

**PANDA**

www.panda.cn

**Electronics**

Nanjing Panda Electronics Company Limited

# 2011 Annual Report

(A Share Stock Code: 600775)

(H Share Stock Code: 0553)



# Contents

Definitions .....	1
I. Important Notice .....	1
II. Basic Corporate Information .....	3
III. Accounting Data and Financial Indicators Highlights .....	7
IV. Changes in Share Capital and Information of Shareholders .....	11
V. Profiles of Directors, Supervisors, Senior Management and Staff .....	18
VI. Corporate Governance Report .....	26
VII. Internal Control .....	36
VIII. Shareholder's General Meeting .....	38
IX. Chairman's Statement .....	45
X. Report of the Board .....	55
XI. Report of the Supervisory Committee .....	62
XII. Significant Events .....	64
XIII. Independent Auditor's Report and financial statements prepared under Hong Kong Financial Reporting Standards (H shares) .....	70
XIV. Report of the Auditors and financial statements prepared under PRC Accounting Standards for Business Enterprises (A shares) .....	139
XV. Documents Available for Inspection .....	280

## Important Notice

- 1 The board of directors (the "Board"), supervisory committee, the directors ("Directors"), the supervisors ("Supervisors") and senior management staff of the Company confirm that the information in this announcement does not contain any misrepresentation, misleading statements, or material omissions, and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents.
- 2 Directors Mr. Jason Hsuan and Mr. Lu Qing were unable to attend the Board meeting held on 29 March 2012 due to other business engagements, and had appointed Mr. Xu Guofei, the Vice Chairman, and Director Mr. Deng Weiming, to attend the meeting and to exercise the voting right on their behalves respectively.
- 3 Both Baker Tilly Hong Kong Limited and Baker Tilly China, based on Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises, have issued an unqualified auditors' report for the Company respectively.
- 4 Mr. Xia Dechuan, the Head of the Company, Mr. Shen Jianlong, the Chief Accountant, and Ms. Wu Yuzhen, the Head of the Accounting Department, declared that they confirmed the truthfulness, accuracy and completeness of the financial statements in the annual report.

# Definitions

---

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

# Basic Corporate Information

## (I) Corporate Information

1. Legal Chinese Name of the Company : 南京熊猫电子股份有限公司  
Legal English Name of the Company : Nanjing Panda Electronics Company Limited  
Abbreviation of the English Name : NPEC
2. Legal Representative of the Company : Xia Dechuan (General manager)
3. Secretary of the Board : Shen Jianlong  
Securities Affairs Representative : Wang Dongdong  
Correspondence Address : 301 Zhongshan Road East, Nanjing,  
the People's Republic of China  
Postal Code : 210002  
Telephone : (86 25) 84801144  
Facsimile : (86 25) 84820729  
Email Address : dms@panda.cn
4. Registered Address : Level 1-2, Block 05, North Wing,  
Nanjing High and New Technology  
Development Zone, Nanjing, the PRC  
Office and Correspondence Address : 301 Zhongshan Road East, Nanjing, the PRC  
Postal Code : 210002  
International Web Site : <http://www.panda.cn>
5. Designated Newspaper for : Shanghai Securities News, China Securities Journal  
Information Disclosure  
International Websites for the publication : Shanghai Stock Exchange  
of the Company's Annual Report : <http://www.sse.com.cn>  
and information disclosure : The Stock Exchange of Hong Kong Limited  
<http://www.hkex.com.hk>  
Place for Inspection of the Company's : Office of Secretary of the Board of Directors  
Annual Report and documents : 301 Zhongshan Road East, Nanjing, the PRC  
available for inspection
6. Stock Exchange, Stock Abbreviation :  
and Stock Codes  
H Shares : The Stock Exchange of Hong Kong Limited  
Stock abbreviation : Nanjing Panda  
Stock code : 0553  
A Shares : Shanghai Stock Exchange  
Stock abbreviation : Nanjing Panda  
Stock code : 600775  
Share Registrars and Transfer Office :  
H Shares : Hong Kong Registrars Limited  
46th Floor, Hopewell Centre,  
183 Queen's Road East, Hong Kong  
A Shares : China Securities Depository and  
Clearing Corporation Limited Shanghai Branch  
36/F, China Insurance Building,  
166 East Lu Jia Zui Road,  
Xin Qu, Pudong, Shanghai, the PRC  
Name of Custodian in respect of : China Securities Depository and  
the Non-circulating Shares of : Clearing Corporation Limited Shanghai Branch  
the Company : 36/F, China Insurance Building,  
166 East Lu Jia Zui Road,  
Xin Qu, Pudong, Shanghai, the PRC

