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Nanjing Panda Electronics Company Limited

2011 Interim Report

(H Share Stock code:0553)

(A Share Stock code:600775)



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I. IMPORTANT NOTICE

1. The board of directors (the "Board") and the supervisory committee (the "Supervisory Committee") and the directors ("Directors"), supervisors ("Supervisors") and senior management of the Company confirm that the information in this interim report (the "Interim Report") does not contain any false representation, misleading statement, or material omission and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the contents.
2. All Directors were present at the Board meeting held on 30 August 2011.
3. The financial statements of the Company for the six months ended 30 June 2011 (the "Reporting Period") were unaudited.
4. Neither the controlling shareholder nor any of 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, have declared that they confirmed the truthfulness and completeness of the financial statements in the Interim Report.

II. BASIC CORPORATE INFORMATION

(I) Company profile

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

(II) Key financial data and indices

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

(Unit: RMB)

	End of the Reporting Period (30 June 2011)	End of last year (31 December 2010)	Change between the end of the Reporting Period and the end of the last year (%)
Total assets	2,525,722,406.39	2,561,842,569.56	(1.41)
Owners' equity (or shareholders' equity)	1,511,493,722.92	1,476,137,181.18	2.40
Net assets per share attributable to shareholders of the Company (RMB/Share)	2.31	2.25	2.40
	The Reporting Period (January to June 2011)	The corresponding period last year (January to June 2010)	Change between the Reporting Period and the same period last year (%)
Operating profit	42,651,108.07	(7,880,621.96)	641.22
Total profit	48,810,433.05	(3,976,606.29)	1,327.44
Net profit attributable to shareholders of the Company	35,356,541.74	(9,429,221.11)	474.97
Net profit attributable to shareholders of the Company after extraordinary items	30,279,776.16	(13,845,522.10)	318.70
Basic earnings per share	0.0540	(0.0144)	474.97
Basic earnings per share after extraordinary items	0.0462	(0.0211)	318.70
Diluted earnings per share	0.0540	(0.0144)	474.97
Weighted average return on net assets (%)	2.37	(0.65)	Increased by 3.02 percentage points
Weighted average return on net assets after extraordinary items (%)	2.03	(0.95)	Increased by 2.98 percentage points
Net cash flow from operating activities	(49,679,526.00)	(211,095,015.63)	76.47
Net cash flow from operating activities per share	(0.08)	(0.32)	76.47

Notes: Items and amounts of extraordinary items

(Unit: RMB)

Item	Amount
Gains and losses from disposal of non-current assets	906,704.31
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	4,285,589.42
Profit and loss from debt restructuring	1,002,626.69
Other non-operating net income and expenses other than the aforesaid items	(106,283.26)
Impact on enterprise income tax	(888,481.88)
Extraordinary profit and loss attributable to minority shareholders	(123,389.70)
Total	5,076,765.58

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

(Expressed in Renminbi)

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	(RMB'000)	(RMB'000)
Turnover	822,360	731,159
Cost of sales	<u>(692,826)</u>	<u>(656,521)</u>
Gross profit	129,534	74,638
Other income and net losses	13,009	14,046
Distribution costs	(17,574)	(17,542)
Administrative expenses	<u>(106,750)</u>	<u>(94,937)</u>
Operating profit/(loss)	<u>18,219</u>	<u>(23,795)</u>
Finance income	2,355	2,395
Finance costs	<u>(12,551)</u>	<u>(11,866)</u>
Net finance costs	(10,196)	(9,471)
Share of profits of associates	<u>40,788</u>	<u>29,289</u>
Profit/(loss) before taxation	48,811	(3,977)
Income tax expense	<u>(10,237)</u>	<u>(2,945)</u>
Profit/(loss) and total comprehensive income/(loss) for the period	<u>38,574</u>	<u>(6,922)</u>
Attributable to:		
Equity holders of the Company	35,357	(9,429)
Non-controlling interests	<u>3,217</u>	<u>2,507</u>
	<u>38,574</u>	<u>(6,922)</u>
Earning/(loss) per share (RMB cents)		
— Basic and diluted	<u>5.40</u>	<u>(1.44)</u>
Dividends	—	—

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

III. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

(I) Changes in share capital

As at 30 June 2011, there was no change in the total number of shares or the shareholding structure of the Company.

(II) Information of shareholders

The total number of shareholders, the number of shares held by the top ten shareholders and top ten holders of circulating shares of the Company as at 30 June 2011 were as follows:

Unit: Share

Total number of shareholders at the end of the Reporting Period: 19,681 shareholders, of which 19,632 were holders of A Shares and 49 were holders of H Shares

Shareholdings of the top ten shareholders

Name of shareholders	Type of shareholders (State-owned or foreign shareholders)	Percentage of shareholding (%)	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Panda Electronics Group Limited ("PEGL")	State-owned shareholder	51.10	334,715,000	0	nil
HKSCC (Nominees) Limited	Foreign shareholder	36.75	240,731,599	0	Unknown
Huang Jitang	Others	0.331	2,170,081	0	Unknown
Peng Hongwan	Others	0.177	1,161,026	0	Unknown
Zeng Qingui	Others	0.156	1,019,161	0	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	0	Unknown
Yan Hongbing	Others	0.120	787,770	0	Unknown
Zheng Xinhua	Others	0.098	640,000	0	Unknown
Zeng Youzheng	Others	0.082	537,478	0	Unknown
Yang Chunyan	Others	0.071	466,854	0	Unknown

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

Name of shareholders	Number of shares held not subject to trading moratorium	Class of shares
PEGL	334,715,000	A
HKSCC (Nominees) Limited	240,731,599	H
Huang Jitang	2,170,081	A
Peng Hongwan	1,161,026	A
Zeng Qingui	1,019,161	A
Nanjing Changtai Electronic Technology Company Limited (南京長泰電子科技有限公司)	1,000,000	A
Yan Hongbing	787,770	A
Zheng Xinhua	640,000	A
Zeng Youzheng	537,478	A
Yang Chunyan	466,854	A

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

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

Notes:

- (1) Among the shareholders named above, PEGL held 334,715,000 shares 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.
- (2) HKSCC (Nominees) Limited held 240,731,599 H Shares of the Company, representing 36.75% of the issued share capital of the Company, on behalf of a number of clients. The Company is not aware of any individual client holding more than 5% of share capital issued by the Company.
- (3) No shareholder of the Company holds shares subject to trading moratorium (refers to those arising from share reform only).

(III) Change in the controlling shareholder and the de facto controller

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 China Huarong Assets Management Company(中國華融資產管理公司) respectively.

Note: Nanjing Electronics Information Industrial Corporation(南京中電熊猫信息產業集團有限公司) ("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. The completion of the agreement is still subject to compliance with relevant requirement of CSRC and other regulatory authorities. 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 do 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.

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

As at 30 June 2011, so far as the Directors, Supervisors and senior management staff of the Company were aware of, long positions in shares or underlying shares of the Company held by substantial shareholders (exclusive of Directors, Supervisors and senior management staff of the Company) as recorded in the register kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") of the Hong Kong Stock Exchange, were as follows: (1) PEGL held 334,715,000 domestic shares, accounting for approximately 81.04% of the 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 the 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 the 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 June 2011.

IV. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Shareholdings of Directors, Supervisors and senior management members

As at 30 June 2011, details of the shareholdings of Directors, Supervisors and senior management members of the Company were as follows:

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

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

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

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

There was no change in Directors, Supervisors and senior management of the Company during the Reporting Period.

V. REPORT OF THE BOARD OF DIRECTORS

(I) Principal operations during the Reporting Period

1. Principal operations of the Company

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

In the first half of 2011, the Company continued to consolidate and promote corporate reforms to enhance its sustainable development capacity, while ensuring that all activities were carried out smoothly. By way of optimizing business structure and expanding key markets, the Company achieved rapid progress in its certain principal businesses and both the operating income and profit recorded growth. Through business upgrading and increased efforts and investment in technical improvement and innovation, the competitiveness and profitability of certain principal products of the Company were enhanced. Meanwhile, the Company continues to strengthen its control over and services to its joint ventures to facilitate further growth, thereby achieving considerable increase in investment income.

Under the PRC Accounting Standards for Business Enterprises, operating income of the Company from January to June 2011 amounted to RMB838 million, representing an increase of 12.99% as compared with the corresponding period last year; and net profit was RMB35,356,500, representing an increase of 474.97% as compared with the corresponding period last year. Under the Hong Kong Financial Reporting Standards, operating income of the Company from January to June 2011 amounted to RMB822 million, representing an increase of 12.47% as compared with the corresponding period last year; net profit attributable to shareholders of the Company amounted to RMB35,356,500, representing an increase of 474.97% as compared with the corresponding period last year.

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

Unit: RMB

Business or product	Principal operating income	Principal operating costs	Principal operating profit margin %	Increase/decrease in revenues from principal operation from the same period last year		Increase/decrease in principal operating costs from the same period last year		Increase/decrease in principal operating profit margin from the same period last year	
					%		%		%
Electronic manufacturing	308,330,806.30	236,463,499.01	23.31	19.13	3.72			Increased by 11.40 percentage points	
Electronic intelligent products	187,683,833.21	159,268,713.47	15.14	(10.23)	(15.29)			Increased by 5.06 percentage points	
Electronic equipment products	229,871,874.03	197,186,203.43	14.22	59.84	61.28			Decreased by 0.77 percentage points	
Communication technology products	75,888,238.43	75,088,900.67	1.05	(29.63)	(28.72)			Decreased by 1.28 percentage points	
Others	19,359,934.70	11,951,043.99	38.27	191.88	185.87			Increased by 1.30 percentage points	
Total	821,134,686.67	679,958,360.57	17.19	13.07	4.97			Increased by 6.39 percentage points	

Of which, the connected transactions relating to sale of products and provision of services to the controlling shareholder and its subsidiaries by the Company amounted to RMB45,372,700 during the Reporting Period.

3. Principal operations by geographical regions

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

4. Operation of the principal companies in which the Company has equity participation

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

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson, 26% by Ericsson (China) 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 equipment in China. Under the International Accounting Standards, ENC recorded operating income of RMB10,648 million from January to June 2011, representing an increase of 143.01% as compared with the corresponding period last year, and recorded net profit of RMB334 million, representing an increase of 147.04% as compared with the corresponding period last year.

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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited ("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. Under the International Accounting Standards, BMC recorded operating income of RMB8,317 million from January to June 2011, representing a decrease of 14.10% as compared with the corresponding period last year, and recorded net profit of RMB72 million, representing a decrease of 31.07% as compared with the corresponding period last year.

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

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

Under the PRC Accounting Standards for Business Enterprises, operating income of Hua Fei Company from January to June 2011 amounted to RMB17 million, representing a decrease of 95.91% as compared with the corresponding period last year. During the Reporting Period, it incurred further loss of RMB283 million, representing an increase of loss of RMB152 million from the corresponding period last year.

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

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

Unit: RMB

1.1 Major changes of accounts in balance sheet

Item	30 June 2011	31 December 2010	Increase/ decrease (%)
Accounts receivable	391,970,024.08	299,422,237.49	30.91
Prepayments	113,369,976.38	87,963,018.19	28.88
Other receivables	35,443,758.40	198,594,325.75	(82.15)
Construction in progress	10,251,425.04	3,883,494.92	163.97
Other payables	123,825,141.25	99,209,398.33	24.81
Non-current liabilities due within one year	4,000,000.00	1,278,668.33	212.83
Minority interests	9,798,230.31	6,581,697.19	48.87

Explanation of the changes:

- (1) The increase in accounts receivable was mainly due to the increase in sales as a result of robust demand for electronic products during the Reporting Period.
- (2) The increase in prepayments was primarily due to the increase in advance payments for construction work.
- (3) The decrease in other receivables was mainly due to the transfer of such receivables into investment by the Company upon completion of incorporation registration of Nanjing Panda Electronics Technology Company Limited(南京熊猫电子科技公司) .
- (4) The increase in construction in progress was mainly due to the increase in investment in construction of Xin Gang Park(新港园区) .
- (5) The increase in other payables was primarily attributable to the outstanding balance of purchase price of the equipment purchased by the Company.
- (6) The increase in non-current liabilities due within one year was mainly because the obligations under finance lease to be settled by installments and the long-term loan became due in 2012.
- (7) The increase in minority interests was mainly attributable to the increase in profits of certain non-wholly owned subsidiaries.

1.2 Major changes of accounts in income statement:

Item	January - June 2011	January - June 2010	Increase/ decrease (%)
Business taxes and surcharges	7,769,667.40	5,290,553.19	46.86
Asset impairment losses	(3,535,468.71)	(1,391,395.85)	(154.10)
Investment income	40,787,310.76	29,288,617.57	39.26
Non-operating expenses	753,054.79	5,318,460.06	(85.84)
Income tax expenses	10,237,358.19	2,945,443.98	247.57

Explanation of the changes:

- (1) The increase in business taxes and surcharges was primarily due to the rise in sales.
- (2) The decrease in asset impairment losses was mainly attributable to the partial recovery of current account items for which full provision for impairment loss had been previously made.
- (3) The increase in investment income was mainly due to the growth in operating results of certain joint ventures during the Reporting Period.
- (4) The decrease in non-operating expenses was mainly because the Company had disposed certain fixed assets in the previous period.
- (5) The increase in income tax expenses was mainly due to the improvement of operating results of certain subsidiaries during the Reporting Period.

1.3 Major changes of accounts in cash flow statement:

Item	January - June 2011	January - June 2010	Increase/decrease (%)
Net cash flows from operating activities	(49,679,526.00)	(211,095,015.63)	76.47
Net cash flows from investing activities	140,735,391.08	(49,302,510.63)	385.45
Net cash flows from financing activities	(109,546,462.18)	114,390,609.26	(195.77)

Explanation of the changes:

- (1) The increase in net cash flows from operating activities was mainly due to the increase in sales volume and timely collection of trade receivables during the Reporting Period.
- (2) The increase in net cash flows from investing activities was mainly due to the completion of incorporation registration of Nanjing Panda Electronics Technology Company Limited (南京熊猫电子技术有限公司) which was then included in the scope of consolidation during the Reporting Period.
- (3) The decrease in net cash flows from financing activities was mainly due to the decrease in the size of financing as at the end of the Reporting Period as compared with the beginning of the Reporting Period.

2. Liquidity of capital

As shown in the consolidated financial statements of the Company prepared under the Hong Kong Financial Reporting Standards, as at 30 June 2011, the Company's gearing ratio (the ratio of total liabilities to total assets) was 39.77%; net current assets amounted to RMB178 million; liquidity ratio was 1.18; quick ratio was 1.01; bank deposits and cash amounted to RMB430 million; and total borrowings amounted to RMB423 million.

During the Reporting Period, benchmark interest rate per annum was 5.81% from the beginning of the period to 8 February 2011, 6.06% from 9 February 2011 to 5 April 2011, and 6.31% from 6 April 2011 to the end of the Reporting Period. From the end of the Reporting Period to 6 July 2011 and from 7 July 2011 to the date of this report, the benchmark interest rate per annum was 6.31% and 6.56%, respectively.

(III) Investments during the Reporting Period

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

(IV) Business plan for the second half of 2011

In the second half of 2011, the Company will continue to strengthen its corporate reforms and insist on sustainable development, while ensuring that its development plans for the year are implemented successfully. The Company will further consolidate and expand its existing principal businesses through concentrating advantageous resources to facilitate the growth of principal businesses and enhancing product sales capability, so as to construct overall competitive strengths. In addition, the Company will vigorously build a technology research and development centre and increase investment in technical improvement and innovation, thereby enhancing its technological innovation capabilities. Strategic cooperation with joint-ventures will be further boosted to increase investment income.

(V) Employees of the Company

As at 30 June 2011, the Company had 3,305 employees, of which 1,090 were engaged in technology, 364 in sales, 165 in finance, 264 in administration and management and 1,422 in production. In addition, there were 366 retirees, for whom the Company undertook to pay retirement pension.

VI. SIGNIFICANT EVENTS

(I) Corporate governance

During the Reporting Period, the Company has complied with the relevant laws and regulations including the Company Law and the Securities Law. In accordance with the rules governing corporate governance and proper operation issued by the China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission and the requirements of the listing rules of Shanghai Stock Exchange and the Hong Kong Stock Exchange, the Company continued to supplement and amend its relevant systems and improve its corporate governance structure with reference to its actual conditions, so as to set up a modern corporate system, enhance internal control and management and standardize the operation of the Company. During the Reporting Period, the Company has complied with the provisions under the Code of Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

1. According to the relevant regulatory requirements, the Company has established a comprehensive internal control system monitored by the audit department of the Company regularly or from time to time. The audit committee ("Audit Committee"), Supervisory Committee and independent Directors of the Company review the implementation of internal control regularly.
2. The "Self-assessment Report on 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 by the Board at the Board meeting convened on 25 March 2011 and reviewed by the Supervisory Committee, and were disclosed simultaneously with the 2010 annual report.
3. The Company adopted and implemented the basic norms of internal control in 2011. In order to ensure all-round and proper construction of internal control self-assessment, internal control audit and information disclosure, the Company formulated the Implementation Plan for Internal Control Norms of Nanjing Panda Electronics Company Limited (南京熊猫電子股份有限公司內部控制規範實施工作方案) providing the procedures and timetables for internal control construction, internal control assessment and internal control audit, which was published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 13 April 2011 and 12 April 2011, respectively. The Report on the Implementation Progress of Internal Control of Nanjing Panda Electronics Company Limited(南京熊猫電子股份有限公司內控實施進展情況的報告) was submitted to the Jiangsu Securities Regulatory Bureau on 29 June 2011.
4. In order to improve corporate governance standards and regulate the selection and appointment, duty performance, trainings and appraisal of secretary to the Board, the Company formulated the Work Rules for the Secretary to the Board of Directors of Nanjing Panda Electronics Company Limited(南京熊猫電子股份有限公司董事會秘書工作制度), which was published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 14 May 2011 and 13 May 2011, respectively.

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

The Company did not make any profit distribution or to convert any capital reserve into share capital for the first half of 2011.

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

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

(V) Material connected transactions

1. As at 30 June 2011, save and except for the continuing connected transactions for the period from 2010 to 2012 which were approved by the independent shareholders at the extraordinary general meeting of the Company held on 23 December 2009 (i.e., the continuing connected transactions which were conducted in the ordinary course of business on normal commercial terms), the Company had no other material connected transactions.

During the Reporting Period, the connected transactions relating to sale of products and provision of services to the controlling shareholder and its subsidiaries by the Company amounted to RMB45,372,700. (Please refer to the section headed "Relationship and transactions with related parties" set out in the Notes to the Financial Statements)

2. Transactions relating to creditor's rights and debts

Unit: RMB

Related parties	Provision of funds to related parties		Provision of funds to the Company by related parties	
	Amount of transaction	Balance	Amount of transaction	Balance
Panda Electronics Group Limited	—	—	1,316,502.31	6,151,068.84
Nanjing Panda Handa Technology Co., Ltd.	—	—	5,998,080.00	5,998,080.00
Nanjing Electronics (Kunshan) Co. Ltd.	—	2,799,417.23	—	300,000.00
Nanjing Panda Electronics Technology Development Company Limited	—	—	134,000.00	134,000.00
Panda (Beijing) International Information Technology Co., Ltd.	—	—	—	45,588.91
Nanjing Panda Piezoelectric Technology Co., Ltd. (南京熊猫達盛電子科技有限公司)	—	—	—	200.00
Intenna (Nanjing) Co. Ltd.	—	—	(1,868.88)	2,175,073.67
Nanjing Panda Electronics Transportation Company	—	—	—	14,562.60
Nanjing Panda Garden Property Management Centre	—	—	(315,829.66)	50,483.66
Nanjing Lianhui Communication Technology Company Limited	—	—	4,500.00	4,500.00
Nanjing 21st Century Electronic and Technology Square Company Limited	—	—	(41,100.00)	—
Total	0.00	2,799,417.23	7,094,283.77	14,873,557.68

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

(VI) Material contracts

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

During the Reporting Period, the amount guaranteed by the Company for its controlled subsidiaries amounted to RMB35,154,400 and the total balance amounted to RMB84,345,000, the details of which are as follows:

As at 30 June 2011, the Company provided guarantees to its controlled subsidiaries to secure the following: bank loan of RMB5,000,000 of Nanjing Panda Mechanical Manufacturing Co. Ltd.; bank loan of RMB5,000,000, acceptance bills of RMB6,440,000 and letter of guarantee of RMB17,300,000 of Nanjing Panda Information Industry Co., Ltd.; bank loan of RMB42,000,000 and acceptance bills of RMB5,605,000 of Nanjing Huage Appliance and Plastic Industrial Co., Ltd.; and acceptance bills of RMB3,000,000 of Nanjing Panda Electronic Manufacture Co., Ltd.

The said guarantees were granted to controlled subsidiaries of the Company, totaling RMB84,345,000, and representing 5.58% of the Company's net assets. Of the controlled subsidiaries above, the gearing ratio of Nanjing Huage Appliance and Plastic Industrial Co., Ltd. was 71.43%, while that of the other companies did not exceed 70%.

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

- The Company did not entrust any third party to manage cash assets which were material in nature during the Reporting Period or during the previous period and subsisting to the Reporting Period.

- (VII) During the Reporting Period or in the previous period and subsisting in the Reporting Period, neither the Company nor shareholders holding 5% or more of the issued share capital of the Company had matters of undertaking that might affect the Company's operating results and financial position, nor did they increase the number of shares subject to trading moratorium undertakings during the Reporting Period or during the previous period and subsisting to the Reporting Period.
- (VIII) During the Reporting Period, the Company did not hold shares or securities issued by other listed companies, nor did it acquire equities of unlisted financial enterprises.
- (IX) As considered and approved at the 2011 first extraordinary general meeting of the Company held on 18 March 2011, Baker Tilly Hong Kong Limited was appointed as the international auditor of the Company for 2010.

