by the Supervisory Committee, at which the 2010 Interim Report and its summary was reviewed, and the review opinions on the 2010 Interim Report prepared by the Board was considered and approved.
- (4) On 26 October 2010, the thirteenth meeting of the sixth Supervisory Committee was held by way of written resolutions, at which the 2010 Third Quarterly Report was reviewed, and the review opinion on the 2010 Third Quarterly Report prepared by the Board was considered and approved.

Report of the Supervisory Committee (Continued)

(II) Compliance with the Company's Operations in Compliance with Laws

During the reporting period, all Supervisors attended general meetings and board meetings and provided effective supervision to ensure all decisions made by general meetings and the Board were in accordance with the laws and regulations and the Company's Articles of Association, as well as in line with the Company's development and prospects and in accordance with shareholders' interests. The Supervisors also alerted the Board and the management of the Company of any potential risks in a timely manner. The Supervisory Committee actively participated in production operation, technological renovation and investment projects of the Company, and provided many good proposals.

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

(III) Financial Conditions of the Company

The Supervisory Committee has duly examined the financial statements, the profit distribution scheme and other accounting information etc. for the year 2010 and is of the view that the financial income and expenditure accounts are clear; and that the accounting, auditing and financial management have complied with the relevant requirements without any problems identified. The international and domestic auditors of the Company have audited the 2010 financial statements of the Company in accordance with the HKFRSs and the PRC accounting standards, respectively, and have issued auditors' reports with standard unqualified audit opinions accordingly. The Supervisory Committee is of the view that the financial income and expenditure and the operating results of the Company are fairly and correctly reflected by the auditors' reports. The operating results achieved are truthful.

(IV) Use of raised proceeds

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

(V) Connected Transactions of the Company

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

The Group and PEGL Group entered into agreements in respect of the continuing connected transactions contemplated to be conducted between 2010 and 2012 by both parties on 15 October 2009. The continuing connected transactions were considered and approved by the independent shareholders at the 2009 first EGM held on 23 December 2009.

Report of the Supervisory Committee (Continued)

(VI) Evaluation of Internal Control

The Supervisory Committee conducted self-evaluation on the Company's internal control and no material defect was found in the design and implementation of the internal control system. With basic evaluations on various core components in the internal control system, the Supervisory Committee was of the view that the Company's internal control system and its implementation were basically sound and effective between 1 January this year and the end of this reporting period, and has fulfilled the requirements of various aspects including corporate governance, operation, management, finance, investment and administration and human resources management, effectively controlling various operation management risks of the Company.

Both Baker Tilly Hong Kong Limited and Vocation International Certified Public Accountants Co., Ltd. have prepared the unqualified auditors' reports as at 31 December 2010 in accordance with Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises, respectively. The 2010 financial statements fairly reflect the financial and operating situation of the Company.

The Supervisory Committee wishes the Company can gain further achievements in special corporate governance campaigns, standardize operation of the Company, continue to strengthen supervision and management enhancement on Controlled Subsidiaries and further improve the internal control system, especially for capital utilization and guarantee to outside parties, as so to control the risk effectively.

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

By Order of the Supervisory Committee
Zhang Zhengping
Chairman

Nanjing, the PRC
25 March 2011

Significant Events

1. During the reporting period, the Company did not have material litigation and arbitration.
2. During the reporting period, the Company did not have material asset acquisition and disposal and merger.
3. Connected transactions:

- (1) During the reporting period, other than the 2010-2012 Continuing Connected Transactions of the Company (namely, the continuing connected transactions which were conducted in the usual course of business on normal commercial terms) which was approved by the independent shareholders at the EGM held on 23 December 2009, the Company did not have other material connected transactions and asset reorganization.

In 2010, the continuing connected transactions of the Company were entered into in the usual course of business on normal commercial terms which were required for normal business operation, and were audited by auditors. All connected transactions were confirmed by Independent Non-executive Directors (The details of which are contained in the Auditor's Report) and had not exceeded their respective annual caps.

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

Connected Transactions	Price	Total Amount (RMB'000)
(a) Provision of sub-contracting services and composite services by the Group to the PEGL Group	at prices no less favorable to the Company than terms available to an independent third party	5,316
(b) Provision of sub-contracting services and composite services by the PEGL Group to the Group	at prices no less favorable to the Company than terms available from an independent third party	3,252
(c) Sale of materials and components and parts by the Group to the PEGL Group	Market price	90,987
(d) Sale of materials and components and parts by the PEGL Group to the Group	Market price	7,937
(e) Import and export agency services provided by the PEGL Group to the Group		Nil
(f) Licensing of PANDA Trademarks by the Group to the PEGL Group		416
(g) Lease of factory premises by the Group to the PEGL Group	Market price	102
(h) Lease of factory premises and land use rights by PEGL Group to the Group	Market price	Nil

- (2) During the reporting period, the transactions amount of sale of product and provision of service by the Company to related parties was RMB207,791,900, among which the connected transaction for sale of products and provision of services to the controlling shareholder and its subsidiaries amounted to RMB96,303,100; the transaction for purchase of products and acceptance of service from related parties amounted to RMB11,694,700.

Significant Events (Continued)

3. Connected transactions: (Continued)

- (3) During the reporting period, the Company did not provide any fund to related parties and the balance was RMB2,799,400, amongst which the actual amount provided to the controlling shareholders and its subsidiaries was nil and the balance was nil; the actual amount of the provision of fund by related parties to the Company was RMB84,000 and the balance was RMB7,779,300.
- (4) As at 31 December 2010, there were no non-operating funds supplied by the Company to its controlling shareholder PEGE.

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

6. Material guarantee

During the reporting period, the amount guaranteed by the Company for its subsidiaries amounted to RMB157,232,900 and the balance amounted to RMB78,276,900, the details of which are as follows:

As of 31 December 2010, the Company provided guarantee for bank loan of RMB6,000,000, to its controlled subsidiary, Nanjing Panda Information Industry Co., Ltd. in between bank acceptance of RMB13,671,000 and performance guarantee of RMB2,553,400, bank loan of RMB42,000,000 and bank acceptance of RMB3,750,000 to Nanjing Huage Appliance and Plastic Industrial Company Limited, as well as bank loan of RMB5,000,000 of Nanjing Panda Mechanical Manufacturing Co., Ltd. and letter of credit of RMB2,552,500 and bank acceptance of RMB2,750,000 to Nanjing Panda Electronic Manufacture Co., Ltd.

The said guarantees totaling RMB78,276,900, representing 5.28% of the Company's net asset, are provided to controlled subsidiaries. The gearing ratio of the above subsidiaries receiving guarantees was below 70%.

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

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

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

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

In the process of the Share Segregation Reform, PEGE had strictly fulfilled all the above undertakings.

During the reporting period, no shareholder of the Company holds shares subject to trading moratorium (refers to those arising from share reform only).

Significant Events (Continued)

8. At the Annual General Meeting held on 30 June 2010, the re-appointment of Vocation International Certified Public Accountants Co., Ltd. (“Vocation International”) and UHY Vocation HK CPA Limited (“UHY HK”) as domestic and international auditors of the Company for 2010 was considered and approved.

UHY HK has resigned from its position as the international auditor of the Company for 2010 on 2 December 2010. After having been nominated by the Board and approved at the extraordinary general meeting held on 18 March 2011, the Company appointed Baker Tilly Hong Kong Limited (“BT Hong Kong”) as the international auditor of the Company for 2010.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News on 7 December 2010 and 19 March 2011 and on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 6 December 2010 and 19 March 2011.)

Vocation International has provided audit service to the Company for the third consecutive year. BT Hong Kong provides audit service to the Company for the first time.

Remuneration paid by the Company to the abovementioned two certified public accountants for their audit services for the annual report were aggregately RMB2,020,000 (the aggregate amount of 2009: RMB2,019,900), of which RMB1,111,000 was paid to Vocation International while RMB909,000 was paid to BT Hong Kong.

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

(1) Tax Policies

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

(2) Basic medical insurance for employees.

The Company acted pursuant to the Provisional Regulations on Basic Medical Insurance for Employees in Nanjing Municipality (the “Regulations”) and implemented a medical insurance scheme for its employees since 1 January 2001. The Company pays the premiums for such basic medical insurance scheme and the premiums are equivalent to 8.5% of the verified fee of all of the existing employees of the Company and provides subsidy to employees who have serious illness and whose medical expenses are covered under the medical scheme. The total allowance given in 2010 was not more than RMB2,360,000. Save for the aforesaid premiums, the Company is not responsible for other medical expenses.

Independent Auditor's Report



BAKER TILLY
HONG KONG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS

天職香港會計師事務所有限公司

12th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
香港干諾道中168-200號信德中心招商局大廈12樓

**Independent auditor's report to the shareholders of
Nanjing Panda Electronics Company Limited**
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Nanjing Panda Electronics Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 60 to 123, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Independent Auditor's Report (Continued)

Auditor's responsibility (Continued)

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Baker Tilly Hong Kong Limited

Certified Public Accountants
Hong Kong, 25 March 2011
Chan Kwan Ho, Edmond

Practising Certificate Number P02092

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010 (Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	7	1,645,946	1,267,295
Cost of sales		(1,434,401)	(1,175,868)
Gross profit		211,545	91,427
Other income and net (losses)/gains	8	45,532	49,677
Distribution costs		(41,416)	(22,538)
Administrative expenses		(263,739)	(201,184)
Operating loss		(48,078)	(82,618)
Finance income	9	6,092	3,287
Finance costs	9	(24,938)	(36,544)
Net finance costs	9	(18,846)	(33,257)
Share of profits of associates		91,047	147,273
Profit before taxation	10	24,123	31,398
Income tax expense	12	(16,588)	(12,374)
Profit and total comprehensive income for the year		7,535	19,024
Attributable to:			
Equity holders of the Company		9,192	15,526
Non-controlling interests		(1,657)	3,498
		7,535	19,024
Earnings per share (RMB cents)			
— Basic and diluted	13	1.40	2.37

The notes on pages 68 to 123 form part of the consolidated financial statements.

Consolidated Balance Sheet

At 31 December 2010 (Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	15	23,379	24,062
Property, plant and equipment	16	610,468	553,013
Associates	18	661,484	778,712
Deferred tax assets	19	6,509	2,782
		<u>1,301,840</u>	<u>1,358,569</u>
Current assets			
Inventories	20	182,633	139,031
Trade and bills receivables	21	273,581	215,484
Amounts due from customers for contract work	22	31,730	18,399
Deposits, prepayments and other receivables	23	98,413	84,343
Amounts due from fellow subsidiaries, associates and related companies	24	51,957	19,090
Amount due from ultimate holding company	25	1,344	91
Restricted bank deposits	26	229,933	61,579
Cash and cash equivalents	27	390,413	560,354
		<u>1,260,004</u>	<u>1,098,371</u>
Total assets		<u><u>2,561,844</u></u>	<u><u>2,456,940</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	655,015	655,015
Share premium and reserves		821,122	809,990
		<u>1,476,137</u>	<u>1,465,005</u>
Non-controlling interests		<u>6,582</u>	<u>11,785</u>
Total equity		<u><u>1,482,719</u></u>	<u><u>1,476,790</u></u>

Consolidated Balance Sheet (Continued)

At 31 December 2010 (Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Long term borrowing	30	4,000	4,000
Obligations under finance leases — non-current portion	31	—	1,279
Deferred tax liabilities	19	69	—
		<u>4,069</u>	<u>5,279</u>
Current liabilities			
Bank borrowings	32	520,574	399,454
Trade payables	33	315,926	270,216
Accruals and other payables		204,827	201,919
Amounts due to fellow subsidiaries, associates and related companies	24	14,083	11,612
Amount due to ultimate holding company	25	8,802	86,705
Obligations under finance leases — current portion	31	1,279	2,215
Tax payable		9,565	2,750
		<u>1,075,056</u>	<u>974,871</u>
Total liabilities		<u>1,079,125</u>	<u>980,150</u>
Total equity and liabilities		<u>2,561,844</u>	<u>2,456,940</u>
Net current assets		<u>184,948</u>	<u>123,500</u>
Total assets less current liabilities		<u>1,486,788</u>	<u>1,482,069</u>

Approved and authorised for issue by the board of directors on 25 March 2011.

XU Guofei
Director

LU Qing
Director

The notes on pages 68 to 123 form part of the consolidated financial statements.

Balance Sheet

At 31 December 2010 (Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	15	11,382	11,766
Property, plant and equipment	16	388,667	353,205
Subsidiaries	17	408,818	387,820
Associates	18	576,975	576,975
		<u>1,385,842</u>	<u>1,329,766</u>
Current assets			
Inventories	20	10,678	10,163
Trade and bills receivables	21	27,650	23,579
Deposits, prepayments and other receivables	23	17,748	27,970
Dividend receivable		1,518	2,500
Amounts due from subsidiaries	17	175,060	179,967
Amounts due from fellow subsidiaries, associates and related companies	24	6,985	1,342
Restricted bank deposits	26	198,751	33,745
Cash and cash equivalents	27	151,591	293,956
		<u>589,981</u>	<u>573,222</u>
Total assets		<u><u>1,975,823</u></u>	<u><u>1,902,988</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	655,015	655,015
Share premium and reserves	29	691,402	568,884
Total equity		<u><u>1,346,417</u></u>	<u><u>1,223,899</u></u>

Balance Sheet (Continued)

At 31 December 2010 (Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Long term borrowing	30	<u>4,000</u>	<u>4,000</u>
Current liabilities			
Bank borrowings	32	433,438	346,354
Trade payables	33	18,338	62,348
Accruals and other payables		90,304	108,110
Amounts due to subsidiaries	17	75,773	69,781
Amounts due to fellow subsidiaries, associates and related companies	24	4,620	6,659
Amount due to ultimate holding company	25	<u>2,933</u>	<u>81,837</u>
		<u>625,406</u>	<u>675,089</u>
Total liabilities		<u>629,406</u>	<u>679,089</u>
Total equity and liabilities		<u>1,975,823</u>	<u>1,902,988</u>
Net current liabilities		<u>(35,425)</u>	<u>(101,867)</u>
Total assets less current liabilities		<u>1,350,417</u>	<u>1,227,899</u>

Approved and authorised for issue by the board of directors on 25 March 2011.

XU Guofei
Director

LU Qing
Director

The notes on pages 68 to 123 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010 (Expressed in Renminbi)

	Share capital	Share premium	Capital reserve	Statutory common funds	Asset revaluation reserve	Accumulated profits	Attributable to equity holders of the Company	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
Profit and total comprehensive income for the year	—	—	—	—	—	9,192	9,192	(1,657)	7,535
Disposal of a subsidiary	—	—	—	—	—	—	—	(431)	(431)
Profit appropriations	—	—	—	247	—	(247)	—	—	—
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	(5,006)	(5,006)
Acquisition of additional interests in subsidiaries	—	—	1,940	—	—	—	1,940	(809)	1,131
Capital injection from non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	2,700	2,700
As at 31 December 2010	<u>655,015</u>	<u>389,338</u>	<u>(7,635)</u>	<u>204,743</u>	<u>35,688</u>	<u>198,988</u>	<u>1,476,137</u>	<u>6,582</u>	<u>1,482,719</u>

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2010 (Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory common funds RMB'000	Asset revaluation reserve RMB'000	Accumulated profits 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	655,015	389,338	115,572	202,222	35,688	176,791	1,574,626	13,358	1,587,984
Profit and total comprehensive income for the year	—	—	—	—	—	15,526	15,526	3,498	19,024
Deemed distributions relating to business combinations under common control	—	—	(124,633)	—	—	—	(124,633)	—	(124,633)
Profit appropriations	—	—	—	2,274	—	(2,274)	—	—	—
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	(3,141)	(3,141)
Acquisition of additional interest in a subsidiary	—	—	(514)	—	—	—	(514)	(3,430)	(3,944)
Capital injection from the non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	1,500	1,500
As at 31 December 2009	<u>655,015</u>	<u>389,338</u>	<u>(9,575)</u>	<u>204,496</u>	<u>35,688</u>	<u>190,043</u>	<u>1,465,005</u>	<u>11,785</u>	<u>1,476,790</u>

The notes on pages 68 to 123 form part of the consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010 (Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash (used in)/generated from operations	34	(101,339)	243,743
Interest paid		(23,623)	(36,305)
Finance lease interest paid		(239)	(239)
Income tax paid		(13,570)	(9,661)
Net cash (used in)/generated from operating activities		(138,771)	197,538
Investing activities			
Purchase of property, plant and equipment		(116,108)	(88,325)
Acquisition of additional interests in subsidiaries		(809)	—
Net cash outflow arising on disposal of a subsidiary	35	(425)	—
Proceeds from disposal of property, plant and equipment		2,716	803
Proceeds from disposal of land use rights		—	52,954
Cash paid for business combination under common control		—	(124,633)
Restricted bank deposit designated for capital contribution to a new subsidiary		(175,000)	—
Interest received		6,092	3,287
Dividends received from associates		208,275	306,146
Net cash (used in)/generated from investing activities		(75,259)	150,232
Financing activities			
Proceeds from borrowings		592,738	454,000
Repayments of borrowings		(471,618)	(693,593)
(Decrease)/increase in net amount due to ultimate holding company		(79,156)	74,913
Repayment of obligations under finance leases		(2,215)	(9,220)
Dividends paid to non-controlling shareholders of subsidiaries		(5,006)	(3,141)
Capital injection from non-controlling shareholders of a subsidiary		2,700	1,500
Decrease/(increase) in restricted bank deposits		6,646	(28,320)
Net cash generated from/(used in) financing activities		44,089	(203,861)
Net (decrease)/increase in cash and cash equivalents		(169,941)	143,909
Cash and cash equivalents at beginning of the year		560,354	416,445
Cash and cash equivalents at end of the year	27	390,413	560,354

The notes on pages 68 to 123 form part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

1 General information

Nanjing Panda Electronics Company Limited (the “Company”) was established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 29 April 1992. The Company’s H shares have been listed on The Stock Exchange of Hong Kong Limited (“HKSE”) since 2 May 1996 and its A shares have been listed on the Shanghai Stock Exchange since 18 November 1996. The directors consider the parent and ultimate holding company of the Company to be Panda Electronics Group Company Limited (“PEGL”), a PRC state-owned enterprise.

The principal activities of the Company and its subsidiaries (together the “Group”) are the development, manufacture and sale of electronic manufacturing products, electronic equipment products, satellite communication products and electronic intelligent products.

The registered office of the Company is located at Level 1-2, Block 5, North Wing, Nanjing High and New Technology Development Zone, Nanjing, the PRC. The principal place of business of the Company is located at 301 Zhongshan Road East, Nanjing, the PRC.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), Interpretations and Accounting Guidelines issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except that certain property, plant and equipment is stated at 1995 valuation less accumulated depreciation and impairment losses as explained in note 2.5 below.

On 30 April 2009, the Company completed the acquisition of a total 100% equity interest in Nanjing Panda Technology Industrial Co., Ltd. (“NP Technology”) from the ultimate holding company and a fellow subsidiary of the Company for a total cash consideration of RMB121,989,200. On 31 July 2009, the Company completed the acquisition of 70% equity interest in Nanjing Panda Electromechanical Instruments Technology Co., Ltd. (“NP Electromechanical Instruments”) from the ultimate holding company for a cash consideration of RMB2,643,700.

Since the Company, NP Technology and NP Electromechanical Instruments are ultimately controlled by PEGL both before and after the abovementioned acquisitions, these acquisitions were regarded as common control combinations. Under the HKFRSs, the acquisitions of NP Technology and NP Electromechanical Instruments were accounted for in accordance with the Accounting Guideline 5 “Merger accounting for common control combinations” issued by the HKICPA. Accordingly, the acquired assets and liabilities are stated at the predecessors’ values, and were included in the consolidated financial statements from the beginning of the earliest period presented as if NP Technology and NP Electromechanical Instruments had always been part of the Group.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 6.

2.2 Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2.8), unless the investment is classified as held for sale.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.3 Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see note 2.8). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associate and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

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

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

2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost or 1995 valuation less accumulated depreciation and impairment losses (see note 2.8).

In 1995, the Group's property, plant and equipment were revalued in connection with the listing of the Company's H shares on the HKSE and since then the revalued assets are stated at 1995 valuation less accumulated depreciation and impairment losses. The surplus arising on the 1995 revaluation was credited to the asset revaluation reserve. Any future decrease in value of these assets will be charged to profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to the previous revaluation of the same assets.

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

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

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

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit and loss. Any related revaluation surplus is transferred from asset revaluation reserve to accumulated profits.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.6 Land use rights

Payments for obtaining land use rights that are classified as operating lease are accounted for as prepaid operating lease payments and charged to profit or loss over the period of the right using the straight line method.

2.7 Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2.8).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2.8 Impairment loss

- (i) Impairment of investments in equity securities and other receivables

Investment in equity securities (other than investments in subsidiaries, see note 2.8(ii)) and other current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.8 Impairment loss (Continued)

(i) Impairment of investments in equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as:

For investment in an associate recognised using the equity method (see note 2.3), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2.8(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2.8(ii).

For trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of debtors included within debtors, other receivables, deposits and prepayments, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries; and
- goodwill.

Notes to the Consolidated Financial Statements *(Continued)*

(Expressed in Renminbi)

2 Summary of significant accounting policies *(Continued)*

2.8 Impairment loss *(Continued)*

(ii) Impairment of other assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2.9 Inventories

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

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.10 Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2.8), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2.11 Cash and cash equivalents

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

2.12 Trade and other payables

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

2.13 Borrowings

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

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

2.14 Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.14 Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.15 Leases

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

(a) Where the Group is the lessee

(i) Operating leases

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

(ii) Finance leases

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

(b) Where the Group is the lessor

(i) Operating leases

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

2.16 Financial guarantees

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee ("the holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.16 Financial guarantees (Continued)

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within accruals and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2.17 if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors, other payables and accrued expenses in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

2.17 Provisions

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

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

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

2.18 Project contract

When the outcome of a fixed price project contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a cost plus project contract can be estimated reliably, revenue from cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.18 Project contract (Continued)

Where the outcome of a project contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

2.19 Recognition of income

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

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

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.20 Borrowing costs

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

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

2.21 Retirement benefit scheme

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

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

2.22 Research and development costs

Research costs are expensed when incurred.

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

2.23 Government grants

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

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

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

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

3 Application of new and revised HKFRSs

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendment to HKAS 39, Financial instruments: Recognition and measurement - eligible hedged items
- Improvements to HKFRSs (2009)
- HK Interpretation 5, Presentation of financial statements - Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

The amendment to HKAS 39 and the issuance of HK Interpretation 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, and HKAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "minority interests") in excess of their equity interests) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

3 Application of new and revised HKFRSs (Continued)

Further details of these changes in accounting policy are as follows: (Continued)

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies: (Continued)
 - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
 - In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
 - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
 - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

3 Application of new and revised HKFRSs (Continued)

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods, therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, the following policies will be applied as from 1 January 2010:
 - If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods, therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010, any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.
- As a result of the amendment to HKAS 17, Leases, arising from the Improvements to HKFRSs (2009) omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

3 Application of new and revised HKFRSs (Continued)

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised HKAS 24, Related party disclosures	1 January 2011
HKFRS 9, Financial instruments	1 January 2013
Improvements to HKFRSs (2010)	1 July 2010 or 1 January 2011
Amendments to HKAS 12, Income taxes	1 January 2012

The Group is in the process of assessing the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application, but is not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on the Group's or the Company's results of operations and financial position.

4 Financial Risk Management

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

(a) Market risk

(i) Foreign currency risk

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

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2010, if RMB had weakened/strengthened by 5% against USD with all the variables held constant, post-tax profit for the year would have been RMB1,208,000 (2009: RMB1,554,000) lower/higher, mainly as a result of foreign exchange gains on translation of USD-denominated monetary assets and liabilities.

5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange risks. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts translation at the year end for a 5% change in foreign exchange rates.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from bank borrowings. As at 31 December 2010, a portion of borrowings were at floating rates.

As at 31 December 2010, if interest rates on such borrowings have been 100 basis points higher/lower with all other variables held constant, profit for the year would have been RMB3,585,000 (2009: RMB2,850,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

The above sensitivity analysis is prepared assuming the amount of assets and liabilities at the balance sheet date were outstanding for the whole year. A 100 basis points increase or decrease in interest rate is used when reporting interest rate internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

(b) Credit risk

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

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

The Group has concentration of credit risk as 40% (2009: 44%) of the total trade and bills receivables was due from the Group's five largest customers.

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

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Further quantitative disclosure on exposure to credit risk arising from trade receivables are set out in note 21.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(c) Liquidity risk

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

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

The Group

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000
2010					
Bank borrowings	524,574	538,668	534,656	4,012	—
Trade payables	315,926	315,926	315,926	—	—
Accruals and other payables	204,827	204,827	204,827	—	—
Amounts due to fellow subsidiaries, associates and related companies	14,083	14,083	14,083	—	—
Amount due to ultimate holding company	8,802	8,802	8,802	—	—
Finance lease obligations	1,279	1,314	1,314	—	—
	<u>1,069,491</u>	<u>1,083,620</u>	<u>1,079,608</u>	<u>4,012</u>	<u>—</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(c) Liquidity risk (Continued)

The Group (Continued)

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000
2009					
Bank borrowings	403,454	416,639	412,612	—	4,027
Trade payables	270,216	270,216	270,216	—	—
Accruals and other payables	201,919	201,919	201,919	—	—
Amounts due to fellow subsidiaries, associates and related companies	11,612	11,612	11,612	—	—
Amount due to ultimate holding company	86,705	86,705	86,705	—	—
Finance lease obligations	3,494	3,766	2,452	1,314	—
	<u>977,400</u>	<u>990,857</u>	<u>985,516</u>	<u>1,314</u>	<u>4,027</u>

The Company

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000
2010					
Bank borrowings	437,438	449,609	445,597	4,012	—
Trade payables	18,338	18,338	18,338	—	—
Accruals and other payables	90,304	90,304	90,304	—	—
Amounts due to subsidiaries	75,773	75,773	75,773	—	—
Amounts due to fellow subsidiaries, associates and related companies	4,620	4,620	4,620	—	—
Amount due to ultimate holding company	2,933	2,933	2,933	—	—
	<u>629,406</u>	<u>641,577</u>	<u>637,565</u>	<u>4,012</u>	<u>—</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(c) Liquidity risk (Continued)

The Company (Continued)

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year RMB'000	Between 1 year and 2 years RMB'000	Over 2 years RMB'000
2009					
Bank borrowings	350,354	362,722	358,695	—	4,027
Trade payables	62,348	62,348	62,348	—	—
Accruals and other payables	108,110	108,110	108,110	—	—
Amounts due to subsidiaries	69,781	69,781	69,781	—	—
Amounts due to fellow subsidiaries, associates and related companies	6,659	6,659	6,659	—	—
Amount due to ultimate holding company	81,837	81,837	81,837	—	—
	<u>679,089</u>	<u>691,457</u>	<u>687,430</u>	<u>—</u>	<u>4,027</u>

(d) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
The Group		
Financial assets		
Loan and receivables (including cash and cash equivalents)	<u>970,675</u>	<u>876,660</u>
Financial liabilities		
Financial liabilities at amortised cost	<u>1,069,491</u>	<u>977,400</u>
The Company		
Financial assets		
Loan and receivables (including cash and cash equivalents)	<u>566,212</u>	<u>537,788</u>
Financial liabilities		
Financial liabilities at amortised cost	<u>629,406</u>	<u>679,089</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

5 Capital risk management

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

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

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

The gearing ratios as at 31 December 2010 and 2009 were as follows:

	2010 RMB'000	2009 RMB'000
Total borrowings	525,853	406,948
Less: Cash and cash equivalents	<u>(390,413)</u>	<u>(560,354)</u>
Net debt	135,440	(153,406)
Total equity (excluding non-controlling interests)	<u>1,476,137</u>	<u>1,465,005</u>
Total capital	<u>1,611,577</u>	<u>1,311,599</u>
Gearing ratio	<u>8%</u>	<u>(12%)</u>

6 Critical accounting estimates and judgements

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

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

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

6 Critical accounting estimates and judgements (Continued)

(a) Useful lives of property, plant and equipment

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

(b) Impairment of trade and other receivables

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

(c) Provision for obsolete inventories

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

7 Revenue and segmental information

The Group determines its operating segments based on the internal financial information reviewed by the board of directors of the Company that are used to make strategic decisions. For the year ended 31 December 2010, the Group has the following three reportable segments:

- | | | |
|-------|------------------------------------|-----------------------------------------------------------------------|
| (i) | Electronic manufacturing products: | Development, production and sale of electronic manufacturing products |
| (ii) | Electronic equipment products: | Development, production and sale of electronic equipment products |
| (iii) | Electronic intelligent products: | Development, production and sale of electronic intelligent products |

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

The segmental information was prepared in accordance with the method adopted by the senior executive management of the Group in evaluating segment performance and allocation of resources between segments. The Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets included all non-current and current assets with the exception of interests in associates and other corporate assets. Segment liabilities included all non-current and current liabilities with the exception of other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

The following tables provide an analysis of the Group's revenue, results and certain assets, liabilities and expenditure information by reportable segments for the years ended 31 December 2010 and 2009:

Year ended 31 December 2010

	Electronic manufacturing products <i>RMB'000</i>	Electronic equipment products <i>RMB'000</i>	Electronic intelligent products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue						
External sales	613,570	343,772	458,638	229,966	—	1,645,946
Internal sales	5,931	32,604	67,374	47,067	(152,976)	—
Total	<u>619,501</u>	<u>376,376</u>	<u>526,012</u>	<u>277,033</u>	<u>(152,976)</u>	<u>1,645,946</u>
Results						
Segment results	<u>45,678</u>	<u>17,541</u>	<u>(4,364)</u>	<u>5,642</u>	<u>—</u>	64,497
Unallocated corporate expenses						(112,575)
Interest income						6,092
Interest expense						(24,938)
Share of profits of associates						91,047
Income tax expense						<u>(16,588)</u>
Profit for the year						<u>7,535</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

At 31 December 2010

	Electronic Manufacturing products <i>RMB'000</i>	Electronic equipment products <i>RMB'000</i>	Electronic intelligent products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Assets						
Segment assets	519,219	267,534	331,606	164,699	(141,047)	1,142,011
Associates						661,484
Unallocated corporate assets						758,349
Consolidated total assets						2,561,844
Liabilities						
Segment liabilities	282,958	179,954	210,662	62,302	(182,169)	553,707
Unallocated corporate liabilities						525,418
Consolidated total liabilities						1,079,125

	Electronic Manufacturing products <i>RMB'000</i>	Electronic equipment products <i>RMB'000</i>	Electronic intelligent products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Other information						
Capital expenditure	53,434	7,597	1,743	14,180	39,154	116,108
Depreciation and amortisation	24,215	3,884	533	659	14,090	43,381
Write-down of inventories	8,034	1,737	77	3,092	—	12,940
Impairment loss on property, plant and equipment	—	5	—	—	—	5
Loss on disposal of property, plant and equipment	11,553	—	—	—	—	11,553
Impairment loss recognised on trade receivables	174	9,505	19,890	287	—	29,856

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

Year ended 31 December 2009

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

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

Revenue and segmental information (Continued)

At 31 December 2009

	Electronic manufacturing products RMB'000	Electronic equipment products RMB'000	Satellite telecom- munication RMB'000	Electronic intelligent products RMB'000	Other operations RMB'000	Elimination RMB'000	Consolidated RMB'000
Assets							
Segment assets	409,650	227,448	153,279	368,640	145,956	(95,132)	1,209,841
Associates							778,712
Unallocated corporate assets							468,387
Consolidated total assets							2,456,940
Liabilities							
Segment liabilities	162,684	137,620	450	291,897	51,498	(197,542)	446,607
Unallocated corporate liabilities							533,543
Consolidated total liabilities							980,150
Other information							
Capital expenditure	9,201	1,139	—	524	1,588	64,059	76,511
Depreciation and amortisation	26,416	4,581	—	672	547	13,494	45,710
Write-down of inventories	3,547	559	—	7,669	968	—	12,743
Impairment loss on property, plant and equipment	8,218	—	—	—	—	—	8,218
Loss on disposal of property, plant and equipment	457	—	—	—	—	639	1,096
Impairment loss recognised/ (reversed) on trade receivables	(6,502)	594	—	546	349	—	(5,013)

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

(a) Geographical information

As over 90% of the Group's revenue, expenses, assets and liabilities is attributable to the Group's operations in the PRC, no geographical information is presented.