## Basic Corporate Information (Continued)

### (I) Corporate Information (Continued)

7.	First Registration Date: 29 April 1992	Place of registration: Nanjing, the PRC
1st Change	Date of Change in Registration Place of Change in Registration Legal Person Business License Registration Number of the Company Taxation Registration Number Organization Code	5 October 1996 Nanjing, the PRC Qi gu su ning zong zi No. 003967 320134134974572 13497457-2
2nd Change	Date of Change in Registration Place of Change in Registration Legal Person Business License Registration Number of the Company Taxation Registration Number Organization Code	18 April 1997 Nanjing, the PRC Qi gu su ning zong zi No.003967 320134134974572 13497457-2
3rd Change	Date of Change in Registration Place of Change in Registration Legal Person Business License Registration Number of the Company Taxation Registration Number Organization Code	2 April 1998 Nanjing, the PRC Qi gu su ning zong zi No.003967 320134134974572 13497457-2
4th Change	Date of Change in Registration Place of Change in Registration Legal Person Business License Registration Number of the Company Taxation Registration Number Organization Code	31 August 1998 Nanjing, the PRC Qi gu su ning zong zi No.003967 320134134974572 13497457-2
5th Change	Date of Change in Registration Place of Change in Registration Legal Person Business License Registration Number of the Company Taxation Registration Number Organization Code	4 September 1998 Nanjing, the PRC Qi gu su ning zong zi No.003967 320134134974572 13497457-2
6th Change	Date of Change in Registration Place of Change in Registration Legal Person Business License Registration Number of the Company Taxation Registration Number Organization Code	22 June 1999 Nanjing, the PRC Qi gu su ning zong zi No.003967 320100400008823 13497457-2

## Basic Corporate Information (Continued)

### (I) Corporate Information (Continued)

7. First Registration Date: 29 April 1992 Place of registration: Nanjing, the PRC (Continued)

7th Change	Date of Change in Registration	14 September 1999
	Place of Change in Registration	Nanjing, the PRC
	Legal Person Business License Registration Number of the Company	320100400008823
	Taxation Registration Number	320134134974572
	Organization Code	13497457-2
8th Change	Date of Change in Registration	16 February 2009
	Place of Change in Registration	Nanjing, the PRC
	Legal Person Business License Registration Number of the Company	320100400008823
	Taxation Registration Number	320134134974572
	Organization Code	13497457-2
9th Change	Date of Change in Registration	14 July 2009
	Place of Change in Registration	Nanjing, the PRC
	Legal Person Business License Registration Number of the Company	320100400008823
	Taxation Registration Number	320134134974572
	Organization Code	13497457-2
10th Change	Date of Change in Registration	2 September 2010
	Place of Change in Registration	Nanjing, the PRC
	Legal Person Business License Registration Number of the Company	320100400008823
	Taxation Registration Number	320134134974572
	Organization Code	13497457-2
Latest Change	Date of Change in Registration	28 November 2011
	Place of Change in Registration	Nanjing, the PRC
	Legal Person Business License Registration Number of the Company	320100400008823
	Taxation Registration Number	320134134974572
	Organization Code	13497457-2