At the annual general meeting held on 30 June 2011, the re-appointment of Vocation International Certified Public Accountants Co., Ltd. and Baker Tilly Hong Kong Limited as domestic and international auditors of the Company for 2011 respectively was considered and approved.

(For details, please refer to the relevant announcements published in Shanghai Securities News and China Securities Journal and on the websites of Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 19 March and 1 July 2011.)

- (X) The Company, the Board and its Directors didn't suffer any administrative penalty or public criticism by the China Securities Regulatory Commission or stock exchanges during the Reporting Period.
- (XI) The audit committee and the senior management of the Company have reviewed the accounting principles and accounting standards and methods adopted by the Company, and studied the matters relating to internal control. During the Reporting Period, the audit committee conducted various communications and coordination with the Company's certified public accountants for annual auditing in accordance with the "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report" and advised and recommended on significant audit issues that worth attention. The 2010 annual report was well prepared and audited, and the financial position and operating results of the Company in 2010 were reflected in an objective and fair manner.

The audit committee convened a meeting on 26 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 by the accounting firms and agreed to submit such reports to the Board for review. The re-appointment of Vocation International Certified Public Accountants Co., Ltd. and Baker Tilly Hong Kong Limited as the Company's domestic and international auditors for 2011 respectively was agreed at the meeting and relevant proposal was submitted to the Board for review.

Having reviewed the unaudited financial report of the Company for the six months ended 30 June 2011, the audit committee is of the opinion that the financial report complies with the applicable accounting standards and laws and that adequate disclosure has been made.

(XII) **Other matters**

1. Tax policies

The Company is registered in the Nanjing High and New Technology Development Zone which is approved by the State Council as a national high and new technology industry development zone. The Company was recognised by the Science and Technology Department of Jiangsu Province, the Finance Department of Jiangsu Province, the State Administration of Taxation of Jiangsu Province and the Local Taxation Bureau of Jiangsu Province as high and new technology enterprise in 2008, thus it is entitled to a preferential enterprise income tax rate of 15% under relevant regulations.

2. Purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries

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

3. Pre-emptive rights

There is no provision for pre-emptive rights under the laws of the PRC and the articles of association of the Company.

4. Corporate governance

During the Reporting Period, the Company adopted and strived to comply with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

5. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”).

During the Reporting Period, the Company adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors who confirmed that they had complied with the Model Code during the Reporting Period.

(XIII) Index to information disclosure

Subject matter	Newspapers and pages for publication	Date of publication	Websites for publication and search paths
Announcement in relation to the appointment of international auditor of the Company Notice of the 2011 first extraordinary general meeting	China Securities Journal B029 Shanghai Securities News 28	2011-1-29	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Appointment of Company Secretary		2011-2-18	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Announcement of resolutions passed at the extraordinary general meeting	China Securities Journal B006 Shanghai Securities News 43	2011-3-19	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
2010 annual report summary	China Securities Journal B214 Shanghai Securities News 161	2011-3-26	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Announcement of resolutions passed at the 17th meeting of the sixth board of directors Announcement of resolutions passed at the 14th meeting of the sixth supervisory committee	China Securities Journal B214 Shanghai Securities News 161	2011-3-26	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Announcements in relation to the provision of guarantees to the controlled subsidiaries of the Company	China Securities Journal A32 Shanghai Securities News B6	2011-4-8	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Interim announcement	China Securities Journal A10 Shanghai Securities News B54	2011-4-13	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
2011 first quarterly report	China Securities Journal B029 Shanghai Securities News B75	2011-4-29	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Notice of 2010 annual general meeting	China Securities Journal B011 Shanghai Securities News B14	2011-5-13	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Work rules for the secretary to the board of directors		2011-5-13	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Announcement in relation to the provision of guarantee to a controlled subsidiary of the Company	China Securities Journal B002 Shanghai Securities News B15	2011-5-26	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk
Announcement of resolutions passed at the 2010 annual general meeting	China Securities Journal B021 Shanghai Securities News B30	2011-7-1	Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk

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

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2011

(Expressed in Renminbi)

		Six months ended 30 June	
		2011	2010
	Note	(unaudited)	(unaudited)
		RMB '000	RMB '000
Turnover	4	822,360	731,159
Cost of sales		(692,826)	(656,521)
		<hr/>	<hr/>
Gross profit		129,534	74,638
Other income and net losses	5	13,009	14,046
Distribution costs		(17,574)	(17,542)
Administrative expenses		(106,750)	(94,937)
		<hr/>	<hr/>
Operating profit/(loss)		18,219	(23,795)
Finance income		2,355	2,395
Finance costs		(12,551)	(11,866)
		<hr/>	<hr/>
Net finance costs		(10,196)	(9,471)
Share of profits of associates		40,788	29,289
		<hr/>	<hr/>
Profit/(loss) before taxation	6	48,811	(3,977)
Income tax expense	7	(10,237)	(2,945)
		<hr/>	<hr/>
Profit/(loss) and total comprehensive income/(loss) for the period		38,574	(6,922)
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the Company		35,357	(9,429)
Non-controlling interests		3,217	2,507
		<hr/>	<hr/>
		38,574	(6,922)
		<hr/> <hr/>	<hr/> <hr/>
Earning/(loss) per share (RMB cents)			
— Basic and diluted	8	5.40	(1.44)
		<hr/> <hr/>	<hr/> <hr/>

Condensed consolidated balance sheet

As at 30 June 2011

(Expressed in Renminbi)

		30 June 2011 (unaudited) RMB'000	31 December 2010 (audited) RMB'000
ASSETS			
Non-current assets			
Land use rights		23,038	23,379
Property, plant and equipment	10	612,430	610,468
Associates		702,272	661,484
Deferred tax assets		5,899	6,509
		1,343,639	1,301,840
Current assets			
Inventories		163,229	182,633
Trade and bills receivables		359,554	273,581
Amounts due from customers for contract work	11	32,055	31,730
Deposits, prepayments and other receivables		141,620	98,413
Amounts due from fellow subsidiaries, associates and related companies		55,707	51,957
Amount due from ultimate holding company		74	1,344
Restricted bank deposits		58,080	229,933
Cash and cash equivalents		371,766	390,413
		1,182,085	1,260,004
Total assets		2,525,724	2,561,844
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		655,015	655,015
Share premium and reserves		856,479	821,122
		1,511,494	1,476,137
Non-controlling interests		9,799	6,582
Total equity		1,521,293	1,482,719

Condensed consolidated balance sheet (continued)

As at 30 June 2011

(Expressed in Renminbi)

		30 June	31 December
		2011	2010
		(unaudited)	(audited)
Note		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
	12	—	4,000
		61	69
		61	4,069
Current liabilities			
	12	423,433	520,574
	13	330,379	315,926
		216,192	204,827
		20,005	14,083
		11,855	8,802
		—	1,279
		2,506	9,565
		1,004,370	1,075,056
		1,004,431	1,079,125
Total liabilities			
Total equity and liabilities			
2,525,724			
2,561,844			
Net current assets			
177,715			
184,948			
Total assets less current liabilities			
1,521,354			
1,486,788			

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2011

(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 2010 (audited)	655,015	389,338	(9,575)	204,496	35,688	190,043	1,465,005	11,785	1,476,790
Loss and total comprehensive loss for the period	—	—	—	—	—	(9,429)	(9,429)	2,507	(6,922)
Disposal of a subsidiary	—	—	—	—	—	—	—	(431)	(431)
As at 30 June 2010 (unaudited)	<u>655,015</u>	<u>389,338</u>	<u>(9,575)</u>	<u>204,496</u>	<u>35,688</u>	<u>180,614</u>	<u>1,455,576</u>	<u>13,861</u>	<u>1,469,437</u>
As at 1 January 2011 (audited)	655,015	389,338	(7,635)	204,743	35,688	198,988	1,476,137	6,582	1,482,719
Profit and total comprehensive income for the period	—	—	—	—	—	35,357	35,357	3,217	38,574
As at 30 June 2011 (unaudited)	<u>655,015</u>	<u>389,338</u>	<u>(7,635)</u>	<u>204,743</u>	<u>35,688</u>	<u>234,345</u>	<u>1,511,494</u>	<u>9,799</u>	<u>1,521,293</u>

Condensed consolidated cash flow statement

For the six months ended 30 June 2011

(Expressed in Renminbi)

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Net cash used in operating activities	(71,409)	(165,694)
Investing activities		
Purchase of property, plant and equipment	(27,884)	(32,956)
Proceeds from disposal of property, plant and equipment	1,346	32
Net cash outflow arising on disposal of a subsidiary	—	(425)
Release of restricted bank deposit designated for capital contribution to a new subsidiary	175,000	—
Interest received	2,163	2,395
Net cash generated from/(used in) investing activities	150,625	(30,954)
Financing activities		
Proceeds from borrowings	212,357	263,339
Repayment of borrowings	(310,108)	(136,956)
Increase/(decrease) in net amount due to ultimate holding company	4,314	(69,248)
Repayment of obligations under finance leases	(1,279)	(1,278)
Increase in restricted bank deposits	(3,147)	(5,267)
Net cash (used in)/generated from financing activities	(97,863)	50,590
Net decrease in cash and cash equivalents	(18,647)	(146,058)
Cash and cash equivalents at beginning of the period	390,413	560,354
Cash and cash equivalents at end of the period	371,766	414,296

Notes to the condensed 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 (collectively, 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. Basis of preparation

The interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

The principal accounting policies adopted in the preparation of this interim financial information are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2010, except for the accounting policy changes that are expected to be reflected in the Group's annual financial statements for the year ending 31 December 2011. Details of these changes in accounting policies are set out in Note 3.

In order to comply with HKAS 34, the preparation of interim financial information requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the 2010 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial information has been reviewed by the Company's Audit Committee.

3. Changes in accounting policies

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

- Revised HKAS 24, Related Party Disclosures
- Improvements to HKFRSs (2010)

The above amendments to HKFRSs have had no material impact on the Group's results of operations and financial position, and do not contain any additional disclosure requirements specifically applicable to the interim financial information.

Up to the date of issue of this interim financial information, the HKICPA has issued a number of amendments, new standards and Interpretations that are not yet effective for the year ending 31 December 2011 and that have not been adopted in the interim financial information. Of these developments, the followings may be relevant to the Group's operation and financial statements:

	Effective for accounting periods beginning on or after
• HKAS 27 (2011), Separate Financial Statements	1 January 2013
• HKAS 28 (2011), Investments in Associates and Joint Ventures	1 January 2013
• Amendments to HKAS 1, Presentation of Items of Other Comprehensive Income	1 July 2012
• Amendments to HKAS 12, Deferred Tax: Recovery of Underlying Assets	1 January 2012
• HKFRS 9, Financial Instruments	1 January 2013
• HKFRS 10, Consolidated Financial Statements	1 January 2013
• HKFRS 11, Joint Arrangements	1 January 2013
• HKFRS 12, Disclosure of Interests in Other Entities	1 January 2013
• HKFRS 13, Fair Value Measurement	1 January 2013

The Group is in the process of assessing the impact of these amendments, new standards and interpretations in the period of initial application, but is not yet in a position to determine whether the adoption will have any significant impact on the Group's results of operations and financial position.

4. Revenue and segmental information

The Group determines its operating segments based on the internal financial information reviewed by the Board in strategic decisions making. For the six months ended 30 June 2011, the Group has the following four 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)	Communication technology products:	Development, manufacture and sale of communication technology products
(iv)	Electronic intelligent products:	Development, manufacture and sale of electronic intelligent products

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

4. Revenue and segmental information (continued)

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

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

The following tables provide an analysis of the Group's revenue, expenditure, results and assets by reportable segments for the six months ended 30 June 2011:

Six months ended 30 June 2011

	Electronic manufacturing products (unaudited) RMB'000	Electronic equipment products (unaudited) RMB'000	Communication technology products (unaudited) RMB'000	Electronic intelligent products (unaudited) RMB'000	Other operations (unaudited) RMB'000	Elimination (unaudited) RMB'000	Consolidated (unaudited) RMB'000
Revenue							
External sales	291,561	232,835	82,405	187,288	28,271	—	822,360
Internal sales	15,516	18,668	432	1,274	1	(35,891)	—
Total	<u>307,077</u>	<u>251,503</u>	<u>82,837</u>	<u>188,562</u>	<u>28,272</u>	<u>(35,891)</u>	<u>822,360</u>
Results							
Segment results	<u>19,176</u>	<u>15,037</u>	<u>1,194</u>	<u>10,584</u>	<u>11,557</u>	<u>—</u>	<u>57,548</u>
Unallocated							
corporate expenses							(39,329)
interest income							2,355
interest expense							(12,551)
Share of profits of associates							40,788
income tax expense							(10,237)
Profit for the period							<u>38,574</u>

At 30 June 2011

	Electronic manufacturing products (unaudited) RMB'000	Electronic equipment products (unaudited) RMB'000	Communication technology products (unaudited) RMB'000	Electronic intelligent products (unaudited) RMB'000	Other operations (unaudited) RMB'000	Elimination (unaudited) RMB'000	Consolidated (unaudited) RMB'000
Assets							
Segment assets	563,289	478,414	39,220	367,649	196,348	(190,052)	1,454,868
Associates							702,272
Unallocated corporate assets							<u>368,584</u>
Consolidated total assets							<u>2,525,724</u>

4. Revenue and segmental information (continued)

Six months ended 30 June 2010

	Electronic manufacturing products (unaudited) RMB'000	Electronic equipment products (unaudited) RMB'000	Electronic intelligent products (unaudited) RMB'000	Other operations (unaudited) RMB'000	Elimination (unaudited) RMB'000	Consolidated (unaudited) RMB'000
Revenue						
External sales	263,595	153,528	199,937	114,099	—	731,159
Internal sales	5,361	9,195	57,608	25,799	(97,963)	—
	<u>268,956</u>	<u>162,723</u>	<u>257,545</u>	<u>139,898</u>	<u>(97,963)</u>	<u>731,159</u>
Results						
Segment results	7,827	11,974	456	2,860	—	23,117
	<u>7,827</u>	<u>11,974</u>	<u>456</u>	<u>2,860</u>	<u>—</u>	<u>23,117</u>
Unallocated corporate expenses						(46,912)
Interest income						2,395
Interest expense						(11,866)
Share of profits of associates						29,289
Income tax expense						(2,945)
						<u>(6,922)</u>
Loss for the period						<u>(6,922)</u>

At 31 December 2010

	Electronic manufacturing products (audited) RMB'000	Electronic equipment products (audited) RMB'000	Electronic intelligent products (audited) RMB'000	Other operations (audited) RMB'000	Elimination (audited) RMB'000	Consolidated (audited) RMB'000
Assets						
Segment assets	519,219	267,534	331,606	164,699	(141,047)	1,142,011
Associates						661,484
Unallocated corporate assets						758,349
						<u>2,561,844</u>
Consolidated total assets						<u>2,561,844</u>

5. **Other income and net losses**

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Other income		
Rental and property management fee income	8,018	5,335
Government subsidies	4,356	5,739
Write-off of trade and other payables	1,003	3,385
Sundry income	282	99
	13,659	14,558
Other net losses		
Exchange losses	(650)	(512)
	13,009	14,046

6. **Profit/(loss) before taxation**

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

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	RMB'000	RMB'000
(Gain)/loss on disposal of property, plant and equipment	(878)	5,201
Depreciation of property, plant and equipment	25,454	21,609
Amortisation of land use rights	341	341
Write-down/(reversal) of inventories	1,511	(1,317)
Impairment losses reversed on trade receivables, other receivables and amounts due from related companies	(5,046)	(74)

7. **Income tax expense**

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Current tax		
— PRC enterprise income tax	9,635	2,859
Deferred tax		
— attributable to the origination and reversal of temporary differences	602	86
	10,237	2,945

Under the prevailing tax law in the PRC, the enterprise income tax rate of the companies incorporated in the PRC within the Group is 25% (six months ended 30 June 2010: 25%), except for certain subsidiaries which are entitled to a preferential rate of 15%, or 24%, or 50% exemption of the income tax.

8. Earning/(loss) per share

The calculation of the basic earning/(loss) per share is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2011 of RMB35,357,000 (six months ended 30 June 2010: loss of RMB9,429,000) and 655,015,000 shares in issue throughout the period.

The diluted earning/(loss) per share for the six months ended 30 June 2011 and 2010 were the same as the basic earning/(loss) per share as no dilutive potential ordinary share was issued during the six months ended 30 June 2011 and 2010.

9. Dividends

The Directors did not recommend the payment of an interim dividend for the Reporting Period (six months ended 30 June 2010: Nil).

10. Movements in property, plant and equipment

During the period, the Group spent approximately RMB27,884,000 (six months ended 30 June 2010: RMB32,956,000) on acquisition of property, plant and equipment.

In addition, the Group disposed of certain property, plant and equipment with carrying value of RMB468,000 (six months ended 30 June 2010: RMB5,233,000) for cash proceeds of RMB1,346,000 (six months ended 30 June 2010: RMB32,000).

11. Trade and bills receivables

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

The following is an ageing analysis of trade and bill receivables net of provision for impairment:

	30 June 2011 (unaudited) RMB'000	31 December 2010 (audited) RMB'000
Within 1 year	352,343	262,470
1 to 2 years	639	2,060
2 to 3 years	6,572	8,626
Over 3 years	—	425
	359,554	273,581

12. Borrowings

	30 June 2011 (unaudited) RMB'000	31 December 2010 (audited) RMB'000
Short term bank loans	380,749	478,000
Bills payable, secured	38,684	42,574
Specific-purpose loan	4,000	4,000
	423,433	524,574
Less: Amounts due within one year shown under current liabilities	(423,433)	(520,574)
Amounts shown under non-current liabilities	—	4,000

At 30 June 2011, short term bank loans amounting to RMB28,749,000 (31 December 2010: RMB75,000,000) were secured by pledge of certain trade receivables of the Group with carrying value of RMB38,056,000 (31 December 2010: certain buildings of the Group with carrying value of RMB19,949,000) with banks, and short term bank loans amounting to RMB300,000,000 (31 December 2010: RMB350,000,000) were secured by corporate guarantees from the ultimate holding company.

12. Borrowings (continued)

At 30 June 2011, bills payable was secured by certain bills receivable with carrying value of RMB1,440,000 (31 December 2010: RMBNil) and restricted bank deposits with carrying value of RMB20,606,000 (31 December 2010: RMB29,090,000).

The effective interest rate of the short term bank loans was 5.79% (31 December 2010: 5.71%) per annum.

The specific-purpose loan was 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% (31 December 2010: 0.3%) per annum and will be repayable in February 2012.

13. Trade payables

The following is an ageing analysis of trade payables:

	30 June 2011 (unaudited) RMB'000	31 December 2010 (audited) RMB'000
Within 1 year	285,227	259,882
1 to 2 years	12,821	23,887
2 to 3 years	18,155	18,603
Over 3 years	14,176	13,554
	330,379	315,926

14. Contingent liabilities

The Group had the following contingent liabilities:

	30 June 2011 (unaudited) RMB'000	31 December 2010 (audited) RMB'000
Performance bonds given by banks to customers in respect of projects undertaken	37,474	25,843

15. Capital commitments

At 30 June 2011, outstanding capital commitments not provided for in the financial statements were as follows:

	30 June 2011 (unaudited) RMB'000	31 December 2010 (audited) RMB'000
Contracted for — Property, plant and equipment	50,256	51,710

16. Related party transactions

During the Reporting Period, the Group entered into the following material transactions with its related parties:

	Fellow subsidiaries		Associates		Ultimate holding company	
	Six months ended 30 June 2011	2010	Six months ended 30 June 2011	2010	Six months ended 30 June 2011	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales of components and parts	38,400	27,090	23,446	27,552	38	63
Purchases of components and parts	16,646	1,460	—	—	—	—
Fees paid for welfare, support, sub-contracting and general services	2,141	622	—	—	32	213
Income for welfare, support, sub-contracting and general services	6,436	2,249	64,161	14,297	500	4
Rental income	400	—	—	—	—	—
Rental expenses	—	—	—	—	—	—
	—	—	—	—	—	—

17 Difference between HKFRSs and PRC Accounting Standards for Business Enterprises

For the six months ended 30 June 2011 and 2010, there were no material differences between the condensed consolidated statements of comprehensive income and condensed consolidated balance sheets of the Group prepared under HKFRSs and PRC Accounting Standards for Business Enterprises.