(b) Major customers

For the year ended 31 December 2010, there was one customer in the electronic manufacturing products segment that accounted for over 10% of the Group's revenue. Sales to this customer amounted to approximately RMB171,967,000.

For the year ended 31 December 2009, there was one customer in the satellite telecommunication segment that accounted for over 10% of the Group's revenue. Sales to this customer amounted to approximately RMB203,733,000.

8 Other income and net (losses)/gains

	2010 RMB'000	2009 RMB'000
Other income		
Rental income	4,197	7,359
Property management fee income	6,055	280
Government subsidies	28,611	23,971
Write-off of trade and other payables	—	5,620
Sundry income	9,537	3,404
	<u>48,400</u>	<u>40,634</u>
Other net (losses)/gains		
Gain on disposal of land use rights	—	8,953
Gain on disposal of a subsidiary (Note 35)	33	—
Exchange (losses)/gains	(2,901)	90
	<u>(2,868)</u>	<u>9,043</u>
	<u>45,532</u>	<u>49,677</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

9 Finance income and costs

	2010 RMB'000	2009 RMB'000
Interest expense		
— Bank and other borrowings wholly repayable within five years	(23,623)	(34,397)
— Finance lease interest	(239)	(239)
— Others	(1,076)	(1,908)
Finance costs	(24,938)	(36,544)
Finance income		
— Interest income on short-term deposits	6,092	3,287
Net finance costs	(18,846)	(33,257)

10 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2010 RMB'000	2009 RMB'000
Cost of inventories recognised as an expense	952,698	718,640
Loss on disposal of property, plant and equipment	11,553	1,096
Amortisation of land use rights	683	1,194
Depreciation of property, plant and equipment	42,698	44,516
Impairment loss recognised/(reversed) on		
— Trade receivables	29,856	(5,013)
— Other receivables	1,913	2,182
— Amounts due from fellow subsidiaries, associates and related companies	(687)	2,311
Write-down of inventories	12,940	12,743
Impairment loss on property, plant and equipment	5	8,218
Research and development expenses	48,094	15,862
Staff costs (including directors' and supervisors' emoluments)		
— Salaries and other allowances	185,845	171,114
— Retirement benefit scheme contributions	22,543	18,244
Auditor's remuneration	2,020	2,020
Operating lease rentals in respect of		
— Land and buildings	1,745	3,246
— Plant and equipment	1,076	360
— Motor vehicles	107	613

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

11 Directors', Supervisors' and senior management's emoluments

(a) Directors' and Supervisors' emoluments

The emoluments paid or payable to each of the sixteen (2009: fifteen) Directors and Supervisors were as follows:

Year ended 31 December 2010

Name	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive Director:				
Li Anjian (Note i)	—	—	—	—
Non-executive Directors:				
Zhu Lifeng	280	—	—	280
Xu Guofei	340	—	—	340
Shi Qiusheng (Note ii)	—	—	—	—
Lu Qing	280	—	—	280
Jason Hsuan	—	—	—	—
Lai Weide (Note iii)	—	—	—	—
Deng Weiming (Note iii)	280	—	—	280
	1,180	—	—	1,180
Independent Non-executive Directors:				
Tang Yousong	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	68	—	—	68
	68	—	—	68

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

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

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

Year ended 31 December 2010 (Continued)

Name	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Supervisors:				
Zhang Zhengping	—	300	26	326
Tang Min	—	140	26	166
Zhou Yuxin	—	140	26	166
	—	580	78	658
Independent Supervisors:				
Wu Shiyuan	—	—	—	—
Wang Fei	—	—	—	—
	—	—	—	—
Total	1,248	580	78	1,906

Notes:

- (i) Resigned on 22 March 2010.
- (ii) Resigned on 9 October 2010.
- (iii) Appointed on 28 May 2010.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

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

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

Year ended 31 December 2009

Name	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive Director:				
Li Anjian (Note i)	—	—	—	—
Non-executive Directors:				
Liu Ailian (Note ii)	—	—	—	—
Zhu Lifeng	260	—	—	260
Xu Guofei	320	—	—	320
Shi Qiusheng	—	—	—	—
Lu Qing	260	—	—	260
Jason Hsuan (Note iii)	—	—	—	—
	840	—	—	840
Independent Non-executive Directors:				
Tang Yousong	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	70	—	—	70
	70	—	—	70

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

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

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

Year ended 31 December 2009 (Continued)

Name	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Supervisors:				
Zhang Zhengping	—	280	23	303
Tang Min	—	120	23	143
Zhou Yuxin	—	100	23	123
	—	500	69	569
Independent Supervisors:				
Wu Shiyuan	—	—	—	—
Wang Fei	—	—	—	—
	—	—	—	—
Total	910	500	69	1,479

Notes:

- (i) Resigned on 22 March 2010.
- (ii) Resigned on 14 December 2009.
- (iii) Appointed on 23 December 2009.

(b) The five highest paid individuals

All of the five individuals with highest emoluments in the Group were employees of the Group and their aggregate emoluments are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other allowances	3,300	2,950
Retirement benefits scheme contributions	78	—
	<u>3,378</u>	<u>2,950</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

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

(b) The five highest paid individuals (Continued)

The number of highest paid employees whose aggregate emoluments fell within the following band is as follows:

	Number of employees	
	2010	2009
Nil to HKD1,000,000	<u>5</u>	<u>5</u>

12 Income tax expense

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

	2010 RMB'000	2009 RMB'000
Current tax		
— PRC enterprise income tax	21,326	8,228
— Over-provision in prior year	(941)	—
	<u>20,385</u>	<u>8,228</u>
Deferred tax		
— attributable to the origination and reversal of temporary differences	(3,850)	4,292
— resulting from a change in tax rate	53	(146)
	<u>(3,797)</u>	<u>4,146</u>
	<u>16,588</u>	<u>12,374</u>

Under the prevailing tax law in the PRC, the enterprise income tax rate of all the companies incorporated in the PRC within the Group, other than those stated below, is 25% (2009: 25%).

Pursuant to relevant approval by the tax authorities, the Company, Nanjing Panda Appliance & Apparatus Co., Ltd. and Nanjing Huage Appliance and Plastic Industrial Co., Ltd. are recognised as High-tech enterprises and entitled to a preferential tax rate of 15% (2009: 15%) over a period of 3 years starting from 2008.

Nanjing Panda Electronic Manufacture Co., Ltd., which previously enjoyed preferential treatments, had been granted a five-year transition period over which the applicable tax rate will gradually be increased to the standard rate of 25%. The applicable tax rate for this subsidiary in 2010 is 22% (2009: 10%).

Nanjing Panda Information Industry Co., Ltd. is subject to tax at 50% of the standard rate under the relevant tax rules and regulations.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

12 Income tax expense (Continued)

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	24,123	31,398
Tax calculated at the statutory PRC tax rate of 25% (2009: 25%)	6,031	7,849
Exemption/reduction of income tax under preferential tax treatment	(4,276)	(6,811)
Tax effect of:		
Share of results of associates	(13,587)	(21,886)
Income not subject to tax	(329)	(90)
Expenses not deductible for tax purposes	3,237	7,812
Effect of change in tax rate	53	(146)
Unrecognised tax losses and other deferred tax assets	28,764	22,214
Utilisation of previously unrecognised tax losses and other deferred tax assets	(2,390)	(238)
Deferred taxation recognised in previous years reversed	—	3,588
Over-provision in prior year	(941)	—
Others	26	82
Tax charge for the year	16,588	12,374

13 Earnings per share

The calculation of the basic earnings per share is based on profit attributable to equity holders of the Company of RMB9,192,000 (2009: RMB15,526,000) and 655,015,000 shares in issue throughout the years 2010 and 2009.

The diluted earnings per share for the years ended 31 December 2010 and 2009 was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during both years.

14 Dividends

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2010 (2009: RMBnil).

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

15 Land use rights

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2009	65,538	13,423
Disposal	(38,319)	—
At 31 December 2009 and 2010	<u>27,219</u>	<u>13,423</u>
Accumulated amortisation:		
At 1 January 2009	3,688	1,275
Charge for the year	1,194	382
Written back on disposal	(1,725)	—
At 31 December 2009	<u>3,157</u>	<u>1,657</u>
Charge for the year	683	384
At 31 December 2010	<u>3,840</u>	<u>2,041</u>
Carrying value:		
At 31 December 2010	<u><u>23,379</u></u>	<u><u>11,382</u></u>
At 31 December 2009	<u><u>24,062</u></u>	<u><u>11,766</u></u>

The land use rights are located in the PRC under medium term leases.

During the year ended 31 December 2009, land use rights with a carrying value of RMB36,594,000 were transferred to a fellow subsidiary of the Company for a gross consideration of RMB52,954,000. The related gain on disposal of RMB8,953,000 was recognised in profit or loss in 2009.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

16 Property, plant and equipment

The Group	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:					
As at 1 January 2009	407,936	299,984	9,383	23,100	740,403
Additions	—	5,350	3,945	67,216	76,511
Transfers	—	4,725	—	(4,725)	—
Disposals	(5,612)	(37,021)	(1,405)	—	(44,038)
As at 31 December 2009 and 1 January 2010	402,324	273,038	11,923	85,591	772,876
Additions	—	24,251	3,398	88,459	116,108
Transfers	131,504	38,662	—	(170,166)	—
Disposals	(3,099)	(29,912)	(1,525)	—	(34,536)
Disposal of a subsidiary	—	(6,293)	—	—	(6,293)
As at 31 December 2010	530,729	299,746	13,796	3,884	848,155
Accumulated depreciation and impairment losses:					
As at 1 January 2009	108,249	91,912	4,240	—	204,401
Charge for the year	12,917	30,473	1,126	—	44,516
Impairment losses	8,041	177	—	—	8,218
Written back on disposals	(3,201)	(33,105)	(966)	—	(37,272)
As at 31 December 2009 and 1 January 2010	126,006	89,457	4,400	—	219,863
Charge for the year	12,663	28,820	1,215	—	42,698
Impairment losses	—	5	—	—	5
Written back on disposals	(2,344)	(16,961)	(962)	—	(20,267)
Disposal of a subsidiary	—	(4,612)	—	—	(4,612)
As at 31 December 2010	136,325	96,709	4,653	—	237,687
Carrying value:					
As at 31 December 2010	394,404	203,037	9,143	3,884	610,468
As at 31 December 2009	276,318	183,581	7,523	85,591	553,013

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

16 Property, plant and equipment (Continued)

The Company	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:					
As at 1 January 2009	343,028	35,754	1,977	22,979	403,738
Additions	—	480	1,431	62,530	64,441
Disposals	—	(1,164)	(418)	—	(1,582)
As at 31 December 2009 and 1 January 2010	343,028	35,070	2,990	85,509	466,597
Additions	—	2,553	660	47,186	50,399
Transfer	131,504	—	—	(131,504)	—
Disposals	(1,648)	(4,127)	(200)	—	(5,975)
As at 31 December 2010	472,884	33,496	3,450	1,191	511,021
Accumulated depreciation and impairment losses:					
As at 1 January 2009	74,577	24,812	801	—	100,190
Charge for the year	10,974	2,252	481	—	13,707
Written back on disposals	—	(260)	(245)	—	(505)
As at 31 December 2009 and 1 January 2010	85,551	26,804	1,037	—	113,392
Charge for the year	11,572	2,034	343	—	13,949
Written back on disposals	(894)	(3,903)	(190)	—	(4,987)
As at 31 December 2010	96,229	24,935	1,190	—	122,354
Carrying value:					
As at 31 December 2010	376,655	8,561	2,260	1,191	388,667
As at 31 December 2009	257,477	8,266	1,953	85,509	353,205

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

16 Property, plant and equipment (Continued)

The buildings are located on land under medium term leases in the PRC.

At the date of approval of these consolidated financial statements, the Group and the Company are still in the process of applying title certificates in respect of certain buildings with carrying value of RMB211,701,000 (2009: RMB108,599,000) and RMB194,365,000 (2009: RMB89,758,000) respectively.

The carrying value of the Group's plant and machinery held under finance leases was RMB4,218,000 (2009: RMB9,156,000).

17 Subsidiaries

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	430,255	409,257
Less: Impairment loss	<u>(21,437)</u>	<u>(21,437)</u>
	<u>408,818</u>	<u>387,820</u>
Amounts due from subsidiaries	<u>175,060</u>	<u>179,967</u>
Amounts due to subsidiaries	<u>(75,773)</u>	<u>(69,781)</u>

The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

Except for Galant Limited which is incorporated and operates in Hong Kong, all subsidiaries are incorporated and operate in the PRC. Particulars of the subsidiaries as at 31 December 2010 are as follows:

Name	Registered capital	Percentage of equity attributable to the Company		Principal activities
		directly	indirectly	
Nanjing Panda Technology Equipment Co., Ltd.	RMB5,000,000	100%	—	Manufacture and sale of equipment for production of television sets
Nanjing Panda Information Industry Co., Ltd.	USD15,000,000	72%	28%	Development, production and sale of electronics information products
Nanjing Panda International Communication Systems Company Limited	USD1,240,000	71.77%	—	Sale and distribution of cellular mobile telephones and pagers
Nanjing Guanghua Electronics Plastic Casings Factory	RMB11,497,600	100%	—	Manufacture and sale of plastic and spare parts
Nanjing Panda Mechanical Engineering Plant	RMB45,000,000	99.11%	—	Manufacture and sale of communication and electronic equipment

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

17 Subsidiaries (Continued)

Name	Registered capital	Percentage of equity attributable to the Company		Principal activities
		directly	indirectly	
Nanjing Panda Accurate Machinery Co., Ltd.	RMB5,000,000	100%	—	Manufacture and sale of specialised electronic equipment
Nanjing Panda Appliance & Apparatus Co., Ltd.	RMB1,000,000	85.10%	—	Development and production of electromechanical products and installation of electronic communication systems
Nanjing Panda Mechanical Manufacturing Co., Ltd.	RMB10,000,000	70%	—	Manufacture of raw materials, components and parts for production
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	RMB40,000,000	—	100%	Manufacture and sale of plastic products and spare parts
Nanjing Panda Mechanical Co., Ltd.	RMB3,000,000	85.82%	—	Manufacture and subcontracting of mechanical parts
Nanjing Panda System Integration Co., Ltd.	RMB3,000,000	—	54.37%	Development and sale of computer software
Nanjing Panda Power Supply Technology Co., Ltd.	RMB11,000,000	79.55%	—	Design, manufacture and sale of UPS and special power supply systems and converters
Nanjing Panda Electronic Manufacture Co., Ltd.	USD20,000,000	75%	25%	Development and production of electronic components
Nanjing Panda Industrial Enterprise Co., Ltd.	RMB20,000,000	100%	—	Property management, sales of mechanical and electronic products, building and office supplies
Nanjing Panda Technology Industrial Co., Ltd.	RMB80,000,000	100%	—	Property leasing and management (including energy supply), childhood education and care
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	RMB10,000,000	—	70%	Development, manufacture and sale of logistics equipment
Nanjing Panda Electronic Equipment Co., Ltd.	RMB20,000,000	100%	—	Manufacture of industrial, environmental conservation and logistics equipment
Galant Limited	HKD1	100%	—	Research and development of communication products

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

18 Associates

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	—	—	690,987	690,987
Less: Impairment loss	—	—	(114,012)	(114,012)
Share of net assets	658,041	775,269	—	—
Goodwill	3,443	3,443	—	—
	<u>661,484</u>	<u>778,712</u>	<u>576,975</u>	<u>576,975</u>

Particulars of the principal associates, which are all incorporated and operate in the PRC, as at 31 December 2010 are as follows:

Name	Percentage of equity attributable to the Company		Principal activities
	directly	indirectly	
Nanjing Ericsson Panda Communication Company Limited ("ENC")	27%	—	Manufacture and sale of cellular mobile telephone system products and digital switching system products
Shenzhen Jinghua Electronic Company Limited	38.03%	—	Development, manufacture and sale of communication equipment and electronic equipment
Panda Electronics (Kunshan) Co., Ltd.	—	40%	Manufacture of electronic equipment
Intenna (Nanjing) Company Ltd.	35%	—	Manufacture of electronic equipment
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	20%	—	Manufacture and sale of mobile communication products
Nanjing Thales Panda Transportation System Company Limited	—	40%	Design, research and development and production of electronic equipment of auto billing systems
Nanjing Huaxian High Technology Company Limited	20%	—	Research and development
Hua Fei Color Display Systems Co., Ltd. ("Hua Fei")	25%	—	Design, research and development and production of color display systems

The above table lists the associates which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

18 Associates (Continued)

ENC, BMC and Hua Fei are the most significant associates of the Group. The financial information set out below was extracted from the audited financial statements for the year ended 31 December 2010 of respective associates.

	2010			2009		
	ENC RMB'000	BMC RMB'000	Hua Fei RMB'000	ENC RMB'000	BMC RMB'000	Hua Fei RMB'000
Turnover	<u>14,481,602</u>	<u>19,362,389</u>	<u>756,792</u>	13,603,442	22,842,364	773,064
Profit/(loss) before income tax	<u>530,241</u>	<u>240,218</u>	<u>(307,048)</u>	566,311	586,658	(398,363)
Tax charge	<u>(79,515)</u>	<u>(64,752)</u>	<u>—</u>	(84,947)	(158,511)	—
Profit/(loss) for the year	<u>450,726</u>	<u>175,466</u>	<u>(307,048)</u>	481,364	428,147	(398,363)
Profit/(loss) for the year attributable to the Group	<u>121,696</u>	<u>35,093</u>	<u>(76,762)</u>	129,968	85,629	(99,591)
Financial position						
Non-current assets	<u>1,049,977</u>	<u>278,646</u>	<u>1,564,488</u>	738,496	370,124	1,775,378
Current assets	<u>10,115,935</u>	<u>3,625,615</u>	<u>102,356</u>	6,341,247	4,462,467	199,816
Non-current liabilities	<u>(12,280)</u>	<u>—</u>	<u>(23,180)</u>	—	—	—
Current liabilities	<u>(10,004,978)</u>	<u>(3,134,889)</u>	<u>(1,309,364)</u>	(5,942,843)	(3,833,685)	(1,333,846)
Net assets	<u>1,148,654</u>	<u>769,372</u>	<u>334,300</u>	1,136,900	998,906	641,348
Net assets attributable to the Group	<u>310,137</u>	<u>153,874</u>	<u>83,575</u>	306,963	199,781	160,337

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

19 Deferred taxation

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

	Impairment loss on receivables RMB'000	Write-down of inventories RMB'000	Impairment loss on property, plant and equipment RMB'000	Unused tax losses RMB'000	Trade and other payables RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2009	3,979	1,117	194	681	873	84	6,928
(Charged)/credited to profit or loss (note 12(a))	(2,761)	(324)	30	(681)	(524)	(32)	(4,292)
Effect of change in tax rate	25	—	—	—	121	—	146
As at 31 December 2009 and 1 January 2010	1,243	793	224	—	470	52	2,782
(Charged)/credited to profit or loss (note 12(a))	2,054	1,796	(28)	—	69	(41)	3,850
Effect of change in tax rate	(32)	—	—	—	(21)	—	(53)
Disposal of a subsidiary	(109)	—	—	—	(30)	—	(139)
As at 31 December 2010	3,156	2,589	196	—	488	11	6,440

The following is the analysis of the Group's deferred tax balances for financial reporting purposes:

	2010 RMB'000	2009 RMB'000
Deferred tax assets	6,509	2,782
Deferred tax liabilities	(69)	—
	<u>6,440</u>	<u>2,782</u>

As at 31 December 2010, the Group has unused tax losses of RMB297,521,000 (2009: RMB173,008,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams (2009: RMBnil). These tax losses will expire within five years.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

20 Inventories

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Raw materials	44,619	42,647	2,553	1,716
Work in progress	48,134	35,206	414	2,198
Finished goods	89,371	60,590	7,707	6,249
Spare parts and consumables	509	588	4	—
	<u>182,633</u>	<u>139,031</u>	<u>10,678</u>	<u>10,163</u>

21 Trade and bills receivables

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade receivables	307,049	225,836	26,503	26,252
Bills receivables	14,315	8,370	8,192	300
Less: Provision for impairment	(47,783)	(18,722)	(7,045)	(2,973)
	<u>273,581</u>	<u>215,484</u>	<u>27,650</u>	<u>23,579</u>

- (a) The Group allows a credit period ranging from 30 to 180 days to its trade customers.
- (b) The following is the ageing analysis of trade and bills receivables net of provision for impairment:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 1 year	262,470	182,720	22,356	17,430
1 to 2 years	2,060	32,010	33	6,149
2 to 3 years	8,626	686	5,261	—
Over 3 years	425	68	—	—
	<u>273,581</u>	<u>215,484</u>	<u>27,650</u>	<u>23,579</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

21 Trade and bills receivables (Continued)

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Up to 3 months	11,265	6,459	1,039	—
Over 3 months	18,615	34,756	158	6,589
	<u>29,880</u>	<u>41,215</u>	<u>1,197</u>	<u>6,589</u>

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
At 1 January	18,722	25,890	2,973	2,230
Impairment loss recognised/(reversed)	29,856	(5,013)	4,430	743
Uncollectible amounts written off	(795)	(2,155)	(358)	—
At 31 December	<u>47,783</u>	<u>18,722</u>	<u>7,045</u>	<u>2,973</u>

(e) Trade and bills receivables that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
USD	24,896	27,702	—	—
Euro dollar ("EUR")	2	3,077	—	—
	<u>24,898</u>	<u>30,779</u>	<u>—</u>	<u>—</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

22 Amounts due from customers for contract work

	The Group	
	2010	2009
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses	42,765	22,325
Less: Progress billings	(11,035)	(3,926)
	31,730	18,399

At 31 December 2010, advances received from customers for contract work amounted to RMB39,445,000 (2009: RMB29,281,000).

The project revenue recognised for the year ended 31 December 2010 is RMB169,395,000 (2009: RMB91,821,000).

23 Deposits, prepayments and other receivables

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	40,166	35,241	11,756	9,319
Less: Provision for impairment	(16,719)	(15,179)	(7,099)	(6,620)
	23,447	20,062	4,657	2,699
Deposits and prepayments	74,966	64,281	13,091	25,271
	98,413	84,343	17,748	27,970

24 Amounts due from/(to) fellow subsidiaries, associates and related companies

The amounts due from/(to) fellow subsidiaries, associates and related companies are unsecured, interest free and repayable on demand.

The amounts due from fellow subsidiaries, associates and related companies are stated net of provision for impairment. Movements in the provision for impairment during the year are as follows:

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	13,345	11,034	46	417
Impairment loss (reversed)/recognised	(687)	2,311	244	(371)
At 31 December	12,658	13,345	290	46

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

25 Amount due from/(to) ultimate holding company

The amount due from/(to) ultimate holding company is unsecured, interest free and repayable on demand.

26 Restricted bank deposits

Included in restricted bank deposits at 31 December 2010 were amounts of RMB175,000,000 and RMB173,250,000 placed by the Group and the Company, respectively, in a designated bank account for the capital contribution to a new subsidiary. These amounts were transferred to investment in subsidiaries in January 2011 upon obtaining the final approval from relevant government authority for the establishment of that subsidiary.

The remaining balance of restricted bank deposits are pledged as security for:

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	29,090	12,884	4,219	8,354
Performance bonds given by banks to customers in respect of projects undertaken	25,843	48,695	21,282	25,391
	<u>54,933</u>	<u>61,579</u>	<u>25,501</u>	<u>33,745</u>

These restricted bank deposits carry interest at market rates ranging from 0.36% to 1.91% (2009: 0.36% to 1.71%) and will mature in 3 to 6 months from the balance sheet date.

27 Cash and cash equivalents

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Bank deposits	389,382	559,558	151,269	293,695
Cash on hand	1,031	796	322	261
	<u>390,413</u>	<u>560,354</u>	<u>151,591</u>	<u>293,956</u>

Bank deposits carry interest at market rates ranging from 0.4% to 1.91% (2009: 0.36% to 1.71%) per annum.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

27 Cash and cash equivalents (Continued)

Cash and cash equivalents that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
USD	8,572	19,490	4	4
EUR	135	151	—	—
HKD	35	1	1	1
	<u>8,742</u>	<u>19,642</u>	<u>5</u>	<u>5</u>

28 Share capital

	The Company 2010 and 2009	
	Number of shares '000	Nominal value RMB'000
Registered, issued and fully paid:		
— State-owned legal person shares of RMB1.00 each	334,715	334,715
— A Shares of RMB1.00 each	78,300	78,300
— H Shares of RMB1.00 each	242,000	242,000
	<u>655,015</u>	<u>655,015</u>

29 Share premium and reserves

The Company	Share premium RMB'000	Capital reserve RMB'000	Statutory common funds RMB'000	Asset revaluation reserve RMB'000	Accumulated (losses)/ profits RMB'000	Total RMB'000
As at 1 January 2009	389,338	18,399	181,468	26,381	(225,894)	389,692
Profit and total comprehensive income for the year	—	—	—	—	179,192	179,192
Profit appropriations	—	—	2,274	—	(2,274)	—
As at 31 December 2009 and 1 January 2010	389,338	18,399	183,742	26,381	(48,976)	568,884
Profit and total comprehensive income for the year	—	—	—	—	122,518	122,518
Profit appropriations	—	—	247	—	(247)	—
As at 31 December 2010	<u>389,338</u>	<u>18,399</u>	<u>183,989</u>	<u>26,381</u>	<u>73,295</u>	<u>691,402</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

29 Share premium and reserves (Continued)

According to relevant laws and regulations of the PRC, the Company and its subsidiaries incorporated in the PRC are required to make an appropriation at 10 percent of the profit for the year as shown in the respective entity's PRC statutory financial statements, prepared in accordance with the PRC Accounting Standards, to the statutory surplus reserve fund until the balance reached 50 percent of the registered capital of that entity. The reserve appropriated can only make up losses or use to increase the registered capital of that entity and is not distributable.