8. Principal Bankers : Bank of Communications  
China Merchants Bank  
Bank of Nanjing  
Hua Xia Bank

## Basic Corporate Information (Continued)

### (I) Corporate Information (Continued)

9. Auditors : Hong Kong  
Baker Tilly Hong Kong Limited  
2nd Floor, 625 King's Road,  
North Point, Hong Kong  
Signing accountant: Mr. Edmond Chan
- The PRC  
Baker Tilly China  
Room 208-210,  
No. 19 Chegongzhuang Road Yi  
Haidian District  
Beijing, the PRC  
Signing accountants:  
Mr. Wang Chuanbang and Mr. Xu Xinyi
10. Legal Advisers : Hong Kong  
Philip K. H. Wong,  
Kennedy Y. H. Wong & Co., Solicitors  
23rd Floor, Admiralty Centre Tower II,  
18 Harcourt Road, Queensway, Hong Kong
- The PRC  
Yongheng Partners  
13/F, Changfa Science & Technology Building,  
222 Zhujiang Road, Nanjing, the PRC

### (II) Corporate Profile

The Company was established in April 1992 after the reorganization of the original Panda Electronics Group Company. The history of the Company can be traced back to 1936 and is the earliest electronics enterprise in the PRC. Shares of the Company were listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange on 2 May 1996 and 18 November 1996 respectively. The Company engages in research and development, manufacture and sales of telecommunication equipments, electronic equipments as well as provision of technological services. Its registered trademark is "PANDA" which is the first "well known trademark in the PRC" in the electronics information industry in the country. The Company owns 3 State-level engineering technology development centres and is a State-level high and new-tech enterprise. The Company holds 27% equity interest in Nanjing Ericsson Panda Communication Co., Ltd. and 20% equity interest in Beijing SE Putian Mobile Communication Co., Ltd., and gains on investment in these two companies are important sources of profits for the Company.

The Company's development strategy: By fully practicing the scientific outlook on development, and adjusting the industrial structure, corporate structure, assets structure and talents structure, the Company will accomplish industrial transformation and upgrading, build a brand-new marketing platform to boost its products sales capabilities, strengthen management of and services for joint ventures, exercise its financing function in the capital market, enhance its capability for sustained development and fulfill rapid and robust growth by fully leveraging existing resources and committing itself to technological innovation, management innovation and service innovation, striving to build itself into a first-class electronic and equipment products manufacturer and service provider in the PRC, and enjoys extensive reputation worldwide.

# Accounting Data and Financial Indicators Highlights

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

1. Profits of the Company during the year:

Unit: RMB'000

Items	Amount
Operating Profit	122,983.47
Total Profit	132,930.16
Net profit attributable to shareholders of the Company	110,070.23
Net profit attributable to shareholders of the Company after extraordinary items	104,142.13
Net cash flow from operations	-189,911.76

2. Major accounting data and financial indicators for the three years ended 31 December 2011

2.1 Principal accounting data

Unit: RMB'000

	2011	2010		Increase/ decrease from last year (%) (After the Adjustment)	2009	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Total operating income	<b>2,142,395.29</b>	1,694,020.60	1,674,972.07	26.47	1,301,262.89	1,284,864.42
Operating profit	<b>122,983.47</b>	556.51	1,964.26	21,999.06	-5,430.71	-5,850.72
Total profit	<b>132,930.16</b>	24,343.62	24,122.87	446.06	32,271.85	31,398.25
Net profit attributable to shareholders of the Company	<b>110,070.23</b>	9,359.54	9,192.40	1,076.02	16,303.67	15,525.67
Net profit attributable to shareholders of the Company after extraordinary items	<b>104,142.13</b>	-11,282.47	-11,282.47	N/A	-21,271.22	-21,271.22
Net cash flow from operating activities	<b>-189,911.76</b>	-164,739.89	-163,351.41	N/A	248,016.86	247,497.97

	As of the end of 2011	As of the end of 2010		Increase/ decrease from last year (%)	As of the end of 2009	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Total assets	<b>2,713,131.16</b>	2,574,845.81	2,561,842.57	5.37	2,467,571.32	2,456,940.25
Total liabilities	<b>1,117,689.57</b>	1,087,788.02	1,079,123.69	2.75	985,090.91	980,150.33
Equity attributable to shareholders of the Company	<b>1,587,039.95</b>	1,479,742.18	1,476,137.18	7.25	1,469,690.79	1,465,004.52
Total share capital (shares)	<b>655,015,000</b>	655,015,000	655,015,000	0	655,015,000	655,015,000