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

- (I) The 2011 interim financial report of the Company was unaudited
- (II) Financial statements and notes thereto (prepared in accordance with the PRC Accounting Standards for Business Enterprises)

Consolidated Balance Sheet

As at 30 June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Closing balance	Opening balance
current assets:		
Cash and bank balance	429,846,254.08	445,346,410.49
Settlement provisions	—	—
Placement	—	—
Trading financial assets	—	—
Bills receivable	16,170,395.06	14,315,380.42
Trade receivable	391,970,024.08	299,422,237.49
Prepayments	113,369,976.38	87,963,018.19
Premiums receivable	—	—
Reinsurance receivable	—	—
Reinsurance contract reserves	—	—
Interest receivable	—	—
Dividends receivable	—	—
Other receivables	35,443,758.40	198,594,325.75
Financial assets purchased for resale	—	—
Inventories	195,284,513.08	214,361,816.43
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	1,182,084,921.08	1,260,003,188.77
Non-current assets:		
Entrusted loans and advances	—	—
Available-for-sale financial assets	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	702,271,510.15	661,484,199.39
Investment properties	—	—
Fixed assets	600,037,308.46	603,996,401.25
Construction in progress	10,251,425.04	3,883,494.92
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Fuel assets	—	—
Intangible assets	25,178,682.13	25,966,027.60
Development expenses	—	—
Goodwill	—	—
Long term deferred expenses	—	—
Deferred income tax assets	5,898,559.53	6,509,257.63
Other non-current assets	—	—
Total non-current assets	1,343,637,485.31	1,301,839,380.79
Total assets	2,525,722,406.39	2,561,842,569.56

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Liabilities and shareholders' equity	Closing balance	Opening balance
Current liabilities:		
Short-term loans	380,748,986.60	478,000,000.00
Borrowing from PBOC	—	—
Customer and interbank deposits	—	—
Borrowing from interbank	—	—
Trading financial liabilities	—	—
Bills payable	38,683,702.57	42,573,506.11
Accounts payable	344,378,417.25	327,198,756.59
Advances from customers	62,182,241.02	66,085,651.49
Financial assets sold under repurchase agreements	—	—
Bank charges and Commissions due	—	—
Salaries payable	37,042,584.55	44,815,394.10
Taxes payable	12,747,729.49	14,962,888.47
Interest payable	521,752.78	691,700.00
Dividend Payable	238,816.60	238,816.60
Other payables	123,825,141.25	99,209,398.33
Reinsurers due	—	—
Insurance contract reserves	—	—
Security trading of agency	—	—
Securities underwriting	—	—
Non-current liabilities due within one year	4,000,000.00	1,278,668.33
Other current liabilities	—	—
Total current liabilities	1,004,369,372.11	1,075,054,780.02
Non-current liabilities:		
Long term loans	—	4,000,000.00
Bonds payables	—	—
Long term payables	—	—
Specific payables	—	—
Accrued liabilities	—	—
Deferred income tax liabilities	61,081.05	68,911.17
Other non-current liabilities	—	—
Total non-current liabilities	61,081.05	4,068,911.17
Total liabilities	1,004,430,453.16	1,079,123,691.19
Shareholders' equity:		
Share capital	655,015,000.00	655,015,000.00
Capital reserve	467,310,246.52	467,310,246.52
Less: Treasury stock	—	—
Special reserve	—	—
Surplus reserve	203,031,623.67	203,031,623.67
General risk reserve	—	—
Undistributed profits	186,136,852.73	150,780,310.99
Discounted spread in foreign currency statement	—	—
Shareholders of the parent company	1,511,493,722.92	1,476,137,181.18
Minority interests	9,798,230.31	6,581,697.19
Total shareholders' equity	1,521,291,953.23	1,482,718,878.37
Total liabilities and shareholders' equity	2,525,722,406.39	2,561,842,569.56

Person in charge
of the Company:

Xu Guofei

Person in charge
of accounting work:

Shen Jianlong

Person in charge of
Accounting Department:

Wu Yuzhen

Consolidated Profit and Loss Statement

Jan-June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Amount for the period	Amount for the same period last year
I. Total operating income	838,146,949.07	741,785,644.63
Include: Operating income	838,146,949.07	741,785,644.63
Interest income	—	—
Premiums earned	—	—
Income from Bank charges and Commissions	—	—
II. Total operating cost	836,283,151.76	778,954,884.16
Include: Operating cost	691,315,411.17	657,837,656.83
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	7,769,667.40	5,290,553.19
Selling expenses	17,574,019.98	17,541,943.42
Administrative expenses	111,966,209.09	89,408,344.84
Financial expenses	11,193,312.83	10,267,781.73
Loss in assets impairment	(3,535,468.71)	(1,391,395.85)
Add: Income from change in fair value (losses are represented by "-")	—	—
Investment income (losses are represented by "-")	40,787,310.76	29,288,617.57
Include: Investment income of associates and joint ventures	—	—
Exchange gain (losses are represented by "-")	—	—
III. Operating profit (losses are represented by "-")	42,651,108.07	(7,880,621.96)
Add: Non-operating income	6,912,379.77	9,222,475.73
Less: Non-operating expenses	753,054.79	5,318,460.06
Include: Loss from the disposal of non-current assets	—	—
IV. Total profit (losses are represented by "-")	48,810,433.05	(3,976,606.29)
Less: Income tax expense	10,237,358.19	2,945,443.98
V. Net profit (losses are represented by "-")	38,573,074.86	(6,922,050.27)
Profit attributable to the equity shareholders of the parent company	35,356,541.74	(9,429,221.11)
Minority interest	3,216,533.12	2,507,170.84
VI. Earnings per share:		
(1) Basic earnings per share	0.0540	(0.0144)
(2) Diluted earnings per share	0.0540	(0.0144)
VII. Other comprehensive income:	—	—
VIII. Total comprehensive income:	38,573,074.86	(6,922,050.27)
Total comprehensive income attributable to the equity shareholders of the parent company	35,356,541.74	(9,429,221.11)
Total comprehensive income attributable to minority shareholders	3,216,533.12	2,507,170.84

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Consolidated Cash Flow Statement

Jan-June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Amount for the period	Amount for the same period last year
I. Cash flows from operating activities:		
Cash received from the sale of goods and rendering of services	835,162,170.31	648,978,363.03
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	—	1,953,053.74
Cash received from relating to other operating activities	20,527,124.35	30,975,560.47
Sub-total of cash inflows from operating activities	855,689,294.66	681,906,977.24
Cash paid on purchase of goods and services received	640,357,488.51	601,803,564.80
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	134,090,932.60	111,723,710.60
Cash paid for all types of taxes	67,045,751.40	47,900,801.16
Cash paid relating to other operating activities	63,874,648.15	131,573,916.31
Sub-total of cash outflows from operating activities	905,368,820.66	893,001,992.87
Net cash flows from operating activities	(49,679,526.00)	(211,095,015.63)
II. Cash flows from investing activities:		
Cash received from disposal of investments	—	—
Cash received from return on investments	—	—
Net cash received from the disposal of fixed assets, intangible assets and other long term assets	2,077,500.00	32,000.00
Net cash received from disposal of subsidiaries and other operating entities	—	—
Cash received relating to other investing activities	175,000,000.00	—
Sub-total of cash inflows from investing activities	177,077,500.00	32,000.00
Cash paid on purchase of fixed assets, intangible assets and other long term assets	36,342,108.92	48,909,189.76
Cash paid for investments	—	—
Net increase in secured loans	—	—
Net cash paid on acquisition of subsidiaries and other operating entities	—	—
Cash paid on other investing activities	—	425,320.87
Sub-total of cash outflows from investing activities	36,342,108.92	49,334,510.63
Net cash flows from investing activities	140,735,391.08	(49,302,510.63)

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Item	Amount for the period	Amount for the same period last year
III. Cash flows from financing activities:		
Cash received from investment	—	—
Including: cash received by subsidiaries from minority shareholders' investment	—	—
Cash received from borrowings	212,356,944.20	263,339,498.85
Cash received from issuing bonds	—	—
Cash received from other financing activities	—	—
	<hr/>	<hr/>
Sub-total of cash inflows from financing activities	212,356,944.20	263,339,498.85
Cash paid on repayment of borrowings	309,607,957.60	136,955,731.82
Cash paid on distribution of dividends or profits, or interest expenses	10,981,967.18	10,715,115.87
Including: bonus and profit paid to minority shareholders by subsidiaries	—	—
Cash paid on other financing activities	1,313,481.60	1,278,041.90
	<hr/>	<hr/>
Sub-total of cash outflows from financing activities	321,903,406.38	148,948,889.59
Net cash flows from financing activities	(109,546,462.18)	114,390,609.26
IV. Effect of fluctuations in exchange rates on cash	(156,481.19)	(51,083.73)
V. Net increase in cash and cash equivalents	(18,647,078.29)	(146,058,000.73)
Add: balance of cash and cash equivalents at the beginning of the period	390,412,974.25	560,354,017.93
VI. Balance of cash and cash equivalents at the end of the period	371,765,895.96	414,296,017.20

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Consolidated Statement of Changes in Owners' Equity

Jan-June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Amount for the period								Total shareholders' equity	
	Share capital	Capital reserve	Less:			Generic risk reserve	Undistributed profits	Other		Minority interest
			Treasury stock	Special reserve	Surplus reserve					
I. Balance at the end of last year	655,015,000.00	497,310,246.52	-	-	203,031,623.67	-	150,760,310.99	-	6,581,697.19	1,482,718,676.37
Add change in										
accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of Previous Errors	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	655,015,000.00	497,310,246.52	-	-	203,031,623.67	-	150,760,310.99	-	6,581,697.19	1,482,718,676.37
III. Change of this year										
(a) decrease is represented by "-")	-	-	-	-	-	-	35,356,541.74	-	3,216,533.12	38,573,074.86
(i) Net profit	-	-	-	-	-	-	35,356,541.74	-	3,216,533.12	38,573,074.86
(ii) Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Subtotal of item (i) and (ii) above	-	-	-	-	-	-	35,356,541.74	-	3,216,533.12	38,573,074.86
(iii) Contribution and reduction of capital by shareholders	-	-	-	-	-	-	-	-	-	-
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-
2. Amount settled by shares accounted for in shareholders' equity	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-
(iv) Profit distribution	-	-	-	-	-	-	-	-	-	-
1. Transfer from surplus reserves	-	-	-	-	-	-	-	-	-	-
2. Transfer from generic risk reserves	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(v) 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	-	-	-	-	-	-	-	-	-	-
(vi) Transfer and use of special reserve	-	-	-	-	-	-	-	-	-	-
1. Transfer in current period	-	-	-	-	-	-	-	-	-	-
2. Use in current period	-	-	-	-	-	-	-	-	-	-
(vii) Others	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of the year	655,015,000.00	497,310,246.52	-	-	203,031,623.67	-	186,136,652.73	-	9,798,230.31	1,521,291,953.23

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Item	Amount for the same period last year									
	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	Total shareholders' equity
I. Balance at the end of last year	655,015,000.00	465,369,977.77	-	-	202,784,405.42	-	141,835,133.81	-	11,785,268.83	1,478,769,915.83
Add: change in accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of Previous Errors	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of the year	655,015,000.00	465,369,977.77	-	-	202,784,405.42	-	141,835,133.81	-	11,785,268.83	1,478,769,915.83
III. Change of this year										
(a) decrease is represented by "-"	-	-	-	-	-	-	(6,429,221.11)	-	2,075,845.51	(7,383,375.60)
(i) Net profit	-	-	-	-	-	-	(6,429,221.11)	-	2,507,170.84	(6,922,050.27)
(ii) Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Subtotal of item (i) and (ii) above	-	-	-	-	-	-	(6,429,221.11)	-	2,507,170.84	(6,922,050.27)
(iii) Contribution and reduction of capital by shareholders	-	-	-	-	-	-	-	-	(431,325.33)	(431,325.33)
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-
2. Amount settled by shares accounted for in shareholders' equity	-	-	-	-	-	-	-	-	(431,325.33)	(431,325.33)
3. Others	-	-	-	-	-	-	-	-	-	-
(iv) Profit distribution	-	-	-	-	-	-	-	-	-	-
1. Transfer from surplus reserves	-	-	-	-	-	-	-	-	-	-
2. Transfer from generic risk reserves	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(v) 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	-	-	-	-	-	-	-	-	-	-
(vi) Transfer and use of special reserve	-	-	-	-	-	-	-	-	-	-
1. Transfer in current period	-	-	-	-	-	-	-	-	-	-
2. Use in current period	-	-	-	-	-	-	-	-	-	-
(vii) Others	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of the year	655,015,000.00	465,369,977.77	-	-	202,784,405.42	-	132,405,912.70	-	13,861,244.34	1,468,436,540.23

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Balance Sheet

As at 30 June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Closing balance	Opening balance
Current assets:		
Cash and bank balance	84,931,672.16	177,092,185.38
Settlement provisions	—	—
Placement	—	—
Trading financial assets	—	—
Bills receivable	—	8,191,664.12
Trade receivable	35,290,912.19	20,161,387.76
Prepayments	17,687,168.17	19,225,352.41
Premiums receivable	—	—
Reinsurance receivable	—	—
Reinsurance contract reserves	—	—
Interest receivable	—	—
Dividends receivable	3,860,963.25	3,860,963.25
Other receivables	153,012,969.80	353,115,124.30
Financial assets purchased for resale	—	—
Inventories	9,625,959.10	10,677,225.06
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	304,409,644.67	592,323,902.28
Non-current assets:		
Entrusted loans and advances	—	—
Available-for-sale financial assets	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	1,258,451,252.50	1,014,413,941.74
Investment properties	—	—
Fixed assets	377,112,784.17	385,055,834.67
Construction in progress	9,919,402.49	1,191,304.57
Construction supplies	—	—
Clearance of fixed assets	—	—
Biological assets for production	—	—
Fuel assets	—	—
Intangible assets	13,193,315.33	13,802,074.43
Development expenses	—	—
Goodwill	—	—
Long term deferred expenses	—	—
Deferred income tax assets	—	—
Other non-current assets	—	—
Total non-current assets	1,658,676,754.49	1,414,463,155.41
Total assets	1,963,086,399.16	2,006,787,057.69

Person in charge
of the Company:

Xu Guofei

Person in charge
of accounting work:

Shen Jianlong

Person in charge of
Accounting Department:

Wu Yuzhen

Liabilities and shareholders' equity	Closing balance	Opening balance
Current liabilities:		
Short-term loans	300,000,000.00	425,000,000.00
Borrowing from PBOC	—	—
Customer and interbank deposits	—	—
Borrowing from interbank	—	—
Trading financial liabilities	—	—
Bills payable	3,597,070.93	8,438,681.17
Accounts payable	23,100,954.95	24,718,867.25
Advances from customers	321,118.39	876,200.00
Financial assets sold under repurchase agreements	—	—
Bank charges and Commissions due	—	—
Salaries payable	23,559,740.10	28,853,680.80
Taxes payable	5,754,003.33	3,707,100.84
Interest payable	521,752.78	691,700.00
Dividend Payable	—	—
Other payables	237,606,185.49	133,119,922.49
Reinsurers due	—	—
Insurance contract reserves	—	—
Security trading of agency	—	—
Securities underwriting	—	—
Non-current liabilities due within one year	4,000,000.00	—
Other current liabilities	—	—
Total current liabilities	<u>598,460,825.97</u>	<u>625,406,152.55</u>
Non-current liabilities:		
Long term loans	—	4,000,000.00
Bonds payables	—	—
Long term payables	—	—
Specific payables	—	—
Accrued liabilities	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	<u>—</u>	<u>4,000,000.00</u>
Total liabilities	<u>598,460,825.97</u>	<u>629,406,152.55</u>
Shareholders' equity:		
Share capital	655,015,000.00	655,015,000.00
Capital reserve	437,688,751.31	437,688,751.31
Less: Treasury stock	—	—
Special reserve	—	—
Surplus reserve	203,031,623.67	203,031,623.67
General risk reserve	—	—
Undistributed profits	68,890,198.21	81,645,530.16
Discounted spread in foreign currency statement	—	—
Total shareholders' equity	<u>1,364,625,573.19</u>	<u>1,377,380,905.14</u>
Total liabilities and shareholders' equity	<u>1,963,086,399.16</u>	<u>2,006,787,057.69</u>

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Profit and Loss Statement

Jan-June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Amount for the period	Amount for the same period last year
I. Total operating income	42,786,494.23	91,333,186.48
Include: Operating income	42,786,494.23	91,333,186.48
Interest income	—	—
Premiums earned	—	—
Income from Bank charges and Commissions	—	—
II. Total operating cost	98,040,910.64	161,281,795.78
Include: Operating cost	28,934,525.04	87,378,892.66
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	758,058.81	723,727.88
Selling expenses	4,320,037.20	4,474,654.47
Administrative expenses	66,870,907.57	59,181,515.53
Financial expenses	8,974,592.33	7,907,304.85
Loss in assets impairment	(11,817,210.31)	1,615,700.39
Add: Income from change in fair value (losses are represented by “-”)	—	—
Investment income (losses are represented by “-”)	40,787,310.76	47,708,949.12
Include: Investment income of associates and joint ventures	—	—
Exchange gain (losses are represented by “-”)	—	—
III. Operating profit (losses are represented by “-”)	(14,467,105.65)	(22,239,660.18)
Add: Non-operating income	2,163,588.99	3,015,104.60
Less: Non-operating expenses	451,815.29	53,205.37
Include: Loss from the disposal of non-current assets	—	—
IV. Total profit (losses are represented by “-”)	(12,755,331.95)	(19,277,760.95)
Less: Income tax expense	—	—
V. Net profit (losses are represented by “-”)	(12,755,331.95)	(19,277,760.95)
VI. Other comprehensive income	—	—
VII. Total comprehensive income	(12,755,331.95)	(19,277,760.95)

Person in charge
of the Company:

Xu Guofei

Person in charge
of accounting work:

Shen Jianlong

Person in charge of
Accounting Department:

Wu Yuzhen

Cash Flow Statement

Jan-June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Amount for the period	Amount for the same period last year
I. Cash flows from operating activities:		
Cash received from the sale of goods and rendering of services	23,170,324.09	56,639,513.31
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	147,848,568.90	75,222,442.15
Sub-total of cash inflows from operating activities	171,018,892.99	131,861,955.46
Cash paid on purchase of goods and services received	20,498,780.98	52,038,056.94
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	48,731,696.10	41,028,565.04
Cash paid for all types of taxes	2,298,709.12	11,378,047.80
Cash paid relating to other operating activities	47,358,294.89	219,720,529.40
Sub-total of cash outflows from operating activities	118,887,481.09	324,165,199.18
Net cash flows from operating activities	52,131,411.90	(192,303,243.72)
II. Cash flows from investing activities:		
Cash received from disposal of investments	30,000,000.00	—
Cash received from return on investments	—	13,382,469.53
Net cash received from the disposal of fixed assets, intangible assets and other long term assets	1,897,500.00	—
Net cash received from disposal of subsidiaries and other operating entities	—	1,039,300.00
Cash received relating to other investing activities	—	—
Sub-total of cash inflows from investing activities	31,897,500.00	14,421,769.53
Cash paid on purchase of fixed assets, intangible assets and other long term assets"	10,736,529.07	25,340,992.71
Cash paid for investments	30,000,000.00	20,483,249.50
Net increase in secured loans	—	—
Net cash paid on acquisition of subsidiaries and other operating entities	—	—
Cash paid on other investing activities	—	—
Sub-total of cash outflows from investing activities	40,736,529.07	45,824,242.21
Net cash flows from investing activities	(8,839,029.07)	(31,402,472.68)

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Item	Amount for the period	Amount for the same period last year
III. Cash flows from financing activities:		
Cash received from investment	—	—
Including: Cash received by subsidiaries from minority shareholders' investment	—	—
Cash received from borrowings	170,000,000.00	195,000,000.00
Cash received from issuing bonds	—	—
Cash received from other financing activities	—	4,749,352.82
	<hr/>	<hr/>
Sub-total of cash inflows from financing activities	170,000,000.00	199,749,352.82
Cash paid on repayment of borrowings	295,000,000.00	100,000,000.00
Cash paid on distribution of dividends or profits, or interest expenses	9,551,966.67	9,970,646.00
Including: bonus and profit paid to minority shareholders by subsidiaries	—	—
Cash paid on other financing activities	—	—
	<hr/>	<hr/>
Sub-total of cash outflows from financing activities	304,551,966.67	109,970,646.00
Net cash flows from financing activities	(134,551,966.67)	89,778,706.82
IV. Effect of fluctuations in exchange rates on cash	(124.25)	44.28
V. Net increase in cash and cash equivalents	(91,259,708.09)	(133,926,965.30)
Add: balance of cash and cash equivalents at the beginning of the period	151,591,454.98	293,955,551.88
VI. Balance of cash and cash equivalents at the end of the period	60,331,746.89	160,028,586.58

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

Statement of Changes in Owners' Equity

Jan-June 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Item	Amount for the period							Total shareholders' equity	
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	Generic risk reserve	Undistributed profits		Other
I. Balance at the end of last year	655,015,000.00	437,688,751.31	-	-	203,031,623.67	-	81,645,530.16	-	1,377,380,905.14
Add: change in accounting policies	-	-	-	-	-	-	-	-	-
Correction of Previous Errors	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	655,015,000.00	437,688,751.31	-	-	203,031,623.67	-	81,645,530.16	-	1,377,380,905.14
III. Change of this year (a decrease is represented by "-")									
(i) Net profit	-	-	-	-	-	-	-12,755,331.95	-	-12,755,331.95
(ii) Other comprehensive income	-	-	-	-	-	-	-	-	-
Subtotal of item (i) and (ii) above	-	-	-	-	-	-	-12,755,331.95	-	-12,755,331.95
(iii) Contribution and reduction of capital by shareholders									
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-
2. Amount settled by shares accounted for in shareholders' equity	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-
(iv) Profit distribution									
1. Transfer from surplus reserves	-	-	-	-	-	-	-	-	-
2. Transfer from generic risk reserves	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
(v) 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	-	-	-	-	-	-	-	-	-
(vi) Transfer and use of special reserve									
1. Transfer in current period	-	-	-	-	-	-	-	-	-
2. Use in current period	-	-	-	-	-	-	-	-	-
(vii) Others	-	-	-	-	-	-	-	-	-
IV. Balance at the end of the year	655,015,000.00	437,688,751.31	-	-	203,031,623.67	-	68,890,198.21	-	1,364,625,573.19

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Xu Yuzhen

Item	Amount for the same period last year								Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	Generic risk reserve	Undistributed profits	Other	
I. Balance at the end of last year	655,015,000.00	437,688,751.31	-	-	202,784,405.42	-	79,420,556.96	-	1,374,908,722.69
Add change in accounting policies	-	-	-	-	-	-	-	-	-
Correction of Previous Errors	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	655,015,000.00	437,688,751.31	-	-	202,784,405.42	-	79,420,556.96	-	1,374,908,722.69
III. Change of this year									
(a) decrease is represented by "-"	-	-	-	-	-	-	-19,277,760.95	-	-19,277,760.95
(i) Net profit	-	-	-	-	-	-	-19,277,760.95	-	-19,277,760.95
(ii) Other comprehensive income	-	-	-	-	-	-	-	-	-
Subtotal of item (i) and (ii) above	-	-	-	-	-	-	-19,277,760.95	-	-19,277,760.95
(iii) Contribution and reduction of capital by shareholders	-	-	-	-	-	-	-	-	-
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-
2. Amount settled by shares accounted for in shareholders' equity	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-
(iv) Profit distribution	-	-	-	-	-	-	-	-	-
1. Transfer from surplus reserves	-	-	-	-	-	-	-	-	-
2. Transfer from generic risk reserves	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
(v) 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	-	-	-	-	-	-	-	-	-
(vi) Transfer and use of special reserve	-	-	-	-	-	-	-	-	-
1. Transfer in current period	-	-	-	-	-	-	-	-	-
2. Use in current period	-	-	-	-	-	-	-	-	-
(vii) Others	-	-	-	-	-	-	-	-	-
IV. Balance at the end of the year	655,015,000.00	437,688,751.31	-	-	202,784,405.42	-	60,142,855.01	-	1,355,630,961.74

Person in charge
of the Company:
Xu Guofei

Person in charge
of accounting work:
Shen Jianlong

Person in charge of
Accounting Department:
Wu Yuzhen

NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2011 to 30 June 2011

(All amounts expressed in RMB unless otherwise stated)

I. Company Profile

The Company was established on 27 April 1992 after the approval from Nanjing Economic System Reform Committee through document Ning Ti Gai Zi (1992) No. 034. It was reorganized into Nanjing Panda Electronics Company Limited (present name) later by its sole promoter, PEGL which acquired the Company's 480,000,000 state-owned legal person shares upon the establishment of the Company at a consideration of total net asset value of RMB480,000,000.00. Registered capital of 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. The authorized business scope 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.