In accordance with the Company's Articles of Association, the profit available for distribution is the lesser of the profit determined in accordance with the PRC accounting standards and profit determined in accordance with Hong Kong Financial Reporting Standards. There was distributable reserve of RMB73,295,000 as at 31 December 2010 (2009: RMBnil).

30 Long term borrowing

This represents a specific-purpose loan provided by Jiangsu International Trust Co., Ltd. in November 2009 for financing certain software research and development activities of the Group. The loan bears interest at 0.3% (2009: 0.3%) per annum and will be repayable in February 2012.

31 Obligations under finance leases

	The Group	
	2010	2009
	RMB'000	RMB'000
Within one year	1,314	2,452
In the second year	—	1,314
Total minimum finance lease payments	1,314	3,766
Future finance charges	(35)	(272)
Present value of finance lease obligations	1,279	3,494
The present value of finance lease obligations is as follows:		
Within one year	1,279	2,215
In the second year	—	1,279
	1,279	3,494

The finance lease obligations bear interest at 9.99% (2009: 6.12% to 10.30%) per annum.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

32 Bank borrowings

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Short term bank loans	478,000	380,000	425,000	338,000
Bills payables, secured	42,574	19,454	8,438	8,354
	<u>520,574</u>	<u>399,454</u>	<u>433,438</u>	<u>346,354</u>

At 31 December 2010, the Company's short term bank loans amounting to RMB75,000,000 (2009: RMBnil) were secured by pledge of certain buildings of the Company with carrying value of RMB119,949,000 (2009: RMBnil) with banks, and short term bank loans amounting to RMB350,000,000 (2009: RMB338,000,000) were secured by corporate guarantees from the ultimate holding company.

At 31 December 2010, the effective interest rate of the short term bank loans was 5.71% (2009: 6.34%) per annum.

33 Trade payables

The following is an ageing analysis of trade payables:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 1 year	259,882	229,714	11,664	56,403
1 to 2 years	23,887	21,152	1,391	408
2 to 3 years	18,603	3,543	32	—
Over 3 years	13,554	15,807	5,251	5,537
	<u>315,926</u>	<u>270,216</u>	<u>18,338</u>	<u>62,348</u>

The average credit period on purchase of goods is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Trade payables that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
USD	<u>1,251</u>	<u>5,752</u>	<u>—</u>	<u>—</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

34 Cash (used in)/generated from operations

	2010 RMB'000	2009 RMB'000
Profit before taxation	24,123	31,398
Adjustments for:		
Share of profits of associates	(91,047)	(147,273)
Interest income	(6,092)	(3,287)
Finance costs	24,938	36,544
Write-down of inventories	12,940	12,743
Provision/(reversal) of impairment on trade receivables	29,856	(5,013)
Provision of impairment on other receivables	1,913	2,182
(Reversal)/provision of impairment on amounts due from fellow subsidiaries, associates and related companies	(687)	2,311
Impairment loss on property, plant and equipment	5	8,218
Depreciation and amortisation	43,381	45,710
Loss on disposal of property, plant and equipment	11,553	1,096
Gain on disposal of land use rights	—	(8,953)
Gain on disposal of a subsidiary	(33)	—
Operating cash flows before changes in working capital	<u>50,850</u>	<u>(24,324)</u>
(Increase)/decrease in inventories	(56,542)	171,532
(Increase)/decrease in trade and bills receivables, deposits, prepayments and other receivables and amounts due from fellow subsidiaries, associates and related companies	(137,128)	43,463
(Increase)/decrease in amounts due from customers for contract work	(13,331)	4,130
Increase in trade payables, accruals and other payables and amounts due to fellow subsidiaries, associates and related companies	<u>54,812</u>	<u>48,942</u>
Net cash (used in) /generated from operations	<u><u>(101,339)</u></u>	<u><u>243,743</u></u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

35 Disposal of a subsidiary

On 2 June 2010, the Company disposed of its 70% equity interest in Nanjing Electronics Calibration Co., Ltd. to a fellow subsidiary of the Company, for a cash consideration of RMB1,039,000.

The net assets of Nanjing Electronics Calibration Co., Ltd. disposed of were as follows:

	RMB'000
Plant and equipment	1,681
Deferred tax assets	139
Trade and other receivables	1,012
Cash and cash equivalents	1,464
Trade payables	(84)
Accruals and other payables	(2,775)
	<u>1,437</u>
Non-controlling interest	(431)
	<u>1,006</u>
Gain on disposal	33
	<u>1,039</u>
Total consideration	<u>1,039</u>
Net cash outflow arising on disposal:	
Cash consideration received	1,039
Cash and cash equivalents disposed of	(1,464)
	<u>(425)</u>

36 Contingent liabilities

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Performance bonds given by banks to customers in respect of projects undertaken	25,843	48,695	21,282	25,391
Guarantees given in respect of banking facilities made available to subsidiaries	—	—	110,743	65,511
	<u>—</u>	<u>—</u>	<u>110,743</u>	<u>65,511</u>

The maximum contingent liability of the Company under the guarantees given in respect of banking facilities made available to subsidiaries is the amount of facilities drawn down by the subsidiaries, being RMB78,277,000 (2009: RMB27,591,000).

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

37 Commitments

(a) Capital commitments

At 31 December 2010, outstanding capital commitments not provided for in the financial statements are as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Contracted for — Property, plant and equipment	<u>51,710</u>	<u>82,250</u>	<u>51,710</u>	<u>82,250</u>
Approved but not contracted for — Capital injection to subsidiaries	<u>—</u>	<u>—</u>	<u>74,250</u>	<u>23,178</u>

(b) Operating lease arrangements

At 31 December 2010, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 RMB'000	2009 RMB'000
Land and buildings		
Within 1 year	407	267
2-5 years	<u>—</u>	<u>962</u>
	<u>407</u>	<u>1,229</u>
Motor vehicles		
Within 1 year	29	260
2-5 years	<u>—</u>	<u>29</u>
	<u>29</u>	<u>289</u>
	<u>436</u>	<u>1,518</u>

Operating lease payments represent rental payable by the Group for certain of its office properties and motor vehicles. Leases are registered for an average term of 1 year with fixed rentals.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

37 Commitments (Continued)

(b) Operating lease arrangements (Continued)

At 31 December 2010, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	2010 RMB'000	2009 RMB'000
Land and buildings		
Within 1 year	1,763	2,072
2–5 years	<u>2,508</u>	<u>6,107</u>
	<u>4,271</u>	<u>8,179</u>
Plant and equipment		
Within 1 year	11	—
2–5 years	<u>53</u>	<u>—</u>
	<u>64</u>	<u>—</u>
	<u>4,335</u>	<u>8,179</u>

Operating lease receipts represent rental payable by tenants for the use of the Group's properties. Leases are negotiated for an average term of 4 years with fixed rentals.

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

38 Related party transactions

In addition to those disclosed in notes 24, 25, 32 and 35, the Group had the following material related party transactions.

(a) During the year, the Group entered into the following transactions with related parties:

	Fellow subsidiaries		Associates		The ultimate holding company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Sales of components and parts (Note i)	90,756	24,936	53,648	48,181	231	63
Purchase of components and parts (Note i)	7,925	1,949	506	2,064	12	—
Fees paid for welfare, support and sub-contracting services (Note ii)	3,252	2,949	—	—	—	131
Income for welfare, support, and sub-contracting services (Note ii)	4,776	8,452	57,840	31,795	540	8
Rental income (Note i)	102	572	—	18	—	72
Rental expenses (Note i)	—	—	—	—	—	1,586
Trademark income (Note ii)	416	—	—	—	—	—

Notes:

- (i) These transactions were at market price.
- (ii) These transactions were at cost plus a percentage mark-up.

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

	2010 RMB'000	2009 RMB'000
Salaries and other allowances	1,828	2,130
Retirement benefit scheme contributions	78	69
	<u>1,906</u>	<u>2,199</u>

Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

39 Comparative figures

In 2009, the amount due from customers for contract work was included in "Inventories" and enterprise income tax payable, value added tax and other local tax and levies payables were included in "Tax payable". To conform with the current year's presentation, amounts due from customers for contract work is separately presented in the balance sheet. The enterprise income tax payable is also separately presented as "Tax payable" in the balance sheet with value added tax and other local tax and levies payables reclassified to "Accruals and other payables". The directors consider that the revised presentations more appropriately reflect the nature of the account balances.

40 Difference between HKFRSs and PRC Accounting Standards for Business Enterprises

For the years ended 31 December 2010 and 2009, there were no material differences between the consolidated statements of comprehensive income and consolidated balance sheets of the Group prepared under HKFRSs and PRC Accounting Standards for Business Enterprises.

41 Subsequent event

Except as disclosed elsewhere in the consolidated financial statements, there was no significant subsequent event.

Report of the Auditors

TZ Hu SJ(2011) No. 434

To All Shareholders of Nanjing Panda Electronics Company Limited:

We have audited the accompanying financial statements of Nanjing Panda Electronics Company Limited (hereinafter referred to as "Nanjing Panda"), which comprise the Balance Sheets and Consolidated Balance Sheet as at 31 December 2010, Income Statement, Consolidated Income Statement, Statement of Change in Equity, Consolidated Statement of Changes in Equity, Cash Flow Statement, Consolidated Cash Flow Statement for the year ended 31 December 2010, and notes to the financial statements.

I. Management's Responsibility for the Financial Statements

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

II. Auditor's Responsibility

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

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

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

III. Audit Opinion

In our opinion, Nanjing Panda's financial statements are prepared in conformity with the "Accounting Standards for Business Enterprises" (issued by Ministry of Finance on 15 February 2006), and in all material respects, present fairly the financial position of Nanjing Panda as at 31 December 2010 and the results of its operations and cash flow for the year then ended.

Baker Tilly China

Chinese Certified Public Accountant: **Wang Chuan Bang**

Chinese Certified Public Accountant: **Xu Xin Yi**

Beijing, the People's Republic of China
25 March 2011

Consolidated Balance Sheet

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Closing balance	Opening balance
Current assets			
Cash and bank	VIII. 1	445,346,410.49	621,932,597.32
Settlement provisions			
Placement			
Trading financial assets			
Bills receivable	VIII. 2	14,315,380.42	8,370,297.83
Trade receivable	VIII. 3	299,422,237.49	225,724,139.03
Prepayments	VIII. 4	87,963,018.19	64,834,617.63
Premiums receivable			
Reinsurance receivable			
Reinsurance contract reserve			
Interest receivable			
Dividends receivable			
Other receivables	VIII. 5	198,594,325.75	20,079,161.67
Financial assets purchased for resale			
Inventories	VIII. 6	214,361,816.43	157,430,028.94
Non-current assets due within one year			
Other current assets			
Total current assets		1,260,003,188.77	1,098,370,842.42
Non-current assets			
Entrusted loans and advances			
Available-for sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investment	VIII. 7	661,484,199.39	778,712,065.54
Investment properties			
Fixed assets	VIII. 8	603,996,401.25	465,374,877.71
Construction in progress	VIII. 9	3,883,494.92	85,591,336.05
Construction supplies			
Clearance of fixed assets			
Biological assets for production			
Fuel assets			
Intangible assets	VIII. 10	25,966,027.60	26,109,128.25
Development expenses			
Goodwill			
Long term deferred expenses			
Deferred income tax assets	VIII. 11	6,509,257.63	2,781,999.75
Other non-current assets			
Total non-current assets		1,301,839,380.79	1,358,569,407.30
Total assets		2,561,842,569.56	2,456,940,249.72

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Balance Sheet (Continued)

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Closing balance	Opening balance
Current liabilities			
Short term loans	VIII. 14	478,000,000.00	380,000,000.00
Borrowing from PBOC			
Customer and interbank deposits			
Borrowing from interbank			
Trading financial liabilities			
Bills payable	VIII. 15	42,573,506.11	19,454,095.64
Accounts payable	VIII. 16	327,198,756.59	276,239,639.25
Advances from customers	VIII. 17	66,085,651.49	42,926,670.63
Financial assets sold under repurchase agreements			
Bank charges and Commissions due			
Salaries payable	VIII. 18	44,815,394.10	44,696,054.89
Taxes payable	VIII. 19	14,962,888.47	26,906,223.41
Interest payable	VIII. 20	691,700.00	469,360.36
Dividend Payable	VIII. 21	238,816.60	
Other payables	VIII. 22	99,209,398.33	181,964,084.47
Reinsurers due			
Insurance contract reserves			
Security trading of agency			
Securities underwriting			
Non-current liabilities due within one year		1,278,668.33	2,215,375.85
Other current liabilities			
Total current liabilities		1,075,054,780.02	974,871,504.50

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Balance Sheet (Continued)

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Closing balance	Opening balance
Non-current liabilities			
Long term loans	VIII. 23	4,000,000.00	4,000,000.00
Bonds payables			
Long term payables	VIII. 24		1,278,829.39
Specific payables			
Accrued liabilities			
Deferred income tax liabilities	VIII. 11	68,911.17	
Other non-current liabilities			
Total non-current liabilities		4,068,911.17	5,278,829.39
Total liabilities		1,079,123,691.19	980,150,333.89
Owners' equity (or shareholders' equity)			
Paid-in capital (or share capital)	VIII. 25	655,015,000.00	655,015,000.00
Capital reserve	VIII. 26	467,310,246.52	465,369,977.77
Less: treasury stock			
special reserve			
surplus reserve	VIII. 27	203,031,623.67	202,784,405.42
general risk reserve			
undistributed profits	VIII. 28	150,780,310.99	141,835,133.81
discounted spread in foreign currency statement			
shareholders of the parent company		1,476,137,181.18	1,465,004,517.00
Minority interests	VII. 2	6,581,697.19	11,785,398.83
Total owners' equity		1,482,718,878.37	1,476,789,915.83
Total liabilities and owners' equity		2,561,842,569.56	2,456,940,249.72

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Profit and Loss Statement

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Year 2010	Year 2009
1. Total operating income		1,674,972,074.22	1,284,864,419.97
Include: Operating income	VIII. 29	1,674,972,074.22	1,284,864,419.97
Interest income			
Premiums earned			
Income from Bank charges and Commissions			
2. Total operating cost		1,764,088,182.28	1,437,988,605.94
Include: Operating cost	VIII. 29	1,421,461,185.77	1,163,124,802.11
Interest expenses			
Bank charges and Commissions			
Insurance withdrawal payment			
net payment from indemnity			
Net provisions for insurance contract			
Insurance policy dividend paid			
Reinsurance cost			
Business taxes and surcharge	VIII. 30	11,859,022.13	6,970,273.99
Selling expenses	VIII. 31	41,416,077.61	22,538,232.95
Administrative expenses	VIII. 32	221,981,559.64	190,506,628.18
Financial expenses	VIII. 33	23,342,207.15	34,408,135.20
Loss in assets impairment	VIII. 34	44,028,129.98	20,440,533.51
Add: Income from change in fair value (losses are represented by “-”)			
Investment income	VIII. 35	91,080,364.21	147,273,461.93
Include: Investment income of associates and joint ventures		91,047,489.92	147,273,460.93
Exchange gain (losses are represented by “-”)			
3. Operating profit (losses are represented by “-”)		1,964,256.15	(5,850,724.04)
Add: Non-operating income	VIII. 36	35,643,740.19	39,311,073.07
Less: Non-operating expenses	VIII. 37	13,485,122.97	2,062,096.32
Include: Loss from the disposal of non-current assets		12,320,728.63	1,416,732.68

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Profit and Loss Statement (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Year 2010	Year 2009
4. Total Profit(losses are represented by "-")		24,122,873.37	31,398,252.71
Less: Income tax expense	VIII .38	16,587,521.80	12,374,068.45
5. Net Profit(losses are represented by "-")		7,535,351.57	19,024,184.26
Profit attributable to the equity shareholders of the Parent company		9,192,395.43	15,525,671.62
Minority interest		(1,657,043.86)	3,498,512.64
6. Earnings per share:			
(1) Basic earnings per share	VIII. 39	0.01	0.02
(2) Diluted earnings per share	VIII. 39	0.01	0.02
7. Other comprehensive income:			
8. Total comprehensive income:		7,535,351.57	19,024,184.26
Total comprehensive income attributable to the equity shareholders of the Parent company		9,192,395.43	15,525,671.62
Total comprehensive income attributable to minority shareholders		(1,657,043.86)	3,498,512.64

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Cash Flow Statement

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Year 2010	Year 2009
1. Cash flows from operating activities			
Cash received from the sale of goods and rendering of services		1,773,057,411.15	1,450,219,148.51
Net increase in Customer and interbank deposits			
Net increase in borrowing from PBOC			
Net cash increase in borrowing from other financial institutes			
Cash received from premiums under original insurance contract			
Net cash received from reinsurance business			
Net increase in deposits of policy holders and investment			
Net increase in disposal of financial assets			
Cash received from interest, bank charges and commissions			
Net increase in cash borrowed			
Net increase in cash received form repurchase operation			
Refunds of taxes			896,123.49
Cash received from relating to other operating activities	VIII. 40	43,493,136.91	119,110,640.93
Sub-total of cash inflows from operating activities		<u>1,816,550,548.06</u>	<u>1,570,225,912.93</u>
Cash paid on purchase of goods and services received		1,485,202,064.65	936,802,346.81
Net increase in loans and advances			
Net increase in deposits in PBOC and interbank			
Cash paid for compensation payments under original insurance contract			
Cash paid for Interest, bank charges and commissions			
Cash paid for insurance policy dividend			
Cash paid to and on behalf of employees		208,109,379.10	190,798,864.07
Cash paid for all types of taxes		95,754,896.32	74,896,110.97
Cash paid relating to other operating activities	VIII. 41	190,835,621.80	120,230,616.25
Sub-total of cash outflows from operating activities		<u>1,979,901,961.87</u>	<u>1,322,727,938.10</u>
Net cash flows from operating activities	VIII. 45	<u>(163,351,413.81)</u>	<u>247,497,974.83</u>

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Cash Flow Statement (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Year 2010	Year 2009
2. Cash flows from investing activities:			
Cash received from disposal of investments			1.00
Cash received from return on investments		208,275,356.07	306,146,671.80
Net cash received from the disposal of fixed assets, intangible assets and other long term assets		2,586,321.53	53,758,901.28
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investment activities			
Sub-total of cash inflows from investing activities		210,861,677.60	359,905,574.08
Cash paid on purchase of fixed assets, intangible assets and other long term assets		111,524,477.92	88,309,603.17
Cash paid for investments		175,545,264.64	
Net increase in secured loans			
Net cash paid on acquisition of subsidiaries and other operating entities			125,553,242.55
Cash paid on other investment activities	VIII. 42	425,320.87	
Sub-total of cash outflows from investing activities		287,495,063.43	213,862,845.72
Net cash flows from investing activities		(76,633,385.83)	146,042,728.36

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Cash Flow Statement (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Year 2010	Year 2009
3. Cash flows from financing activities:			
Cash received from investment		2,700,000.00	1,500,000.00
Including: cash received by subsidiaries from minority shareholders' investment		2,700,000.00	1,500,000.00
Cash received from borrowings		507,000,000.00	454,000,000.00
Cash received from issuing bonds			
Cash received from other financing activities	VIII. 43		8,301,668.02
Sub-total of cash inflows from financing activities		509,700,000.00	463,801,668.02
Cash paid on repayment of borrowings		409,000,000.00	665,500,000.00
Cash paid on distribution of dividends or profits, or interest expenses		28,405,893.86	38,462,896.53
Including: bonus and profit paid to minority shareholders by subsidiaries		4,766,916.59	3,140,596.20
Cash paid on other financing activities	VIII. 44	2,250,350.18	9,458,601.79
Sub-total of cash outflows from financing activities		439,656,244.04	713,421,498.32
Net cash flows from financing activities		70,043,755.96	(249,619,830.30)
4. Effect of fluctuations in exchange rates on cash			
			(12,165.77)
5. Net increase in cash and cash equivalents	VIII. 45	(169,941,043.68)	143,908,707.12
Add: balance of cash and cash equivalents at the beginning of the year	VIII. 45	560,354,017.93	416,445,310.81
6. Balance of cash and cash equivalents at the end of the year	VIII. 45	390,412,974.25	560,354,017.93

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Statement of Changes in Owners' Equity

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Year 2010									Total shareholders' equity
	Equity attributable to shareholders of the Company									
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Minority Interest	
1. Balance at the end of last year	655,015,000.00	465,369,977.77			202,784,405.42		141,835,133.81		11,785,398.83	1,476,789,915.83
Add: change in accounting policies										
Correction of Previous Errors										
2. Balance at the beginning of this year	655,015,000.00	465,369,977.77			202,784,405.42		141,835,133.81		11,785,398.83	1,476,789,915.83
3. Change of this year (a decrease is represented by "-")		1,940,268.75			247,218.25		8,945,177.18		(5,203,701.64)	5,928,962.54
(1) Net profit							9,192,395.43		(1,657,043.86)	7,535,351.57
(2) Other comprehensive income										
Subtotal of item (1) and (2) above							9,192,395.43		(1,657,043.86)	7,535,351.57
(3) Contribution and reduction of capital by shareholders		1,940,268.75							1,459,075.41	3,399,344.16
1. Capital contribution by shareholders									2,700,000.00	2,700,000.00
2. Amount settled by shares accounted for in shareholders' equity										
3. Others		1,940,268.75							(1,240,924.59)	699,344.16
(4) Profit distribution					247,218.25		(247,218.25)		(5,005,733.19)	(5,005,733.19)
1. Transfer from surplus reserves					247,218.25		(247,218.25)			
2. Transfer from generic risk reserves										
3. Distribution to shareholders									(5,005,733.19)	(5,005,733.19)
4. Others										
(5) Internal transfer of shareholders' equity										
1. Transfer of capital reserve to share capital										
2. Transfer of surplus reserve to share capital										
3. Compensation of loss from surplus reserve										
4. Others										
(6) Transfer and use of special reserve										
1. Transfer in current period										
2. Use in current period										
(7) Others										
4. Balance at the end of the year	655,015,000.00	467,310,246.52			203,031,623.67		150,780,310.99		6,581,697.19	1,482,718,878.37

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Consolidated Statement of Changes in Owners' Equity (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	The same period of Year 2009									Total shareholders' equity
	Equity attributable to shareholders of the Company									
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Minority Interest	
1. Balance at the end of last year	655,015,000.00	590,516,496.81			200,510,421.29		128,583,446.32		13,358,188.48	1,587,983,552.90
Add: change in accounting policies										
Correction of Previous Errors										
2. Balance at the beginning of this year	655,015,000.00	590,516,496.81			200,510,421.29		128,583,446.32		13,358,188.48	1,587,983,552.90
3. Change of this year (a decrease is represented by "-")		(125,146,519.04)			2,273,984.13		13,251,687.49		(1,572,789.65)	(111,193,637.07)
(1) Net profit							15,525,671.62		3,498,512.64	19,024,184.26
(2) Other comprehensive income										
Subtotal of item (1) and (2) above							15,525,671.62		3,498,512.64	19,024,184.26
(3) Contribution and reduction of capital by shareholders		(125,146,519.04)							(1,930,706.09)	(127,077,225.13)
1. Capital contribution by shareholders									1,500,000.00	1,500,000.00
2. Amount settled by shares accounted for in shareholders' equity										
3. Others		(125,146,519.04)							(3,430,706.09)	(128,577,225.13)
(4) Profit distribution					2,273,984.13		(2,273,984.13)		(3,140,596.20)	(3,140,596.20)
1. Transfer from surplus reserves					2,273,984.13		(2,273,984.13)			
2. Transfer from generic risk reserves										
3. Distribution to shareholders									(3,140,596.20)	(3,140,596.20)
4. Others										
(5) Internal transfer of shareholders' equity										
1. Transfer of capital reserve to share capital										
2. Transfer of surplus reserve to share capital										
3. Compensation of loss from surplus reserve										
4. Others										
(6) Transfer and use of special reserve										
1. Transfer in current period										
2. Use in current period										
(7) Others										
4. Balance at the end of the year	655,015,000.00	465,369,977.77			202,784,405.42		141,835,133.81		11,785,398.83	1,476,789,915.83

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Balance Sheet of the Company

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Closing balance	Opening balance
Current assets			
Cash and bank		177,092,185.38	327,700,983.52
Settlement provisions			
Interbank lending			
Trading financial assets			
Bills receivable		8,191,664.12	300,000.00
Trade receivable	IX. 1	20,161,387.76	24,536,091.11
Prepayments		19,225,352.41	25,270,980.90
Premiums receivable			
Reinsurance receivable			
Reinsurance contract reserve			
Interest receivable			
Dividends receivable		3,860,963.25	4,842,582.93
Other receivables	IX. 2	353,115,124.30	182,748,549.10
Financial assets purchased for resale			
Inventories		10,677,225.06	10,163,724.18
Non-current assets due within one year			
Other current assets			
Total current assets		592,323,902.28	575,562,911.74

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Balance Sheet of the Company (Continued)

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Closing balance	Opening balance
Non-current assets			
Entrusted loans and advances			
Available-for sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investment	IX. 3	1,014,413,941.74	1,113,461,382.90
Investment properties			
Fixed assets		385,055,834.67	265,847,921.94
Construction in progress		1,191,304.57	85,509,336.05
Construction supplies			
Disposals of fixed assets			
Biological assets for production			
Fuel assets			
Intangible assets		13,802,074.43	13,614,113.40
Development expenses			
Goodwill			
Long term deferred expenses			
Deferred income tax assets			
Other non-current assets			
Total non-current assets		<u>1,414,463,155.41</u>	<u>1,478,432,754.29</u>
Total assets		<u>2,006,787,057.69</u>	<u>2,053,995,666.03</u>

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Balance Sheet of the Company (Continued)

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Closing balance	Opening balance
Current liabilities			
Short term loans		425,000,000.00	338,000,000.00
Borrowing from PBOC			
Customer and interbank deposits			
Borrowing from interbank			
Trading financial liabilities			
Bills payable		8,438,681.17	8,354,095.64
Accounts payable		24,718,867.25	71,628,242.83
Advances from customers		876,200.00	3,783,687.81
Financial assets sold under repurchase agreements			
Bank charges and Commissions due			
Salaries payable		28,853,680.80	30,620,099.44
Taxes payable		3,707,100.84	17,374,556.53
Interest payable		691,700.00	469,360.36
Dividend Payable			
Other payables		133,119,922.49	204,856,900.73
Reinsurers due			
Insurance contract reserves			
Security trading of agency			
Securities underwriting			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		<u>625,406,152.55</u>	<u>675,086,943.34</u>

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Balance Sheet of the Company (Continued)

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of Notes	Closing balance	Opening balance
Non-current liabilities			
Long term loans		4,000,000.00	4,000,000.00
Bonds payables			
Long term payables			
Specific payables			
Accrued liabilities			
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		4,000,000.00	4,000,000.00
Total liabilities		629,406,152.55	679,086,943.34
Owners' equity (or shareholders' equity)			
Paid-in capital (or 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		203,031,623.67	202,784,405.42
generic risk reserve			
Undistributed profits		81,645,530.16	79,420,565.96
Discounted spread in foreign currency statement			
Total equity attributable to owners of the Company		1,377,380,905.14	1,374,908,722.69
minority interests			
Total shareholders' equity		1,377,380,905.14	1,374,908,722.69
Total liabilities and shareholders' equity		2,006,787,057.69	2,053,995,666.03

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Profit and Loss Statement of the Company

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of notes	Year 2010	Year 2009
1. Total operating income		165,611,469.84	355,190,263.48
Include: Operating income	IX. 4	165,611,469.84	355,190,263.48
Interest income			
Premiums earned			
Income from Bank charges and Commissions			
2. Total operating cost		319,019,681.63	518,608,192.72
Include: Operating cost	IX. 4	132,871,881.97	345,136,409.53
Interest expenses			
Bank charges and Commissions			
Insurance withdrawal payment net payment from indemnity			
Net provisions for insurance contract			
Insurance policy dividend paid			
Reinsurance cost			
Business taxes and surcharge		2,378,396.20	336,734.89
Selling expenses		13,025,805.93	5,432,649.97
Administrative expenses		151,305,718.00	125,790,136.71
Financial expenses		19,476,912.42	30,569,080.07
Asset impairment loss		(39,032.89)	11,343,181.55
Add: Income from change in fair value (losses are represented by “-”)			
Investment income	IX. 5	133,993,577.07	167,845,480.67
Include: Investment income of associates and joint ventures		88,229,888.86	149,317,856.85
Exchange gain (losses are represented by “-”)			
3. Operating profit (losses are represented by “-”)		(19,414,634.72)	4,427,551.43
Add: Non-operating income		22,176,397.03	19,283,638.19
Less: Non-operating expenses		289,579.86	971,348.29
Include: Loss from the disposal of non-current assets		144,815.67	763,145.52