At the general meeting of the Company held on 27 May 1994, a special resolution was passed to approve the matters concerning deconsolidation and restructuring the assets and liabilities of the Company and PEGL as well as re-affirming the state owned legal person shares of the Company. Meanwhile, the Board 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 shares and A shares. According to the special resolution, the net asset value of the Company would be adjusted on 29 June 1994. Net asset value of the Company at establishment was re-defined as RMB322,873,348.00, including registered capital of RMB322,870,000.00, comprising 287,870,000 state-owned legal person shares, 35,000,000 employee's shares, and capital reserve of RMB3,348.00. According to the reply to the restructuring report from the State Committee for Changing System dated 11 March 1996, registered capital of 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 shares 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, and book values were adjusted after share issue as approved by the Securities Committee of the State Council.

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

The Company obtained approval document Zheng Gan Fa Zi (1996) No. 304 from Securities Regulatory Commission of the State Council on 30 October 1996 for issuing 23,000,000 ordinary shares denominated in RMB to the public, at an issue price of RMB5.10 per share. On 14 November 1996, all proceeds from the issue were received in full and the Company's shares were listed on Shanghai Stock Exchange on 18 November 1996. The 5,000,000 shares out of the 35,000,000 internal employee's shares under private placement were also listed after completion of issue. Another 30,000,000 shares were listed and started circulating in 1999.

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 on 18 April 1997. Its registered capital was RMB655,015,000. The authorized business scope 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 tax control products; electricity source products; molds; computer services, software and system integration business; property management; as well as after-sale services and technical services for the aforesaid businesses.

The Company received new business license 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 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 parent company of the Company is Panda Electronics Group Company Limited.

The financial statements of the Company were approved by the Board of the Company on 30 August 2011.

II. The Declaration on Compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company are prepared under the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 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 period then ended.

III. Basis for Preparation of Financial Statements

These financial statements are prepared in accordance with the Basic Principle and 38 specific standards of Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, Application Guidance of Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereafter referred to as "the Accounting Standards for Business Enterprises", as well as "No. 15 Reporting Regulation on the Information Disclosure for Listed Companies - Ordinary Regulation on Financial Report " (as revised in 2010).

IV. Major Accounting Policies and Accounting Estimates Adopted by the Company

1. Accounting Period

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

2. Measurement Currency

The Company uses Renminbi as its currency for recording transactions.

The subsidiaries and associates of the Company decide their own recording currency according to their individual major economic environment. The currency will be converted to Renminbi 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.

(2) Translation of financial statements denominated 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 financial liabilities to be undertaken by the Company where there is an active market, the Company will adopt the prevailing offer in the active market. For financial assets to be acquired or financial liabilities undertaken, the Company will adopt the prevailing asking price in the active market. For those without prevailing offer or asking price, the market quotations in the latest transaction or those adjusted are adopted, unless there is clear evidence which states that the market quotations are not fair value.

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

(3) Transferal and Calculation of Financial Assets

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

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

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

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

(5) Impairment of financial assets

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

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

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

- A. Issuers or debtors encounter severe financial difficulties;
- B. Debtors violated terms of contracts, such as a default or delinquency in interest or principal payments;
- C. Creditors, for economic or legal reasons, grant concessions to the debtors with financial difficulties;
- 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.

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

8. Inventories

(1) Classification of Inventories

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

(2) Measurement method for inventories received and delivered

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

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

(4) The Company adopts perpetual inventory record system.

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

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

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

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

9. Long-term Equity Investment

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

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

(i) 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.

(ii) Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. Basis for confirmation of significant influence mainly 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.

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.

Apart from 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:

- (i) The cost of a long-term equity investment acquired by payment of cash shall be recognized at the actual purchase price.
- (ii) 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;
- (iii) 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;
- (iv) 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.
- (v) 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

- (i) 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.

- (ii) 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.

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.

10. Accounting Method for Investment Properties

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

- (1) Recognition of Investment properties

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

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

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

(3) Subsequent measurement of the investment property

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

(4) Conversion of the investment property

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

11. Fixed Assets

(1) Recognition scope of fixed assets

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

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

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

- (i) The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, freights, loading and unloading fees, 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.

- (ii) The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- (iii) The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.

- (iv) Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are 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.
- (v) The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, merger of enterprises, and financial leasing shall be respectively ascertained in accordance with 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 vehicles, electronic equipment and other equipment.

(4) Depreciation of Fixed assets

- (i) 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 <i>(year)</i>	Estimated residual value <i>(%)</i>	Depreciation rate <i>(%)</i>
Buildings	20-30	5	3.17-4.75
Machine and 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.

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

(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

(i) Recognition basis for fixed assets acquired under finance leases

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

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

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

On the lease beginning date, the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date will be recorded as the entry value of leased assets, while the amount of the minimum lease payments will be recognized as the entry value of long-term account payable, the difference between them will be recognized as unrecognized financing costs. The initial direct costs such as 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 charged to profit or loss in the period in which they are actually incurred.

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

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

12. Construction in Progress

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

- (i) Meet the definition of intangible assets;
- (ii) The economic benefits pertinent to the assets are likely to flow into the Company;
- (iii) The cost of the asset can be measured reliably.

(2) Initial measurement of intangible assets

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

- (i) The cost of purchased intangible assets shall include the purchase price, relevant taxes and other necessary 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.
- (ii) The cost invested to an intangible asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.
- (iii) The cost of self-developed intangible assets

The expenses for internal research and development projects of the Company are divided into expenses in the research phase and expenses in the development phase. Expenditure in research 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.

- (iv) The costs of intangible assets acquired from non-monetary assets transaction, debt restructurings, government subsidies, and merger of enterprises shall be determined respectively according to 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 period, the Company has no intangible assets with an indefinite useful life.

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

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

14. Goodwill

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

15. Accounting Methods of Long-Term Prepaid Expenses

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

16. Impairment of Assets

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

- (2) Recognition of Assets with Potential Impairment

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

- (i) The current market price of assets falls significantly, beyond the expectation based on the advance of time or normal use;
- (ii) Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the fixed assets is located, thus exerting an adverse effect on the Company;

- (iii) Market interest rates or any other investment return rate have increased significantly during the period, thus affecting the discount rate used in calculating the asset's the present value of the expected future cash flows and resulting in a material decrease in the fixed asset's recoverable amount;
- (iv) Any evidence shows that the assets have become obsolete or physical damage occurred;
- (v) The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;
- (vi) Any evidence in the internal report of the Company shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit realized is lower than the expected amount, etc.;
- (vii) Other circumstances indicate that the asset may have been impaired.

(3) Measurement of Recoverable Amount of the Assets

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

(4) Recognition of Asset Impairment Losses

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

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

(2) Period of capitalization of borrowing cost

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

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

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

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

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

- (i) As for the specific borrowings for the acquisition and construction or production of assets qualifying for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred on the current specific borrowings minus the income of interests earned from the unused borrowings by depositing it in the bank or investment income from such borrowing by making it as a temporary investment.
- (ii) Where a general borrowing is used for the acquisition and construction or production assets qualifying for capitalization, the Company shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average value of the accumulative expenditures to asset minus the specific borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

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

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

18. Employee Benefits

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

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

19. Share-based Payments

- (1) The equity-settled share-based payments
 - (i) The equity-settled share-based payment in return for employee services or similar services provided by other party shall be measured at the fair value of the equity instruments granted to the employees and other party.
 - (ii) As to an equity-settled share-based payment in return for services of employees or similar services provided by other party, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly.
 - (iii) The Company shall, after the exercise date, make no adjustment to the relevant costs or expenses as well as the total amount of the owner's equities which have been recognized.
 - (iv) On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.
- (2) The cash-settled share-based payments
 - (i) The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.
 - (ii) As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Company shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly.
 - (iii) As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company.
 - (iv) Subsequent measurement
 - A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.
 - B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits and losses.

20. Provisions

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

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

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

21. Revenue

(1) Recognition method for the revenue from selling goods

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

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

(2) Recognition method for the provision of service

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

If the Company 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:

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

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

- (i) Recognition principles for the revenue from abalienating use rights of assets

The revenue from abalienating use rights 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.

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

22. Construction Contract

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

The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: (1) The total contract revenue can be measured in a reliable way; (2) The economic benefits pertinent to the contract are likely flow into the Company; (3) The actual contract costs incurred can be clearly distinguished and measured reliably; (4) Both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

The outcome of a cost plus contract can be estimated in a reliable way subject to the following basis: (1) The economic benefits pertinent to the contract are likely flow into the Company; (2) the actual contract costs incurred can be clearly distinguished and can be measured in a reliable way.

- (2) If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: (1) If the contract costs can be recovered, the contract revenue shall be recognized in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period when they are incurred; (2) If the contract costs cannot be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

23. Government Subsidies

- (1) Recognition conditions of government subsidies

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

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

- (2) Measurement of government subsidies

- (i) If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount (RMB1.00).

- (ii) The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the 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.

- (iii) If it is necessary to refund any government subsidies which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses. If there is no deferred income concerned to the government subsidies, it shall be directly included in the current profits and losses.

24. Exchange of Non-monetary Assets

- (1) The fair value of the assets and relevant payable taxes shall be regarded as the transaction cost, and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the profit or loss of the current period.
 - (i) Non-monetary assets shall be recognized and measured, where a non-monetary assets transaction satisfies the following conditions at the same time:
 - A. The transaction is commercial in nature;
 - B. The fair value of the assets received or surrendered can be measured reliably.
 - (ii) Selection of fair value: If the fair value of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable.
 - (iii) Treatment when a boot incurred: where a boot is caused when the Company treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the profit or loss of the current period; the Company, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the profit or loss of the current period.
- (2) Where any non-monetary assets transaction does not meet such conditions at the same time, the carrying value and relevant payable taxes of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

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

25. Debt Restructuring

- (1) Definition and scope of debt restructuring

The term "debt restructuring" refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.
- (2) Accounting treatment of debtors
 - (i) When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profits and losses. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profits and losses. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profits and losses. When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as stock of capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the stock of capital (or paid-in capital) as capital reserve. The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profits and losses.

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

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

(3) Accounting treatments of the creditor

- (i) When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received in the current profits and losses. If the creditor has made provision for the impairment of the credit, he shall first offset the aforesaid difference against the impairment provision, then include the shortfall in the current profits and losses. When a debt is liquidated by non-cash asset, the creditor shall recognize the fair value of the non-cash asset received as the entry value and shall handle the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in accordance with provisions of liquidation of a debt by cash. When a debt is converted into capital, the creditor shall recognize the fair value of the shares to which it becomes entitled as investment to the debtor and shall handle the difference between the book balance of the debt to be restructured and the fair value of the shares in accordance with provisions of liquidation of a debt by cash.
- (ii) When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the book balance of the debt to be restructured and the book value of the restructured debt in accordance with provisions of liquidation of a debt by cash. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

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

26. Leases

(1) Classification of Leases

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

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

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

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

- (iv) In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially (typically, 90% or above, the same below) all of the fair value of the leased asset on the lease beginning date; In the case of the lessor, the present value of the minimum lease receipts on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date.
- (v) The leased assets are of a specialized nature that only the Company (or the lessee) can use them without making major modifications.

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

(3) Main accounting treatment of finance lease

(i) Accounting treatments of lessees

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

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

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

Contingent rents shall be charged to profit or loss in the period in which they are actually incurred.

(ii) Accounting treatments of lessors

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

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

Contingent rents shall be charged to profit or loss in the period in which they are actually incurred.

(4) Main accounting treatment of operating lease

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

27. Income Taxes

- (1) Income taxes of the Company shall be accounted for using balance sheet liability method.
- (2) Where the Company obtains assets or liabilities, it shall determine its tax base. Where there is difference between the carrying amount of the assets or liabilities and its tax base, the deferred income tax assets or the deferred income tax liabilities shall be recognized according to the provisions.
- (3) Recognition of deferred income tax assets
 - (i) The Company recognizes deferred tax assets arising from deductible temporary difference but the amount is limited to the taxable income that the Company can possibly obtain to deduct the deductible temporary differences. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:
 - A. The transaction is not a merger of enterprise;
 - 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.
 - (ii) Where the deductible temporary difference related to the investments in 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.
 - (iii) Any deductible loss or tax deduction that can be carried forward to the next year in accordance with the tax law shall be deemed as deductible temporary difference, the corresponding deferred income tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.
- (4) Recognition of deferred income tax liabilities
 - (i) Except deferred tax liabilities incurred in the following transactions, the Company recognizes all taxable deferred tax liabilities arising from the temporary difference:
 - A. Initial recognition of goodwill;
 - 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.
 - (ii) As for the taxable temporary differences related to the investments in subsidiaries, associated enterprises and joint venture enterprises, the Company shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded:
 - A. The investing enterprise can control the time of the reverse of temporary differences;
 - B. The temporary differences are unlikely to be reversed in the expected future.

(5) Measurement of income taxes

The income taxes of the current period and deferred income tax of the Company shall be treated as income tax expenses or incomes, and shall be recorded into the current profits and losses, excluding the income taxes incurred under the following circumstances:

- (i) Merger of enterprises;
- (ii) The transactions or events directly recognized as the owner's equity.

(6) Impairment of deferred income tax assets

- (i) On the balance sheet date, the book value of deferred tax assets is reviewed. If the Company cannot possibly obtain sufficient taxable income in future to offset the benefits of deferred tax assets, the book value of deferred tax assets is reduced accordingly. Income taxes of the current period shall be reduced in other circumstances other than the fact that the part of deferred income tax assets shall be included in owner's equity for recognition and its amount reduced shall be also included in owner's equity.
- (ii) Where it is likely to obtain sufficient taxable income taxes, the book value of deferred tax assets reduced can be recovered.

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

1. Statement of Change in Accounting Policies

There is no change in the accounting policies 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.

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 Maintenance and Construction Tax and Education Surcharge

The Company's urban maintenance and construction 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 5% respectively.

4. Enterprise Income Tax

The Company is recognized by Jiangsu Provincial Science and Technology Commission as a high-tech enterprise on 21 October 2008 with the effective period for 3 years. Accordingly, the Company enjoys a preferential tax policy of 15% from 1 January 2008 to 31 December 2010. The Company is now applying for the title of high-tech enterprise in 2011.

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. The Company is now applying for the title of high-tech enterprise in 2011.

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. The company is now applying for the title of high-tech enterprise for 2011.

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 2011, the income tax rate was 24%.

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.

Nanjing Panda Mechanical Manufacturing Co., Ltd., a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 13 December 2010, with an effective period of 3 years. Accordingly, it pays income taxes by 15% of taxable income from 1 January 2010 to 31 December 2012.

5. Real Property Tax

Tax is calculated on the basis of 70% of the original value of the Company's real property. The applicable tax rate is 1.2%.

In addition, if premises are leased, tax is calculated on the basis of the revenue from the lease of such premises. The applicable tax rate is 12%.

6. Land Appreciation Tax

The tax are calculated based on the appreciation amount which is the balance of proceeds on the transfer of land use right deducting the sum of cost and tax related to the transfer. Land appreciation tax shall adopt the four level progressive rates which ranged from 30% to 60% according to the appreciation amount.

7. Other Taxes

Other taxes are calculated and paid in accordance with relevant specific regulations of the State.

VII. Merger of Enterprises and Consolidated Financial Statements

1. Merger of Enterprises

(1) Merger of enterprises under same control

(i) Definition of merger of enterprises under same control

Where that enterprises involved in the merger are under the ultimate control of same party or parties before and after the merger and the control is not temporary, it shall be merger of enterprises under same control. Merger of enterprises under same control of the Company shall be judged in accordance with the following bases:

- A. Parties of the merger are under the ultimate control of the group company before and after the merger;
- B. Before the merger, parties of the merger under the control of the group company for over 1 year (including 1 year), and the reporting subject after the merger of enterprises is also under the control of the group for over 1 year (including 1 year). Those satisfy the two conditions above shall be defined as merger of enterprises under same control by the Company.

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

(ii) Basis for determination of the merger date

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

- A. Agreement on merger of enterprises has been approved by shareholders' general meeting;
- B. Where merger of enterprises shall be materially approved by relevant authorities of the State, the approval has been obtained from relevant authorities;
- C. Parties participating in the merger have gone through necessary handover procedures of properties;
- D. The Company has paid most of the merger consideration (typically, above 50%), and is capable of paying the remaining balance;
- E. The Company has actually controlled financial and operating policies of the merged parties, shared corresponding benefits and bore related risks.

- (iii) Recognition of book value of assets and liabilities acquired in the merger as well as treatment of the merger difference.

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

- (iv) Treatment method of the merger expenses

All direct relevant expenses incurred 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

- (i) Definition of merger of enterprises not under same control

Where enterprises involved in the merger are not under ultimate control of the same party or parties before and after the merger, it shall be merger of enterprises not under same control. In a merger of enterprises not under same control, the party which acquires control rights of other enterprise(s) on the acquisition date is the acquirer, the other enterprise(s) is (are) the acquiree.

- (ii) Basis for the determination of the acquisition date

The acquisition date refers to the date when the Company actually acquires the control right of the acquiree (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.

- (iii) Determination of the merger cost

A. In a merger of enterprises through one transaction, the merger cost shall be assets paid, and liabilities incurred or borne by the Company for acquiring the control right of the acquiree (acquirees) on the acquisition date and fair value of the issued equity securities.

B. In a merger of enterprises through several transactions, the transaction cost of prior acquired shares should be revalued by the fair value of acquisition date. The difference between fair value and book value shall be recognized as current investment income.

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.

- (iv) 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.

(v) Distribution of the merger cost

The Company distributed the merger cost on the acquisition date, and recognized all identifiable assets, liabilities and contingent liability acquired from the acquiree (acquirees).

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

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

(3) Merger by absorption

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

- (i) As for the merger by absorption under same control, assets and liabilities acquired by the Company on the merger date shall be recognized as per the original book value of such assets and liabilities in the acquiree (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.
- (ii) 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

(i) Recognition principle

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

(ii) Major subsidiaries and determination of consolidation scope for 2011

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	5,000	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
Nanjing Panda Electronic Technology Development Company Limited (南京熊猫电子科技发展有限公司)	Nanjing	Industry	25,000	General purpose equipment, technology service, software development, system integration, property management
Galant Limited	Hong Kong	R & D	HKD1	R&D of communication products

Company name	The Company's actual investment (RMB'0'000)	Balance of net investment in other accounts in subsidiaries (RMB'0'000)	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.	12,198.92	—	100	100	Yes
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	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.	2,000	—	100	100	Yes
Nanjing Panda Electronics Equipment Co., Ltd.	5,000	—	100	100	Yes
Nanjing Panda Electronic Technology Development Company Limited	17,500	—	100	100	Yes
Galant Limited	HKD1	—	100	100	Yes

(iii) Explanation to the change of consolidation scope

Nanjing Panda Electronic Technology Development Company Limited (南京熊猫电子科技发展有限公司) was established on 6 January 2011 as a wholly-owned subsidiary of the Company, with registered capital of RMB250 million, which will be included into the consolidation scope.

(2) Preparation method of consolidated financial statements

(i) Basic preparation method of consolidated financial statements

Based on the financial statements of the parent company 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 company's equity capital investment and its share in shareholders' equity of the subsidiaries, material transactions within the Company and transactions between home office and branches. Minority interests shall be presented as "Minority Interests" under the owner's equity in the consolidated balance sheet. Minority interests shall be presented as "Minority Interests" under net profits in the consolidated income statements.

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

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

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

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

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

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

- (3) Minority interests
 Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Electronic Calibration Co., Ltd.	478,410.52	438,601.71
Nanjing Panda Appliance & Apparatus Co. Ltd.	8,297,701.49	6,348,770.04
Nanjing Panda Mechanical Manufacturing Co. Ltd.	480,335.49	463,924.31
Nanjing Panda System Integration Co., Ltd.	453,763.45	(214,543.92)
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	6,611,553.38	5,870,070.97
Nanjing Panda International Telecommunication System Co., Ltd.	(3,807,597.79)	(3,460,848.64)
Nanjing Panda Power Supply Technology Co., Ltd.	(2,715,936.23)	(2,864,277.28)
Total	<u>9,798,230.31</u>	<u>6,581,697.19</u>

VIII. Notes to Major Items of Consolidated Financial Statements

Unless specified otherwise in the following notes (including the notes to the major items of the financial statements of the Company), the terms "opening balance" and "closing balance" refer to the balances as of 1 January 2011 and 30 June 2011 respectively, and the terms "last period" and "the period" refer to Jan-Jun 2010 and Jan-Jun 2011 respectively.

1. Cash and Bank Balances

Item	Closing balance	Opening balance
Cash	616,980.97	1,030,847.85
Bank deposits	371,148,914.99	389,382,126.40
Other cash and bank balances	58,080,358.12	54,933,436.24
Total	<u>429,846,254.08</u>	<u>445,346,410.49</u>

Cash and bank balances includes the following foreign currency-denominated balances:

Item	Closing Balance			Opening Balance		
	Amount in original currency	Exchange rate	Equivalent amount in RMB	Amount in original currency	Exchange rate	Equivalent amount in RMB
USD	2,214,555.23	6.4716	14,331,715.63	1,294,406.48	6.6227	8,571,660.20
HKD	97,516.43	0.8316	81,094.66	40,408.77	0.8509	35,412.30
EUR	15,418.49	9.3612	144,335.56	15,413.12	8.8065	135,078.05
Total			<u>14,557,145.85</u>			<u>8,742,150.55</u>

- (1) The closing balance of restricted other cash and bank balances amounting to RMB58,080,358.12 (end of 2010: RMB54,933,436.24) mainly included deposits for bank acceptance and contract guarantee.
- (2) The Company's bank balances included call deposits totaling RMB154,000,000.00 (end of 2010: RMB180,466,250.00).

2. Bills Receivable

(1) Details of bills receivable

Types of Bills	Closing Balance	Opening Balance
Bank acceptance notes	<u>16,170,395.06</u>	<u>14,315,380.42</u>
Total	<u>16,170,395.06</u>	<u>14,315,380.42</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 closing balance of the bills receivable pledged was RMB1,440,000.00 (end of 2010: nil) for purpose of opening of bank acceptance.

(4) The closing balance of bills receivable that had been endorsed but not yet due is RMB13,518,024.50.

(5) Details of the five largest debtors of bills receivable that had been endorsed but not yet due at the end of the period listed as follows

Issuer	Date of issue	Due date	Amount	Note
Nanjing Electronics Home Appliance Company Limited	2011-02-28- 2011-04-20	2011-08-28- 2011-10-20	3,221,500.00	
Nanjing procurement center of Suning Appliance Co.,Ltd.	2011-02-18	2011-08-18	2,698,938.60	
Shangyu Hengfeng Photoelectricity Industry Company	2011-02-16	2011-08-16	1,440,000.00	
Shaoxing County Jinling chemical fiber Co., Ltd.	2011-02-15	2011-08-15	1,400,000.00	
Zhejiang Zhengkai Chemical Fiber Company Limited	2011-01-30	2011-07-30	<u>500,000.00</u>	
Total			<u>9,260,438.60</u>	

3. Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Closing Balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Substantial amount of single account receivable with specific provision (Note 1)	301,731,022.09	66.93	38,206,618.68	12.66
Other unsubstantial amount of accounts receivable with specific provision (Note 2)	149,076,082.65	33.07	20,630,461.98	13.84
Total	450,807,104.74	100.00	58,837,080.66	

Items	Opening Balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Substantial amount of single account receivable with specific provision	241,523,165.40	67.38	30,024,773.23	12.43
Other unsubstantial amount of accounts receivable with specific provision	116,935,351.22	32.62	29,011,505.90	24.81
Total	358,458,516.62	100.00	59,036,279.13	

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.

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
Pandigital, inc	37,640,427.84	—	—	Expected to be recoverable
Nanjing Sharp Electronic Co., Ltd.	34,495,383.36	—	—	Expected to be recoverable
Wuhan Metro Group Co., Ltd.	33,718,712.40	—	—	Expected to be recoverable
Nanjing Ericsson Panda Communication Co., Ltd.	25,745,203.51	338,832.76	1.32	Present value of the future cash flow is expected to be lower than its carrying value
PACIC DIGIT CORP	22,604,326.37	22,604,326.37	100.00	Expected not to be recoverable
Others	147,526,968.61	15,263,459.55	10.35	Present value of the future cash flow is expected to be lower than its carrying value
Total	301,731,022.09	38,206,618.68		

Note 2. For other unsubstantial amount of accounts receivable, a provision of RMB20,630,461.98 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.

(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	386,804,887.03	85.80	2,252,620.82	0.58	290,411,817.93	81.02	2,256,480.88	0.78
1-2 years	8,607,816.34	1.91	7,250,134.27	84.23	14,834,939.96	4.14	12,710,525.02	85.68
2-3 years	36,718,196.99	8.14	30,891,736.19	83.59	36,447,866.56	10.17	28,326,625.34	77.72
3-5 years	8,950,813.01	1.99	8,917,146.01	99.62	10,256,524.81	2.86	9,660,085.94	94.18
more than 5 years	9,725,391.37	2.16	9,725,391.37	100.00	6,507,367.36	1.81	6,082,561.95	93.47
Total	450,807,104.74	100.00	58,837,080.66		358,458,516.62	100.00	59,036,279.13	

(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 %
Pandigital, inc	37,640,427.84	8.35	Within 1 year
Nanjing Sharp Electronic Co., Ltd.	34,495,383.36	7.65	Within 1 year
Wuhan Metro Group co.,Ltd. (武漢地鐵集團有限公司)	33,718,712.40	7.49	Within 1 year
Nanjing Ericsson Panda Communication Co., Ltd. (南京愛立信熊猫通信有限公司)	25,745,203.51	5.71	Within 1 year
PACIC DIGIT CORP	22,604,326.37	5.01	2-3 years
Total	154,204,053.48	34.21	

(4) The closing balance of accounts receivable included RMB84,623.90 due from Panda Electronics Group Company, the shareholder holding 51.10% voting shares of the Company.

(5) The closing balance of accounts receivable includes RMB58,066,024.87 due from related parties, representing 12.88% of the total accounts receivable (end of 2010 : RMB49,346,454.52, representing 13.77%). Please refer to Note X.(III)9 for disclosure of relevant related transactions.

(6) The closing balance of accounts receivable increased by 25.76% from the opening balance, and the main reasons were the forceful demand of electronic products, which lead to the increase of sales.

4. Prepayment

(1) Details of prepayment

Ageing	Closing Balance		Provision for bad debt	Opening Balance		Provision for bad debt
	Amount	Percentage %		Amount	Percentage %	
Within 1 year	108,667,279.49	91.14	209,595.53	81,817,016.05	87.10	283,877.80
1-2 years	4,861,746.03	4.08	969,293.83	7,481,180.56	7.96	1,961,586.64
2-3 years	2,897,234.05	2.43	2,188,436.45	1,791,619.98	1.91	1,211,357.98
3-5 years	2,617,427.07	2.19	2,306,384.45	2,655,004.32	2.83	2,324,980.30
More than 5 years	191,995.00	0.16	191,995.00	191,995.00	0.20	191,995.00
Total	119,235,681.64	100.00	5,865,705.26	93,936,815.91	100.00	5,973,797.72

(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.	12,967,846.00	10.88	The third party	Within 1 year	Project not completed
Nanjing Zhiyuan Information Technology Co., Ltd.	8,504,993.79	7.13	The third party	Within 1 year	Products not reached
Dongguang Xinliguang Automatic Machinery Company Limited (東莞市新力光自動化機電有限公司)	8,188,000.00	6.87	The third party	Within 1 year	Project not completed
Nanjing Panda Electronics Technology Development Company Limited (南京熊猫電子技術開發公司)	7,187,590.15	6.03	Related party	Within 1 year	Project not completed
CRSC Co., Ltd.(中國鐵路通信信號上海工程公司)	6,824,772.00	5.72	The third party	1-3 years	Products not reached
Total	43,673,201.94	36.63			

(4) The closing balance of prepayment included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.

(5) The closing balance of prepayment includes RMB7,827,511.40 due from related parties (end of 2010: 13,666,459.25), accounting for 6.56% of the total prepayment (the opening balance: 14.55%). Please refer to Note X.(III)9 for disclosure of relevant related transactions.

(6) The closing balance of account receivable increased by 26.93% from the opening balance, mainly attributable to the increasing projects, which leads to the growing prepayment.

5. Other Receivables

(1) Break-down of other receivables by categories

Items	Closing Balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Individually substantial amount of other receivables with specific provision (Note 1)	9,642,298.62	19.46	2,799,417.23	29.03
Other individually unsubstantial amount of other receivables with specific provision (Note 2)	39,915,149.48	80.54	11,314,272.47	28.35
Total	49,557,448.10	100.00	14,113,689.70	
Opening Balance				
Items	Balance	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Individually substantial amount of other receivables with specific provision	175,000,000.00	81.00	—	—
Other individually unsubstantial amount of other receivables with specific provision	41,049,370.70	19.00	17,455,044.95	42.52
Total	216,049,370.70	100.00	17,455,044.95	

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

Note 1. Individually substantial amount of other receivable with specific provision.

Name of debtor	Amounts	Provision for bad debt	Percentage of provision for bad debt %	Reasons
Yunnan Provincial Bureau of Radio and Television	3,825,548.06	—	—	Expected to be recovered
PICC Life Insurance Co., Ltd.	3,017,333.33	—	—	Expected to be recovered
Nanjing Electronics (Kunshan) Co. Ltd.	2,799,417.23	2,799,417.23	100.00	Expected not to be recovered
Total	9,642,298.62	2,799,417.23		

Note 2. For the individually unsubstantial amount of other receivables, a provision of RMB11,314,272.47 for impairment of the receivable is made at the difference between the carrying amount of the receivable and the present 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 debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 year	27,024,633.02	54.53	651,894.99	2.41	197,343,862.06	91.34	796,933.85	0.40
1-2 years	9,958,265.89	20.09	887,245.52	8.91	4,342,890.01	2.01	2,235,492.47	52.86
2-3 years	633,954.10	1.28	633,954.10	100.00	1,844,211.90	0.85	1,844,211.90	100.00
3-5 years	2,743,994.02	5.54	2,743,994.02	100.00	3,343,980.37	1.55	3,343,980.37	100.00
More than 5 years	9,196,601.07	18.56	9,196,601.07	100.00	9,174,426.36	4.25	9,174,426.36	100.00
Total	<u>49,557,448.10</u>	<u>100.00</u>	<u>14,113,689.70</u>		<u>216,049,370.70</u>	<u>100.00</u>	<u>17,455,044.95</u>	

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

Name of debtor	Amount	Percentage in the total value of the other receivable %	Ageing
Yunnan Provincial Bureau of Radio and Television	3,825,548.06	7.72	Within 1 year
PICC Life Insurance Co., Ltd.	3,017,333.33	6.09	Within 1 year
Nanjing Electronics (Kunshan) Co. Ltd.	2,799,417.23	5.65	More than 3 years
Shaanxi Provincial Bureau of Radio and Television	2,238,762.00	4.52	Within 1 year
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	<u>1,000,000.00</u>	<u>2.02</u>	More than 5 years
Total	<u>12,881,060.62</u>	<u>26.00</u>	

(4) The closing balance of other receivables included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.

(5) The closing balance of other receivables included RMB2,799,417.23 due from related parties (end of 2010: RMB2,799,417.23), representing 5.65% of the total other receivables (end of 2010: 1.30%). Please refer to Note X (III) 9 for disclosure of relevant related transactions.

(6) The closing balance of other receivables decreased by 77.06% from the opening balance, and the main reason was that Nanjing Panda Electronics Technology Development Co., Ltd. was established this year and included into consolidation scope of the Company, and accordingly the investment was no longer classified as other receivables.

6. Inventories

(1) Details of inventories by category

Item	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	65,344,682.84	13,563,357.05	51,781,325.79	54,667,048.01	13,660,568.20	41,006,479.81
Packaging materials	168,636.72	—	168,636.72	170,927.82	—	170,927.82
Low-value consumables	582,500.06	—	582,500.06	508,412.45	—	508,412.45
Work in progress	92,010,078.78	5,666,481.24	86,343,597.54	85,476,175.90	5,604,559.98	79,871,615.92
Stored commodities	72,047,798.95	20,272,612.91	51,775,186.04	98,908,987.79	25,638,076.30	73,270,911.49
Consigned commodities	3,590,614.49	—	3,590,614.49	3,443,134.82	—	3,443,134.82
Delivered commodities	2,491,734.23	1,449,081.79	1,042,652.44	17,539,415.91	1,449,081.79	16,090,334.12
Total	236,236,046.07	40,951,532.99	195,284,513.08	260,714,102.70	46,352,286.27	214,361,816.43

(2) Provision for diminution in value of inventories

Item	Opening balance	Decrease in the period			Total	Closing balance
		Provision in the period	Reversal	Write-off		
Raw materials	13,660,568.20	479,357.32	—	576,568.47	576,568.47	13,563,357.05
Work in progress	5,604,559.98	507,367.60	137,586.31	307,851.03	445,446.34	5,666,481.24
Stored commodities	25,638,076.30	816,684.76	155,244.66	6,026,903.49	6,182,148.15	20,272,612.91
Delivered commodities	1,449,081.79	—	—	—	—	1,449,081.79
Total	46,352,286.27	1,803,409.68	292,839.97	6,911,322.99	7,204,162.96	40,951,532.99

(i) Basis of provision for diminution in value of inventories: on each balance sheet day, inventories are measured based on the lower of cost and net realizable value, and provision for diminution in value of inventories is made based on the surplus of cost over net realizable value of inventories on an individual basis.

(ii) Reason for reversal of provision for diminution in value of inventories: Should the factors causing any write-down of the inventories 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.

7. Long-term Equity Investment

(1) Details of long-term equity investment

Item	Opening Balance	Increase in the period	Decrease in the period	Closing Balance
Investment in associated companies	664,440,836.26	40,787,310.76	—	705,228,147.02
Less: provision for impairment of long-term equity investment	2,956,636.87	—	—	2,956,636.87
Total	661,484,199.39	40,787,310.76	—	702,271,510.15

(2) Details of investment in associated companies and major financial data of these associated companies

Name of investee	Opening balance	Increase in the period	Decrease in the period	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd.	157,317,400.00	14,490,617.23	—	171,808,017.23	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	1,611,114.01	(49,845.67)	—	1,561,268.34	Nanjing	Technology
Hua Fei Colour Display Systems Company Limited	83,574,966.26	(70,694,285.42)	—	12,880,680.84	Nanjing	Manufacture
MPower Batteries (Nanjing) Co., Ltd.	—	—	—	—	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	310,136,580.00	90,114,625.11	—	400,251,205.11	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	94,984,316.93	7,335,967.00	—	102,320,303.93	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,190,178.18	(409,787.49)	—	780,390.69	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	12,669,644.01	—	—	12,669,644.01	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00	—	—	2,756,525.00	Korea	
Total	664,440,836.26	40,787,310.76	—	705,228,147.02		
Name of investee	The Company's shareholding percentage	The Company's percentage in voting rights of the investee	Total operating income for the period	Net profit/(loss) for the period		
	%	%				
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	8,317,357,513.74	72,453,086.16		
Hua Fei Colour Display Systems Company Limited	25	25	17,002,376.07	(306,754,648.07)		
Nanjing Ericsson Panda Communication Company Limited	27	27	10,647,548,826.89	333,757,870.76		

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

Name of investee	Investment cost	Opening balance	Additional investment in the period	Increase/ decrease of the investee's equity	Cash dividends received	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd.	50,361,373.68	157,317,400.00	—	14,490,617.23	—	171,808,017.23
Nanjing Huaxian High Technology Company Limited	10,000,000.00	1,611,114.01	—	(49,845.67)	—	1,561,268.34
Hua Fei Colour Display Systems Company Limited	392,892,722.42	83,574,966.26	—	(70,694,285.42)	—	12,880,680.84
MPower Batteries (Nanjing) Co., Ltd.	4,200,000.00	—	—	—	—	—
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	310,136,580.00	—	90,114,625.11	—	400,251,205.11
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	94,984,316.93	—	7,335,987.00	—	102,320,303.93
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,190,178.18	—	(409,787.49)	—	780,390.69
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00	—	—	—	—	—
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.68	—	—	—	—	—
Nanjing Panda Medical Electronics Co. Ltd.	500,000.00	200,111.87	—	—	—	200,111.87
Nanjing Thales Panda Transportation System Company Limited	8,626,600.00	12,669,644.01	—	—	—	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	664,440,836.26	—	40,787,310.76	—	705,228,147.02

(4) Impairment for the long-term equity investment

Name of investee	Opening balance	Provision in the period	Decrease in the period			Closing balance
			Reversal	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 and structures	Machinery and equipment	Transportation equipment	Electronic equipment	Other equipment	Total
Cost						
Opening 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
Transfer from CIP	—	6,427,876.92	—	374,418.81	386,324.78	7,188,620.51
Other additions in the period	615,751.12	10,054,701.12	1,285,989.93	631,743.74	1,740,127.10	14,328,313.01
Decrease in the period	23,303,620.19	7,001,589.18	528,027.00	252,582.00	—	31,085,818.37
Closing balance	508,042,239.50	315,722,782.55	14,554,222.88	37,140,994.18	19,710,044.98	895,170,264.09
Accumulated depreciation						
Opening 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
Provision in the period	8,076,578.49	12,975,289.99	619,407.92	1,726,675.21	1,610,688.81	25,008,640.42
Decrease in the period	17,967,138.85	6,529,022.87	449,001.52	213,677.12	—	25,158,840.36
Closing balance	118,125,803.75	133,221,718.87	4,706,628.00	26,183,832.35	9,615,040.04	291,853,023.01
Impairment provision						
Opening balance	8,308,602.45	344,879.32	—	80,834.17	5,208.80	8,739,524.74
Increase in the period	—	—	—	—	—	—
Other decrease	5,336,481.34	93,094.70	—	30,016.08	—	5,459,592.12
Closing balance	2,972,121.11	251,784.62	—	50,818.09	5,208.80	3,279,932.62
Net book value						
Closing balance	386,944,314.64	182,249,259.06	9,847,594.88	10,906,343.74	10,089,796.14	600,037,308.46
Opening 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

(2) Fixed assets leased out by operating lease

Item	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings and structures	247,751,414.30	83,862,802.30	—	163,888,612.00
Total	247,751,414.30	83,862,802.30	—	163,888,612.00

- (3) Fixed assets without proper title certificates

Item	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings and structures	243,483,952.12	32,628,747.61	2,972,121.11	207,883,083.40
Total	243,483,952.12	32,628,747.61	2,972,121.11	207,883,083.40

The ownership certificate of buildings with the original cost of RMB209,530,066.00 is expected to be obtained in the second half of 2011.

- (4) Impairment provision of fixed assets

Items	Opening balance	Decrease in the period			Total	Closing balance
		Provision in the period	Reversal	Write-off		
Buildings and structures	8,308,602.45	–	–	5,336,481.34	5,336,481.34	2,972,121.11
Machinery and equipment	344,879.32	–	–	93,094.70	93,094.70	251,784.62
Electronic equipment	80,834.17	–	–	30,016.08	30,016.08	50,818.09
Other equipment	5,208.80	–	–	–	–	5,208.80
Total	8,739,524.74	–	–	5,459,592.12	5,459,592.12	3,279,932.62

Certain old factory buildings and old fixed assets were dismantled and disposed this period. Therefore, the reversal of the impairment with the amount of RMB5,459,592.12 incurred during the period.

9. Construction in Progress

- (1) The balance of construction in progress

Items	Balance on account	Closing balance		Balance on account	Opening balance	
		Impairment provision	Book value		Impairment provision	Book value
Projects	9,919,402.49	–	9,919,402.49	2,008,556.11	–	2,008,556.11
Machinery and equipment	332,022.55	–	332,022.55	1,874,938.81	–	1,874,938.81
Total	10,251,425.04	–	10,251,425.04	3,883,494.92	–	3,883,494.92

- (2) Details of construction in progress

Name of project	Budget	Opening balance	Increase in the period	Transfer into		Other decrease	Closing balance	% of budget	Resource of fund
				fixed assets in the period					
Xin Gang No.4 and No.5 Plant									
Project	RMB160 million	–	7,609,601.33	–	–	–	7,609,601.33	64.13	Internal capital
Xin Gang No.3 Plant Project	RMB9.23 million	–	192,054.00	–	–	–	192,054.00	98.89	Internal capital
Xin Gang No.1 & No.2 Plants,									
No.9 & No.10 Canteens	RMB18.4 million	2,008,556.11	109,191.05	–	–	–	2,117,747.16	91.67	Internal capital
Machinery and equipment		1,874,938.81	5,645,704.25	7,168,620.51	–	–	332,022.55	–	Internal capital
Total		3,883,494.92	13,556,550.63	7,168,620.51	–	–	10,251,425.04		

- (3) The Company has no capitalization of borrowing interests for the period. The Company made no impairment provision for construction in progress as there is no indication of impairment as at the end of the period.

- (4) The closing balance of the CIP increased by 163.97% over the opening balance, mainly due to the commencement of construction of certain Xingang plants.