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Profit and Loss Statement of the Company (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of notes	Year 2010	Year 2009
4. Total Profit (total losses are represented by "--")		2,472,182.45	22,739,841.33
Less: Income tax expense			
5. Net Profit (net losses are represented by "--")		2,472,182.45	22,739,841.33
6. Earnings per share			
(1) Basic earnings per share			
(2) Diluted earnings per share			
7. Other comprehensive income:			
8. Total comprehensive income:		2,472,182.45	22,739,841.33

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Cash Flow Statement of the Company

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of notes	Year 2010	Year 2009
1. Cash flows from operating activities			
Cash received from the sale of goods and rendering of services		178,219,822.97	446,077,308.20
Net increase in Customer and interbank deposits			
Net increase in borrowing from PBOC			
Net cash increase in borrowing from other financial institutes			
Cash received from premiums under original insurance contract			
Net cash received from reinsurance business			
Net increase in deposits of policy holders and investment			
Net increase in disposal of financial assets			
Cash received from interest, bank charges and commissions			
Net increase in cash borrowed			
Net increase in cash received from repurchase operation			
Refunds of taxes			
Cash received from relating to other operating activities		77,995,113.17	162,949,502.16
Sub-total of cash inflows from operating activities		256,214,936.14	609,026,810.36
Cash paid on purchase of goods and services received		207,598,925.37	141,599,302.38
Net increase in loans and advances			
Net increase in deposits in PBOC and interbank			
Cash paid for compensation payments under original insurance contract			
Cash paid for Interest, bank charges and commissions			
Cash paid for insurance policy dividend		75,043,323.15	65,155,744.91
Cash paid to and on behalf of employees		20,714,382.56	12,682,481.50
Cash paid for all types of taxes		142,680,332.79	111,390,088.85
Cash paid relating to other operating activities			
Sub-total of cash outflows from operating activities		446,036,963.87	330,827,617.64
Net cash flows from operating activities	IX. 6 (1)	(189,822,027.73)	278,199,192.72

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Cash Flow Statement of the Company (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of notes	Year 2010	Year 2009
2. Cash flows from investing activities:			
Cash received from disposal of investments		31,288,716.43	4,987,801.00
Cash received from return on investments		229,054,777.88	326,857,747.90
Net cash received from the disposal of fixed assets, intangible assets and other long term assets		780,506.73	242,006.79
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investment activities			
Sub-total of cash inflows from investing activities		<u>261,124,001.04</u>	<u>332,087,555.69</u>
Cash paid on purchase of fixed assets, intangible assets and other long term assets		47,791,791.22	76,303,492.63
Cash paid for investments		231,246,790.53	199,779,242.55
Net increase in secured loans			
Net cash paid on acquisition of subsidiaries and other operating entities			
Cash paid on other investment activities			
Sub-total of cash outflows from investing activities		<u>279,038,581.75</u>	<u>276,082,735.18</u>
Net cash flows from investing activities		<u>(17,914,580.71)</u>	<u>56,004,820.51</u>

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Cash Flow Statement of the Company (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	No. of notes	Year 2010	Year 2009
3. Cash flows from financing activities:			
Cash received from investment			
Including: cash received by subsidiaries from minority shareholders' investment			
Cash received from borrowings		425,000,000.00	412,000,000.00
Cash received from issuing bonds			
Cash received from other financing activities			
Sub-total of cash inflows from financing activities		425,000,000.00	412,000,000.00
Cash paid on repayment of borrowings		338,000,000.00	637,500,000.00
Cash paid on distribution of dividends or profits, or interest expenses		21,627,488.46	35,632,828.45
Including: bonus and profit paid to minority shareholders by subsidiaries			
Cash paid on other financing activities			6,694,095.64
Sub-total of cash outflows from financing activities		359,627,488.46	679,826,924.09
Net cash flows from financing activities		65,372,511.54	(267,826,924.09)
4. Effect of fluctuations in exchange rates on cash			
5. Net increase in cash and cash equivalents		(142,364,096.90)	66,377,089.14
Add: balance of cash and cash equivalents at the beginning of the year	IX. 6 (1)	293,955,551.88	227,578,462.74
6. Balance of cash and cash equivalents at the end of the year	IX. 6 (2)	151,591,454.98	293,955,551.88

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Statement of Change in Equity of the Company's Shareholders

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Year 2010								Total shareholders' equity
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	
1. Balance at the end of last year	655,015,000.00	437,688,751.31			202,784,405.42		79,420,565.96		1,374,908,722.69
Add: change in accounting policies									
Correction of Previous Errors									
2. Balance at the beginning of this year	<u>655,015,000.00</u>	<u>437,688,751.31</u>			<u>202,784,405.42</u>		<u>79,420,565.96</u>		<u>1,374,908,722.69</u>
3. Change of this year									
(a decrease is represented by "-")					247,218.25		2,224,964.20		2,472,182.45
(1) Net profit							2,472,182.45		2,472,182.45
(2) Other comprehensive income									
Subtotal of item (1) and (2) above							<u>2,472,182.45</u>		<u>2,472,182.45</u>
(3) Contribution and reduction of capital by shareholders									
1. Capital contribution by shareholders									
2. Amount settled by shares accounted for in shareholders' equity									
3. Others									
(4) Profit distribution					247,218.25		(247,218.25)		
1. Transfer from surplus reserves					247,218.25		(247,218.25)		
2. Transfer from generic risk reserves									
3. Distribution to shareholders									
4. Others									
(5) Internal transfer of shareholders' equity									
1. Transfer of capital reserve to share capital									
2. Transfer of surplus reserve to share capital									
3. Compensation of loss from surplus reserve									
4. Others									
(6) Transfer and use of special reserve									
1. Transfer in current period									
2. Use in current period									
(7) Others									
4. Balance at the end of the year	<u>655,015,000.00</u>	<u>437,688,751.31</u>			<u>203,031,623.67</u>		<u>81,645,530.16</u>		<u>1,377,380,905.14</u>

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Statement of Change in Equity of the Company's Shareholders (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

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

Head of the Company:
Xu Guofei

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Wu Yuzhen

Notes to the Financial Statements

(All amounts in RMB unless otherwise stated)

I. Introduction to the Company

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

I. Introduction to the Company (Continued)

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 18 April 1997. Its registered capital was RMB655,015,000. Certified business items include the research, manufacture and sales of the transmission equipments of radio broadcasting and television, together with the after service, technical service, etc.. General business items include the research and development, production, sale, after-sale and technical service of communication equipment, computer and other electronic products; appliance & apparatus and machines for culture and office; electronic machine and its parts; plastic products; General equipment of fans machine, scale and packing machines; chemical industry, timber and non-mental processing special equipment; power transmission and control equipment; environment protection, social public safety and other equipment; financial and taxation control machines; power supply products; moulds; computer service, software and system integration; property management.

The Company received new business license with numbered 320100400008823 on 14 July 2009. The registered capital is RMB655,015,000. The scope of business approved is made up of certified business items and general business items. Certified business items include 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; moulds; 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 parent of the Company is Panda Electronics Group Limited.

The Financial Statements of the Company were approved by the Board of the Company on 25 March 2011.

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

The financial statements of the Company are prepared under the requirements of Accounting Standard for Business Enterprises issued by the ministry of Finance at 15 February 2006 and in all material respects, truly and completely present the financial position of the Company and the results of its operations and cash flow for the year then ended.

III. Basis of preparation of financial statements

The Company's financial statements are prepared in accordance with the Basic Principle and 38 specific standards of Accounting Standards for Business Enterprises issued by Ministry of Finance on 15 February 2006, Application Guidance of Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereafter referred to as "the Accounting Standard for Business Enterprises", as well as "No. 15 Reporting Regulation on the information disclosure for public share offering companies - Ordinary Reporting Regulation" (revised in 2010).

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

IV. Accounting policies and accounting estimates adopted by the Company

1. Accounting period

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

2. Measurement currency

The Company uses Ren Min Bi as its currency for recording transactions.

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

3. Principle of book-keeping and accounting measurement attribute

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

4. Recognition standard for cash equivalents

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

5. Foreign Currency businesses

(1) Foreign currency transaction

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

5. Foreign Currency businesses (Continued)

(2) Translation of Financial Statements Dominated in Foreign Currency

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

6. Financial Assets and Financial Liabilities

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

(3) Transferral and Calculation of Financial Assets

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

(5) Impairment of Financial Assets

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

(5) Impairment of Financial Assets (Continued)

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

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

7. Receivables

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

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

For receivables that are not individually significant, a provision for impairment of the receivable is established at the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

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

8. Inventories

(1) Classification of Inventories

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

8. Inventories (Continued)

- (2) Measurement method for inventories received and delivered

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

- (3) Circulation materials shall be one-off amortized in cost expense when using.
- (4) The Company adopts perpetual inventory record system.
- (5) Recognition scope and provision methods for impairment provision of inventory

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

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

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

9. Long-term equity investment

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

9. Long-term equity investment (Continued)

- (1) Basis for confirmation of joint control or significant influences
 1. Joint control is the contractually agreed sharing of control over an economic activity. Basis for confirmation of joint control include: Any party to the joint venture shall not separately control production and operation activities of the joint venture; the decision concerning the elementary operation activities of the joint venture need unanimous consent from all parties to the joint venture.
 2. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. Basis for confirmation of significant influence mainly include: when the Company directly or indirectly hold through subsidiaries 20%(inclusive) or above but less than 50% shares with voting rights, it will be recognized as having significant influence on the investees, except that there are clear evidences showing it cannot participate the production and operation decision of the investees thus constituting no significant influence; when the Company hold 20% (exclusive) below shares with voting rights of the investees, it generally will be recognized no significant influence on the investees. It can be recognized as having significant influence on the investees should the following conditions be satisfied:
 - 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) Measurement of long-term equity investment

For long-term equity investment acquired by merger of business, the Company will recognize its 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 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 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 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.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

9. Long-term equity investment (Continued)

(2) Recognition of investment cost of long-term equity investment (Continued)

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

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

1. The cost of a long-term equity investment acquired by payment of cash shall be recognized at the actual purchase cost.
2. The cost of a long-term equity investment acquired by issue of equity securities shall be recognized at the fair value of the equity securities issued;
3. The 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;
4. The cost of a long-term investment acquired by the exchange of non-monetary assets shall be recognized in accordance with the Accounting Standards for Enterprises No. 7 — Exchange of Non-monetary Assets.
5. The cost of a long-term equity investment acquired by debt restructuring shall be recognized in accordance with Accounting Standards for Enterprises No. 12 — Debt Restructuring.

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

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

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

2. Long-term equity investment with joint control or material impact on the investee is accounted for using equity method. The 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 cost from its share of fair value of the investee's identifiable net assets is credited to the current profit and loss account against the cost of the long-term equity investment. The fair value of the investee's identifiable net assets is determined in accordance with the Accounting Standards for Business Enterprises No. 20 — Enterprise Merger.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

9. Long-term equity investment (Continued)

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

10. Accounting Method for Investment Properties

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

(1) Recognition of Investment properties

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

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

(2) Initial measurement of the investment property

1. The cost of an purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.
2. The cost of a self-built investment property shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
3. The cost of an investment property obtained by other means shall be recognized in accordance with the relevant accounting standards.
4. Subsequent expenditures related to an investment property shall be included to the cost of the investment property if they meet the recognition conditions for investment property; otherwise, if they fail to meet the recognition conditions, they shall be included in the current profits and losses upon occurrence.

(3) Subsequent measurement of the investment property

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

(4) Conversion of the investment property

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets

(1) Recognition scope of fixed assets

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

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

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

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

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

2. The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
3. The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.
4. Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognized based on the amount incurred and charged to the current profit and loss... Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term deferred expenses and amortized on a reasonable basis.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets (Continued)

(2) Initial measurement of fixed asset (Continued)

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

(3) Categories of fixed assets

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

(4) Depreciation of Fixed assets

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets (Continued)

(4) Depreciation of Fixed assets (Continued)

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

(5) Treatment of subsequent expenses related to fixed assets

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

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

(6) Fixed assets acquired under finance leases

1. Recognition basis for fixed assets acquired under finance leases

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

- A. The ownership of the leased asset is transferred to the lessee when the term of lease expires.
- B. The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option is exercised. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised by the Company.
- C. Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life of the leased asset (generally refers to 75% or above).

Notes to the Financial Statements *(Continued)*

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets *(Continued)*

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

1. Recognition basis for fixed assets acquired under finance leases *(Continued)*

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

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

2. Measurement method for fixed assets acquired under finance leases

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

11. Fixed Assets (Continued)

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

3. Depreciation method for fixed assets acquired under finance leases

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

12. Construction in progress

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

13. Intangible assets

(1) Recognition scope of intangible assets

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

1. Meet the definition of intangible assets;
2. The economic benefits pertinent to the assets are likely to flow into the Company;
3. The cost of the asset can be measured reliably.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

13. Intangible Assets (Continued)

(2) Initial measurement of intangible assets

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

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

13. Intangible Assets (Continued)

(2) Initial measurement of intangible assets (Continued)

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

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

(3) Subsequent measurement of intangible assets

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

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

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

14. Goodwill

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

15. Accounting Methods of long-term prepaid expenses

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

16. Impairment of Assets

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

(2) Recognition of Assets with Potential Impairment

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

1. The current market price of assets falls significantly, beyond the expectation based on the advance of time or normal use;
2. Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the fixed assets is located, thus exerting an adverse effect on the enterprise;
3. Market interest rates or any other investment return rate have increased significantly during the period, thus affecting the discount rate used in calculating the asset's present value of the expected future cash flows and resulting in a material decrease in the fixed asset's recoverable amount;
4. Any evidence shows that the assets have become obsolete or physical damage occurred;
5. The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;
6. Any evidence in the internal report of the Company shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit realized is lower than the expected amount, etc.;
7. Other circumstances indicate that the asset may have been impaired.

(3) Measurement of Recoverable Amount of Assets

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

16. Impairment of Assets (Continued)

(4) Recognition of Asset Impairment Losses

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

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

(6) Impairment of goodwill

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

17. Borrowing Costs

(1) Recognition Principles for Borrowing Cost Capitalization

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

1. Capital expenditure has been incurred;
2. The borrowing costs have been incurred;
3. It has commenced the acquisition and construction or production activities which enable the assets reach the working condition for its intended use or sale.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

17. Borrowing Costs (Continued)

(2) Period of Capitalization of Borrowing Cost

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

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

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

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

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

1. As for the specific borrowings for the acquisition and construction or production of assets qualifying for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred on the current specific borrowings minus the income of interests earned from the unused borrowings by depositing it in the bank or investment income from such borrowing by making it as a temporary investment.
2. Where a general borrowing is used for the acquisition and construction or production assets qualifying for capitalization, the Company shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average value of the accumulative expenditures to asset minus the specific borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

17. Borrowing Costs (Continued)

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

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

18. Employee benefits

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

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

19. Share-based Payments

(1) The Equity-settled Share-based Payments

1. The equity-settled share-based payment in return for employee services or similar services provided by other party shall be measured at the fair value of the equity instruments granted to the employees and other party.
2. As to an equity-settled share-based payment in return for services of employees or similar services provided by other party, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly.
3. The Company shall, after the exercise date, make no adjustment to the relevant costs or expenses as well as the total amount of the owner's equities which have been recognized.
4. On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

19. Share-based Payments (Continued)

(2) The Cash-settled Share-based Payments

1. The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.
2. As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Company shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly.
3. As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company.
4. Subsequent Measurement
 - A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.
 - B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits and losses.

20. Provisions

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

21. Revenue

(1) Recognition method for the revenue from selling goods

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

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

(2) Recognition method for the provision of service

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

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

1. If the cost of labor services incurred is expected to be compensated, the revenue from the provision of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount.
2. If the cost of labor services incurred is not expected to be compensated, the cost incurred should be included in the current profit and loss, and no revenue from the provision of labor services may be recognized.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

21. Revenue (Continued)

- (3) Recognition method for the revenue from an alienating use right of assets
 1. Recognition Principles for the revenue from an alienating use right of assets

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

 - A. The relevant economic benefits may flow into the Company;
 - B. A reliable measurement can be made to the amount of the revenue.
 2. Specific recognition method
 - A. The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the Company's cash is used by others and the actual interest rate.
 - B. The amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

22. Construction Contract

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

The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: 1. The total contract revenue can be measured in a reliable way; 2. The economic benefits pertinent to the contract are likely flow into the Company; 3. The actual contract costs incurred can be clearly distinguished and measured reliably; 4. Both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

The outcome of a cost plus contract can be estimated in a reliable way subject to the following basis: 1. The economic benefits pertinent to the contract are likely flow into the Company; 2. the actual contract costs incurred can be clearly distinguished and can be measured in a reliable way.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

22. Construction Contract (Continued)

- (2) If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: 1. If the contract costs can be recovered, the contract revenue shall be recognized in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period when they are incurred; 2. If the contract costs cannot be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

23. Government Subsidies

- (1) Recognition conditions of government subsidies

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

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

- (2) Measurement of government subsidies

1. If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount (RMB1.00).
2. The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized. Those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in the current profits and losses.
3. If it is necessary to refund any government subsidies which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses. If there is no deferred income concerned to the government subsidies, it shall be directly included in the current profits and losses.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

24. Exchange of Non-monetary Assets

- (1) The fair value of the assets and relevant payable taxes shall be regarded as the transaction cost, and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the profit or loss of the current period.
 1. Non-monetary assets shall be recognized and measure, where a non-monetary assets transaction satisfies the following conditions at the same time:
 - A. The transaction is commercial in nature;
 - B. The fair value of the assets received or surrendered can be measured reliably.
 2. Selection of fair value: If the fair value of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable.
 3. Treatment when a boot incurred: where a boot is caused when the Company treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the profit or loss of the current period; the Company, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the profit or loss of the current period.
- (2) Where any non-monetary assets transaction does not meet such conditions at the same time, the carrying value and relevant payable taxes of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

25. Debt Restructuring

(1) Definition and scope of debt restructuring

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

(2) Accounting treatment of debtors

1. When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profits and losses. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profits and losses. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profits and losses. When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as stock of capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the stock of capital (or paid-in capital) as capital reserve. The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profits and losses.
2. Where other terms of a debt are modified, the debtor shall regard the post-modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other terms of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with provisions of . modification of other terms of a debt.

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

25. Debt Restructuring (Continued)

- (3) Accounting treatments of the creditor
 1. When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received in the current profits and losses. If the creditor has made provision for the impairment of the credit, he shall first offset the aforesaid difference against the impairment provision, then include the shortfall in the current profits and losses. When a debt is liquidated by non-cash asset, the creditor shall recognize the fair value of the non-cash asset received as the entry value and shall handle the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in accordance with provisions of liquidation of a debt by cash. When a debt is converted into capital, the creditor shall recognize the fair value of the shares to which it becomes entitled as investment to the debtor and shall handle the difference between the book balance of the debt to be restructured and the fair value of the shares in accordance with provisions of liquidation of a debt by cash.
 2. When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the book balance of the debt to be restructured and the book value of the restructured debt in accordance with provisions of liquidation of a debt by cash. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the noncash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

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

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:

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

26. Leases (Continued)

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

1. The ownership of the leased asset is transferred to the lessee when the term of lease expires.
2. The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option becomes exercisable. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised.
3. Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life of the leased asset (75% or above, typically).
4. In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially (typically, 90% or above, the same below) all of the fair value of the leased asset on the lease beginning date; In the case of the lessor, the present value of the minimum lease receipts on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date.
5. The leased assets are of a specialized nature that only the Company (or the lessee) can use them without making major modifications.

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

(3) Main accounting treatment of finance lease

1. Accounting treatments of lessees

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

Notes to the Financial Statements *(Continued)*

(All amounts in RMB unless otherwise stated)

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

26. Leases *(Continued)*

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

1. Accounting treatments of lessees *(Continued)*

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.

2. Accounting treatments of lessors

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

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

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

(4) Main accounting treatment of operating lease

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

27. Income Taxes

- (1) Income taxes of the Company shall be accounted for using balance sheet liability method.
- (2) Where the Company obtains assets or liabilities, it shall determine its tax base. Where there is difference between the carrying amount of the assets or liabilities and its tax base, the deferred income tax assets or the deferred income tax liabilities shall be recognized according to the provisions.
- (3) Recognition of deferred income tax assets
 1. The Company recognizes deferred tax assets arising from deductible temporary difference but the amount is limited to the taxable income that the Company can possibly obtain to deduct the deductible temporary differences. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:
 - A. The transaction is not a merger of enterprise;
 - B. At the time of the transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.
 2. Where the deductible temporary difference related to the investments of the subsidiaries, associated companies and joint venture companies can meet the following requirements simultaneously, the Company shall recognize the corresponding deferred income tax assets:
 - A. The temporary differences are likely to be reversed in the expected future;
 - B. It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.
 3. Any deductible loss or tax deduction that can be carried forward to the next year in accordance with the tax law shall be deemed as deductible temporary difference, the corresponding deferred income tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

27. Income Taxes (Continued)

- (4) Recognition of deferred income tax liabilities
1. Except deferred tax liabilities incurred in the following transactions, the Company recognizes all taxable deferred tax liabilities arising from the temporary difference:
 - A. Initial recognition of goodwill;
 - B. Initial recognition of assets or liabilities created in the transactions with the following characteristics:
 - a. The transaction is not a corporate merger;
 - b. When the transaction occurs, neither of the accounting profit and taxable income (or deductible loss) is not affected.
 2. As for the taxable temporary differences related to the investments of subsidiaries, associated enterprises and joint venture enterprises, the Company shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded:
 - A. The investing enterprise can control the time of the reverse of temporary differences;
 - B. The temporary differences are unlikely to be reversed in the excepted future.

(5) Measurement of income taxes

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

1. Merger of enterprises;
2. The transactions or events directly recognized as the owner's equity.

(6) Impairment of deferred income tax assets

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

1. Statement of change in accounting policy

There is no change on accounting policy of the Company during this accounting period.

2. Change in Accounting Estimate and Correction to Previous Errors

There is no change in accounting estimate and correction to previous errors of the Company during this accounting period.

VI. Tax

1. Value-added tax

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

The value-added tax paid for purchase of raw materials of imported raw materials etc. can be offset against sales tax. The tax rate is 17%. Of this tax, application can be made for refund of the import duty paid for export of products, and the refund tax rate for export is 13% and 17%.

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

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

2. Sales Tax

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

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

3. Urban development tax and education surcharge

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

VI. Tax (Continued)

4. Enterprise income tax

The Company is recognized by Jiangsu Provincial Science and Technology Commission as a high-tech enterprise on 21 October 2008 with the effective period for 3 years. Accordingly, the Company enjoys a preferential tax policy of 15% from 1 January 2008 to 31 December 2010.

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

Nanjing Panda Appliance & Apparatus Co. Ltd, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 21 October 2008 with the effective period for 3 years. Accordingly, it paid income taxes by 15% of taxable income from 1 January 2008 to 31 December 2010.

Nanjing Huage Appliance & Plastic Co. Ltd., a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 9 December 2008, with an effective period of 3 years. Accordingly, it paid income taxes by 15% of taxable income from 1 January 2008 to 31 December 2010.

Pursuant to the approval from the tax bureau of Nanjing Economics and Technology Development District, Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, has an income tax rate of 18%, 20%, 22%, 24% and 25% respectively from 2008 to 2012. In 2010, the income tax rate was 22%.

Nanjing Panda Electromechanical Instruments Technology Co. Ltd, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 22 December 2009, with an effective period of 3 years. Accordingly, it paid income taxes by 15% of taxable income from 1 January 2009 to 31 December 2011.

5. Real property tax

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

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

6. Land appreciation tax

The tax are calculated based on the appreciation amount which is the balance of proceeds on the transfer of land use right deducting the sum of cost and tax related to the transfer. Land appreciation tax shall adopt the four level progressive rates which ranged from 30% to 60% according to the appreciation amount.

7. Other taxes

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements

1. Merger of enterprises

(1) Merger of enterprises under same control

1. Definition of merger of enterprises under same control

Where that enterprises involved in the merger are under the ultimate control of same party or parties before and after the merger and the control is not temporary, it shall be merger of enterprises under same control. Merger of enterprises under same control of the Company shall be judged in accordance with the following bases:

- A. parties of the merger are under the ultimate control of the group company before and after the merger;
- B. Before the merger, parties of the merger under the control of the group company for over 1 year (including 1 year), and the reporting subject after the merger of enterprises is also under the control of the group for over 1 year (including 1 year). Those satisfy the two conditions above shall be defined as merger of enterprises under same control by the Company.

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

2. Basis for determination of the merger date

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

- A. Agreement on merger of enterprises has been approved by shareholders' general meeting;
- B. Where merger of enterprises shall be materially approved by relevant authorities of the State, the approval has been obtained from relevant authorities;
- C. Parties participating in the merger have gone through necessary handover procedures of properties;
- D. The Company has paid most of the merger consideration (typically, above 50%), and is capable of paying the remaining balance;
- E. The Company has actually controlled financial and operating policies of the merged parties, shared corresponding benefits and bore related risks.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

1. Merger of enterprises (Continued)

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

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

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

4. Treatment method of the merger expenses

All direct relevant expenses incurred to the Company for the merger of enterprises, including auditing fees and assessment fees and legal fees, shall be included in the current profit and loss at occurrence.

(2) Merger of enterprises not under same control

1. Definition of merger of enterprises not under same control

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

2. Basis for the determination of the acquisition date

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

3. Determination of the merger cost

- A. In a merger of enterprises through one swap transaction, the merger cost shall be assets paid, and liabilities incurred or borne by the Company for acquiring the control right of the acquiree (acquirees) on the acquisition date and fair value of the issued equity securities.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

1. Merger of enterprises (Continued)

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

3. Determination of the merger cost (Continued)

- B. In a merger of enterprises through several swap transactions, the transaction cost of prior acquired shares should be revalued by the fair value of acquisition date. The difference between cost on book and fair value should be booked in investment gain or loss.
- C. 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.

4. Treatment method of the merger expenses

All direct relevant expenses incurred to the Company for the merger of enterprises, including auditing fees and assessment fees and legal fees, shall be included in the current profit and loss at occurrence. Expenses including handling charges and commission paid for issuing corporate bonds or bearing liabilities for the merger of enterprises shall be included in the amount of initial measurement of the issued corporate bonds and other liabilities.

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.

5. Distribution of the merger cost

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

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

Notes to the Financial Statements *(Continued)*

(All amounts in RMB unless otherwise stated)

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

1. Merger of enterprises *(Continued)*

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

5. Distribution of the merger cost *(Continued)*

C. Recognition principle for fair value of identifiable assets of the acquiree (acquirees)

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

(3) Merger by absorption

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

1. As for the merger by absorption under same control, assets and liabilities acquired by the Company on the merger date shall be recognized as per the original book value of such assets and liabilities in the acquiree (acquirees). If the accounting policy adopted by the acquiree (acquirees) is inconsistent with the Company, on the principle of materiality, the Company shall adjust the fair value of relevant assets and liabilities of the acquiree (acquirees) in accordance with the Company's accounting policy based on which the Company shall recognize the book value of assets and liabilities acquired in the merger.
2. As for the merger by absorption not under same control, all the assets and liabilities which meet the recognition requirements acquired by the Company on the merger date shall be recognized as assets and liabilities of the Company at its fair value.

2. Consolidated financial statements

(1) Consolidation scope

1. Recognition principle

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2010

Company name	Registration address	Nature of business	Registered capital: (RMB'000)	Business scope
I. Subsidiaries acquired from merger of enterprises under same control				
Nanjing Panda Mechanical Engineering Plant	Nanjing	Industry	4,500	Manufacture and sales of electronic products, communication equipment, appliance and apparatus.
Nanjing Panda Technology Industrial Co., Ltd.	Nanjing	Industry	8,000	Building lease, Property Management (including energy transfer) and pre-school care
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	Nanjing	Industry	1,000	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
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	USD1,500	Development, production and sale of electronic information products
Nanjing Panda System Integration Co., Ltd.	Nanjing	Industry	300	Development and sales of computer software
Nanjing Panda Electronics Manufacturing Co., Ltd.	Nanjing	Industry	USD2,000	Development and production of new models of electronic products
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	Nanjing	Industry	4,000	Plastic product & accessories
Nanjing Panda Power Sources Technology Co., Ltd.	Nanjing	Industry	1,100	Design, production and sales of power sources and special type power transformer
Nanjing Guanghua Electronics Co. Ltd	Nanjing	Industry	1,149.76	PVC, ABS products
Nanjing Panda International Telecommunication System Co., Ltd	Nanjing	Industry	USD124	Development, production sale of telephone and telecommunication system
Nanjing Panda Electronics Equipment Co., Ltd.	Nanjing	Industry	2,000	Manufacture of automatic industrial equipment, environmental protection equipment, and logistic accessories
Nanjing Panda Industrial Enterprise Co., Ltd.	Nanjing	Industry	2,000	Property management and sales of mechanical, electronic products, construction materials and office supplies
Galant Limited	Hong Kong	R & D	HKD1	R&D of communication products

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

2. Major subsidiaries and determination of consolidation scope for 2010 (Continued)

Company name	The Company's Actual investment (RMB0'000)	Balance of net investment in other accounts in subsidiaries (RMB0'000)	Shareholding percentage (%)	Percentage of voting rights (%)	Whether to consolidate
I. Subsidiaries acquired from merger of enterprises under same control					
Nanjing Panda Mechanical Engineering Plant	3,004.20		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)	894.37		70	70	Yes
II. The subsidiaries acquired otherwise					
Nanjing Panda Appliance & Apparatus Co. Ltd.	99.27		85.1	85.1	Yes
Nanjing Panda Mechanical Manufacturing Co., Ltd.	700		70	70	Yes
Nanjing Panda Accurate Machinery Co., Ltd.	562.79		100	100	Yes
Nanjing Panda Technology Equipment Co., Ltd.	503.19		100	100	Yes
Nanjing Panda Machinery Co., Ltd.	258.22		85.82	85.82	Yes
Nanjing Panda Information Industry Co., Ltd.	11,140.84		100	100	Yes
Nanjing Panda System Integration Co., Ltd.	163.02		54.37	54.37	Yes
Nanjing Panda Electronics Manufacturing Co., Ltd	14,825.38		100	100	Yes
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	3,462.28		100	100	Yes
Nanjing Panda Power Sources Technology Co., Ltd.	875		79.55	79.55	Yes
Nanjing Guanghua Electronics Co. Ltd	827.11		100	100	Yes
Nanjing Panda International Telecommunication System Co., Ltd	765.50		72	72	Yes
Nanjing Panda Industrial Enterprise Co., Ltd. (c)	2,000		100	100	Yes
Nanjing Panda Electronics Equipment Co., Ltd. (d)	2,000		100	100	Yes
Galant Limited	HKD1		100	100	Yes

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

3. Explanation to the change of Consolidation Scope

According to the agreement signed on 6 May 2010 between the Company and Nanjing Panda Handa Technology Co., Ltd (Subsidiary of Nanjing Electronics Group Co., Ltd.), the Company transferred 70% shares of Nanjing Electronic Calibration Co., Ltd to Nanjing Panda Handa Technology Co., Ltd at a consideration of RMB1,039,300.00. Share transfer was registered in the Administration Bureau of Industry and Commerce in 2010 and the date of share transfer is 2 June 2010 (XIII 47).

(2) Preparation method of consolidated financial statements

1. Basic preparation method of consolidated financial statements

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

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

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

2. Consolidated financial statements (Continued)

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

2. Treatment method for acquisition or disposal of subsidiaries in the reporting period (Continued)

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.

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

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

(3) Minority interests

1. Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Electronic Calibration Co., Ltd.		400,683.91
Nanjing Panda Appliance & Apparatus Co. Ltd.	438,601.71	1,486,677.58
Nanjing Panda Mechanical Manufacturing Co. Ltd.	6,348,770.04	5,849,818.23
Nanjing Panda Mechanical Co., Ltd.	463,924.31	1,098,685.88
Nanjing Panda System Integration Co., Ltd.	(214,543.92)	560,530.01
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	5,870,070.97	2,389,003.22
Nanjing Panda International Telecommunication System Co., Ltd.	(3,460,848.64)	
Nanjing Panda Power Supply Technology Co., Ltd.	(2,864,277.28)	
Total	6,581,697.19	11,785,398.83

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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 31 December 2010 respectively, and the terms “last year” and “the year” refer to year 2009 and year 2010 respectively.

1. Cash and Bank Balances

Item	Closing balance	Opening balance
Cash	1,030,847.85	795,860.71
Bank balances	389,382,126.40	559,558,157.22
Other cash and bank balances	54,933,436.24	61,578,579.39
Total	445,346,410.49	621,932,597.32

Cash and bank balances includes the following foreign currencies:

	Closing Balance			Opening Balance		
	Amount in original currency	Exchange rate	Equivalent amount in CNY	Amount in original currency	Exchange rate	Equivalent amount in CNY
USD	1,294,406.48	6.6227	8,571,660.20	2,854,269.01	6.8282	19,489,519.65
HKD	40,408.77	0.8509	35,412.30	1,640.45	0.8805	1,444.42
EUR	15,413.12	8.8065	135,078.05	15,394.62	9.7971	150,822.63
Total			8,742,150.55			19,641,786.70

- (1) The closing balance of restricted other cash and bank amounting to RMB54,933,436.24 at the year end (the opening balance is RMB61,578,579.39) mainly included bank bill payables deposits and contract guarantee deposits.
- (2) The Company's bank balances included call deposits totaling RMB180,466,250.00 (the opening balance is: RMB136,845,000.00).
- (3) The closing balance of cash and bank balances decreased by 28.39% from the opening balance, mainly due to the investment amounting to RMB175,000,000.00 from the Company to Nanjing Panda Electronics Technology Development Co, Ltd at the end of the year 2010.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

2. Bills Receivable

- (1) Details of bills receivable

Types of Bills	Closing Balance	Opening Balance
Bank acceptance notes	<u>14,315,380.42</u>	8,370,297.83
Total	<u>14,315,380.42</u>	<u>8,370,297.83</u>

- (2) The closing balance of bills receivable included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (3) The year-end bills receivable had no pledge or security.
- (4) The closing balance of bills receivable that had been endorsed undue is RMB14,854,257.00.
- (5) Details of the five largest debtors of bills receivable that had been endorsed undue at the end of the period listed as follows:

Bills From	Date of issue	Due date	Amount	Note
Anfushi Radio Frequency System (Shanghai) Co., Ltd	2010-12-07	2011-03-07	2,500,000.00	
Chongqing Shopping Mall Co.,Ltd	2010-08-27	2011-2-16	2,000,000.00	
Nanping Longpu Freeway Co., Ltd	2010-10-15	2011-4-14	1,000,000.00	
Shenyang Dishen Electrical appliance Co., Ltd	2010-08-16~ 2010-09-17	2011-02-16~ 2011-03-17	600,000.00	
Nanyang Jinrunlai Electromechanical Co., Ltd	2010-09-15	2011-03-15	550,000.00	
Total			<u>6,650,000.00</u>	

- (6) The closing balance of bills receivable increased by 71.03% from the opening balance, mainly due to the increased trade clearance by bill receivable this year.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

3. Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Balance	Closing Balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable with specific provision [note 1]	241,523,165.40	67.38	30,024,773.23	12.43
Other unsubstantial amount of accounts receivable with specific provision [note 2]	116,935,351.22	32.62	29,011,505.90	24.81
Total	358,458,516.62	100.00	59,036,279.13	

Items	Balance	Opening Balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single account receivable with specific provision	123,042,127.61	48.33	5,428,297.15	4.41
Other unsubstantial amount of accounts receivable with specific provision	131,551,473.65	51.67	23,441,165.08	17.82
Total	254,593,601.26	100.00	28,869,462.23	

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

3. Accounts Receivable (Continued)

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

Note 1: Substantial amount of single accounts receivable with specific provision.

Name of debtor	Amounts	Provision for bad debt	Percentage of provision for bad debt %	Reasons
Nanjing Sharp Electronic Co., Ltd.	38,359,966.69			Expected can be recovered
PACIC DIGIT CORP	24,441,412.70	24,441,412.70	100.00	Expected cannot be recovered
Nanjing Panda Zhongdian LCD Technology Co., Ltd.	22,924,065.29			Expected can be recovered
Nanjing Metro Co., Ltd.	22,632,328.06	1,131,616.40	5.00	Current value of the expected future cash flow is lower than its carrying value
Pandigital,inc	22,296,481.17			Expected can be recovered
Others	110,868,911.49	4,451,744.13	4.02	Current value of the expected future cash flow is lower than its carrying value
Total	241,523,165.40	30,024,773.23		

Note 2: For other unsubstantial amount of accounts receivable with specific provision, a provision of RMB29,011,505.90 for impairment of the receivable is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

(2) Ageing analysis of accounts receivable

Ageing	Closing Balance				Opening Balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 year	290,411,817.93	81.02	2,256,480.88	0.78	196,600,851.44	77.22	3,722,159.47	1.89
1-2 years	14,834,939.96	4.14	12,710,525.02	85.68	39,028,067.28	15.33	6,898,162.38	17.67
2-3 years	36,447,866.56	10.17	28,326,625.34	77.72	5,818,742.15	2.29	5,171,411.49	88.88
3-5 years	10,256,524.81	2.86	9,660,085.94	94.18	7,821,955.62	3.07	7,753,744.12	99.13
more than 5 years	6,507,367.36	1.81	6,082,561.95	93.47	5,323,984.77	2.09	5,323,984.77	100.00
Total	358,458,516.62	100.00	59,036,279.13		254,593,601.26	100.00	28,869,462.23	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

3. Accounts Receivable (Continued)

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

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Nanjing Sharp Electronics Co., Ltd.	38,359,966.69	10.70	Within 1 year
PACIC DIGIT CORP	24,441,412.70	6.82	2-3 years
Nanjing Panda Zhongdian LCD Technology Co., Ltd.	22,924,065.29	6.40	Within 1 year
Nanjing Underground Co., Ltd.	22,632,328.06	6.31	Within 1 year
Pandigital, inc	22,296,481.17	6.22	Within 1 year
Total	<u>130,654,253.91</u>	<u>36.45</u>	

- (4) The situation of written-off accounts receivable:

Due to the agreement of debt restructure this year, Nanjing Panda Electronics Company Limited wrote off RMB358,201.90 accounts receivable after verification.

- (5) The closing balance of accounts receivable included RMB1,356,209.98 due from Panda Electronics Group Company, the shareholder holding 51.10% shares of the Company.
- (6) The closing balance of accounts receivable includes RMB49,346,454.52 due from related parties, representing 13.77% of the total accounts receivable (the opening balance: RMB28,758,105.62, representing 11.30%). Please refer to Note X3(10) for disclosure of relevant related transactions.
- (7) The closing balance of accounts receivable increased by 40.8% from the opening balance, and the main reasons were the growth of economic and the forceful demand of electronic products, which lead to the increase of sales.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

4. Prepayment

(1) Details of prepayment

Ageing	Closing Balance			Opening Balance		
	Amount	Percentage %	Provision for bad debt	Amount	Percentage %	Provision for bad debt
Within 1 year	81,817,016.05	87.10	283,877.80	51,602,126.50	72.96	1,307,869.46
1-2 years	7,481,180.56	7.96	1,961,586.64	11,433,315.98	16.17	1,345,118.70
2-3 years	1,791,619.98	1.91	1,211,357.98	5,213,800.29	7.37	900,568.42
3-5 years	2,655,004.32	2.83	2,324,980.30	1,934,883.95	2.74	1,795,952.51
More than 5 years	191,995.00	0.20	191,995.00	538,159.94	0.76	538,159.94
Total	<u>93,936,815.91</u>	<u>100.00</u>	<u>5,973,797.72</u>	<u>70,722,286.66</u>	<u>100.00</u>	<u>5,887,669.03</u>

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

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

Client	Amount	Percentage %	The relationship with the prepaid company	The time of prepayment	Reasons of unsettled accounts
Nanjing Long Xi Lu Building Materials Co., Ltd.	9,269,846.00	9.87	The third party	Within 1 year	Project not completed
Nanjing Zhiyuan Information Technology Co., Ltd.	8,504,993.79	9.05	The third party	Within 1 year	Products not reached
CRSC Co., Ltd	4,824,772.00	5.14	The third party	1~3 years	Products not reached
Nantong Hengrui Construction and Installation Co., Ltd	2,731,653.87	2.91	The third party	Within 1 year	Products not reached
Liande (Beijing) Machinery Co., Ltd.	2,430,000.00	2.59	The third party	Within 1 year	Project not completed
Total	<u>27,761,265.66</u>	<u>29.56</u>			

(4) The closing balance of prepayment included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

4. Prepayment (Continued)

- (5) The closing balance of prepayment includes RMB13,666,459.25 due from related parties (the opening balance: 1,305,655.97), accounting for 14.55% of the total prepayment (the opening balance: 1.85%). Please refer to Note X3(10) for disclosure of relevant related transactions.
- (6) The closing balance of account receivable increased by 32.82% from the opening balance, and the main cause was the increasing orders, which leads to the growing prepayment of material.

5. Other Receivables

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

Item	Balance	Closing Balance		Percentage of provision for bad debts %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables with specific provision [note 1]	175,000,000.00	81.00		
Other unsubstantial amount of other receivables with specific provision [note 2]	41,049,370.70	19.00	17,455,044.95	42.52
Total	216,049,370.70	100.00	17,455,044.95	

Item	Balance	Opening Balance		Percentage of provision for bad debts %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables with specific provision	9,828,372.98	26.07	5,984,824.92	60.89
Other unsubstantial amount of other receivables with specific provision	27,874,826.75	73.93	11,639,213.14	41.76
Total	37,703,199.73	100.00	17,624,038.06	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

5. Other Receivables (Continued)

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

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.

Note 1. Substantial amount of single other receivable with specific provision.

Name of debtor	Amount	Provision for bad debt	Percentage of provision for bad debt %	Reasons
Nanjing Panda Electronics Technology develop Company Limited	175,000,000.00			Expected to be recovered
Total	175,000,000.00			

Note 2. For the unsubstantial amount of other receivables, a provision of RMB17,455,044.95 for impairment of the receivable is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

(2) Ageing analysis of other receivables

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 years	197,343,862.06	91.34	796,933.85	0.40	16,250,255.75	43.10	2,016,245.26	12.41
1-2 years	4,342,890.01	2.01	2,295,492.47	52.86	4,911,615.44	13.03	1,423,147.32	28.98
2-3 years	1,844,211.90	0.85	1,844,211.90	100.00	4,659,828.42	12.36	2,397,468.36	51.45
3-5 years	3,343,980.37	1.55	3,343,980.37	100.00	2,609,196.06	6.92	2,519,873.06	96.58
More than 5 years	9,174,426.36	4.25	9,174,426.36	100.00	9,272,304.06	24.59	9,267,304.06	99.95
Total	216,049,370.70	100.00	17,455,044.95		37,703,199.73	100.00	17,624,038.06	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

5. Other Receivables (Continued)

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

Name of debtor	Amount	Percentage in the total value of the other receivable %	Ageing
Nanjing Panda Electronics Technology Development Co., Ltd	175,000,000.00	81.00	Within 1 year
Armed Police logistic Department of Jiangsu Province	4,400,000.00	2.04	Within 1 year
Yunnan Provincial Bureau of Radio and Television	3,825,548.06	1.77	Within 1 year
Nanjing Panda Digital Technology Development Co., Ltd.	3,540,000.00	1.64	3-5 years
PICC Life Insurance Co., Ltd	2,153,398.33	1.00	Within 1 year
Total	<u>188,918,946.39</u>	<u>87.45</u>	

(4) The situation of written-off other receivables:

Name of debtor	Amount	Classify	The reasons of cancellation after verification	Related party Transaction
Kunshan Fuhong Industrial Equipment Co., Ltd.	204,400.00	guarantee deposit of machine	Long time on account. The company has been closed	No
Total	<u>204,400.00</u>			

(5) The closing balance of other receivables included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.

(6) The closing balance of other receivables included RMB2,799,417.23 due from related parties (the opening balance: RMB2,462,824.92), representing 1.30% of the total other receivables (the opening balance: 6.53%). Please refer to Note X3(10) for disclosure of relevant related transactions.

(7) The closing balance of other receivables increased by 473.03% from the opening balance, and the main reason was that 175 million was invested to Nanjing Panda Electronics Technology Development Co., Ltd, which has not established at the end of 2010. Therefore, the investment was classified in other receivables temporarily.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

6. Inventories

(1) Details of inventories

Items	Closing Balance			Opening Balance		
	balance of inventories	Provision for diminution in value of inventories	value of inventories	balance of inventories	Provision for diminution in value of inventories	value of inventories
Raw materials	54,667,048.01	13,660,568.20	41,006,479.81	45,821,482.64	11,951,100.19	33,870,382.45
Packaging materials	170,927.82		170,927.82	161,413.80		161,413.80
Low-value consumables	508,412.45		508,412.45	588,275.99		588,275.99
Work in progress	85,476,175.90	5,604,559.98	79,871,615.92	57,325,891.50	3,720,498.72	53,605,392.78
Stored commodities	98,908,987.79	25,638,076.30	73,270,911.49	73,422,792.40	16,248,561.29	57,174,231.11
Consigned commodities	3,443,134.82		3,443,134.82	8,913,882.12	299,182.75	8,614,699.37
Delivered commodities	17,539,415.91	1,449,081.79	16,090,334.12	4,990,582.75	1,574,949.31	3,415,633.44
Total	<u>260,714,102.70</u>	<u>46,352,286.27</u>	<u>214,361,816.43</u>	<u>191,224,321.20</u>	<u>33,794,292.26</u>	<u>157,430,028.94</u>

(2) Provision for diminution in value of inventories

Item	Opening Balance	Decrease in The year	Provision in the year			Closing Balance
			Reverse	Write-off	Total	
Raw materials	11,951,100.19	2,936,093.19	916,889.00	309,736.18	1,226,625.18	13,660,568.20
Work in progress	3,720,498.72	2,284,187.71	334,293.63	65,832.82	400,126.45	5,604,559.98
Stored commodities	16,248,561.29	11,610,740.15	2,215,041.32	6,183.82	2,221,225.14	25,638,076.30
Consigned commodities	299,182.75		299,182.75		299,182.75	
Delivered commodities	1,574,949.31	53,650.43	179,517.95		179,517.95	1,449,081.79
Total	<u>33,794,292.26</u>	<u>16,884,671.48</u>	<u>3,944,924.65</u>	<u>381,752.82</u>	<u>4,326,677.47</u>	<u>46,352,286.27</u>

1. Basis of provision for diminution in value of inventories: on each balance sheet day, inventories are measured based on the lower of cost and net realizable value, and provision for diminution in value of inventories is made based on the surplus of cost over net realizable value of inventories on an individual basis.
2. Reason for reversal of provision for diminution in value of inventories: Should the factors causing any write-down of the inventories do not exist anymore, the amount of write-down shall be recovered and be reversed from the provision for diminution in value of inventories that has been made.
- (3) The closing balance of inventories increased by 36.34% from the opening balance, mainly due to the increasing orders and the new products which lead to the growing balances of working in progress and finished goods.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

7. Long-term equity investment

(1) Details of long-term equity investment

Item	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Investment in associated companies	781,668,702.41	91,047,489.92	208,275,356.07	664,440,836.26
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>91,047,489.92</u>	<u>208,275,356.07</u>	<u>661,484,199.39</u>

(2) Details of investment in associated companies

Name of investee	Opening Balance	Increase In this year	Decrease In this year	Closing Balance	Registration Address	Nature of business
Associated company						
Beijing SE Putin Mobile Communications Co., Ltd.	203,224,200.00	35,093,200.00	81,000,000.00	157,317,400.00	Beijing	Manufacture Technology
Nanjing Huaxian High Technology Company Limited	1,842,979.38	(231,865.37)		1,611,114.01	Nanjing	Development
Hua Fei Colour Display Systems Company Limited	160,337,169.17	(76,762,202.91)		83,574,966.26	Nanjing	Manufacture
MPower Batteries (Nanjing) Co., Ltd.					Nanjing	Manufacture
Nanjing Ericsson Panda communication Company Limited	306,963,000.00	121,696,133.67	118,522,553.67	310,136,580.00	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	95,174,867.22	8,562,252.11	8,752,802.40	94,984,316.93	Shenzhen.	Manufacture
Intenna (Nanjing) Co. Ltd.	1,317,806.82	(127,628.64)		1,190,178.18	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	2,817,601.06		12,669,644.01	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	<u>2,756,525.00</u>			<u>2,756,525.00</u>	Korea	
Total	<u>781,668,702.41</u>	<u>91,047,489.92</u>	<u>208,275,356.07</u>	<u>664,440,836.26</u>		

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

7. Long-term equity investment (Continued)

(2) Details of investment in associated companies (Continued)

Name of investee	The Company's shareholding percentage	The Company's percentage in voting rights of the investee	Total assets at the end of the period	Total debts at the end of the period	Total net assets at the end of the period	Total revenue from operations for the year	Net profit for the year
	%	%					
Associated companies							
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	3,904,261,000.00	3,134,889,000.00	769,372,000.00	19,362,389,000.00	175,466,000.00
Hua Fei Colour Display Systems Company Limited	25	25	1,666,844,099.85	1,332,544,234.79	334,299,865.06	756,477,284.71	(307,048,811.63)
Nanjing Ericsson Panda Communication Company Limited	27	27	11,165,912,000.00	10,017,258,000.00	1,148,654,000.00	14,481,602,000.00	450,726,000.00
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	348,668,075.90	69,417,376.32	279,250,699.58	655,904,566.48	22,512,459.03
Intenna (Nanjing) Co. Ltd.	35	35	5,349,513.70	1,949,004.60	3,400,509.10		(364,185.46)
Nanjing Thales Panda Transportation System Company Limited	40	40	99,753,671.23	68,381,411.33	31,372,259.90	89,009,334.82	7,044,002.66
Nanjing Electronics (Kunshan) Co., Ltd.	20	20	106,900,027.13	98,844,457.09	8,055,570.04	11,310,566.32	(1,159,326.84)

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

Name of investee	Investment cost	Opening Balance	Additional investment in the year	Increase/decrease of the investee's equity	Cash bonus distributed	Closing Balance
Beijing SE Putian Mobile Communications Co., Ltd.	50,361,373.68	203,224,200.00		35,093,200.00	81,000,000.00	157,317,400.00
Nanjing Huaxian High Technology Company Limited	10,000,000.00	1,842,979.38		(231,865.37)		1,611,114.01
Hua Fei Colour Display Systems Company Limited	392,892,722.42	160,337,169.17		(76,762,202.91)		83,574,966.26
MPower Batteries (Nanjing) Limited	4,200,000.00					
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	306,963,000.00		121,696,133.67	118,522,553.67	310,136,580.00
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	95,174,867.22		8,562,252.11	8,752,802.40	94,984,316.93
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,317,806.82		(127,628.64)		1,190,178.18
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.88					
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		2,817,601.06		12,669,644.01
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		91,047,489.92	208,275,356.07	664,440,836.26

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

7. Long-term equity investment (Continued)

(4) Impairment for the Long-term equity investment

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

8. Fixed Assets

(1) Details of fixed assets

	Buildings	Machinery and equipment	Transportation equipment	Electronic equipment	Other equipment	Total
Cost						
Opening Balance	402,324,722.30	278,546,362.47	11,923,496.63	42,252,572.70	13,864,336.46	748,911,490.56
Transfer from CIP	131,504,388.06	37,017,581.14		1,077,103.26	567,264.96	170,166,337.42
Other Current Addition		17,222,927.70	3,398,257.32	1,990,324.15	3,879,463.86	26,490,973.03
Other Current Disposal	(3,099,001.79)	(26,545,097.62)	(1,525,494.00)	(8,932,586.48)	(727,472.18)	(40,829,652.07)
Closing Balance	530,730,108.57	306,241,773.69	13,796,259.95	36,387,413.63	17,583,593.10	904,739,148.94
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
Current Depreciation	12,663,497.36	22,752,339.63	1,216,351.84	3,121,160.71	2,327,656.88	42,081,006.42
Current Disposal	(2,327,469.62)	(12,831,082.36)	(962,486.74)	(6,421,038.78)	(356,009.06)	(22,898,086.56)
Closing Balance	128,016,364.11	126,775,451.75	4,536,221.60	24,670,834.26	8,004,351.23	292,003,222.95
Impairment Provision						
Opening Balance	8,325,948.02	757,309.68		1,633,052.06		10,716,309.76
Current Increase					5,208.80	5,208.80
Current Decrease	(17,345.57)	(412,430.36)		(1,552,217.89)		(1,981,993.82)
Closing Balance	8,308,602.45	344,879.32		80,834.17	5,208.80	8,739,524.74
Net book value						
Closing Balance	394,405,142.01	179,121,442.62	9,260,038.35	11,635,745.20	9,574,033.07	603,996,401.25
Opening Balance	276,318,437.91	160,934,858.31	7,641,140.13	12,648,808.31	7,831,633.05	465,374,877.71

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

8. Fixed Assets (Continued)

(2) On 31 December 2010, the buildings with a net book value of RMB119,949,009.61 (the original cost of RMB193,082,652.14) had been pledged as security for short-term borrowings of RMB75,000,000. Please refer to Note VIII.14 for disclosure of relevant information.

(3) Fixed assets acquired under finance leases

Items	Original book Value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	6,912,275.00	2,696,989.24		4,215,285.76
Total	6,912,275.00	2,696,989.24		4,215,285.76

(4) Fixed assets leased out by operating lease

Items	Original book Value	Accumulated depreciation	Impairment provision	Book value
Buildings	251,757,714.56	80,726,661.76	3,219,710.07	167,811,342.73
Total	251,757,714.56	80,726,661.76	3,219,710.07	167,811,342.73

(5) Fixed assets without certification

Items	Original book Value	Accumulated depreciation	Impairment provision	Book value
Buildings	266,787,572.31	46,777,788.83	8,308,602.45	211,701,181.03
Total	266,787,572.31	46,777,788.83	8,308,602.45	211,701,181.03

The certification of building with the origin cost of RMB209,530,066.00 is expected to be obtained in 2011.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

8. Fixed Assets (Continued)

(6) Impairment provision of fixed assets

Items	Opening balance	Provision in the year	Decrease in this year			Closing Balance
			Reverse	Write-off	Total	
Buildings	8,325,948.02			17,345.57	17,345.57	8,308,602.45
Machinery and equipment	757,309.68			412,430.36	412,430.36	344,879.32
Electronic equipment	1,633,052.06			1,552,217.89	1,552,217.89	80,834.17
Other equipment		5,208.80				5,208.80
Total	10,716,309.76	5,208.80		1,981,993.82	1,981,993.82	8,739,524.74

Some old fixed assets were disposed this year. Therefore, the reversal of the impairment with the amount of RMB1,981,993.82 incurred during the year.

9. Construction in progress

(1) The balance of Construction in progress

Items	The balance on account	Closing Balance Provision during the year	Value on account	The balance on account	Opening Balance	
					Provision during the year	Value on account
project	2,008,556.11		2,008,556.11	85,509,336.05		85,509,336.05
Machinery and equipment	1,874,938.81		1,874,938.81	82,000.00		82,000.00
Total	3,883,494.92		3,883,494.92	85,591,336.05		85,591,336.05

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

9. Construction in progress (Continued)

(2) Details of Construction in progress

Name of project	Budget	Opening balance	Increase in the year	Transferred to fixed assets in the year	Other decrease	Closing balance	% of budget	Resource of fund
Xin Gang No.4 and No.5 Plant Project	180M	61,185,855.42	46,634,265.55	107,820,220.97			59.90	Internal capital
Xin Gang No.3 Plant Project	9.04M	8,935,279.48		8,935,279.48			98.84	Internal capital
Xin Gang No.1 & No.2 Plant, No.9 & No.10 Canteen	18.29M	15,388,201.15	1,369,242.57	14,748,887.61		2,008,556.11	91.62	Internal capital
Machinery and equipment		82,000.00	40,454,888.17	38,661,949.36		1,874,938.81		Internal capital
Total		85,591,336.05	88,458,496.29	170,166,337.42		3,883,494.92		

(3) The Company has no capitalization of borrowing costs for the year. The Company made no impairment provision for construction in progress as there is no indication of impairment.

(4) The closing balance of the CIP decreased by 95.46% from the opening balance, mainly due to the Xin Gang plants reached the status of usage and was transferred into the fixed assets by the year end.