10. Intangible Assets

(1) Details of intangible assets

Items	Cost		Increase in the period	Transferred-out in the period	Amortization in the period	Accumulative amortization in the period	Closing balance
	Opening balance						
Land use rights	27,219,260.67	23,379,019.05	—	—	341,421.37	4,181,662.99	23,037,597.68
Trademark use right	158,540,000.00	210,000.00	—	—	—	158,330,000.00	210,000.00
Others	4,322,743.72	2,587,008.55	—	—	445,924.10	2,381,659.27	2,141,084.45
Total	<u>190,282,004.39</u>	<u>26,176,027.60</u>	<u>—</u>	<u>—</u>	<u>787,345.47</u>	<u>164,893,322.26</u>	<u>25,388,682.13</u>

(2) Impairment provision for intangible assets

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

11. Deferred Income Tax Assets and Deferred Income Tax Liabilities

(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	5,051,291.49	23,724,695.58	5,744,964.54	40,147,895.77
Depreciation of fixed assets	196,496.36	839,268.98	199,626.80	860,138.61
Intangible assets amortization	46,928.87	196,192.56	46,928.87	196,192.56
Accrued expenses	33,111.40	220,742.68	44,301.67	295,344.48
Salaries payable	384,145.78	1,641,927.60	443,609.48	2,292,229.74
Account payables (aged more than 3 years)	29,826.27	198,841.78	29,826.27	198,841.78
Others	156,759.36	871,158.30	—	—
Total	<u>5,898,559.53</u>	<u>27,692,827.48</u>	<u>6,509,257.63</u>	<u>43,990,642.94</u>

(2) Details of deferred income tax liabilities

Items	Closing balance		Opening balance	
	Deferred income tax liabilities	Deductible temporary difference	Deferred income tax liabilities	Deductible temporary difference
Unrecognized financing expenses	61,081.05	244,324.19	68,911.17	287,129.88
Total	<u>61,081.05</u>	<u>244,324.19</u>	<u>68,911.17</u>	<u>287,129.88</u>

12. Details of Provision for Impairment of Assets

Items	Opening balance	Provision in the period	Decrease in the period			Closing balance
			Reversal	Write-off	Total	
1. Total provision for bad debt	82,465,121.80	1,696,532.54	6,742,570.96	(1,397,392.24)	5,345,178.72	78,816,475.62
Including: Accounts receivable	59,036,279.13	73,921.07	670,511.78	(397,392.24)	273,119.54	58,837,080.66
Other Receivables	17,455,044.95	1,612,611.47	5,953,966.72	(1,000,000.00)	4,963,966.72	14,113,689.70
Prepayment	5,973,797.72	10,000.00	118,092.46	—	118,092.46	5,865,705.26
2. Total provision for impairment of inventories	46,352,286.27	1,803,409.68	292,839.97	6,911,322.99	7,204,162.96	40,951,532.99
Including: Raw materials	13,660,568.20	479,357.32	—	576,568.47	576,568.47	13,563,357.05
Work in progress	5,604,559.98	507,367.60	137,595.31	307,851.03	445,446.34	5,666,481.24
Stored commodities	25,638,076.30	816,684.76	155,244.66	6,026,903.49	6,182,148.15	20,272,612.91
Delivered commodities	1,449,081.79	—	—	—	—	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	8,739,524.74	—	—	5,459,592.12	5,459,592.12	3,279,932.62
Including: Buildings and structures	8,306,602.45	—	—	5,336,481.34	5,336,481.34	2,972,121.11
Machinery and equipment	344,879.32	—	—	93,094.70	93,094.70	251,784.62
Electronic equipment	80,834.17	—	—	30,016.08	30,016.08	50,818.09
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 use right	210,000.00	—	—	—	—	210,000.00
Total	140,723,569.68	3,499,942.22	7,035,410.93	10,973,522.87	18,008,933.80	126,214,578.10

13. Restricted Assets

Restricted Assets	Opening balance	Increase in the period	Decrease in the period	Closing balance
I. Fixed assets used for guarantee				
Pledged fixed assets	119,949,009.61	—	119,949,009.61	—
II. Restricted assets due to other reasons for				
Bank acceptance deposits	29,890,308.66	45,954,504.30	55,238,805.65	20,606,007.31
Performance bond deposits	25,008,309.75	15,324,402.21	2,858,361.15	37,474,350.81
Others	34,817.83	—	34,817.83	—
Total	174,882,445.85	61,278,906.51	178,080,994.24	58,080,358.12

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	352,000,000.00	350,000,000.00
Trade facilities	28,748,986.60	—
Credit loan	—	53,000,000.00
Total	380,748,986.60	478,000,000.00

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

(3) The secured bank loans of the Company at the end of the period was nil (end of 2010: RMB75,000,000.00).

(4) The closing balance of trade facilities amounting to RMB28,748,986.60 (end of 2010: nil) was derived from transfer agreement in respect of short-term import and export credit insurance indemnity entered into among Nanjing Panda Information Industrial Co., Ltd., a subsidiary of the Company, China Export & Credit Insurance Corporation and Bank of Nanjing Co., Ltd.

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

(6) The weighted average interest rate of the short term loans for the year is 5.79% (Jan-Jun of 2010: 5.59%).

15. Bills Payable

Types of Bills	Closing balance		Amount due in the next accounting period
	Amount	Percentage	
Bank acceptance notes	38,683,702.57	42,573,506.11	38,683,702.57
Total	38,683,702.57	42,573,506.11	38,683,702.57

16. Accounts Payable

(1) Details of accounts payable

Ageing	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	292,445,781.57	84.92	263,570,235.82	80.55
1-2 years	12,821,103.00	3.72	24,688,687.30	7.55
2-3 years	18,155,064.14	5.27	18,992,521.87	5.80
More than 3 years	20,956,468.54	6.09	19,947,311.60	6.10
Total	344,378,417.25	100.00	327,198,756.59	100.00

(2) The closing balance of accounts payable includes RMB4,003,859.82 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 RMB14,000,340.58 (the opening balance: RMB11,272,970.15) due to related parties. Please refer to Note X(III)9 for disclosure of relevant related transactions.

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

Name of creditor	Amount	Reason for failure to repay	Whether will be repaid after the date of financial statement
Thales Software Systems (Shanghai) Co. Ltd.	6,500,431.35	Project still on-going	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	Project still on-going	No
Nanjing Runkai Technology Industrial and Commercial Co., Ltd.	1,924,303.54	Unable to contact the other party	No
Nanjing Construction Group Co., Ltd.	1,632,688.93	Project still on-going	No
Total	16,204,020.92		

17. Advances from Customers

(1) Details of advances from customers

Ageing	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	58,757,671.68	94.49	52,616,884.40	79.62
1-2 years	1,117,376.45	1.80	11,668,965.86	17.66
2-3 years	1,520,818.59	2.45	1,035,670.28	1.57
More than 3 years	786,374.30	1.26	764,130.95	1.15
Total	62,182,241.02	100.00	66,085,651.49	100.00

(2) The closing balance of advances from customers includes RMB1,700,000.00 from Panda Electronics Group Company, the shareholder with 51.10% of shareholding with voting power in the Company.

(3) The closing balance of advances from customers includes RMB2,986,214.17 (end of 2010: RMB3,833,400.68) received from related parties. Please refer to Note X(III)9 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.

18. Salaries Payable

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
1. Salaries and bonus	7,054,817.53	81,408,170.13	83,347,494.33	5,115,493.33
2. Expenses for employee benefits	—	7,855,424.72	7,855,424.72	—
3. Expenses for social security	2,703,450.67	23,095,461.11	24,070,491.29	1,728,420.49
Including: Medical insurance	434,393.11	5,909,373.29	6,191,757.15	152,009.25
Pension fund	2,130,760.81	14,830,512.72	15,450,785.66	1,510,487.87
Unemployment insurance	100,241.74	1,552,589.27	1,602,227.56	50,603.45
Injury insurance	8,921.99	335,909.38	341,831.71	2,999.66
Maternity insurance	29,133.02	467,076.45	483,889.21	12,320.26
4. Housing reserve fund	961,771.26	10,879,728.97	11,588,273.16	253,227.07
5. Trade union funds and employee education funds	2,554,211.37	1,474,560.94	1,349,417.27	2,679,355.04
6. Compensation for employment termination	108,000.00	218,774.00	163,397.00	163,377.00
7. Laid-off benefits	31,365,569.83	458,913.09	4,749,413.48	27,075,069.44
8. Others	67,573.44	927,090.09	967,021.35	27,642.18
Total	44,815,394.10	126,318,123.05	134,090,932.60	37,042,584.55

(1) There are not any salaries payable on which the Group is in default, and all the salaries, bonuses and benefits are paid to employees in line with the Company's payment schedule.

(2) Laid-off benefits are the total accrued expenses of laid-off staff since 1 July 2011 to the retirement date, including the unrecognized financing expenses amounting to RMB2,172,377.97 (end of 2010: RMB2,711,221.88). The unrecognized financing cost is amortized by the effective interest method.

19. Taxes Payable

Items	Tax rate	Closing balance	Opening balance
Value-added tax	Refer to Note VI: Taxation	6,096,897.14	2,055,372.30
Business tax	Refer to Note VI: Taxation	643,938.63	1,316,023.78
City maintenance tax	Refer to Note VI: Taxation	563,634.00	758,071.40
Education surcharges	Refer to Note VI: Taxation	311,339.17	367,793.25
Enterprise income tax	Refer to Note VI: Taxation	2,506,497.98	9,565,019.19
Land appreciation tax	Refer to Note VI: Taxation	—	—
Individual income tax		2,611,787.48	873,333.80
Others		13,635.09	27,274.75
Total		<u>12,747,729.49</u>	<u>14,962,888.47</u>

The closing balance of tax payable decreased by 14.80% from the opening balance, mainly because the Company paid the taxes in time during the period.

20. Interest Payable

Items	Closing balance	Opening balance
Short-term loan interest	<u>521,752.78</u>	<u>691,700.00</u>
Total	<u>521,752.78</u>	<u>691,700.00</u>

21. Dividend Payable

Name of investors	Closing Balance	Opening balance	Reason not to pay more than one year
Individual shareholders	<u>238,816.60</u>	<u>238,816.60</u>	—
Total	<u>238,816.60</u>	<u>238,816.60</u>	—

Dividend payable is payables to the minority shareholders of the subsidiaries of the Company.

22. Other Payables

Ageing	Closing balance		Opening balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	44,805,803.26	36.18	40,375,798.87	40.70
1-2 years	44,413,679.95	35.87	25,112,644.01	25.31
2-3 years	2,839,972.72	2.29	3,309,512.13	3.34
More than 3 years	31,765,685.32	25.66	30,411,443.32	30.65
Total	<u>123,825,141.25</u>	<u>100.00</u>	<u>99,209,398.33</u>	<u>100.00</u>

(1) The closing balance of other payables included RMB6,151,068.84 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 RMB14,873,557.68 payables to related parties (end of 2010: RMB7,779,273.91). Please refer to Note X(III)9 for disclosure of relevant related transactions.

- (3) Other payables in large amount as at the end of the period

Name of creditor	Amount	Nature (or content)
Ministry of Finance, China	20,797,773.44	Project fund
JFE Shoji Electronics Corporation	7,142,905.50	Payable for purchase of equipment
Panda Electronic Group Co., Ltd.	6,151,068.84	current account funds
Nanjing Panda Handa Technology Co., Ltd.	5,998,080.00	current account funds
Nanjing Science and Technology Bureau	2,266,000.00	Project fund
Total	<u>42,355,827.78</u>	

- (4) The closing balance of other payables increased by 24.81% over the opening balance, because the Company's payables for purchase of equipment haven't been fully settled yet in the period.

23. Long Term Loans

Items	Closing balance	Opening balance
Credit loan	4,000,000.00	4,000,000.00
Less: Long-term loan due within one year	<u>4,000,000.00</u>	<u>—</u>
Total	<u>—</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% for the period (previous period: 0.3%). The principal and interest will be paid when loan term expires.

24. Long Term Payables

Items	Closing balance	Opening balance
Finance lease payables	—	1,278,668.33
Less: Finance lease payables due within 1 year	<u>—</u>	<u>1,278,668.33</u>
Total	<u>—</u>	<u>—</u>

Analysis of due date of long term payables:

Items	Closing balance	Opening balance
Within 1 year	<u>—</u>	<u>1,278,668.33</u>
Total	<u>—</u>	<u>1,278,668.33</u>

The closing balance of long-term payables decreased by 100% from the opening balance, mainly because the Company paid finance lease payment due in current year and there was no addition of finance lease in the period.

25. Share Capital

Items	Opening balance	Increase in this period	Decrease in the period	Closing balance
Shares subject to trading moratorium -				
State-owned shares	—	—	—	—
State-owned legal person shares	—	—	—	—
Other domestic shares	—	—	—	—
Foreign shares	—	—	—	—
Subtotal	—	—	—	—
Shares not subject to trading moratorium -				
RMB denominated ordinary shares	413,015,000.00	—	—	413,015,000.00
Domestic-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.

26. Capital Reserve

Items	Opening balance	Increase in this period	Decrease in the period	Closing balance
Capital premium	452,944,829.36	—	—	452,944,829.36
Other capital reserve	14,365,417.16	—	—	14,365,417.16
Total	467,310,246.52	—	—	467,310,246.52

27. Surplus Reserve

Items	Opening balance	Increase in this period	Decrease in the period	Closing balance
Statutory surplus reserve	132,654,982.34	—	—	132,654,982.34
Discretionary surplus reserve	70,376,641.33	—	—	70,376,641.33
Total	203,031,623.67	—	—	203,031,623.67

28. Undistributed Profit

Items	Closing Balance	Opening balance
Closing balance of previous year	150,780,310.99	141,835,133.81
Add: Changes in accounting policies	—	—
Correction of previous errors	—	—
Opening balance of the year	150,780,310.99	141,835,133.81
Add: Consolidated net profit attributable to parent company	35,356,541.74	(9,429,221.11)
Compensation of loss from surplus reserve	—	—
Other transfer-in	—	—
Less: Transfer to statutory surplus reserve	—	—
Transfer to discretionary surplus reserve	—	—
Distribution to shareholders	—	—
Closing balance of the period	186,136,852.73	132,405,912.70

29. Operating Income and Cost

(1) Income from principal activities and other activities

Items	Amount for this period	Amount for last period
Income from principal activities	821,134,686.67	726,194,553.70
Income from other activities	17,012,262.40	15,591,090.93
Total operating income	<u>838,146,949.07</u>	<u>741,785,644.63</u>
Cost of principal activities	679,958,360.57	647,777,384.00
Cost of other activities	11,357,050.60	10,060,272.83
Total operating cost	<u>691,315,411.17</u>	<u>657,837,656.83</u>

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

Business segment	Amount for the period		
	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	308,330,806.30	236,463,499.01	71,867,307.29
Electronic intelligent products	187,683,833.21	159,268,713.47	28,415,119.74
Electronic equipment products	229,871,874.03	197,186,203.43	32,685,670.60
Communication technology products	75,888,238.43	75,088,900.67	799,337.76
Others	19,359,934.70	11,951,043.99	7,408,890.71
Total	<u>821,134,686.67</u>	<u>679,958,360.57</u>	<u>141,176,326.10</u>
		Amount for last period	
Business segment	Income from principal activities	Cost of principal activities	Profit of principal activities
Electronic manufacture products	258,817,221.06	227,990,629.59	30,826,591.47
Electronic intelligent products	209,083,466.54	188,008,233.17	21,075,233.37
Electronic equipment products	143,816,717.20	122,261,734.55	21,554,982.65
Communication technology products	107,844,339.27	105,336,234.76	2,508,104.51
Others	6,632,809.63	4,180,551.93	2,452,257.70
Total	<u>726,194,553.70</u>	<u>647,777,384.00</u>	<u>78,417,169.70</u>

(3) The Company's major business is in Nanjing.

(4) Sales revenue from the largest five customers totaled RMB316,111,625.99, accounting for 37.72% of total sales revenue for the period.

30. Sales Tax and Surcharges

Items	Amount for this period		Amount for last period	
	Calculation basis	Amount	Calculation basis	Amount
Business tax	5% of lease income and others	3,405,152.13	5% of lease income and others	3,136,506.40
City maintenance tax	7% of turnover tax	2,745,334.93	7% of turnover tax	1,360,938.39
Education surcharges	5% of turnover tax	1,619,180.34	4% of turnover tax	793,108.40
Total		7,769,667.40		5,290,553.19

The increase in sales tax and surcharges by 46.86% in the period over that in the previous period was due to the increase in turnover tax payable arising from growth in sales revenue.

31. Selling Expenses

Items	Amount for this period	Amount for last period
Salaries and benefits for sales staff	6,263,047.69	6,592,431.81
Advertising fee	2,995,209.16	2,234,875.16
Transportation fee	2,317,226.88	2,195,233.33
Entertainment expenses	2,041,521.81	1,741,314.81
Office expenses	578,047.59	458,331.17
Travelling expenses	908,256.70	895,706.82
Labour expenses	1,575,648.46	1,125,243.07
Others	895,061.69	2,298,807.25
Total	17,574,019.98	17,541,943.42

32. Administrative Expenses

Items	Amount for this period	Amount for last period
Salaries and benefits and coordination for management staff	57,867,024.95	43,339,553.57
R&D expenses	28,264,617.69	18,412,551.28
Depreciation and amortization	5,699,500.74	6,698,675.86
Tax	2,018,067.83	1,699,960.63
Entertainment and travel expenses	5,445,999.98	5,856,389.50
Office expenses, telephone fees and meeting fees	3,270,685.80	3,204,588.93
Utilities	903,066.45	805,230.74
Agent fee	3,526,873.77	5,383,433.57
Others	4,970,371.88	4,007,960.76
Total	111,966,209.09	89,408,344.84

The amount of administrative expenses for the period increased by 25.23%, mainly due to higher labour expenses incurred in the period.

33. Financial Expenses

Items	Amount for this period	Amount for last period
Interest expenses	11,967,476.81	11,249,168.39
Less: Interest income	2,355,151.93	2,394,986.49
Exchange gain or loss	650,215.10	511,951.35
Handling charges	302,989.36	238,926.01
Unrecognized financing expenses	583,577.77	616,828.77
Others	44,205.72	45,893.70
Total	<u>11,193,312.83</u>	<u>10,267,781.73</u>

34. Assets Impairment Loss

Items	Amount for this period	Amount for last period
Bad debt losses	(5,046,038.42)	(74,465.41)
Loss from inventory impairment	1,510,569.71	(1,316,930.44)
Total	<u>(3,535,468.71)</u>	<u>(1,391,395.85)</u>

Assets impairment loss for the period decreased by 154.10% from that of 2010, mainly due to recovery of certain receivables provided in full for impairment or written off.

35. Investment Income

(1) Listed by items

Items	Amount for this period	Amount for last period
Share of profit of investees under equity method of accounting	40,787,310.76	29,255,743.28
Income on disposal of long-term equity investments	—	32,874.29
Total	<u>40,787,310.76</u>	<u>29,288,617.57</u>

(2) Investment income listed by investees

Name of investee	Amount for this period	Amount for last period	Remarks
Nanjing Ericsson Panda Communication Company Limited	90,114,625.11	36,477,985.50	
Beijing SE Putian Mobile Communications Co., Ltd.	14,490,617.23	21,021,418.72	
Hua Fei Colour Display Systems Company Limited	(70,694,285.42)	(32,850,358.79)	
Shenzhen Jingwah Electronics Co., Ltd.	7,335,987.00	4,715,534.46	
Intenna (Nanjing) Co. Ltd.	(409,787.49)	(99,245.14)	
Nanjing Huaxian High Technology Company Limited	(49,845.67)	(9,591.47)	
Nanjing Electronic Calibration Co., Ltd.	—	32,874.29	
Total	<u>40,787,310.76</u>	<u>29,288,617.57</u>	

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

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

- (ii) There was no material restriction on the remittance of the investment income to the Company.
- (3) Investment income for the period increased by 39.26% over that of 2010, mainly due to the rise in investment income from associated companies.

36. Non-operating Income

- (1) Details of non-operating income

Items	Amount for this period	Amount for last period	Amount recorded in the extraordinary profit or loss for the period
Gains from disposal of non-current assets	1,356,978.41	16,333.37	1,356,978.41
Including: gains from disposal of fixed assets	1,356,978.41	16,333.37	1,356,978.41
Gains from disposal of other non-current fixed assets	—	—	—
Gains from debt restructuring	1,002,626.69	3,385,152.15	1,002,626.69
Government subsidy	4,356,277.24	5,738,967.24	4,285,589.42
Net gain from fine payments	—	3,550.00	—
Others	196,497.43	78,472.97	196,497.43
	6,912,379.77	9,222,475.73	6,841,691.95
Total	6,912,379.77	9,222,475.73	6,841,691.95

- (2) Government subsidy

Items	Amount for this period	Amount for last period
Reimbursement of value-added tax for software products	70,687.82	198,142.34
Financial subsidy and financial grant	4,285,589.42	5,540,824.90
Total	4,356,277.24	5,738,967.24

The governmental subsidies and financial grant are recognized according to Ning Cai Qi [2010] No.1147, Ning Jing Xin Tou Zi [2010] No.443 and so on.

Non-operating income for the period decreased by 25.05% from that of the previous period, mainly due to the decrease in government subsidy recognized under the relevant accounting standards.

37. Non-operating Expenses

Items	Amount for this period	Amount for last period	Amount recorded in the extraordinary profit or loss for the period
Loss from the disposal of non-current assets	450,274.10	5,217,054.28	—
Including: loss from disposal of fixed assets	450,274.10	5,217,054.28	—
Loss from the disposal of other non-current assets	—	—	—
Donation expenses	32,000.00	43,000.00	—
Fine payment expenses	205,682.23	2,400.00	—
Compensation expenses	—	4,774.00	—
Others	65,098.46	51,231.78	—
	<u>753,054.79</u>	<u>5,318,460.06</u>	—

The non-operating expenses for the period decreased by 85.84% from that of the previous period, mainly due to the disposal of some old equipment for upgrade of machinery and equipment in the previous period.

38. Income Tax Expenses

Composition of income tax expenses (gains)

Items	Amount for this period	Amount for last period
Current income tax	9,634,490.21	2,859,006.82
Deferred income tax	602,867.98	86,437.16
	<u>10,237,358.19</u>	<u>2,945,443.98</u>

The increase of income tax for the period increased by 247.57% over that of the previous period, because the subsidiaries earned more profit, resulting in the increase in enterprise income tax.