10. Intangible assets

(1) Details of intangible assets

Items	Cost	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Accumulative amortization in the year	Closing balance
Land use rights	27,219,260.67	24,061,861.79			682,842.74	3,840,241.62	23,379,019.05
Trademark use right	158,640,000.00	210,000.00				158,430,000.00	210,000.00
Others	4,522,743.72	2,047,266.46	1,258,359.33		718,617.24	1,935,735.17	2,587,008.55
Total	190,382,004.39	26,319,128.25	1,258,359.33		1,401,459.98	164,205,976.79	26,176,027.60

(2) Impairment provision for intangible assets

Items	Opening Balance	Provision in the year	Decrease in this year			Closing Balance
			Reverse	Write-off	Total	
Trademark use right	210,000.00					210,000.00
Total	210,000.00					210,000.00

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

11. Deferred Income Tax Assets and Deferred Income Tax Debts

(1) Details of deferred income tax assets

Items	Closing Balance		Opening Balance	
	Deferred income tax assets	deductible temporary difference	Deferred income tax assets	deductible temporary difference
Provision for asset impairment	5,744,964.54	40,147,895.77	2,042,840.56	11,858,657.26
Depreciation of fixed assets	199,626.80	860,138.61	225,639.11	999,062.02
Intangible assets amortization	46,928.87	196,192.56	51,919.24	229,461.75
Accrued expenses	44,301.67	295,344.48		
Long-term payables			12,843.53	58,379.68
Salaries payable	443,609.48	2,292,229.74	448,757.31	2,151,929.40
Salaries payable (more than 3 years)	29,826.27	198,841.78		
Total	<u>6,509,257.63</u>	<u>43,990,642.94</u>	<u>2,781,999.75</u>	<u>15,297,490.11</u>

(2) Details of deferred income tax debts

Items	Closing Balance		Opening Balance	
	Deferred income tax assets	deductible temporary difference	Deferred income tax assets	deductible temporary difference
Unrecognized financing expenses	68,911.17	287,129.88		
Total	<u>68,911.17</u>	<u>287,129.88</u>		

(3) Details of unrecognized deferred income tax assets

Items	Closing Balance	Opening Balance
Deductible temporary difference	72,098,830.04	54,324,753.50
Deductible loss	35,869,716.45	31,811,671.64
Total	<u>107,968,546.49</u>	<u>86,136,425.14</u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

11. Deferred Income Tax Assets and Deferred Income Tax Debts (Continued)

(4) Details of unrecognized deferred income tax assets will due at the end of next year

Items	Closing balance	Opening balance	Notes
2011	13,463,093.77		
2012	15,092,917.03	13,463,093.77	
2013		15,092,917.03	
2014	3,255,660.84		
2015	4,058,044.81	3,255,660.84	
Total	35,869,716.45	31,811,671.64	

12. Details of Provision for Impairment of Assets

Items	Opening balance	Provision in the year	Decrease in the year			Closing Balance
			Reverse	Write-off	Total	
1. Total provision for bad debt	52,381,169.32	37,916,440.58	6,833,266.23	999,221.87	7,832,488.10	82,465,121.80
Including: Accounts receivable	28,869,462.23	33,297,176.91	2,335,538.14	794,821.87	3,130,360.01	59,036,279.13
Other receivables	17,624,038.06	3,606,735.65	3,571,328.76	204,400.00	3,775,728.76	17,455,044.95
Prepayment	5,887,669.03	1,012,528.02	926,399.33		926,399.33	5,973,797.72
2. Total provision for impairment of inventories	33,794,292.26	16,884,671.48	3,944,924.65	381,752.82	4,326,677.47	46,352,286.27
Including: Raw materials	11,951,100.19	2,936,093.19	916,889.00	309,736.18	1,226,625.18	13,660,568.20
Work in progress	3,720,498.72	2,284,187.71	334,293.63	65,832.82	400,126.45	5,604,559.98
Commodity inventories	16,248,561.29	11,610,740.15	2,215,041.32	6,183.82	2,221,225.14	25,638,076.30
Consigned Processing material	299,182.75		299,182.75		299,182.75	
Delivered Commodities	1,574,949.31	53,650.43	179,517.95		179,517.95	1,449,081.79
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	5,208.80		1,981,993.82	1,981,993.82	8,739,524.74
Including: Buildings	8,325,948.02			17,345.57	17,345.57	8,308,602.45
Machinery and equipment	757,309.68			412,430.36	412,430.36	344,879.32
Electronic equipment	1,633,052.06			1,552,217.89	1,552,217.89	80,834.17
Other equipment		5,208.80				5,208.80
5. Provision for impairment of construction in progress						
6. Provision for impairment of intangible assets	210,000.00					210,000.00
Including: Trademark	210,000.00					210,000.00
Total	<u>100,058,408.21</u>	<u>54,806,320.86</u>	<u>10,778,190.88</u>	<u>3,362,968.51</u>	<u>14,141,159.39</u>	<u>140,723,569.68</u>

The balance bad debt provision contains RMB436,619.97 transferred out, which is due to the disposal of Nanjing Electronic Calibration Co., Ltd.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

13. Restricted Assets

Restricted Assets	Opening balance	Increase in this year	Decrease in this year	Closing balance
I. Fixed assets to be guaranteed				
Pledged fixed assets		119,949,009.61		119,949,009.61
II. Other reasons for restricted assets				
Bank bill payables deposits	12,884,095.64	205,194,475.72	188,188,262.70	29,890,308.66
Contract guarantee deposits	48,436,602.70	7,234,715.70	30,663,008.65	25,008,309.75
Others		34,817.83		34,817.83
Total	<u>61,320,698.34</u>	<u>332,413,018.86</u>	<u>218,851,271.35</u>	<u>174,882,445.85</u>

14. Short Term Loans

(1) Details of Short term loans

Type of loan	Closing Balance	Opening balance
Collateral loan	75,000,000.00	
Guaranteed loan	350,000,000.00	358,000,000.00
Credit loan	53,000,000.00	22,000,000.00
Total	<u>478,000,000.00</u>	<u>380,000,000.00</u>

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

(3) The collateral loans of the Company as the end of the year amounted to RMB75,000,000.00, please refer to Note VIII 8 (2) for details.

(4) Details of guaranteed loan of the Company and its subsidiaries, please refer to Note X3 (5) and (6).

(5) The weighted average interest rate of the short term loans for the year is 5.71% (year 2009: 6.34%).

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

15. Bills payable

Types of Bills	Closing Balance	Opening Balance	Amount due in the
			next accounting period
Bank acceptance notes	42,573,506.11	19,454,095.64	42,573,506.11
Total	42,573,506.11	19,454,095.64	42,573,506.11

The closing balance of bills receivable increased by 118.84% from the opening balance is mainly due to the increased use of bank notes to settle the trade payment.

16. Accounts payable

(1) Details of accounts payable

Aging	Closing Balance		Opening Balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	263,570,235.82	80.55	230,875,610.98	83.58
1-2 years	24,688,687.30	7.55	21,196,943.42	7.67
2-3 years	18,992,521.87	5.80	3,606,635.44	1.31
More than 3 years	19,947,311.60	6.10	20,560,449.41	7.44
Total	327,198,756.59	100.00	276,239,639.25	100.00

(2) The closing balance of accounts payable includes RMB3,967,676.80 due to Panda Electronics Group Company, the shareholder with 51.10% of shareholding with voting power in the Company.

(3) The closing balance of accounts payable included RMB11,272,970.15 (the opening balance: RMB6,023,699.80) due to related parties. Please refer to Note X3(10) for disclosure of relevant related transactions.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

16. Accounts payable (Continued)

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

Name of creditor	Amount	Reason for failure to repay	Whether will be repaid after the date of financial statement
Yancheng Institute of Technology	7,313,477.41	Payment unqualified	No
Thales Co., Ltd.	6,500,431.35	Payment unqualified	No
Guangdong Zhicheng Champion (Electrics Industrial) Group Co., Ltd	3,970,550.20	Unable to contact the other party	No
Jiangyin Dingyuan Technology Co., Ltd	2,176,046.90	Payment unqualified	No
Nanjing Runkai Technology Industrial and Commercial Co., Ltd.	1,924,303.54	Unable to contact the other party	No
Total	<u>21,884,809.40</u>		

17. Advances from customers

(1) Details of Advances from customers

Aging	Closing Balance		Opening Balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	52,616,884.40	79.62	23,709,699.68	55.23
1-2 years	11,668,965.86	17.66	13,282,607.03	30.94
2-3 years	1,035,670.28	1.57	5,434,220.05	12.66
More than 3 years	764,130.95	1.15	500,143.87	1.17
Total	<u>66,085,651.49</u>	<u>100.00</u>	<u>42,926,670.63</u>	<u>100.00</u>

(2) The closing balance of advances includes no shareholder over 5% of shareholding with voting power in the Company.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

17. Advances from customers (Continued)

- (3) The closing balance of advances from customers includes RMB3,833,400.68 (the opening balance: RMB1,495,547.72) due to related parties. Please refer to Note X3(10) for disclosure of relevant related transactions.
- (4) The receipts in advance had not been carried forward yet, mainly due to the receipt of advance is more than the unsettled payment subject to the construction progress.
- (5) The closing balance of Advances from customers increased by 53.95% from the opening balance due to the extension of business.

18. Salaries payable

	Opening Balance	Increase	Decrease	Closing Balance
Salaries and bonus	3,373,292.40	139,382,734.80	135,701,209.67	7,054,817.53
Expenses for employee benefits		13,347,424.80	13,347,424.80	
Expenses for social security	2,614,595.25	35,174,929.14	35,086,073.72	2,703,450.67
Including: Medical insurance	403,577.18	9,642,835.56	9,612,019.63	434,393.11
Pension fund	2,078,785.06	22,542,536.09	22,490,560.34	2,130,760.81
Unemployment insurance	89,656.02	1,187,647.51	1,177,061.79	100,241.74
Injury insurance	13,195.60	725,420.52	729,694.13	8,921.99
Maternity insurance	29,381.39	1,076,489.46	1,076,737.83	29,133.02
Housing reserve fund	778,425.01	9,853,256.26	9,669,910.01	961,771.26
Trade union funds and employee education funds	2,410,145.99	3,070,709.91	2,926,644.53	2,554,211.37
Compensation for employment termination	108,000.00	294,047.91	294,047.91	108,000.00
Laid-off benefits	35,361,328.84	6,796,185.80	10,791,944.81	31,365,569.83
Others	50,267.40	467,852.50	450,546.46	67,573.44
Total	44,696,054.89	208,387,141.12	208,267,801.91	44,815,394.10

There are not any salaries payable in arrears and all the salaries, bonuses and benefits (retired employees excluded) are paid to employees in line with the Company's payment schedule.

Laid-off benefits are the total accrued expenses of laid-off staff since 1 January 2011 to the retirement date, including the unrecognized financing expenses amounting to RMB2,711,221.88 (the opening balance: 2,661,690.88). The unrecognized financing cost is amortized by the effective interest method.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

19. Taxes payable

Items	Tax Rate	Closing Balance	Opening Balance
Value-added tax	Refer to Note VI: Taxation	2,055,372.30	17,136,520.50
Business tax	Refer to Note VI: Taxation	1,316,023.78	351,069.48
City maintenance tax	Refer to Note VI: Taxation	758,071.40	507,203.05
Education surcharges	Refer to Note VI: Taxation	367,793.25	2,280,060.83
Enterprise income tax	Refer to Note VI: Taxation	9,565,019.19	2,750,322.16
Land appreciation tax	Refer to Note VI: Taxation		3,422,006.97
Individual income tax		873,333.80	451,665.01
Others		27,274.75	7,375.41
Total		14,962,888.47	26,906,223.41

The closing balance of tax payable decreased by 44.39% from the opening balance is due to that the Company paid the taxes in time during the period.

20. Interest Payable

Items	Closing Balance	Opening Balance
Short-term loan interest	691,700.00	469,360.36
Total	691,700.00	469,360.36

21. Dividend payable

Name of investors	Closing Balance	Opening Balance	Reason not to pay more than one year
Individual shareholders	238,816.60		
Total	238,816.60		

Dividend payable is payables to the minority shareholders of the subsidiaries of the Company.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

22. Other payables

Aging	Closing Balance		Opening Balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	40,375,798.87	40.70	136,597,053.77	75.07
1-2 years	25,112,644.01	25.31	4,945,660.42	2.72
2-3 years	3,309,512.13	3.34	2,308,569.67	1.27
More than 3 years	30,411,443.32	30.65	38,112,800.61	20.94
Total	99,209,398.33	100.00	181,964,084.47	100.00

- (1) The closing balance of other payables included RMB4,834,566.53 payables to Panda Electronics Group Company, the shareholder with 51.10% of shareholding with voting power in the Company.
- (2) The closing balance of other payables includes RMB7,779,273.91 payables to related parties (the opening balance: RMB90,797,320.40). Please refer to Note X3 (10) for disclosure of relevant related transactions.
- (3) Other payables in large amount

Name of creditor	Amount	Nature
Ministry of Finance, China	27,743,861.10	Project Fund
Panda Electronics Group Co., Ltd.	4,834,566.53	Daily operating expenses
Nanjing Science and Technology Bureau	2,266,000.00	Project Fund
JFE Shoji Electronics Corporation	2,475,556.52	Payable of equipment
Nanjing Pengda Labor Consulting Services Co., Ltd.	1,646,495.55	Labor expenses
Total	38,966,479.70	

- (4) The closing balance of other payables decreased by 43.72% from the opening balance, because the Company repaid RMB80,000,000.00 to Panda Electronics Group Co., Ltd., the parent company mainly for the daily operation.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

23. 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		
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. The loan period is from 27 November, 2009 to 27 February, 2012, with the weighted average annual interest rate of 0.3%. The principal and interest will be paid when loan term ends (the opening balance: 0.3%).

24. Long Term Payables

	Closing Balance	Opening Balance
Finance lease payables	1,278,668.33	3,494,205.24
Less: Finance lease payables due within 1 year	<u>1,278,668.33</u>	<u>2,215,375.85</u>
Total		<u>1,278,829.39</u>

Analysis of due date of long term payables:

	Closing Balance	Opening Balance
Within 1 year	1,278,668.33	2,215,375.85
1-2 years		<u>1,278,829.39</u>
Total	<u>1,278,668.33</u>	<u>3,494,205.24</u>

The closing balance of long-term payables decreased by 100% from the opening, mainly due to the Company paid finance lease payment due in current year and there was no addition of finance lease in 2010.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

25. Share Capital

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

During the reporting period, Panda Electronics Group Company, the company's controlling shareholder did not increase or reduce shareholdings of the Company.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

26. Capital Reserve

Items	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Capital premium	451,004,560.61	1,940,268.75		452,944,829.36
Other capital reserve	14,365,417.16			14,365,417.16
Total	<u>465,369,977.77</u>	<u>1,940,268.75</u>		<u>467,310,246.52</u>

The increase of capital reserve is due to that the Company acquired minority stockholders' interest of the Company's subsidiary company, and the amount paid was more than the value of the minority interest.

27. Surplus Reserve

Items	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Statutory surplus reserve	132,407,764.09	247,218.25		132,654,982.34
Discretionary surplus reserve	70,376,641.33			70,376,641.33
Total	<u>202,784,405.42</u>	<u>247,218.25</u>		<u>203,031,623.67</u>

According to "the Company law of the PRC", the Company's Articles of Association and a resolution at the Board of Directors, the Company appropriates 10% of net profits of the year to statutory surplus reserve. The Company shall not appropriate statutory surplus reserve when it reaches above 50% of the total share capital. The statutory surplus reserve could be used to recover loss or increase share capital. The Company appropriated statutory surplus reserve amounting to RMB247,218.25, which amounted to 10% net profit of the Company this year (year 2009: RMB2,273,984.13).

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

VIII. Notes to major items of consolidated financial statements

28. Undistributed Profit

Items	2010	2009
Closing balance of previous year	141,835,133.81	128,583,446.32
Add: Changes in accounting policies Correction of previous errors		
Opening balance of the year	141,835,133.81	128,583,446.32
Add: Consolidated net profit		
attributable to parent company	9,192,395.43	15,525,674.62
Compensation of loss from surplus reserve		
Other transfer-in		
Less: Transfer to statutory surplus reserve	247,218.25	2,273,984.13
Transfer to discretionary surplus reserve		
Distribution to shareholders		
Closing balance of the year	150,780,310.99	141,835,133.81

29. Operating Income and Cost

(1) Income from principal activities and other activities

Items	2010	2009
Income from principal activities	1,633,633,321.03	1,259,924,875.31
Income from other activities	41,338,753.19	24,939,544.66
Total operating income	1,674,972,074.22	1,284,864,419.97
Cost of principal activities	1,398,738,528.13	1,146,298,242.71
Cost of other activities	22,722,657.64	16,826,559.40
Total operating cost	1,421,461,185.77	1,163,124,802.11

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

29. Operating Income and Cost (Continued)

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

Business segment	2010		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	607,864,435.55	432,596,187.13	175,268,248.42
Electronic intelligent products	338,569,058.85	294,218,699.24	44,350,359.61
Electronic Equipment products	460,494,665.33	447,100,051.93	13,394,613.40
Others	226,705,161.30	224,823,589.83	1,881,571.47
Total	<u>1,633,633,321.03</u>	<u>1,398,738,528.13</u>	<u>234,894,792.90</u>

Business segment	2009		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	366,933,963.75	336,872,072.87	30,061,890.88
Electronic intelligent products	274,154,923.44	231,968,539.23	42,186,384.21
Electronic equipment products	276,338,408.16	238,553,960.21	37,784,447.95
Satellite telecommunications products	203,733,000.00	195,060,314.29	8,672,685.71
Others	138,764,579.96	143,843,356.11	(5,078,776.15)
Total	<u>1,259,924,875.31</u>	<u>1,146,298,242.71</u>	<u>113,626,632.60</u>

- (3) The Company's major business is in Nanjing.
- (4) Sales revenue from the largest five customers totaled RMB432,897,568.23, accounting for 25.85% of total sales revenue for the year .
- (5) Sales revenue increased by 30.36% compared with the previous year, mainly due to the recovery of the economy with which the orders increased. Besides, the increased in new products also contributed to the increasing sales revenue.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

30. Sales tax and surcharges

Items	2010		2009	
	Calculation basis	Amount	Calculation basis	Amount
Business tax	5% of lease income and others	7,238,814.41	5% of lease income and others	3,751,114.66
City maintenance tax	7% of turnover tax	2,939,098.92	7% of turnover tax	2,020,467.96
Education surcharges	4% of turnover tax	1,681,108.80	4% of turnover tax	1,198,691.37
Total		<u>11,859,022.13</u>		<u>6,970,273.99</u>

The increase of Business tax and surcharges by 70.14% in 2010 from that of 2009 was due to the increase in business tax in line with the increase of sales.

31. Selling expenses

Items	2010	2009
Salaries and Benefits	12,704,664.05	7,957,238.17
Advertising fee	8,687,829.87	4,297,937.01
Transport fee	5,231,781.64	2,741,143.63
Entertainment	3,274,028.60	2,742,229.10
Office expenses	1,030,739.05	1,091,111.89
Travelling expenses	2,071,493.73	2,355,345.52
Labor expenses	2,882,592.44	168,791.12
Others	5,532,948.23	1,184,436.51
Total	<u>41,416,077.61</u>	<u>22,538,232.95</u>

The increase of selling expenses by 83.76% in 2010 from that of 2009 was mainly due to increased sales revenue resulting in increase in selling expenses.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

32. General and administrative expenses

Items	2010	2009
Salaries and Benefits	107,386,495.64	99,358,867.54
R&D expenses	50,833,238.41	16,396,151.58
Depreciation and Amortization	12,508,809.86	14,458,468.45
Tax	3,458,648.30	3,004,958.71
Entertainment and Travel	12,893,010.06	12,763,786.56
Office expenses	8,570,250.21	7,619,243.26
Utilities	3,000,994.48	2,962,035.39
Agent fee	7,841,797.21	7,862,913.39
Others	15,488,315.47	26,080,203.30
Total	221,981,559.64	190,506,628.18

33. Financial expenses

Items	2010	2009
Interest expenses	23,861,316.91	34,636,260.69
Less: Interest income	6,091,485.61	3,286,558.58
Exchange loss	4,440,638.90	130,345.51
Less: Exchange gain	1,539,220.59	220,808.13
Bank charges	596,322.88	275,205.20
Unrecognized financing expenses	1,076,023.54	1,907,913.61
Others	998,611.12	965,776.90
Total	23,342,207.15	34,408,135.20

The decrease of financial expenses by 32.16% in 2010 from that of 2009 was due to the decreased loan of interest rate and increased interest income due to financial planning.

34. Assets Impairment Loss

Items	2010	2009
Bad debt losses	31,083,174.35	(519,916.65)
Loss from inventory impairment	12,939,746.83	12,742,996.41
Fixed asset impairments loss	5,208.80	8,217,453.75
Total	44,028,129.98	20,440,533.51

Assets impairment loss for year 2010 increased by 115.40% from that of 2009, was mainly due to there was a large amount of bad debt impairment accrued this year.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

35. Investment Income

(1) Listed by Items

Items	2010	2009
Share of profit of investees under equity method of accounting	91,047,489.92	147,273,460.93
Income on disposal of long-term equity investments	32,874.29	1.00
Total	91,080,364.21	147,273,461.93

(2) Investment income listed by investees

Name of Investees	2010	2009	Remarks
Nanjing Ericsson Panda Communication Company Limited	121,696,133.67	129,970,140.00	(1)
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	35,093,200.00	115,629,005.40	(1)
Hua Fei Colour Display Systems Company Limited	(76,762,202.91)	(100,399,647.36)	(2)
Shenzhen Jingwah Electronics Co., Ltd	8,562,252.11	8,918,566.29	
Intenna (Nanjing) Co. Ltd.	(127,628.64)	(352,375.15)	
Nanjing Thales Panda Transportation System Company Limited	2,817,601.06	561,525.14	
Nanjing Electronics (Kunshan) Co. Ltd		(2,605,920.06)	
Nanjing Huaxian High Technology Company Limited	(231,865.37)	(4,447,833.33)	
Nanjing Electronic Calibration Co., Ltd (Note VIII, 47)	32,874.29		
Nanjing Panda Tiancun Communication & Power Supply Co., Ltd.		1.00	
Total	91,080,364.21	147,273,461.93	

- The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2010, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
- The financial statement of Hua Fei Color Display Systems Company Limited in 2010, an associated company of the Company, was audited by Jiangsu Talent CPA and a standard unqualified audited report was issued.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

35. Investment Income (Continued)

(2) Investment income listed by investees (Continued)

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

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

4. There was no material restriction on the remittance of the investment income to the Company.

- (3) Investment income for year 2010 decreased by 38.16% from that of 2009 was mainly due to the decrease in investment income from associated companies.

36. Non-operating Income

(1) Details of Non-operating income

Item	2010	2009	Amount recorded in the current profits and losses
Gains from disposal of non-current assets	767,343.25	9,276,809.71	767,343.25
Including: gains from disposal of fixed assets	767,343.25	323,622.03	767,343.25
Gains from disposal of other non-current fixed assets		8,953,187.68	
Wrote off payables	3,643,050.22	5,619,606.22	3,643,050.22
Governmental subsidy	28,610,587.43	23,970,077.05	27,784,396.48
Net gain from fine payments	338,602.27	56,161.58	338,602.27
Compensation revenue	2,063,538.33		2,063,538.33
Other	220,618.69	388,418.51	220,618.69
Total	35,643,740.19	39,311,073.07	34,817,549.24

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

36. Non-operating Income (Continued)

(2) Governmental subsidy

Items	2010	2009
Reimbursement of value-added tax for software product	826,190.95	749,828.90
Financial subsidy and financial grant	27,784,396.48	23,220,248.15
Total	28,610,587.43	23,970,077.05

The governmental subsidies are granted according to CJ[2010] No.128, NJTZZ[2009] No.236 and so on.

37. Non-operating Expenses

Items	2010	2009	Amount recorded in the current profits and losses
Loss from the disposal of non-current assets	12,320,728.63	1,416,732.68	12,320,728.63
Including: loss from disposal of fixed assets	12,320,728.63	1,416,732.68	12,320,728.63
Loss from the disposal of other non-current assets			
Loss from debt restructuring		98,439.92	
Donation expenses	154,400.00	211,000.00	154,400.00
Fine payment expenses	16,387.27	104,460.12	16,387.27
Compensation expenses	742,472.97	143,302.00	742,472.97
Others	251,134.10	88,161.60	251,134.10
Total	13,485,122.97	2,062,096.32	13,485,122.97

The non-operating expenses for year 2010 increased by 553.95% from that of 2009 was mainly due to disposal old equipment and machines in order to update the production capacity.

38. Income Tax Expenses

Composition of income tax expenses (gains)

Items	2010	2009
Current income tax	20,384,686.36	8,228,354.19
Deferred income tax	(3,797,164.56)	4,145,714.26
Total	16,587,521.80	12,374,068.45

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

38. Income Tax Expenses (Continued)

The reconciliation from total profit presented in the consolidated financial statements to the income tax expenses is as follows:

Items	2010	2009
Total profit	24,122,873.37	31,398,252.71
Income tax expenses calculated at the applicable tax rate	6,030,718.34	7,849,563.18
Exemption/reduction of income tax under preferential tax treatment	(4,275,938.14)	(6,811,363.42)
Adjustment on previous income tax	(941,041.62)	
Share of results of associates	(13,586,683.46)	(21,886,579.80)
Income not subject to tax	(329,453.51)	(90,485.77)
Expenses not deductible for tax purposes	3,236,728.91	7,812,158.72
Tax losses for which no deferred income tax asset was recognized	28,764,068.62	22,214,304.09
Effect of change in tax rate	53,171.70	(145,841.35)
Utilization of previously unrecognized tax losses	(2,390,287.01)	(238,521.21)
Reversal/Recognition of deferred income tax assets previously unrecognized		3,588,429.32
Others	26,237.97	82,404.69
Income tax expenses	16,587,521.80	12,374,068.45

The increase of income tax for year 2010 increased by 34.05% from that of 2009 because the subsidiaries earned more profit, resulting in the increase in corporate income tax.

39. Basic Earnings per Share and Diluted Earnings per Share

Items	2010	2009
Basic earnings per share	0.0140	0.0237
Diluted earnings per share	0.0140	0.0237

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

39. Basic Earnings per Share and Diluted Earnings per Share (Continued)

Note:

(1) Calculation of basic earnings per share

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

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

Including: "S₀" represents total number of shares at the beginning of the period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period; "S_i" represents shares increased from issue of new shares or debt to equity during reporting period "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M₀" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

(2) Calculation of diluted earnings per share

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

Including, "P₁" represents net profit attributable to ordinary shareholders, taking into consideration of impact from potential diluted ordinary shares and adjustments according to the Enterprise Accounting Standards and Accounting System for business enterprises. In calculating diluted earnings per share, the Company takes into consideration of impact from all potential diluted ordinary shares on net profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares. The potential diluted ordinary shares are included in the calculation of diluted earnings per share in sequence to the degree of dilution till diluted earnings per share become minimum.

40. 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	2010	2009
Research & development funds from Ministry of Finance, PRC.	18,410,000.00	21,840,000.00
Cash receipts from Acceptance deposit & Commitment deposit	6,645,143.15	
Government subsidy	6,545,077.44	12,135,007.60
Interest Income	6,091,485.61	3,286,558.58
Cash receipts from Panda Electronics Group Co., Ltd.		80,000,000.00
Others	5,801,430.71	1,849,074.75
Total	43,493,136.91	119,110,640.93

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

41. 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	2010	2009
Cash payment to Panda Electronics Group Co., Ltd.	80,000,000.00	
Research & development	50,833,238.41	15,862,151.58
Office expenses	15,205,787.65	16,209,622.19
Entertainment expenses	12,583,490.93	12,065,233.56
Travelling expenses	5,655,041.46	5,796,127.62
Advertising fee	8,687,829.87	4,297,937.01
Agent fee	7,841,797.21	7,862,913.39
Acceptance deposit & Commitment deposit		37,668,989.15
Others	10,028,436.27	20,467,641.75
Total	190,835,621.80	120,230,616.25

42. Other Cash Paid in Connection with Investment Activities

Among the "Other Cash Paid in Connection with Investment Activities", the items with large amount are listed as follows:

Items	2010	2009
Cash paid of disposal of subsidiary (Note VIII, 47(i))	425,320.87	
Total	425,320.87	

43. Other Cash Received Relating to Financing Activities

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

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

Items	2010	2009
Deposit of Commitment		8,301,668.02
Total		8,301,668.02

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

44. Other Cash Paid Relating to Financing Activities

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

Items	2010	2009
Payment of amount under finance lease	<u>2,250,350.18</u>	<u>9,458,601.79</u>
Total	<u><u>2,250,350.18</u></u>	<u><u>9,458,601.79</u></u>

45. Supplemental Information of Cash Flow Statements

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

Items	2010	2009
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	7,535,351.57	19,024,184.26
Add: Provision for asset impairment	44,028,129.98	20,440,533.51
Depreciation of fixed assets	42,081,006.42	43,288,206.68
Amortization of intangible assets	1,401,459.98	1,889,016.99
Amortization of long term deferred expenses		844,641.54
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	11,553,385.38	(7,860,077.03)
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 "-")	23,861,316.91	34,636,260.69
Loss on investment (gains are represented by "-")	(91,080,364.21)	(147,273,461.93)
Decrease in deferred income tax assets (Increase is represented by "-")	(3,727,257.88)	4,145,714.26
Increase in deferred income tax liabilities (decrease is represented by "-")	68,911.17	
Decrease in inventories (increase is represented by "-")	(69,871,534.32)	175,662,176.38
Decrease in trade receivables (Increase is represented by "-")	(119,452,313.80)	6,471,516.07
Increase in trade payables (Decrease is represented by "-")	(9,749,505.01)	96,229,263.41
Net cash flow from operating activities	<u><u>(163,351,413.81)</u></u>	<u><u>247,497,974.83</u></u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

45. Supplemental Information of Cash Flow Statements (Continued)

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

Items	2010	2009
2. Material investment and financial activities not involving cash:		
Debt capitalization		
Convertible bonds due within one year		
Lease of fixed assets by financing		
3. Net change in cash and cash equivalents:		
Cash balance as at end of the year	390,412,974.25	560,354,017.93
Less: cash balance as at beginning of the year	560,354,017.93	416,445,310.81
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
Net increase in cash and cash equivalents	(169,941,043.68)	143,908,707.12

(2) Information on cash and cash equivalents

Items	2010	2009
1. Cash	390,412,974.25	560,354,017.93
Including: Cash on hand	1,030,847.85	795,860.71
Bank deposit available for payment at any time	389,382,126.40	559,558,157.22
Other cash fund available for payment at any time		
2. Cash equivalents		
Including: Bond investment due within three months		
3. Closing balance of cash and cash equivalents	390,412,974.25	560,354,017.93

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

46. Segment Report

Primary reporting format - business segments

(1) Segment information as at and for the year is as follows:

	Electronic manufacture products	Electronic Equipment products	Electronic intelligent products	Others	Total
Segment revenue					
Income from principal activities	607,864,435.55	338,569,058.85	460,494,665.33	226,705,161.30	1,633,633,321.03
Income from other activities	9,693,626.93	10,181,187.76	2,090,560.90	19,373,377.60	41,338,753.19
Segment expenses	563,208,555.62	333,597,191.19	475,295,294.59	243,605,212.80	1,615,706,254.20
Segment profit	54,349,506.86	15,153,055.42	(12,710,068.36)	2,473,326.10	59,265,820.02
Unallocated expenses					(130,612,096.78)
Interest income					6,091,485.61
Interest expense					(23,861,316.91)
Investment income					91,080,364.21
Non-operating income					35,643,740.19
Non-operating expense					(13,485,122.97)
Income tax expense					(16,587,521.80)
Net profit					7,535,351.57
Segment assets					
Assets	492,081,468.98	247,267,722.98	310,337,448.95	92,324,116.04	1,142,010,756.95
Long-term equity investment					661,484,199.39
Unallocated assets					758,347,613.22
Segment liabilities					
Liabilities	226,446,284.56	127,661,583.12	178,199,984.09	21,399,774.13	553,707,625.90
Unallocated liabilities					525,416,065.29
Other expense					
Capital expenditure	55,877,911.39	7,993,827.13	2,058,788.38	2,210,454.76	
Depreciation and amortization expense	24,215,148.60	5,467,501.00	680,107.14	810,267.28	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

46. Segment Report (Continued)

(2) Segment information as at and for the last year is as follows:

	Electronic manufacture products	Electronic Equipment products	Satellite telecommunications products	Electronic intelligent products	Others	Total
Segment revenue						
Income from principal activities	366,933,963.75	276,338,408.16	203,733,000.00	274,154,923.44	138,764,579.96	1,259,924,875.31
Income from other activities	1,600,142.78	7,792,231.62	1,432,573.00	3,171,531.58	10,943,065.68	24,939,544.66
Segment expenses	369,628,490.30	270,267,078.00	193,601,741.30	274,789,573.17	165,495,861.57	1,273,782,744.34
Segment profit	(1,094,383.77)	13,863,561.78	11,563,831.70	2,536,881.85	(15,788,215.93)	11,081,675.63
Unallocated expenses						(132,856,159.49)
Interest income						3,286,558.58
Interest expense						(34,636,260.69)
Investment income						147,273,461.93
Non-operating income						39,311,073.07
Non-operating expense						(2,062,096.32)
Income tax expense						(12,374,068.45)
Net profit						19,024,184.26
Segment assets						
Assets	393,178,835.32	219,696,500.13	153,278,560.39	365,160,123.30	78,525,543.23	1,209,839,562.37
Long-term equity investment						778,712,065.54
Unallocated assets						468,388,621.81
Segment liabilities						
Liabilities	143,499,867.01	98,604,774.08	450,613.41	177,722,218.56	26,329,812.02	446,607,285.08
Unallocated liabilities						533,543,048.81
Other expense						
Capital expenditure	9,200,598.32	1,138,843.99		524,493.34	1,588,082.86	
Depreciation and amortization expense	26,415,702.19	4,581,276.19		672,243.07	546,542.72	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

47. Disposal of subsidiaries

Nanjing Electronic Calibration Co., Ltd

On 2 June 2010, the Company transferred 70% shares of Nanjing Electronic Calibration Co., Ltd. to Nanjing Panda Handa Technology Co., Ltd. The date of transfer was 2 June 2010.

The disposal price and cash flow are as follows:

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

The carrying amount of disposed net assets of Nanjing Electronic Calibration Co., Ltd. is as follows:

	Carrying amount	
	Disposal date	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

Disposal gains are as follows:

Disposal price	1,039,300.00
less net assets as at the disposal date	1,437,751.04
Minority interest	431,325.33
Disposal income from the disposal	32,874.29

Revenue, cost and net profit of Nanjing Electronic Calibration Co., Ltd for the period from 1 January 2010 to the date of disposal are as follows:

Revenue	3,540,560.09
Less: cost	3,412,887.52
Gross profit	127,672.57
Less: income taxes	25,534.51
Net profit	102,138.06

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

1. Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Balance	Closing balance		Percentage of provision for bad debt
		Percentage	Provision for bad debt	
		%		%
Substantial amount of single accounts receivable with specific provision [Note 1]	19,576,432.50	71.20	6,154,820.38	31.44
Other unsubstantial amount of accounts receivable with specific provision [Note 2]	7,918,526.39	28.80	1,178,750.75	14.89
Total	<u>27,494,958.89</u>	<u>100.00</u>	<u>7,333,571.13</u>	

Items	Balance	Opening balance		Percentage of provision for bad debt
		Percentage	Provision for bad debt	
		%		%
Substantial amount of single accounts receivable with specific provision	19,610,148.85	71.29		
Other unsubstantial amount of accounts receivable with specific provision	<u>7,899,068.82</u>	<u>28.71</u>	<u>2,973,126.56</u>	37.64
Total	<u>27,509,217.67</u>	<u>100.00</u>	<u>2,973,126.56</u>	

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

Note 1. Breakdown of substantial amount of single accounts receivable with specific provision.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

1. Accounts Receivable (Continued)

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

Name of debtor	Amount	Provision for bad debt	Percentage of provision for bad debts %	Reasons for provision
Yancheng Radio and Information Development Co., Ltd.	5,729,100.00	468,320.38	8.17	Current value of the expected future cash flow is lower than its carrying value
Shenzhen No.1 Environment Technology Co., Ltd.	5,686,500.00	5,686,500.00	100.00	Expected cannot be recovered
Nanjing Broadcasting Network Inc.	4,583,832.50			Expected cannot be recovered
Binhai County Radio and Television Bureau	2,003,000.00			Expected cannot be recovered
Feng County Radio and Television TV Information Network Co., Ltd.	1,574,000.00			Expected cannot be recovered
Total	19,576,432.50	6,154,820.38		

Note 2: For other unsubstantial amount of accounts receivable with specific provision, a provision of RMB1,178,750.75 for impairment of the receivable is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

(2) The ageing analysis of accounts receivable

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 year	15,009,027.79	54.59	141,629.65	0.94	18,415,359.11	66.94	28,368.00	0.15
1-2 years	5,908,525.00	21.49	5,875,315.00	99.44	7,418,954.74	26.97	1,269,854.74	17.12
2-3 years	6,017,489.59	21.89	756,709.97	12.58	647,625.00	2.36	647,625.00	100.00
3-5 year	559,916.51	2.03	559,916.51	100.00	1,027,278.82	3.73	1,027,278.82	100.00
Total	27,494,958.89	100.00	7,333,571.13	26.67	27,509,217.67	100.00	2,973,126.56	10.81

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

1. Accounts Receivable (Continued)

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

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Yancheng Electronics & Information Development Co., Ltd.	5,729,100.00	20.84	2-3 years
Shenzhen No.1 Environment Technology Co., Ltd.	5,686,500.00	20.68	1-2 years
Nanjing Broadcasting Network Inc	4,583,832.50	16.67	Within 1 year
Binhai County Radio and Television Bureau	2,003,000.00	7.28	Within 1 year
Feng County Radio and Television Information Network Co., Ltd.	1,574,000.00	5.72	Within 1 year
Total	<u>19,576,432.50</u>	<u>71.19</u>	

2. Other Receivables

(1) Breakdown of other receivables by categories

Items	Balance	Closing balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables with specific provision [Note 1]	361,115,548.08	94.40	19,745,866.00	5.47
Other unsubstantial amount of other receivable with specific provision [Note 2]	21,422,037.62	5.60	9,676,595.40	45.17
Total	<u>382,537,585.70</u>	<u>100.00</u>	<u>29,422,461.40</u>	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

2. Other Receivables (Continued)

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

Items	Opening balance		Provision for bad debt	Percentage of provision for bad debt %
	Balance	Percentage %		
Substantial amount of Other	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>	

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

Note 1: Substantial amount of single other receivable with specific provision

Name of debtor	Amount	Provision for bad debt	Percentage of provision for bad debt %	Reasons for the provision
Nanjing Panda Electronics Technology Development Co., Ltd	173,250,000.00			Expected can be recovered
Galant Limited	61,089,009.47	3,054,450.48	5.00	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda International Telecommunication System Co., Ltd.	34,654,486.54	2,171,496.90	6.27	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda Electronic Manufacturing Company Limited	31,650,000.00	1,582,500.00	5.00	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda Electronic Equipment Co., Ltd.	20,899,598.42	1,044,979.92	5.00	Current value of the expected future cash flow is lower than its carrying value
Others	39,572,453.65	11,892,438.70	30.05	Current value of the expected future cash flow is lower than its carrying value
Total	<u>361,115,548.08</u>	<u>19,745,866.00</u>		

Note 2. For other unsubstantial amount of accounts receivable with specific provision, a provision of RMB9,290,571.35 for impairment of the receivable is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

2. Other Receivables (Continued)

(2) Ageing analysis of other receivables

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debt %
Within 1 year	351,147,401.73	91.79	8,133,375.28	2.32	155,312,212.84	70.70	4,958,094.31	3.19
1-2 years	12,867,221.59	3.36	3,199,467.66	24.87	12,755,335.94	5.81	1,262,522.91	9.90
2-3 years	4,941,604.34	1.29	4,624,081.13	93.57	40,222,547.06	18.31	19,373,133.23	48.16
3-5 years	5,610,413.21	1.48	5,494,592.50	97.94	1,831,331.79	0.83	1,779,128.08	97.15
Over 5 years	7,970,944.83	2.08	7,970,944.83	100.00	9,548,765.61	4.35	9,548,765.61	100.00
Total	<u>382,537,585.70</u>	<u>100.00</u>	<u>29,422,461.40</u>		<u>219,670,193.24</u>	<u>100.00</u>	<u>36,921,644.14</u>	

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

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Nanjing Panda Electronics Technology Development Co., Ltd.	173,250,000.00	45.29	within 1 year
Galant Limited	61,089,009.47	15.97	within 1 year
Nanjing Panda International Telecommunication Systems Co., Ltd.	34,654,486.54	9.06	within 1 year and 1-2 year
Nanjing Panda Electronic Manufacture Co., Ltd.	31,650,000.00	8.27	within 1 year
Nanjing Panda Technology Equipment Co., Ltd.	<u>20,899,598.42</u>	<u>5.46</u>	within 1 year
Total	<u>321,543,094.43</u>	<u>84.05</u>	

The closing balance of the other receivable increased by 74.14% from the opening balance, and the main reason was that 173.25 million was invested to Nanjing Panda Electronics Technology Development Co., Ltd, which has not established at the end of 2010. Therefore, the investment was classified in other receivables temporarily.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment

(1) Details of long-term equity investment

Item	Opening balance	Increase In the year	Decrease In the year	Closing balance
Investment in subsidiaries	366,038,304.89	56,320,856.40	35,322,830.35	387,036,330.94
Investment in associated companies	768,860,022.59	88,229,888.86	208,275,356.07	648,814,555.38
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>144,550,745.26</u>	<u>243,598,186.42</u>	<u>1,014,413,941.74</u>

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

Name of investee	Opening balance	Increase In this year	Decrease In this year	Closing balance	Registration Address	Nature of business
Associated company						
Beijing SE Putian Mobile Communications Co., Ltd.	203,224,200.00	35,093,200.00	81,000,000.00	157,317,400.00	Beijing	Manufacture
Nanjing Huaxian High Technology Company	1,842,979.38	(231,865.37)		1,611,114.01	Nanjing	Technology Development
Hua Fei Colour Display Systems Company MPower Batteries (Nanjing) Ltd.	160,337,169.17	(76,762,202.91)		83,574,966.26	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	306,963,000.00	121,696,133.67	118,522,553.67	310,136,580.00	Nanjing	Manufacture
Shenzhen Jinghua Electronics Co., Ltd.	95,174,867.22	8,562,252.11	8,752,802.40	94,984,316.93	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,317,806.82	(127,628.64)		1,190,178.18	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.					Nanjing	Manufacture
Total	<u>768,860,022.59</u>	<u>88,229,888.86</u>	<u>208,275,356.07</u>	<u>648,814,555.38</u>		

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment

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

Name of investee	Investment cost	Opening Balance	Investment amount increased (less the equity transfer for the year)	Increase/ decrease of the investee's equity	Cash dividends Distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd.	50,361,373.68	203,224,200.00		35,093,200.00	81,000,000.00	157,317,400.00
Nanjing Huaxian High Technology Company	10,000,000.00	1,842,979.38		(231,865.37)		1,611,114.01
Hua Fei Colour Display Systems Company	392,892,722.42	160,337,169.17		(76,762,202.91)		83,574,966.26
MPower Batteries (Nanjing) Ltd.	4,200,000.00					
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	306,963,000.00		121,696,133.67	118,522,553.67	310,136,580.00
Shenzhen Jinghua Electronics Co., Ltd.	69,687,437.75	95,174,867.22		8,562,252.11	8,752,802.40	94,984,316.93
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,317,806.82		(127,628.64)		1,190,178.18
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Total	624,524,177.45	768,860,022.59		88,229,888.86	208,275,356.07	648,814,555.38

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment (Continued)

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

Name of investee	Initial investment	Opening balance	Increase in the year	Decrease in the year	Closing balance	Dividend
Subsidiaries						
Nanjing Electronic Calibration Co., Ltd	700,000.00	700,000.00		700,000.00		
Nanjing Panda Appliance & Apparatus Co. Ltd.	992,700.00	700,000.00	292,706.88		992,706.88	2,318,696.98
Nanjing Panda Mechanical Manufacturing Co. Ltd.	7,000,000.00	7,000,000.00			7,000,000.00	4,851,245.69
Nanjing Panda Accurate Machinery Co., Ltd.	5,627,934.12	7,569,625.13	(1,941,691.01)		5,627,934.12	
Nanjing Panda Technology Equipment Co., Ltd.	5,031,900.00	5,031,944.58			5,031,944.58	
Nanjing Panda Mechanical Co., Ltd.	2,582,191.03	2,100,000.00	482,191.03		2,582,191.03	396,423.15
Nanjing Panda Mechanical Engineering Plant	30,042,000.00	30,042,016.46			30,042,016.46	
Nanjing Panda Information Industry Co., Ltd.	81,091,193.98	44,086,793.98	37,004,400.00		81,091,193.98	
Nanjing Panda Electronic Manufacture Co., Ltd	111,221,994.10	90,738,744.60	20,483,249.50		111,221,994.10	7,500,000.00
Manufacturing Company Limited Nanjing						
Pande Hua Ge Appliance and Plastic Industrial Co., Ltd.						
	34,622,800.00	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						
	8,271,100.00	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.	121,989,200.00	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	465,578,013.23	366,038,304.89	56,320,856.40	35,322,830.35	387,036,330.94	19,797,802.13

The current year's decrease of long-term equity investment on Nanjing Panda System INtegration Co., Ltd. and Nanjing Panda Hua Ge Appliance and Plastic Industrial Co., Ltd. could be referred to Note IX 5(3)(4).

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

3. Long-term Equity Investment (Continued)

(5) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision during the year	Decrease in the year			Closing balance
			Reversal	Write-off	Total	
Nanjing Panda Technology Equipment Co., Ltd.	5,031,944.58					5,031,944.58
Nanjing Panda International Telecommunication System Co., Ltd.	7,655,000.00					7,655,000.00
Nanjing Panda Power Supply Technology Co., Ltd	8,750,000.00					8,750,000.00
Total	21,436,944.58					21,436,944.58

4. Operating Income and Operating Cost

(1) Income from principal business and other business

Items	2010	2009
Income from principal business	136,101,581.77	344,264,181.82
Income from other business	29,509,888.07	10,926,081.66
Total income from operation	165,611,469.84	355,190,263.48
Cost of principal business	125,379,725.60	339,435,003.70
Cost of other business	7,492,156.37	5,701,405.83
Total operating cost	132,871,881.97	345,136,409.53

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

4. Operating Income and Operating Cost (Continued)

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

Business segments	2010		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacture products	10,292,831.64	4,746,553.37	5,546,278.27
Electronic Intelligent products	74,901,091.21	74,668,852.37	232,238.84
Electronic equipment products	6,861,385.07	7,768,762.39	(907,377.32)
Other	44,046,273.85	38,195,557.47	5,850,716.38
Total	<u>136,101,581.77</u>	<u>125,379,725.60</u>	<u>10,721,856.17</u>

Business segments	2009		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacture products	1,676,259.58	1,149,500.14	526,759.44
Electronic Intelligent products	92,971,860.66	90,836,932.88	2,134,927.78
Electronic equipment products	17,202,290.25	19,375,946.53	(2,173,656.28)
Satellite telecommunications products	203,733,000.00	195,060,314.29	8,672,685.71
Other	28,680,771.33	33,012,309.86	(4,331,538.53)
Total	<u>344,264,181.82</u>	<u>339,435,003.70</u>	<u>4,829,178.12</u>

(3) The company's main business is in Nanjing area.

(4) Sales revenue from the largest five customers totaled RMB94,433,438.74 in 2010, accounting for 57.02% of total sales revenue for the year.

(5) The decrease of sales revenue by 53.37% in 2010 from that of 2009 was due to the concentrated delivery of goods in 2009.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

5. Investment Income

(1) According to the program listed

Source of investment income	2010	2009
Long-term equity investment income accounted for at cost	19,797,802.13	19,670,640.74
Long-term equity investment income accounted for using equity method (3)	88,229,888.86	149,317,855.85
Investment income from the disposal of the long-term equity investment	25,965,886.08	(1,143,015.92)
Total	133,993,577.07	167,845,480.67

(2) Long-term equity investment income accounted for at cost

Name of the invested entity	2010	2009	Notes
Nanjing Panda Mechanical Manufacturing Co. Ltd.	4,851,245.69	5,732,343.45	
Nanjing Panda Electronic Manufacturing Company Limited	7,500,000.00	7,500,000.00	
Nanjing Panda Hua Ge Appliance and Plastic Industrial Co. Ltd.	4,731,436.31		
Nanjing Panda Mechanical Co., Ltd.	396,423.15		
Nanjing Panda Appliance & Apparatus Co. Ltd.	2,318,696.98		
Galant Limited		2,500,000.00	
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.		1,595,714.36	
Nanjing Guanghua Electronics Plastic Casings Factory		2,342,582.93	
Total	19,797,802.13	19,670,640.74	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

5. Investment Income (Continued)

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

Name of the invested entity	2010	2009	Notes
Nanjing Ericsson Panda Communication Company Limited	121,696,133.67	129,970,140.00	(1)
Beijing SE Putian Mobile Communications Co., Ltd.	35,093,200.00	115,629,005.40	(1)
Hua Fei Colour Display Systems Company	(76,762,202.91)	(100,399,647.36)	(2)
Shenzhen Jinghua Electronics Co., Ltd.	8,562,252.11	8,918,566.29	
Intenna (Nanjing) Co. Ltd.	(127,628.64)	(352,375.15)	
Nanjing Huaxian High Technology Company	(231,865.37)	(4,447,833.33)	
Total	88,229,888.86	149,317,855.85	

(1) The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2010, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.

(2) The financial statement of Hua Fei Color Display Systems Company Limited in 2010, an associated company of the Company, was audited by Jiangsu Talent CPA and a standard unqualified audited report was issued.

(3) The Company transferred 70% shares of the Nanjing Panda System Integration Co., Ltd. to Nanjing Panda Handa Technology Co., Ltd. The gain of investment was RMB339,300.00 and the date of share transfer is 2 July 2010.

The Company transferred 100% shares of Nanjing Panda Hua Ge Appliance and Plastic Industrial Co., Ltd. to its subsidiary, Nanjing Panda Electronic Manufacturing Company Limited. The gain of investment was RMB25,626,586.08 and the date of share transfer is 31 August 2010.

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

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

6. Cash flow Supplementary Information

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

Items	2010	2009
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	2,472,182.45	22,739,841.33
Add: Provision for asset impairment	(39,032.89)	10,433,603.22
Depreciation of fixed assets	13,289,000.67	13,118,288.58
Amortization of intangible assets	1,044,757.27	970,974.84
Amortization of long term deferred expenses		
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by “-”)	144,815.67	636,269.35
Loss from fixed assets scrapped (gains are represented by “-”)		
Loss from change in fair value (gains are represented by “-”)		
Financial expense (gains are represented by “-”)	21,849,828.10	32,672,804.68
Loss on investment (gains are represented by “-”)	(133,993,577.07)	(167,845,480.67)
Decrease in deferred income tax assets (Increase is represented by “-”)		
Increase in deferred income tax assets (Decrease is represented by “-”)		
Decrease in inventories (Increase is represented by “-”)	(2,005,151.72)	156,403,543.58
Decrease in trade debtors (Increase is represented by “-”)	44,935,342.47	19,838,187.95
Increase in trade creditors (Decrease is represented by “-”)	(137,520,192.68)	189,231,159.86
Others		
Net cash flows from operating activities	(189,822,027.73)	278,199,192.72

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

6. Cash flow Supplementary Information (Continued)

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

Items	2010	2009
2. Material investment and financial activities not involving cash:		
Debt capitalization		
Convertible bonds due within one year		
Fixed assets acquired under finance leases		
3. Net change in cash and cash equivalents:		
Cash balance as at end of the year	151,591,454.98	293,955,551.88
Less: cash balance as at beginning of the year	293,955,551.88	227,578,462.74
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
Net increase in cash and cash equivalents	(142,364,096.90)	66,377,089.14

- (2) Information on Cash and Cash Equivalents

Items	2010	2009
I. Cash	151,591,454.98	293,955,551.88
Including: Cash on hand	322,292.72	260,996.45
Bank deposit available for payments at any time	151,269,162.26	293,694,555.43
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	151,591,454.98	293,955,551.88

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties

1. Related parties

1. Recognition standards for a related party

Recognition standards for a related party: In case a party controls, commonly controls or exerts significant influence over another party, or in case two or more parties are under exclusive control, common control or significant influence of the same party, they shall constitute related parties. Recognition standards for a related party in 2010: 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	Legal Representative	Type of Company	Registered Address	Nature of business	Registered capital	Shareholding percentage in the Company %	Voting right percentage in the Company %
Panda Electronics Group Ltd.	134883152	Xu Guofei	a company with limited liabilities	Nanjing economy and technology development zone	Manufacture	RMB 1,266,060,000	51.10	51.10

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

1. Related parties (Continued)

3. Subsidiaries of the Company

Name of subsidiaries	Code of Organization	Legal Representative	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	Xu Guofei	Nanjing	Manufacture	RMB5,000,000	100	100
Nanjing Panda Technology Equipment Co., Ltd.	24981058-6	Xu Guofei	Nanjing	Manufacture	RMB5,000,000	100	100
Nanjing Panda Power Supply Technology Co., Ltd.	76816539-8	Zhou Guixiang	Nanjing	Manufacture	RMB11,000,000	79.55	79.55
Nanjing Panda Information Industry Co., Ltd.	60897073-4	Xia Dechuan	Nanjing	Manufacture	USD15,000,000	100	100
Nanjing Panda Huage Appliance and Plastic Industrial Co., Ltd.	73316319-X	Wang Wenbo	Nanjing	Manufacture	RMB40,000,000	100	100
Nanjing Panda Appliance & Apparatus Co., Ltd.	72457423-7	Zhong Danqiu	Nanjing	Manufacture, software industry	RMB1,000,000	85.1	85.1
Nanjing Panda International Telecommunication System Co., Ltd.	60892596-8	Dong Zhiming	Nanjing	Manufacture	USD 1,240,000	72	72
Nanjing Panda Electronic Manufacturing Company Limited	76214760-7	Zhou Guixiang	Nanjing	Manufacture	USD20,000,000	100	100
Nanjing Guanghua Electronics Plastic Casings Factory	13491197-7	Zhou Guixiang	Nanjing	Service industry	RMB11,497,600	100	100
Nanjing Panda Machinery Co., Ltd.	73317462-2	Liu Guozhong	Nanjing	Manufacture	RMB3,000,000	85.82	85.82
Panda Mechanical Manufacturing Co. Ltd.	71609764-9	He Shulin	Nanjing	Manufacture	RMB10,000,000	70	70
Nanjing Panda Mechanical Engineering Plant	13506466-9	He Zaiding	Nanjing	Service industry	RMB45,000,000	99.11	100
Nanjing Panda System Integration Co., Ltd.	74237045-7	Liu Changhua	Nanjing	Engineering software industry	RMB3,000,000	54.37	54.37
Nanjing Panda Technology Industrial Co., Ltd.	76213131-4	Wen Yuan	Nanjing	Service industry	RMB80,000,000	100	100
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	73888466-6	Guo Qing	Nanjing	Manufacture	RMB10,000,000	70	70
Nanjing Panda Industrial Enterprise Co., Ltd.	69043834-0	Wen Yuan	Nanjing	Service industry	RMB20,000,000	100	100
Nanjing Panda Electronic Equipment Co., Ltd.	69460069-1	He Zaiding	Nanjing	Manufacture	RMB20,000,000	100	100
Galant Limited	1006135	Xu Guofei	Hong Kong	Development of communication products	HKD1	100	100

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

1. Related parties (Continued)

4. Related parties with non-controlling relationship

Name of related parties	Code of Organization	Relationship with the Company
Nanjing Hong Ye Television Co. Ltd.	716223402	Subsidiary of the Group
Nanjing 21st Century Electronic and Technology Square Company Limited	71627148X	Subsidiary of the Group
Nanjing Panda Garden Property Management	134961667	Subsidiary of the Group
Nanjing Panda Electronics Technology Development Company Limited	134870044	Subsidiary of the Group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the Group
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	134941148	Subsidiary of the Group
Nanjing Panda Piezoelectric Technique Co., Ltd.	742394272	Subsidiary of the Group
Nanjing Zhen Hua Packing Material Plant	13487319X	Subsidiary of the Group
Nanjing Lianhui Communication Technology Company Limited	777014380	Subsidiary of the Group
Nanjing Panda Electronic Import/Export Company	134850684	Subsidiary of the Group
Nanjing Panda Handa Technology Co., Ltd.	79710227-3	Subsidiary of the Group
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	79712003-3	Subsidiary of the Group
Panda (Beijing) International Information Technology Co., Ltd	765031909	Subsidiary of the Group
Panda Electronics Material Usage Co., Ltd.	134888156	Subsidiary of the Group
Nanjing Electronic Calibration Co., Ltd.	13487289-1	Subsidiary of the Group
Nanjing Panda Zhongdian Furniture Company Limited	690402137	Subsidiary of the Group
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	608977514	Associated company
Nanjing Electronics (Kunshan) Co. Ltd.	718679729	Associated enterprise of subsidiary
Nanjin Ericsson Panda communication Company Limited	60891684-2	Associated company
Nanjing Huaxian High Technology Company	78711237-1	Associated company
Intenna (Nanjing) Co. Ltd.	60898216-1	Associated company
Nanjing Thales Panda Transportation System Company Limited	76819214-2	Associated enterprise of subsidiary