39. Basic Earnings per Share and Diluted Earnings per Share

Items	Amount for this period	Amount for last period
Basic earnings per share	0.0540	(0.0144)
Diluted earnings per share	0.0540	(0.0144)

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 = S0 + S1 + Si x Mi ÷ M0 - Sj x Mj ÷ M0 - Sk

Where: "S0" represents total number of shares at the beginning of the period; "S1" represents shares increased from conversion of reserve into capital or share dividend distribution in the period; "Si" represents shares increased from issue of new shares or debt to equity during reporting period; "Sj" represents the reduced shares arising from repurchase during reporting period; "Sk" represents the number of reduced shares during the reporting period; "M0" represents months in the reporting period; "Mi" represents the months from the next month of the increase of shares to the end of the reporting period; "Mj" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

- (2) Calculation of diluted earnings per share

Diluted earnings per share = $P1 \div (S0 + S1 + S2 \times M1 \div M0 - S3) \times M2 \div M0 - S4 + \text{increase of weighted average amount of ordinary shares due to warrant, share option or convertible bond}$

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

40. Other Cash Received Relating to Operating Activities

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

Items	Amount for this period	Amount for last period
R&D funds from the Ministry of Finance of PRC	2,152,600.00	10,000,000.00
Government subsidy	6,300,000.00	2,143,142.34
Interest income	2,355,151.93	2,394,986.49
Others	9,719,372.42	16,437,431.64
	<u>20,527,124.35</u>	<u>30,975,560.47</u>

41. Other Cash Paid Relating to Operating Activities

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

Items	Amount for this period	Amount for last period
Cash repayment to Panda Electronics Group Co., Ltd.	—	80,000,000.00
Technology development expenses	28,264,617.69	18,412,551.28
Office expenses	5,019,289.05	5,161,204.84
Entertainment expenses	5,945,145.19	6,092,101.32
Travelling expenses	2,450,633.30	2,401,309.81
Advertising fee	2,995,209.16	2,234,875.16
Agent fee	3,526,873.77	5,383,433.57
Acceptance deposit & commitment deposit	3,146,921.88	5,267,894.01
Others	12,525,958.11	6,620,546.32
	<u>63,874,648.15</u>	<u>131,573,916.31</u>

42. Other Cash Received Relating to Investment Activities

Items	Amount for this period	Amount for last period
Cash received from establishment of subsidiary	175,000,000.00	—
	<u>175,000,000.00</u>	<u>—</u>

43. Other Cash Paid Relating to Investment Activities

Items	Amount for this period	Amount for last period
Cash paid on disposal of subsidiaries	—	425,320.87
	<u>—</u>	<u>425,320.87</u>

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	Amount for this period	Amount for last period
Payment under finance lease	1,313,481.60	1,278,041.90
Total	1,313,481.60	1,278,041.90

45. Supplemental Information of Cash Flow Statements

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

Items	Amount for the period	Amount for last period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	38,573,074.86	(6,922,050.27)
Add: Provision for asset impairment	(3,535,468.71)	(1,391,395.85)
Depreciation of fixed assets	25,008,640.42	21,311,507.80
Amortization of intangible assets	787,345.47	638,313.83
Amortization of long term deferred expenses	—	—
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	(906,704.31)	5,200,720.91
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 "-")	12,208,408.83	10,920,778.13
Loss on investment (gains are represented by "-")	(40,787,310.76)	(29,288,617.57)
Decrease in deferred income tax assets (increase is represented by "-")	610,698.10	201,496.54
Increase in deferred income tax liabilities (decrease is represented by "-")	(7,830.12)	—
Decrease in inventories (increase is represented by "-")	24,478,056.63	(10,283,758.38)
Decrease in trade receivables (Increase is represented by "-")	(129,952,710.23)	(208,122,760.12)
Increase in trade payables (Decrease is represented by "-")	23,844,273.82	6,640,749.35
Net cash flow from operating activities	(49,679,526.00)	(211,095,015.63)
2. Material investment and financial activities not involving cash inflow or outflow:		
Debt capitalization	—	—
Convertible corporate bonds due within one year	—	—
Fixed assets acquired under by financing lease	—	—
3. Net change in cash and cash equivalents:		
Cash balance as at end of the period	371,765,895.96	414,296,017.20
Less: cash balance as at beginning of the period	390,412,974.25	560,354,017.93
Add: balance of cash equivalents as at end of the period	—	—
Less: balance of cash equivalents as at beginning of the period	—	—
Net increase in cash and cash equivalents	(18,647,078.29)	(146,058,000.73)

(2) Information on cash and cash equivalents

Items	Amount for this period	Amount for last period
I. Cash	371,765,895.96	414,296,017.20
Including: Cash on hand	616,980.97	658,797.17
Bank deposit available for immediate payment	371,148,914.99	413,637,220.03
Other cash fund available for immediate payment	—	—
II. Cash equivalents	—	—
Including: Bond investment due within three months	—	—
III. Closing balance of cash and cash equivalents	371,765,895.96	414,296,017.20

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

1. Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Closing balance			Percentage of provision for bad deb %
	Balance	Percentage %	Provision for bad debt	
Individually substantial amount of accounts receivable with specific provision (Note 1)	34,912,728.90	81.70	6,483,210.38	18.57
Other individually unsubstantial amount of accounts receivable with specific provision (Note 2)	7,821,724.77	18.30	960,331.10	12.28
Total	42,734,453.67	100.00	7,443,541.48	
			Opening balance	
Items	Balance	Percentage %	Provision for bad debt	Percentage of provision for bad deb %
Individually substantial amount of accounts receivable with specific provision	19,576,432.50	71.20	6,154,820.38	31.44
Other individually unsubstantial amount of accounts receivable with specific provision	7,918,526.39	28.80	1,178,750.75	14.89
Total	27,494,958.89	100.00	7,333,571.13	

Individually substantial amount of 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 individually substantial amount of accounts receivable with specific provision.

Name of debtor	Amount	Provision for bad debt	Percentage of provision for bad debt %	Reasons for provision
Binhai County Radio and Television Bureau	12,613,100.00	—	—	Expected to be recovered
Nanjing Panda Handa Technology Co., Ltd.	7,790,623.50	328,390.00	4.22	Current value of the expected future cash flow is lower than its carrying value
Yancheng Radio and Information Development Co., Ltd.	5,779,100.00	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 not to be recovered
Nanjing Broadcasting Network Inc.	3,043,405.40	—	—	Expected to be recovered
Total	<u>34,912,728.90</u>	<u>6,483,210.38</u>		

Note 2. For other individually unsubstantial amount of accounts receivable with specific provision, a provision of RMB960,331.10 for impairment of the receivable is made 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 debt %	Amount	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Within 1 year	30,308,522.57	70.92	328,390.00	1.08	15,008,027.79	54.59	141,629.65	0.94
1-2 years	5,771,400.00	13.51	5,771,400.00	100.00	5,908,525.00	21.49	5,875,315.00	99.44
2-3 years	6,162,608.10	14.42	651,828.48	13.82	6,017,469.59	21.89	756,709.97	12.58
3-5 years	—	—	—	—	559,916.51	2.03	559,916.51	100.00
More than 5 years	491,922.00	1.15	491,922.00	100.00	—	—	—	—
Total	<u>42,734,453.67</u>	<u>100.00</u>	<u>7,443,541.48</u>		<u>27,494,968.89</u>	<u>100.00</u>	<u>7,333,571.13</u>	

(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
Binhai County Radio and Television Bureau	12,613,100.00	29.52	Within 1 year
Nanjing Panda Handa Technology Co., Ltd.	7,790,623.50	14.35	Within 1 year
Yancheng Radio and Information Development Co., Ltd.	5,779,100.00	13.52	2-3 years
Shenzhen No.1 Environment Technology Co., Ltd.	5,686,500.00	13.31	1-2 years
Nanjing Broadcasting Network Inc.	3,043,405.40	7.12	Within 1 year
Total	<u>34,912,728.90</u>	<u>77.82</u>	

2. Other Receivables

(1) Breakdown of other receivables by categories

Items	Closing balance			Percentage of provision for bad debt %
	Balance	Percentage %	Provision for bad debt	
Individually substantial amount of other receivables with specific provision (note 1)	147,091,121.50	85.66	14,769,427.70	10.04
Other individually unsubstantial amount of other receivables with specific provision (note 2)	24,632,005.78	14.34	3,940,729.78	16.00
Total	171,723,127.28	100.00	18,710,157.48	
Opening balance				
Items	Balance	Percentage %	Provision for bad debt	Percentage of provision for bad debt %
Individually substantial amount of single other receivables with specific provision	361,115,548.08	94.40	19,745,866.00	5.47
Other individually unsubstantial amount of other receivables with specific provision	21,422,037.62	5.60	9,676,595.40	45.17
Total	382,537,585.70	100.00	29,422,461.40	

Individually substantial amount of 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. Individually 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 provision
GALANT LIMITED	61,089,009.47	—	—	Expected to be recovered
Nanjing Panda International Telecommunication System Co., Ltd.	35,114,507.38	2,956,463.88	8.42	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda Electronic Equipment Co., Ltd.	28,390,117.35	1,419,505.87	5.00	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda Information Industry Co., Ltd.	8,880,192.16	444,009.61	5.00	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda Technology Equipment Co., Ltd.	7,045,778.30	5,424,916.24	77.00	Current value of the expected future cash flow is lower than its carrying value
Others	6,571,516.84	4,524,532.10	68.85	Current value of the expected future cash flow is lower than its carrying value
Total	147,091,121.50	14,769,427.70		

Note 2. For other individually unsubstantial amount of accounts receivable with specific provision, a provision of RMB3,940,729.78 for impairment of the receivable is made 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 year	85,244,132.18	49.64	2,682,249.97	3.12	311,454,317.26	81.42	6,149,221.06	1.97
1-2 years	48,746,699.38	28.39	3,094,808.11	6.32	29,970,421.59	7.84	4,054,627.66	13.53
2-3 years	1,741,124.83	1.01	1,025,562.42	58.90	4,941,604.34	1.29	4,624,081.13	93.57
3-5 years	30,121,181.67	17.54	6,067,747.76	20.14	28,190,297.68	7.37	6,623,586.72	23.50
More than 5 years	5,869,789.22	3.42	5,869,789.22	100.00	7,970,944.83	2.08	7,970,944.83	100.00
Total	171,723,127.28	100.00	16,710,157.48	10.90	982,537,585.70	100.00	29,422,461.40	7.69

(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
GALANT LIMITED	61,089,009.47	35.57	Within 1 year and 1-4 years
Nanjing Panda International Telecommunication System Co., Ltd.	35,114,507.38	20.45	Within 1 year and 1-2 years
Nanjing Panda Electronic Equipment Co., Ltd.	28,390,117.35	16.53	Within 1 year
Nanjing Panda Information Industry Co., Ltd.	8,880,192.16	5.17	Within 1 year
Nanjing Panda Technology Equipment Co., Ltd.	7,045,778.30	4.10	Within 1 year and 1-5 years
Total	140,519,604.66	81.82	

The closing balance of the other receivable decreased by 55.11% from the opening balance, and the main reason was that Nanjing Panda Electronics Technology Development Co., Ltd. was incorporated this year and included in the consolidation scope by the Company, and accordingly the relevant investment was no longer accounted for as other receivables.

3. Long-term Equity Investment

(1) Details of long-term equity investment

Items	Opening balance	Increase in this period	Decrease in the period	Closing balance
Investment in subsidiaries	387,036,330.94	203,250,000.00	—	590,286,330.94
Investment in associated companies	648,814,555.38	40,787,310.76	—	689,601,866.14
Less: provision for impairment of long term investment	21,436,944.58	—	—	21,436,944.58
Total	1,014,413,941.74	244,037,310.76	—	1,258,451,252.50

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

Name of investee	Opening balance	Increase in this period	Decrease in this period	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd.	157,317,400.00	14,490,617.23	–	171,808,017.23	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	1,611,114.01	(49,845.67)	–	1,561,268.34	Nanjing	Technology
Hua Fei Colour Display Systems Company Limited	83,574,966.26	(70,694,265.42)	–	12,880,680.84	Nanjing	Manufacture
MPOWER Batteries (Nanjing) Co., Ltd.	–	–	–	–	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	310,136,580.00	90,114,625.11	–	400,251,205.11	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	94,984,316.93	7,335,987.00	–	102,320,303.93	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,190,178.18	(409,787.49)	–	780,390.69	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	–	–	–	–	Nanjing	Manufacture
Total	648,814,555.38	40,787,310.76	–	689,601,866.14		

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

Name of investee	Investment costs	Opening balance	Investment amount increased (less the equity transfer for the year)	Increase/decrease of the investee's equity	Cash dividends received	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd.	50,361,373.68	157,317,400.00	–	14,490,617.23	–	171,808,017.23
Nanjing Huaxian High Technology Company Limited	10,000,000.00	1,611,114.01	–	(49,845.67)	–	1,561,268.34
Hua Fei Colour Display Systems Company Limited	392,892,722.42	83,574,966.26	–	(70,694,265.42)	–	12,880,680.84
MPOWER Batteries (Nanjing) Co., Ltd.	4,200,000.00	–	–	–	–	–
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	310,136,580.00	–	90,114,625.11	–	400,251,205.11
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	94,984,316.93	–	7,335,987.00	–	102,320,303.93
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,190,178.18	–	(409,787.49)	–	780,390.69
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00	–	–	–	–	–
Total	624,524,177.45	648,814,555.38	–	40,787,310.76	–	689,601,866.14

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

Name of investee	Investment costs	Opening balance	Increase in this period	Decrease in this period	Closing balance	Dividend
Subsidiaries						
Nanjing Panda Appliance & Apparatus Co., Ltd.	992,700.00	992,706.88	-	-	992,706.88	-
Panda Mechanical Manufacturing Co. Ltd.	7,000,000.00	7,000,000.00	-	-	7,000,000.00	-
Nanjing Panda Accurate Machinery Co., Ltd.	5,627,934.12	5,627,934.12	-	-	5,627,934.12	-
Nanjing Panda Technology Equipment Co., Ltd.	5,031,900.00	5,031,944.58	-	-	5,031,944.58	-
Nanjing Panda Machinery Co., Ltd.	2,582,191.03	2,582,191.03	-	-	2,582,191.03	-
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	81,091,193.98	-	-	81,091,193.98	-
Nanjing Panda Electronic Manufacture Co., Ltd.	111,221,994.10	111,221,994.10	-	-	111,221,994.10	-
Panda Hua Ge Appliance and Plastic Industrial Co., Ltd.	34,622,800.00	-	-	-	-	-
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.	50,000,000.00	20,000,000.00	30,000,000.00	-	50,000,000.00	-
Nanjing Panda Electronic Technology Development Co., Ltd.	173,250,000.00	-	173,250,000.00	-	173,250,000.00	-
GALANT LIMITED	-	-	-	-	-	-
Total	<u>668,128,013.23</u>	<u>387,036,330.94</u>	<u>203,250,000.00</u>	<u>-</u>	<u>590,286,330.94</u>	<u>-</u>

Nanjing Panda Electronic Technology Development Co., Ltd. was established in 2010 with the approval of the Board, with registered capital of RMB250 million. The Company shall invest RMB247.50 million, accounting for 99% and Nanjing Panda Electronic Equipment Co., Ltd., a subsidiary of the Company, shall invest RMB2.5 million, accounting for 1%. Nanjing Panda Electronic Technology Development Co., Ltd. obtained the business license and was officially established on 6 January 2011. As at 30 June 2011, the cumulative paid-in capital of this company was RMB175 million, of which RMB173.25 million was injected by the Company.

- (5) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision in this period	Decrease in the period			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.	7,665,000.00	-	-	-	-	7,665,000.00
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	Amount for this period	Amount for last period
Income from principal business	28,321,548.71	88,330,257.74
Income from other business	14,464,945.52	3,002,928.74
Total operating income	42,786,494.23	91,333,186.48
Cost of principal business	23,323,444.34	85,482,537.90
Cost of other business	5,611,080.70	1,896,354.76
Total operating cost	28,934,525.04	87,378,892.66

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

Business segment	Amount for this period		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacture products	4,805,216.65	2,101,150.05	2,704,066.60
Electronic intelligent products	22,349,562.10	20,271,603.69	2,077,958.41
Communication technology products	73,054.72	158,944.73	(85,890.01)
Others	1,093,715.24	791,745.87	301,969.37
Total	28,321,548.71	23,323,444.34	4,998,104.37
Business segment	Amount for last period		
	Income from principal business	Cost of principal business	Profit of principal business
Electronic manufacture products	3,345,346.16	1,879,383.02	1,465,963.14
Electronic intelligent products	49,947,269.23	50,658,194.75	(710,925.52)
Electronic equipment products	4,052,578.19	4,535,654.88	(483,076.69)
Communication technology products	29,315,479.39	27,327,964.99	1,987,514.40
Others	1,669,584.77	1,081,340.26	588,244.51
Total	88,330,257.74	85,482,537.90	2,847,719.84

- (3) The Company's main business is in Nanjing region.
- (4) Sales revenue from the largest five customers totalled RMB27,484,040.68 for the period, accounting for 64.23% of total sales revenue of the Company.
- (5) The decrease of operating income by 53.15% for the period from that of the previous period was due to the concentrated delivery of goods last year.

5. Investment Income

- (1) Listed by items

Source of investment income	Amount for this period	Amount for last period
Long-term equity investment income accounted for at cost	—	18,113,905.84
Long-term equity investment income accounted for using equity method	40,787,310.76	29,255,743.28
Investment income from the disposal of the long-term equity investment	—	339,300.00
Total	40,787,310.76	47,708,949.12

- (2) Long-term equity investment income accounted for at cost

Name of investee	Amount for this period	Amount for last period	Remarks
Nanjing Panda Electronic Manufacture Co., Ltd.	—	7,500,000.00	
Panda Hua Ge Appliance and Plastic Industrial Co., Ltd.	—	4,731,436.31	
Nanjing Panda Accurate Machinery Co., Ltd.	—	5,882,469.53	
Total	—	18,113,905.84	

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

Name of investee	Amount for this period	Amount for last period	Remarks
Nanjing Ericsson Panda Communication Company Limited	90,114,625.11	36,477,985.50	
Beijing SE Putian Mobile Communications Co., Ltd.	14,490,617.23	21,021,418.72	
Hua Fei Colour Display Systems Company Limited	(70,694,285.42)	(32,850,358.79)	
Shenzhen Jingwah Electronics Co., Ltd.	7,335,987.00	4,715,534.46	
Intenna (Nanjing) Co. Ltd.	(409,787.49)	(99,245.14)	
Nanjing Huaxian High Technology Company Limited	(49,845.67)	(9,591.47)	
Total	40,787,310.76	29,255,743.28	

- (1) Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee from those of the Company; ii) there was no issue affecting the net profit of the investee for the period arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs to be eliminated between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit.
- (2) There are no significant limitations on remittance of investments income of the Company.

6. Supplementary Information on Cash flow statements

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

Items	Amount for this period	Amount for last period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	(12,755,331.95)	(19,277,760.95)
Add: Provision for asset impairment	(11,817,210.31)	1,615,700.39
Depreciation of fixed assets	8,433,173.86	6,535,093.53
Amortization of intangible assets	608,759.10	459,342.82
Amortization of long term deferred expenses	—	—
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	205,340.16	30,441.19
Loss from fixed assets scrapped (gains are represented by "-")	—	—
Losses from change in fair value (gains are represented by "-")	—	—
Financial expense (gains are represented by "-")	10,399,455.05	10,147,040.64
Loss on investment (gains are represented by "-")	(40,787,310.76)	(47,708,949.12)
Decrease in deferred income tax assets (increase is represented by "-")	—	—
Increase in deferred income tax liabilities (decrease is represented by "-")	—	—
Decrease in inventories (increase is represented by "-")	1,176,142.70	(1,724,642.21)
Decrease in trade debtors (Increase is represented by "-")	(2,397,836.83)	(42,853,033.47)
Increase in trade creditors (Decrease is represented by "-")	99,066,230.88	(99,526,476.54)
Others	—	—
Net cash flows from operating activities	52,131,411.90	(192,303,243.72)
2. Material investment and financial activities not involving cash inflow or outflow:		
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 period	60,331,746.89	160,028,586.58
Less: cash balance as at beginning of the period	151,591,454.98	293,955,551.88
Add: balance of cash equivalents as at end of the period	—	—
Less: balance of cash equivalents as at beginning of the period	—	—
Net increase in cash and cash equivalents	(91,259,708.09)	(133,926,965.30)

(2) Information on cash and cash equivalents

Items	Amount for the period	Amount for last period
I. Cash	60,311,746.89	160,028,586.58
Including: Cash on hand	177,277.03	378,321.04
Bank deposit available for immediate payments	60,154,469.86	159,650,265.54
Other cash fund available for immediate payment	—	—
II. Cash equivalents	—	—
Including: Bond investment due within three months	—	—
III. Closing balance of cash and cash equivalents	60,311,746.89	160,028,586.58

X. Relationship and Transactions with Related Parties

(i) 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 2011: 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 deems it as a related party.