2. Pricing policy

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

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties

1. Purchase of goods

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2010	Percentage of Similar transaction	2009	Percentage of Similar transaction
			Amount	(%)	Amount	(%)
Nanjing Zhen Hua Packing Material Plant	Packing materials	Fair price in the market	5,742,570.25	0.48	1,600,426.24	0.25
Nanjing Panda Electronics Technology Development Company Limited	Electronic products	Fair price in the market	931,623.93	0.08	5,636.87	
Nanjing Panda Electronic Import/Export Company	Electronic products	Fair price in the market	783,129.91	0.07	252,136.75	0.04
Nanjing Electronics (Kunshan) Co. Ltd.	Electronic products	Fair price in the market	505,688.44	0.04	1,315,328.53	0.21
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Electronic products	Fair price in the market	458,266.13	0.04	59,511.67	0.01
Panda Electronics Group Ltd	Electronic products	Fair price in the market	11,772.00			
Nanjing Lianhui Communication Technology Company Limited	Electronic products	Fair price in the market	7,692.31			
Nanjing Electronic Calibration Co., Ltd.	Electronic products	Fair price in the market	2,136.75			
Nanjing Thales Panda Transportation System Company Limited	Electronic products	Fair price in the market			641,872.58	0.10
Nanjing Huaxian High Technology Company	Electronic products	Fair price in the market			106,837.61	0.01
Nanjing Panda Piezoelectric Technique Co., Ltd.	Electronic products	Fair price in the market			31,670.51	0.02
Total			<u>8,442,879.72</u>	<u>0.71</u>	<u>4,013,420.76</u>	<u>0.64</u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

2. Receipt of services

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2010	Percentage of Similar transaction (%)	2009	Percentage of Similar transaction (%)
			Amount		Amount	
Nanjing Panda Electronics Transportation Company	Receipt of services	Fair price in the market	2,947,513.55	4.21	2,775,310.54	4.57
Panda Electronics Group Ltd	Receipt of services	Fair price in the market	297,009.45	0.42	130,923.88	0.22
Nanjing Zhen Hua Packing Material Plant	Receipt of services	Fair price in the market	7,217.95	0.01		
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	Receipt of services	Fair price in the market			120,200.00	0.20
Nanjing Panda Garden Property Management Centre	Receipt of services	Fair price in the market			53,707.60	0.09
Total			<u>3,251,740.95</u>	<u>4.64</u>	<u>3,080,142.02</u>	<u>5.08</u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

3. Sales of products

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2010	Percentage of Similar transaction (%)	2009	Percentage of Similar transaction (%)
			Amount		Amount	
Nanjing Panda Handa Technology Co. Ltd	Electronic products	Fair price in the market	43,909,311.41	3.12	17,357,759.43	1.69
Nanjing Ericsson Panda communications Company Limited	Electronic products	Fair price in the market	28,861,884.83	2.13	33,036,841.87	3.22
Nanjing Panda Zhongdian Furniture Company Limited	Electronic products	Fair price in the market	25,105,096.03	1.85		
Nanjing Thales Panda Transportation System Company Limited	Electronic products	Fair price in the market	23,589,958.50	1.74	15,023,087.54	1.47
Nanjing Panda Electronic Import/Export Company	Electronic products	Fair price in the market	18,014,640.81	1.33	3,156,651.25	0.31
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Electronic products	Fair price in the market	3,440,944.65	0.25	4,021,259.97	0.39
Nanjing Huaxian High Technology Company	Electronic products	Fair price in the market	1,196,581.20	0.09	120,719.49	0.01
Panda Electronics Group Ltd	Electronic products	Fair price in the market	231,066.64	0.02	63,059.83	0.01
Nanjing Lianhui Communication Technology Company Limited	Electronic products	Fair price in the market	229,941.87	0.02	397,180.98	0.04
Nanjing Panda Piezoelectric Technique Co., Ltd.	Electronic products	Fair price in the market	31,384.62			
Nanjing Panda Electronics Technology Development Company Limited	Electronic products	Fair price in the market	24,907.09			
Nanjing Zhen Hua Packing Material Plant	Electronic products	Fair price in the market			2,991.45	
Total			<u>144,635,717.65</u>	<u>10.55</u>	<u>73,179,551.81</u>	<u>7.14</u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

4. Provision of services

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2010	Percentage of Similar transaction	2009	Percentage of Similar transaction
			Amount	(%)	Amount	(%)
Nanjing Ericsson Panda communication Company Limited	Provision of services	Fair price in the market	57,840,312.09	19.400	31,478,495.42	12.78
Nanjing Panda Handa Technology Co., Ltd.	Provision of services	Fair price in the market	3,646,318.91	1.22	4,678,762.13	1.90
Panda Electronics Material Usage Co., Ltd.	Provision of services	Fair price in the market	769,230.78	0.26	213,675.22	0.09
Panda Electronics Group Ltd	Provision of services	Fair price in the market	540,000.00	0.18	7,980.66	
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Provision of services	Fair price in the market	272,494.56	0.09	1,643,200.59	0.67
Nanjing Panda Zhongdian Furniture Company Limited	Provision of services	Fair price in the market	87,920.00	0.03	851,641.05	0.35
Nanjing Panda Electronic Import/Export Company	Provision of services	Fair price in the market			573,215.59	0.23
Panda (Beijing) International Information Technology Co., Ltd	Provision of services	Fair price in the market			368,714.53	0.15
Nanjing Electronic (Kunshan) Co. Ltd.	Provision of services	Fair price in the market			170,940.17	0.07
Nanjing Huaxian High Technology Company	Provision of services	Fair price in the market			145,805.13	0.06
Nanjing Panda Electronics Technology Development Company Limited	Provision of services	Fair price in the market			61,982.91	0.03
Nanjing Lianhui Communication Technology Company Limited	Provision of services	Fair price in the market			55,496.24	0.02
Nanjing Panda Electronics Transportation Company	Provision of services	Fair price in the market			4,737.53	
Total			<u>63,156,276.34</u>	<u>21.18</u>	<u>40,254,647.17</u>	<u>16.35</u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

5. Provision of guarantee

- (1) The Company provided a maximum amount guarantee for bank loan of RMB15,000,000.00 granted to Nanjing Panda Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, with a term from 19 November 2010 to 18 September 2011, from Sales Department of Jiangsu Bank Co., Ltd. As at 31 December 2010, the loan amounted to RMB15,000,000.00, details of borrowings of Nanjing Huage are as follows:

Name of companies	Name of bank	Borrowing Amount	Period
Nanjing Panda Huage Appliance and Plastic Industrial Co., Ltd.	Jiangsu Bank Co., Ltd	5,000,000.00	2010.11.11– 2011.11.10
Nanjing Panda Huage Appliance and Plastic Industrial Co., Ltd.	Jiangsu Bank Co., Ltd	10,000,000.00	2010.11.19– 2011.11.18
Total		<u>15,000,000.00</u>	

The Company provided a maximum amount guarantee for bank line of credit of RMB20,000,000.00 granted to Nanjing Panda Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, from Chengdong Sub-branch of Bank of Nanjing Co., Ltd. with a term from 11 November 2010 to 10 November 2011. As at 31 December 2010,, the loan amounted to RMB10,000,000.00 with a term from 9 November 2010 to 9 November 2011. In addition, the Company provided guarantee for bank acceptance of RMB3,750,000.00.

The Company provided a maximum amount guarantee for bank loan of RMB7,000,000.00 granted to Nanjing Panda Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, with a term from 4 January 2010 to 4 January 2011, from Nanjing Branch of Citic Bank Co., Ltd. In addition, the Company provided a maximum amount guarantee for bank loan of RMB10,000,000.00 with a term from 20 December 2010 to 20 December 2012. As at 31 December 2010, details of borrowings of Nanjing Huage are as follows:

Name of companies	Name of bank	Amount of borrowing	Period
Nanjing Panda Hua Ge Appliance and Plastic Industrial Co., Ltd.	Nanjing Branch of Citic Bank	7,000,000.00	2010.01.04– 2011.01.04
Nanjing Panda Hua Ge Appliance and Plastic Industrial Co., Ltd.	Nanjing Branch of Citic Bank	10,000,000.00	2010.12.20– 2011.12.20
Total		<u>17,000,000.00</u>	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

5. Provision of guarantee (Continued)

- (2) The Company provided a maximum amount guarantee for bank loan of RMB5,000,000.00 granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company, with a term from 25 May 2010 to 25 May 2011, from Jiangsu Bank Co., Ltd. As at 31 December 2010, the loan amounted to RMB1,000,000.00 with a term from 29 June 2010 to 28 June 2011.

The Company provided a maximum amount guarantee for bank line of credit of RMB25,000,000.00 granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company with a term from 27 January 2010 to 27 January 2011, from Nanjing Branch of China Merchants Bank. As at 31 December 2010, the used credit line amounted to RMB18,981,527.75, among which, the Company provided guarantee for bank loan of RMB5,000,000.00 and for bank acceptances of RMB11,428,166.60 as well as secured promissory notes of RMB2,553,361.15.

The Company provided a maximum amount guarantee for bank line of credit of RMB35,000,000.00 granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company with a term from 25 December 2009 to 24 December 2010, from Nanjing Branch of Ningbo Bank Co. Ltd. In case the single credit guarantee surpassed the term of the maximum amount guarantee, the term of single guarantee worked. As at 31 December 2010, the Company provided guarantee for bank acceptance of RMB2,242,801.47.

- (3) The Company provided a maximum amount guarantee for bank loan of RMB5,000,000.00 granted to Nanjing Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, from Nanjing Branch of China Merchants Bank. As at 31 December 2010, the loan amounted to RMB5,000,000.00 with a term from 2 February 2010 to 2 February 2011.
- (4) The Company provided a maximum amount guarantee for bank loan of RMB15,000,000.00 granted to Nanjing Panda Electronic Manufacturing Co. Ltd., a subsidiary of the Company, with a term from 18 June 2010 to 18 March 2011, from Nanjing Branch of Industrial Bank Co., Ltd. As at 31 December 2010, the yen credit guarantee amounted to JPY31,412,000.00 (equivalent to RMB2,552,539.12).

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

5. Provision of guarantee (Continued)

(4) (Continued)

The Company provided a maximum amount guarantee for bank loan of RMB30,000,000.00 granted to Nanjing Panda Electronic Manufacturing Co. Ltd., a subsidiary of the Company, with a term from 21 December 2009 to 15 December 2010, from Nanjing Branch of Shenzhen Development Bank Co., Ltd. In case the single credit guarantee surpassed the term of the maximum amount guarantee, the term of single guarantee worked. As at 31 December 2010, the Company provided guarantee for bank acceptance of RMB2,750,000.00.

As at 31 December 2010, the Company provided guarantee to its subsidiaries with an amount of RMB78,276,868.34 (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 Chengdong Sub-branch of Nanjing Branch of China Merchants Bank in February 2010, providing guarantee for credit facilities of RMB120,000,000 granted to the Company from Chengdong Branch of Nanjing Branch of China Merchants Bank during the credit period from 1 February 2010 to 1 February 2011. As at 31 December 2010, details of unpaid borrowings under the guarantee contract are as follows:

Name of borrowers	Name of bank	Borrowing Amount	Period
Nanjing Panda Electronics	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	2010.04.08–2011.04.08
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
Total		<u>120,000,000.00</u>	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

6. Acceptance of guarantee (Continued)

- (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 31 December 2010, the details of guarantee are as follows:

Name of borrowers	Name of bank	Borrowing Amount	Period
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Bank of Nanjing Co., Ltd.	30,000,000.00	2010.09.15–2011.09.15
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Bank of Nanjing Co., Ltd.	28,000,000.00	2010.09.15–2011.09.15
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 2010, providing guarantee for borrowing amount granted by Nanjing Branch of Citic Bank to the Company during 2 December 2010 to 2 December 2011 with guarantee amount of RMB72,000,000.00. As at 31 December 2010, the details of borrowings are as follows:

Name of borrowers	Name of bank	Borrowing Amount	Period
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	50,000,000.00	2010.12.02–2011.12.02
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	22,000,000.00	2010.12.06–2011.12.06
Total		<u>72,000,000.00</u>	

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

6. Acceptance of guarantee (Continued)

- (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 2010, 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 14 September 2010 to 14 March 2011.
- (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 2010, providing guarantee for borrowings of RMB50,000,000.00 granted to the Company from Nanjing Branch of Bank of Communications with the loan term from 28 November 2010 to 28 November 2011.

As at 31 December 2010, the Company had acceptance of guarantee provided by Panda Electronics Group Limited, the controlling shareholder of the Company with an amount of RMB350,000,000.00 (Year 2009: RMB338,000,000.00).

7. Asset leased

Name of related parties	2010 Amount	2009 Amount
Panda Electronics Group Limited		1,586,194.53
Total		1,586,194.53

8. Lease of assets

Name of related parties	2010 Amount	2009 Amount
Nanjing Panda Handa Technology Co., Ltd.	68,140.80	
Nanjing Panda Electronics Transportation Company	33,744.00	48,341.68
Panda Electronics Group		72,250.00
Nanjing Panda Construction And Decoration Engineering Co., Ltd.		32,040.00
Nanjing Panda Huaxin Technology Industrial Co., Ltd.		491,235.20
Nanjing Huaxian High Technology Company Limited		17,600.00
Total	101,884.80	661,466.88

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

9. Remuneration of key management

During the reporting period, total annual remuneration for Directors, Supervisors and senior management received from the Company was RMB260,800,000, details of which are as follows:

Position	Total annual remuneration	Number of
Director	Below RMB100,000	5
	From RMB200,000 to RMB300,000	4
Sub-total	<u>RMB1,248,000</u>	<u>9</u>
Supervisor	Below RMB100,000	2
	From RMB100,000 to RMB200,000	2
	From RMB200,000 to RMB300,000	1
Sub-total	<u>RMB580,000</u>	<u>5</u>
Senior management	From RMB200,000 to RMB300,000	3
Sub-total	<u>RMB780,000</u>	<u>3</u>
Total	<u><u>RMB2,608,000</u></u>	<u><u>17</u></u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

10. Balance of due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts receivable				
Nanjing Ericsson Panda Communications Co. Ltd.	21,506,033.64	7,443,817.33		
Nanjing Panda Handa Technology Co. Ltd.	7,273,341.47	2,875,403.52		
Nanjing Thales Panda Transportation System Company Limited	9,661,726.88	5,052,952.31		
Nanjing Hong Ye Television Co. Ltd.	8,390,380.57	8,673,512.96		
Panda Electronics Group Co. Ltd.	1,356,209.98	103,935.33		
Nanjing Panda Zhongdian Furniture Company Limited	496,609.18	78,488.82		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	183,749.71	1,141,840.19		
Nanjing Panda Electronics Import/Export Co., Ltd.	150,717.90	2,525,498.51		
Nanjing Panda Electronics Transportation Company	131,840.38	47,152.92		
Panda (Beijing) International Information Technology Co., Ltd	107,685.29	147,885.29		
Panda Electronic (Kun Shan) Co. Ltd.	35,850.00	621,568.44		
Hua Fei Color Display Systems Co., Ltd.	33,450.00	33,450.00		
Nanjing Panda DaSheng Electronics Technology Company Limited	11,610.00			
Nanjing Electronic Calibration Co., Ltd.	3,780.00			
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	3,469.52			
Nanjing Huaxian High Technology Company Limited		12,600.00		
Total	<u>49,346,454.52</u>	<u>28,758,105.62</u>		

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts receivable-provision for bad debt				
Nanjing Hong Ye Television Co. Ltd.	8,390,380.57	8,673,512.96		
Nanjing Ericsson Panda Communication Co., Ltd.	382,814.64	136,722.94		
Nanjing Panda Handa Technology Co., Ltd.	162,653.04	430,671.23		
Panda (Beijing) International Information Technology Co., Ltd	107,685.29	14,498.53		
Nanjing Thales Panda Transportation System Company Limited	58,340.90	73,162.93		
Panda Electronic (Kun Shan) Co. Ltd.	35,850.00	621,568.44		
Hua Fei Color Display Systems Co., Ltd.	33,450.00	33,450.00		
Panda Electronics Group Co., Ltd.	11,789.50	12,527.00		
Nanjing Panda Electronics Import/Export Co., Ltd.	4,698.00	126,692.63		
Nanjing Panda DaSheng Electronics Technology Company Limited	580.50			
Total	<u>9,188,242.44</u>	<u>10,122,806.66</u>		
Prepayments				
Nanjing Panda Electronics Import/Export Co., Ltd.	6,626,616.00	445,000.00		
Nanjing Panda Electronics Technology Development Company Limited	6,134,502.12			
Nanjing Lianhui Communication Technology Company Limited	669,364.00	679,664.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	235,977.13	118,500.00		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.		62,491.97		
Total	<u>13,666,459.25</u>	<u>1,305,655.97</u>		

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Prepayments-provision for bad debt				
Nanjing Lianhui Communication Technology Company Limited	669,364.00	670,664.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd.		59,250.00		
Nanjing Panda Electronics Import/Export Co., Ltd.		22,250.00		
Total	<u>669,364.00</u>	<u>752,164.00</u>		
Other receivables				
Panda Electronic (Kun Shan) Co. Ltd.	<u>2,799,417.23</u>	2,462,824.92		
Total	<u>2,799,417.23</u>	<u>2,462,824.92</u>		
Other receivables-provision for bad debt				
Panda Electronic (Kun Shan) Co. Ltd.	<u>2,799,417.23</u>	2,444,824.92		
Total	<u>2,799,417.23</u>	<u>2,444,824.92</u>		

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts payable				
Panda Electronics Group Co. Ltd.	3,967,676.80	1,370,111.38		
Nanjing Panda Electronics Import/Export Co. Ltd.	3,959,605.40	3,568,576.08		
Nanjing Zhen Hua Packing Material Plant	1,493,307.66	948,556.59		
Nanjing Panda Electronics Technology Development Company Limited	1,189,427.05	17,692.05		
Nanjing Panda Electronics Transportation Company	473,232.39			
Nanjing Panda DaSheng Electronics Technology Company Limited	72,883.96	94,288.46		
Panda Electronic (Kun Shan) Co. Ltd.	63,139.64			
Nanjing Thales Panda Transportation System Company Limited	16,410.02	16,410.02		
Panda Electronics Material Usage Co., Ltd.	10,310.00			
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	9,912.00	1,711.99		
Nanjing Panda Handa Technology Co., Ltd.	8,768.00	3,300.00		
Nanjing Electronic Calibration Co., Ltd	6,544.00			
Nanjing Lianhui Communication Technology Company Limited	1,753.23	3,053.23		
Total	<u>11,272,970.15</u>	<u>6,023,699.80</u>		

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Advances from customers				
Nanjing Panda Electronics Import/Export Co. Ltd.	3,684,692.69	98,823.44		
Nanjing Hong Ye Television Co. Ltd.	82,887.19	82,887.19		
Nanjing Panda Handa Technology Co. Ltd.	65,820.80	852,736.25		
Nanjing Panda Zhongdian Furniture Company Limited		393,532.27		
Panda (Beijing) International Information Technology Co., Ltd		45,588.91		
Panda Electronics Group Co. Ltd.		21,746.60		
Nanjing Panda DaSheng Electronics Technology Company Limited		200.00		
Nanjing Thales Panda Transportation System Company Limited		33.06		
Total	3,833,400.68	1,495,547.72		
Other payables				
Panda Electronics Group Co. Ltd.	4,834,566.53	85,313,589.70		
Intenna (Nanjing) Co. Ltd.	2,176,942.55	2,262,342.55		
Nanjing Panda Garden Property Management Centre	366,313.32	328,071.55		
Panda Electronic (Kun Shan) Co. Ltd.	300,000.00	300,000.00		
Panda (Beijing) International Information Technology Co., Ltd	45,588.91			
Nanjing 21st Century Electronic and Technology Square Company Limited	41,100.00	310,000.00		
Nanjing Panda Electronics Transportation Company	14,562.60	1,933,562.60		
Nanjing Panda DaSheng Electronics Technology Company Limited	200.00			
Nanjing Thales Panda Transportation System Company Limited		349,754.00		
Total	7,779,273.91	90,797,320.40		

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

3. Transactions with related parties (Continued)

11. Trademark licensing

Name of related parties	2010 Amount	2009 Amount
Nanjing Panda Zhongdian Furniture Company Limited	<u>415,876.00</u>	
Total	<u>415,876.00</u>	

Pricing policy of trademark licensing granted to the related party: The related party will be offered a trademark license fee of RMB2 to 5 for each unit of Panda color television or CD player sold. Given to the higher cost or more resources is required for entering overseas market, the above license fee for each unit will be reduced 50% if the products manufactured and sold are for export use.

XI. Contingencies

- Please refer to Note X3(5) for the guarantees provided by the Company for bank borrowings of its subsidiaries.
- As at 31 December 2010, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

XII. Commitments

1. Operating lease commitment

The future aggregate minimum lease payments due under non-cancelable operating leases are as follows:

	Closing balance	Opening balance
within 1 year	<u>436,130.42</u>	260,400.00
1-2 years		<u>29,166.67</u>
Total	<u>436,130.42</u>	<u>289,566.67</u>

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

XII. Commitments (Continued)

2. Capital expenditure commitment

Capital expenditures contracted for at the balance sheet date but not recognized in the financial statements are as follows:

	Closing balance	Opening balance
Buildings	<u>51,710,492.30</u>	<u>82,250,023.90</u>

XIII. Post Balance Sheet Events

1. Pursuant to board meetings, the Company decided to set up Nanjing Panda Electronic Technology Development Co., Ltd. with the registered capital of Rmb250 million. The Company invested Rmb 247.50 million, accounting for 99% and Nanjing Panda Electronic Equipment Co., Ltd., the subsidiary of the Company, invested Rmb2.5 million, accounting for 1%. As of December 31, 2010, the cumulative invested amount was 175 million. Nanjing Panda Electronic Technology Development Co., Ltd. obtained business license and formally established on January 6, 2011.
2. Saved as above, there were no other material post balance sheet events in the Company as at the date when the financial was approved for issue.

XIV. Other Significant Events

1. Based on the announcement of "About the China Electronics ("CEC") withdrawal of the actual controller transfer of the company" on December 3, 2010, CEC intended to withdraw the application for exemption a comprehensive acquisition application and for transfer of the actual controller from China Securities Regulatory Commission. The procedure of transfer of the Company's actual Controlling person is still under process.
2. According to the resolutions of annual general meetings of 2009 held on 30 June 2010, the Company will provide a maximum amount guarantee for borrowing of RMB80 million for three years granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company; a maximum amount guarantee for borrowing of RMB50 million for three years granted to Nanjing Panda Electrical Manufacturing Co., Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowing of RMB60 million for three years granted to Nanjing Huage Electrical Appliance & Plastic Co., Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB15 million for three years granted to Nanjing Panda Mechanical Manufacturing Co. Ltd, a subsidiary of the Company; a maximum amount guarantee for borrowings of RMB20 million for three years granted to Nanjing Panda Electronic Equipment Co., Ltd, a subsidiary of the Company.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

XIV. Other Significant Events (Continued)

3. Lease

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

Items	Closing amount	Opening amount
Fixed assets, at cost		
Machinery and equipment	<u>6,912,275.00</u>	<u>11,402,829.76</u>
Total	<u>6,912,275.00</u>	<u>11,402,829.76</u>
Accumulated depreciation		
Machinery and equipment	<u>2,696,989.24</u>	<u>2,246,584.60</u>
Total	<u>2,696,989.24</u>	<u>2,246,584.60</u>
Accumulated amount of provision for impairment		
Machinery and equipment	<u></u>	<u></u>
Total	<u></u>	<u></u>
Carrying value		
Machinery and equipment	<u>4,215,285.76</u>	<u>9,156,245.16</u>
Total	<u>4,215,285.76</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>1,313,481.60</u>
Total	<u>1,313,481.60</u>

As at 31 December 2010, the balance of unrecognized financing expenses amounted to RMB34,813.27 (the opening balance: RMB272,103.94), which was amortized by the effective interest method.

Notes to the Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

XIV. Other Significant Events (Continued)

3. Lease (Continued)

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

Categories of assets leased out	Closing balance	Opening balance
Buildings	<u>167,811,342.73</u>	<u>171,766,419.23</u>
Total	<u>167,811,342.73</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
Equity attributable to the shareholders of parent company under PRC accounting standards and accounting principles generally accepted in Hong Kong during the year	<u>1,476,137</u>	<u>1,465,005</u>
Net profit attributable to the shareholders of parent company under accounting principles generally accepted in Hong Kong	<u>9,192</u>	<u>15,526</u>

Supplementary Information

I. Related financial indicators

Profit during reporting period	reporting period	Return on net assets (%)	Earnings per share (RMB/share)	
		Weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	2010	0.62	0.0140	0.0140
	2009	1.04	0.0237	0.0237
Net profit attributable to holders of ordinary shares after extraordinary items	2010	(0.77)	(0.0172)	(0.0172)
	2009	(1.44)	(0.0300)	(0.0300)

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

(1) Fully diluted return on net assets

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

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

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

(2) Weighted average return on net assets

Weighted average return on net assets = $P / (E_0 + NP \div 2 + E_{ix}M_i + M_0 - E_{jx}M_j \div M_0 \pm E_{kx}M_k \div M_0)$

Including: "P" respectively represents net profit attributable to holders of ordinary shares of the Company and the net profit attributable to holders of ordinary shares of the Company after extraordinary items; "NP" represents net profit attributable to holders of ordinary shares of the Company; "E0" represents net assets attributable to holders of ordinary shares of the Company at the beginning of the reporting period; "Ei" 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; "Ej" represents net assets attributable to holders of ordinary shares of the Company, reduced from repurchase or cash dividend during the reporting period; "Mi" represents the months in reporting period and; "Mj" represents the months from the next month of the increase of assets to the end of the reporting period; "Mk" represents the months from the next month of the decrease of assets to the end of the reporting period; "Ek" represents the increase or decrease of net assets arising from other transactions or matters; "Mk" represents the months from the next month of the increase or decrease of other assets to the end of the reporting period.

Supplementary Information (Continued)

I. Related financial indicators (Continued)

Note: (Continued)

(3) Basic earnings per share

Basic earnings per share $= P \div S$

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

Including: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company; "S" represents the weighted average of outstanding ordinary shares; "S₀" represents total number of shares at the beginning of the reporting period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S_i" represents shares increased from issue of new shares or debt to equity during the reporting period; "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M₀" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period.

(4) Diluted earnings per share

Diluted earnings per share $= [P + (\text{The interests of the diluted potential ordinary shares determined to be expenses in the current period} - \text{Conversion expenses}) \times (1 - \text{Income tax ratio})] \div (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{The weighted average number of ordinary shares, increased from subscription warrant share option and convertible bond})$

Including, "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company. "S₀" represents total number of shares at the beginning of the reporting period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S_i" represents shares increased from reporting period issue of new shares or debt to equity, etc; "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M₀" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period. In calculating diluted earnings per share, the company takes into consideration of influence from all diluted potential ordinary shares till diluted earnings per share become minimized.

Supplementary Information (Continued)

II. Statement of extraordinary items

Unit: RMB

Extraordinary Item	2010	2009
(1) Profit and loss of disposal of non-current assets	(11,520,511.09)	7,860,077.03
(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)	27,784,396.48	23,220,248.15
(4) Capital occupation fee received from non-financial enterprises and recorded into the current gains and losses		
(5) Profit and loss incurred when cost of merger of enterprises are less than the fair value of the identifiable net assets of acquirees attributable to the Company during merger		
(6) Profit and loss from exchange of non-monetary assets		
(7) Profit and loss from entrusted investment		
(8) Provision for assets impairment due to force majeure including natural disasters		
(9) Profit and loss from debt restructuring	3,643,050.22	5,521,166.30
(10) Expenses of enterprise restructuring, such as staff replacement, integration expenses, etc.		
(11) Loss and profit exceeding fair value of transaction with unfair consideration		
(12) Net profits and losses of the current period of subsidiaries under same control arising for merger of enterprise from the beginning of period to the date of merger		3,997,998.72
(13) Loss and profit from accrued liabilities having no relation with principal business of the Company		

Supplementary Information (Continued)

II. Statement of extraordinary items (Continued)

Extraordinary Item	2010	2009
(14) Investment income obtained from holding transactional financial assets and transactions financial liabilities generated changes in fair values and disposal tradable financial assets and 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	1,458,364.95	(102,343.63)
(21) Other non-recurring profit and loss items recognized by CSRC		
Sub total	21,365,300.56	40,497,146.57
Less: the impact from income tax	(252,675.64)	2,633,624.17
Net non-recurring profit and loss	21,617,976.20	37,863,522.40
Net non-recurring profit and loss attributable to ordinary shareholders of the Company	20,474,865.98	36,796,886.20
Net non-recurring profit and loss attributable to minority shareholders	1,143,110.22	1,066,636.20

Note: "()" represents loss.

Documents Available for Inspection

1. Original financial statements signed and sealed under the hand of the legal representative, chief accountant and the person in charge of the accounting matters of the Company.
2. Original auditors' report, with the auditing firms' chop affixed, signed and sealed by certified public accountants.
3. Original copies of all documents and text announcements of the Company publicly disclosed in newspapers designated by CSRC during the reporting period.
4. Annual reports (in Chinese and English) published on the Hong Kong Stock Exchange (The Chinese version shall prevail).