2. Parent Company of the Company

Name of the parent company	Code of Organization	Legal Representative	Type of Company	Registration address	Nature of business	Registered capital	Shareholding percentage in the Company %	Voting right percentage in the Company %
Panda Electronic Group Co., Ltd.	134863152	Xu Guofei	a company with limited liabilities	Nanjing economy and technology development zone	Manufacture	RMB 1,266,060,000	51.10	51.10

3. Subsidiaries of the Company

Name of subsidiaries	Code of Organization	Legal Representative	Registration 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.	78616539-8	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
Panda Hua Ge 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	USD1,240,000	72	72
Nanjing Panda Electronic Manufacture Co., Ltd.	78214760-7	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.	78213131-4	Wen Yuan	Nanjing	Service industry	RMB80,000,000	100	100
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	73888486-6	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	RMB50,000,000	100	100
Nanjing Panda Electronic Technology Development Co., Ltd.	56721194-1	Wen Yuan	Nanjing	Manufacture	RMB250,000,000	100	100
GALANT LIMITED	1006135	Xu Guofei	Hong Kong	Development of communication products	HKD1	100	100

4. Related Parties with Non-Controlling Relationship

Name of related parties	Code of Organization	Relationship with the Company
Nanjing Hong Ye Television Co. Ltd.	716223402	Subsidiary of the Parent Group
Nanjing 21st Century Electronic and Technology Square Company Limited	71627148X	Subsidiary of the Parent Group
Nanjing Panda Garden Property Management	134961667	Subsidiary of the Parent Group
Nanjing Panda Electronics Technology Development Company Limited	134870044	Subsidiary of the Parent Group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the Parent Group
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	134941148	Subsidiary of the Parent Group
Nanjing Panda Piezoelectric Technique Co., Ltd.	742394272	Subsidiary of the Parent Group
Nanjing Zhen Hua Packing Material Plant	13487319X	Subsidiary of the Parent Group
Nanjing Lianhui Communication Technology Company Limited	777014380	Subsidiary of the Parent Group
Nanjing Panda Electronic Import/Export Company	134850684	Subsidiary of the Parent Group
Nanjing Panda Handa Technology Co., Ltd.	79710227-3	Subsidiary of the Parent Group
Nanjing Panda Huaxin Technology Industrial Co., Ltd..	79712003-3	Subsidiary of the Parent Group
Panda (Beijing) International Information Technology Co., Ltd.	765031909	Subsidiary of the Parent Group
Panda Electronics Material Usage Co., Ltd.	134888156	Subsidiary of the Parent Group
Nanjing Electronic Calibration Co., Ltd.	13487289-1	Subsidiary of the Parent Group
Nanjing Panda Zhongdian Furniture Company Limited	690402137	Subsidiary of the Parent Group
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	608977514	Associated company
Nanjing Electronics (Kunshan) Co. Ltd.	718679729	Associated enterprise of the Company's subsidiary
Nanjing Ericsson Panda Communication Company Limited	60891684-2	Associated company
Nanjing Huaxian High Technology Company Limited	78711237-1	Associated company
Intenna (Nanjing) Co. Ltd.	60898216-1	Associated company
Nanjing Thales Panda Transportation System Company Limited	76819214-2	Associated enterprise of the Company's subsidiary

(II) Pricing policy

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

(III) Transactions with related parties

1. Purchase of goods

Name of related parties	Content of transactions	Pricing policy and decision-making process	Amount for the period		Amount for last period	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Nanjing Panda Electronic Import/Export Company	Electronic products	Fair price in the market	15,101,844.44	2.35	475,694.02	0.09
Nanjing Zhen Hua Packing Material Plant	Packing materials	Fair price in the market	1,466,838.35	0.23	824,745.99	0.16
Nanjing Panda Zhongdian Furniture Company Limited	Electronic products	Fair price in the market	76,923.08	0.01	—	—
Nanjing Panda Huaxin Technology Industrial Co., Ltd..	Electronic products	Fair price in the market	—	—	159,296.83	0.03
Total			16,645,605.87	2.59	1,459,736.84	0.28

2. Receipt of services

Name of related parties	Content of transactions	Pricing policy and decision-making process	Amount for the period		Amount for last period	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Nanjing Panda Electronics Transportation Company	Receipt of services	Fair price in the market	945,754.00	0.42	622,080.01	1.52
Nanjing Panda Electronics Technology Development Company Limited	Receipt of services	Fair price in the market	607,042.03	0.27	—	—
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	Receipt of services	Fair price in the market	513,746.39	0.23	—	—
Nanjing Electronic Calibration Co., Ltd.	Receipt of services	Fair price in the market	74,186.00	0.03	—	—
Panda Electronic Group Co., Ltd.	Receipt of services	Fair price in the market	32,808.92	0.01	212,822.25	0.52
Total			2,173,537.34	0.96	834,902.26	2.04

3. Sales of products

Name of related parties	Content of transactions	Pricing policy and decision-making process	Amount for the period		Amount for last period	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Nanjing Panda Electronic Import/Export Company	Electronic products	Fair price in the market	20,038,986.01	2.61	5,922,904.26	0.90
Nanjing Ericsson Panda Communication Company Limited	Electronic products	Fair price in the market	19,515,758.84	2.54	14,806,382.54	2.25
Nanjing Panda Handa Technology Co., Ltd.	Electronic products	Fair price in the market	11,892,785.45	1.55	16,733,157.34	2.54
Nanjing Panda Zhongdian Furniture Company Limited	Electronic products	Fair price in the market	5,655,774.88	0.74	1,760,619.66	0.26
Nanjing Thales Panda Transportation System Company Limited	Electronic products	Fair price in the market	3,930,453.84	0.51	12,746,086.41	1.94
Nanjing Panda Electronics Technology Development Company Limited	Electronic products	Fair price in the market	674,899.16	0.09	—	—
Nanjing Lianhui Communication Technology Company Limited	Electronic products	Fair price in the market	74,227.09	0.01	116,487.16	0.02
Nanjing Panda Piezolectric Technique Co., Ltd.	Electronic products	Fair price in the market	43,205.13	0.01	—	—
Panda Electronic Group Co., Ltd.	Electronic products	Fair price in the market	38,290.60	—	62,502.56	0.01
Nanjing Panda Electronics Transportation Company			14,188.92	—	—	—
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Electronic products	Fair price in the market	4,774.92	—	2,556,903.74	0.39
Total			61,883,344.84	8.06	54,705,043.67	8.31

4. Provision of services

Name of related parties	Content of transactions	Pricing policy and decision-making process	Amount for the period		Amount for last period	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Nanjing Ericsson Panda Communication Company Limited	Provision of services	Fair price in the market	64,161,419.26	60.39	14,296,975.42	17.44
Nanjing Panda Handa Technology Co., Ltd.	Provision of services	Fair price in the market	6,315,800.00	5.95	1,722,994.32	2.10
Panda Electronic Group Co., Ltd.	Provision of services	Fair price in the market	500,000.00	0.47	4,412.95	0.01
Nanjing 21st Century Electronic and Technology Square Company Limited	Provision of services	Fair price in the market	82,500.00	0.08	–	–
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Provision of services	Fair price in the market	25,225.22	0.02	98,749.92	0.12
Nanjing Panda Electronics Transportation Company	Provision of services	Fair price in the market	12,054.64	0.01	–	–
Panda Electronics Material Usage Co., Ltd.	Provision of services	Fair price in the market	–	–	427,350.44	0.52
Total			<u>71,096,999.12</u>	<u>66.92</u>	<u>16,550,483.05</u>	<u>20.19</u>

5. Provision of guarantee

- (1) The Company provided a maximum amount guarantee for bank loan facility 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 the Sales Department of Jiangsu Bank Co., Ltd. As at 30 June 2011, 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 composite 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 30 June 2011, 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 RMB5,605,000.00 issued by Chengdong Sub-branch of Bank of Nanjing Co., Ltd. To Nanjing Panda Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company.

The Company provided a maximum amount guarantee for bank loan facility 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 2011 to 4 January 2012, from Nanjing Branch of Citic Bank Co., Ltd. In addition, the Company provided a maximum amount guarantee for bank loan facility of RMB10,000,000.00 granted to Nanjing Panda Huage Appliance and Plastic Industrial Company Limited, a subsidiary of the Company, with a term from 20 December 2010 to 20 December 2012, from Nanjing Branch of Citic Bank Co., Ltd. As at 30 June 2011, 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.	Nanjing Branch of Citic Bank	7,000,000.00	2011.01.04-2012.01.04
Nanjing Panda Huage 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>	

- (2) The Company provided a maximum amount guarantee for composite 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 10 March 2011 to 10 March 2012, from Nanjing Branch of China Merchants Bank. As at 30 June 2011, the used credit line amounted to RMB18,870,389.07, among which, the Company provided guarantee for bank loan of RMB5,000,000.00 and for bank acceptances of RMB2,190,772.31 as well as secured promissory notes of RMB11,679,616.76.

The Company provided a maximum amount guarantee for a composite bank line of credit of RMB30,000,000.00 granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company with a term from 22 March 2011 to 21 January 2012, from Nanjing Branch of Ningbo Bank Co. Ltd. In case the term of any single credit line granted exceeds the term of the maximum amount guarantee, the term of single credit line shall apply as the term of guarantee. As at 31 December 2010, the Company provided guarantee for bank acceptance of RMB4,250,375.17 and RMB5,619,785.40 of letter of guarantee of this company.

- (3) The Company provided a maximum amount guarantee for bank loan facility 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 30 June 2011, the loan amounted to RMB5,000,000.00 with a term from 10 March 2011 to 10 March 2012.

- (4) The Company provided a maximum amount guarantee for composite loan facility 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 Muxuyuan Sub-branch of Industrial Bank Co., Ltd. In addition, the Company provided guarantee for bank acceptance of RMB3,000,000.00 issued by this bank to this company.

The Company provided a maximum amount guarantee for composite loan facility of RMB30,000,000.00 granted to Nanjing Panda Electronic Manufacturing Co. Ltd., a subsidiary of the Company, with a term from 24 May 2011 to 23 January 2012, from Nanjing Branch of Shenzhen Development Bank Co., Ltd. As at 30 June 2011, there were no relevant guarantee incurred.

As at 30 June 2011, the Company provided guarantee to its subsidiaries with an amount of RMB84,345,549.64 (end of 2010: RMB78,276,868.34).

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 March 2011, providing guarantee for credit facilities of RMB120,000,000.00 granted to the Company from Chengdong Sub-branch of Nanjing Branch of China Merchants Bank. As at 30 June 2011, details of unpaid borrowings under the guarantee contract are as follows:

Name of borrowers	Name of bank	Borrowing amount	Term
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2011.03.10-2012.03.10
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2011.03.10-2012.03.10
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2011.04.08-2012.04.08
Total		<u>120,000,000.00</u>	

- (2) Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Chengdong Sub-branch of Bank of Nanjing Co., Ltd., providing guarantee for the composite loan facility of RMB78,000,000.00 granted to the Company from Chengdong Sub-branch of Bank of Nanjing Co., Ltd. As at 30 June 2011, the details of guarantee on the loan are as follows:

Name of borrowers	Name of bank	Borrowing Amount	Term
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	30,000,000.00	2010.09.15-2011.09.15
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	28,000,000.00	2010.09.15-2011.09.15
Total		<u>58,000,000.00</u>	

In addition, Panda Electronics Group Limited provided guarantee for bank acceptance of RMB1,798,535.46 of the Company issued by this bank.

- (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 loan facilities granted from Nanjing Branch of Citic Bank to the Company during 2 December 2010 to 2 December 2011. The amount of borrowings amounted to US\$22,000,000.00 with a loan term from 6 December 2010 to 6 December 2011.
- (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 March 2011, providing guarantee for borrowings granted to the Company from Nanjing Branch of Hua Xia Bank. The amount of borrowings amounted to RMB50,000,000.00 with a loan term from 11 March 2011 to 11 March 2012.
- (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 30 June 2011, the Company accepted a guarantee provided by Panda Electronics Group Limited, the controlling shareholder of the Company, with an amount of RMB301,798,535.46 (end of 2010: RMB350,000,000.00).

7. Asset leased out

Name of related parties	Closing balance	Opening balance
Nanjing Panda Electronics Transportation Company	400,629.17	—
Total	400,629.17	—

8. Balance of amounts due from/to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts receivable				
Nanjing Ericsson Panda Communication Company Limited	25,745,203.51	21,506,033.64		
Nanjing Panda Handa Technology Co., Ltd.	10,607,459.66	7,273,341.47		
Nanjing Panda Electronic Import/Export Company	8,513,715.11	150,717.90		
Nanjing Hong Ye Television Co. Ltd.	8,390,380.57	8,390,380.57		
Nanjing Thales Panda Transportation System Company Limited	2,642,280.89	9,661,726.88		
Nanjing Panda Zhongdian Furniture Company Limited	1,164,225.97	496,609.18		
Nanjing Panda Electronics Technology Development Company Limited	369,506.00	—		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	157,947.95	183,749.71		
Nanjing Panda Electronics Transportation Company	123,070.32	131,840.38		
Panda (Beijing) International Information Technology Co., Ltd.	107,685.29	107,685.29		
Nanjing Lianhui Communication Techonology Company Limited	86,845.70	—		
Panda Electronic Group Co., Ltd.	84,623.90	1,356,209.98		
Nanjing Electronics (Kunshan) Co., Ltd.	35,850.00	35,850.00		
Hua Fei Colour Display Systems Company Limited	33,450.00	33,450.00		
Nanjing Electronic Calibration Co., Ltd.	3,780.00	3,780.00		
Nanjing Panda Piezoelectric Technique Co., Ltd.	—	11,610.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	—	3,469.52		
Total	58,066,024.87	49,346,454.52		

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	8,390,380.57		
Nanjing Panda Handa Technology Co., Ltd.	469,733.28	162,653.04		
Nanjing Ericsson Panda Communication Company Limited	338,832.76	382,814.64		
Panda (Beijing) International Information Technology Co., Ltd.	107,685.29	107,685.29		
Nanjing Thales Panda Transportation System Company Limited	58,194.40	58,340.90		
Nanjing Electronics (Kunshan) Co. Ltd.	35,850.00	35,850.00		
Hua Fei Colour Display Systems Company Limited	33,450.00	33,450.00		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	24,981.65	—		
Nanjing Panda Electronic Import/Export Company	10,476.59	4,698.00		
Panda Electronic Group Co., Ltd.	10,377.00	11,789.50		
Nanjing Panda Piezoelectric Technique Co., Ltd.	—	580.50		
Total	9,479,961.54	9,188,242.44		
Prepayments				
Nanjing Panda Electronics Technology Development Company Limited	7,187,590.15	6,134,502.12		
Nanjing Lianhui Communication Techonology Company Limited	632,449.25	669,364.00		
Nanjing Panda Zhongdian Furniture Company Limited	7,472.00	—		
Nanjing Panda Electronic Import/Export Company	—	6,626,616.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	—	235,977.13		
Total	7,827,511.40	13,666,459.25		
Prepayments – provision for bad debt				
Nanjing Lianhui Communication Techonology Company Limited	632,449.25	669,364.00		
Total	632,449.25	669,364.00		

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Other Receivables				
Nanjing Electronics (Kunshan) Co. Ltd.	2,799,417.23	2,799,417.23		
Total	2,799,417.23	2,799,417.23		
Other Receivables-provision for bad debt				
Nanjing Electronics (Kunshan) Co. Ltd.	2,799,417.23	2,799,417.23		
Total	2,799,417.23	2,799,417.23		
Accounts Payable				
Nanjing Panda Electronic Import/Export Company	7,781,136.90	3,959,605.40		
Panda Electronic Group Co., Ltd.	4,003,859.82	3,967,676.80		
Nanjing Zhen Hua Packing Material Plant	1,243,989.73	1,493,307.66		
Nanjing Panda Electronics Transportation Company	395,342.39	473,232.39		
Nanjing Panda Electronics Technology Development Company Limited	386,223.36	1,189,427.05		
Nanjing Panda Piezoelectric Technique Co., Ltd.	72,883.96	72,883.96		
Nanjing Electronics (Kunshan) Co. Ltd	63,139.64	63,139.64		
Nanjing Electronic Calibration Co., Ltd.	16,921.53	6,544.00		
Nanjing Thales Panda Transportation System Company Limited	16,410.02	16,410.02		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	9,912.00	9,912.00		
Nanjing Panda Handa Technology Co., Ltd.	8,768.00	8,768.00		
Nanjing Lianhui Communication Technology Company Limited	1,753.23	1,753.23		
Panda Electronics Material Usage Co., Ltd.	—	10,310.00		
Total	14,000,340.58	11,272,970.15		
Advances from customers				
Panda Electronic Group Co., Ltd.	1,700,000.00	—		
Nanjing Panda Zhongdian Furniture Company Limited	1,137,506.18	—		
Nanjing Hong Ye Television Co. Ltd.	82,887.19	82,887.19		
Nanjing Panda Handa Technology Co., Ltd.	65,820.80	65,820.80		
Nanjing Panda Electronic Import/Export Company	—	3,684,692.69		
Total	2,986,214.17	3,833,400.68		

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Other Payables				
Panda Electronic Group Co., Ltd.	6,151,068.84	4,834,566.53		
Nanjing Panda Handa Technology Co., Ltd.	5,998,080.00	—		
Intenna (Nanjing) Co. Ltd.	2,175,073.67	2,176,942.55		
Nanjing Electronics (Kunshan) Co. Ltd.	300,000.00	300,000.00		
Nanjing Panda Electronics Technology Development Company Limited	134,000.00	—		
Nanjing Panda Garden Property Management	50,483.66	366,313.32		
Panda (Beijing) International Information Technology Co., Ltd.	45,588.91	45,588.91		
Nanjing Panda Electronics Transportation Company	14,562.60	14,562.60		
Nanjing Lianhui Communication Techonology Company Limited	4,500.00	—		
Nanjing Panda Piezoelectric Technique Co., Ltd.	200.00	200.00		
Nanjing 21st Century Electronic and Technology Square Company Limited	—	41,100.00		
Total	14,873,557.68	7,779,273.91		

XI. Contingencies

- Please refer to Note X(III)5 for the guarantees provided by the Company for bank borrowings of its subsidiaries.
- As at 30 June 2011, save as the aforesaid, the Company did not have material contingent issues required to be disclosed.

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	12,466.67	436,130.42
Total	12,466.67	436,130.42

2. Capital expenditure commitment

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

	Closing balance	Opening balance
Buildings and structures	49,662,634.95	51,710,492.30

XIII. Post Balance Sheet Events

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

XIV. Other Significant Events

1. Based on the announcement titled "Withdrawal of Application by China Electronics Corporation ("CEC") in relation to Change of Ultimate Controller of the Company" dated 3 December 2010, CEC intends to withdraw the relevant application for change of the ultimate controller of the Company and a waiver from compliance with the general offer requirement from the China Securities Regulatory Commission. The procedure of change of the Company's ultimate controller is still under process.

2. Lease

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

Items	Closing balance	Opening balance
Fixed assets, at cost		
Machinery and equipment	—	6,912,275.00
Total	—	6,912,275.00
Accumulated depreciation		
Machinery and equipment	—	2,696,989.24
Total	—	2,696,989.24
Accumulated amount of provision for impairment		
Machinery and equipment	—	—
Total	—	—
Carrying value		
Machinery and equipment	—	4,215,285.76
Total	—	4,215,285.76

As at 30 June 2011, the Company had no fixed assets acquired under finance lease or relevant long-term payables.

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

Categories of assets leased out	Closing balance	Opening balance
Buildings and structures	163,888,612.00	167,811,342.73
Total	163,888,612.00	167,811,342.73

XV. Reconciliation of Net Asset under Hong Kong and PRC Accounting Standards Differences (Unit: RMB'000)

Items	Closing balance	Opening balance
Net assets attributable to the shareholders of parent company under PRC accounting standards and accounting principles generally accepted in Hong Kong	1,511,494	1,476,137

Items	Closing balance	Opening balance
Net profit attributable to the shareholders of parent company under PRC accounting standards and accounting principles generally accepted in Hong Kong	35,357	9,192

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	Jan-Jun 2011	2.37	0.0540	0.0540
	Jan-Jun 2010	(0.65)	(0.0144)	(0.0144)
Net profit attributable to holders of ordinary shares after extraordinary items	Jan-Jun 2011	2.03	0.0462	0.0462
	Jan-Jun 2010	(0.95)	(0.0211)	(0.0211)

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

(1) Fully diluted return on net assets

Fully diluted return on net assets=P÷E

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

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

(2) Weighted average return on net assets

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

Including: "P" respectively represents net profit attributable to holders of ordinary shares of the Company and the net profit attributable to holders of ordinary shares of the Company after extraordinary items; "NP" represents net profit attributable to holders of ordinary shares of the Company; "E₀" represents net assets attributable to holders of ordinary shares of the Company at the beginning of the reporting period; "E_i" represents net assets attributable to holders of ordinary shares of the Company, arising from the new issue of shares or debt for equity swap during the reporting period; "E_j" represents net assets attributable to holders of ordinary shares of the Company, reduced from repurchase or cash dividend during the reporting period; "M₀" represents the months in reporting period and; "M_i" represents the months from the next month of the increase of assets to the end of the reporting period; "M_j" represents the months from the next month of the decrease of assets to the end of the reporting period; "E_k" represents the increase or decrease of net assets arising from other transactions or matters; "M_k" represents the months from the next month of the increase or decrease of other assets to the end of the reporting period.

(3) Basic earnings per share

Basic earning per share = $P \div S$

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

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 = $[P + (\text{The interests of the diluted potential ordinary shares determined to be expenses in the current period} - \text{Conversion expenses}) \times (1 - \text{Income tax ratio})] / (S_0 + S_1 + S_i \times M_i + M_0 - S_j \times M_j \div M_0 - S_k + \text{The weighted average number of ordinary shares, increased from subscription warrant share option and convertible bond})$

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.

II. Statement of extraordinary items

		<i>Unit: RMB</i>	
Extraordinary Items	Amount for the period	Amount for last period	
(1) Profit and loss of disposal of non-current assets, including the part written off in provision for assets impairment	906,704.31	(5,200,720.91)	
(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	4,285,589.42	5,540,824.90	
(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	1,002,626.69	3,385,152.15	
(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 from merger of enterprise from the beginning of period to the date of merger	—	—	
(13) Loss and profit from accrued liabilities having no relation with principal business of the Company	—	—	
(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	(106,283.26)	(19,382.81)	
(21) Other non-recurring profit and loss items recognized by CSRC	—	—	
Sub total	6,088,637.16	3,705,873.33	
Less:the impact from income tax	88,841.88	(724,905.91)	
Net non-recurring profit and loss	5,200,155.28	4,430,779.24	
Including: Net non-recurring profit and loss attributable to ordinary shareholders of the Company	5,076,765.58	4,416,300.99	
Net non-recurring profit and loss attributable to minority shareholders	123,389.70	14,478.25	

Note: "()" represents loss or expenditures.

VIII. DOCUMENTS AVAILABLE FOR INSPECTION

- 1 The 2011 Interim Report signed by the Chairman of the Board;
- 2 The financial report signed and stamped by the person in charge of the Company, the person in charge of accounting work and the person in charge of accounting department (person in charge of accounting matters) of the Company;
- 3 All announcements publicly disclosed in Shanghai Securities News and China Securities Journal, and on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange during the Reporting Period;
- 4 The articles of association of the Company; and
- 5 The 2011 Interim Report published in Hong Kong and Shanghai securities markets.

The Board of Directors of Nanjing Panda Electronics Company Limited
30 August 2011