# Accounting Data and Financial Indicators Highlights *(Continued)*

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

2. Major accounting data and financial indicators for the three years ended 31 December 2011 *(Continued)*

2.2 Key financial indicators

*Unit: RMB*

	2011	2010		Increase/ decrease from last year (%) (After the Adjustment)	2009	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Basic earnings per share	<b>0.17</b>	0.01	0.01	1,076.02	0.02	0.02
Diluted earnings per share	<b>0.17</b>	0.01	0.01	1,076.02	0.02	0.02
Basic earnings per share after extraordinary items	<b>0.16</b>	-0.02	-0.02	N/A	-0.03	-0.03
Weighted average return on net assets (%)	<b>7.17</b>	0.63	0.62	Increased by 6.54 percentage points	1.08	1.04
Weighted average return on net assets after extraordinary items (%)	<b>6.77</b>	-0.76	-0.77	N/A	-1.44	-1.44
Net cash flow from operating activities per share	<b>-0.29</b>	-0.25	-0.25	N/A	0.38	0.38

	As of the end of 2011	As of the end of 2010		Increase/ decrease from last year (%) (After the Adjustment)	As of the end of 2009	
		After the adjustment	Before the adjustment		After the adjustment	Before the adjustment
Net assets attributable to shareholders of the Company per share	<b>2.42</b>	2.26	2.25	7.25	2.24	2.24
Gearing ratio	<b>41.20%</b>	42.25%	42.12%	Decreased by 1.05 percentage points	39.92%	39.89%

## Accounting Data and Financial Indicators Highlights *(Continued)*

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

### 3. Items of extraordinary items

*Unit: RMB'000*

Items	2011	2010	2009
Gains and losses from disposal of non-current assets	<b>937.08</b>	-11,520.51	7,860.08
Government grants (except for the grants which are closely related to the Company's business and have the standard amount and quantities in accordance with the national standard) included in to gains and losses for the period	<b>4,513.61</b>	27,784.40	23,220.25
Net profits and losses of subsidiaries as a result of merge of enterprises under common control from the beginning of the period to the date of merger	<b>-2,441.88</b>	208.93	4,871.59
Other non-operating net income and expenses other than the aforesaid items	<b>3,478.32</b>	5,101.41	5,418.83
Impact on enterprise income tax	<b>-801.90</b>	252.68	-2,633.62
Net extraordinary profit and loss attributable to minority shareholders	<b>242.87</b>	-1,184.90	-1,162.24
Total	<b>5,928.10</b>	20,642.01	37,574.89

# Accounting Data and Financial Indicators Highlights *(Continued)*

## (II) Prepared in accordance with Hong Kong Financial Reporting Standards

The following is a summary of the consolidated results of the Group for each of the five years ended 31 December 2011 and the combined pro forma results of the Group for the year ended 31 December 2010 prepared on the basis that the Group's current structure had been in existence from the year ended 31 December 2006.

*Unit: RMB'000*

	2011	2010 (restated)	2009	2008	2007
Turnover	<b>2,115,641</b>	1,664,885	1,267,295	1,264,233	994,038
Operating profit (loss)	<b>-33,649</b>	-47,864	-82,618	-107,415	-64,333
Share of results of associated companies	<b>188,191</b>	91,047	147,273	201,284	247,405
Profit (loss) before taxation	<b>132,930</b>	24,343	31,398	49,789	122,476
Taxation	<b>-16,835</b>	-16,599	-12,374	-6,568	-2,665
Profit (loss) after taxation	<b>116,095</b>	7,744	19,024	43,221	119,811
Minority interests	<b>-6,025</b>	1,615	-3,498	-2,657	-7,816
Profit (loss) attributable to shareholders	<b>110,070</b>	9,359	15,526	40,564	111,995
Proposed final dividends	<b>32,751</b>	—	—	—	52,401

Summary of the total assets and liabilities for each of the five years ended 31 December 2011

*Unit: RMB'000*

	2011	2010 (restated)	2009 (restated)	2008	2007
Total assets	<b>2,713,131</b>	2,574,847	2,467,572	2,686,015	2,835,943
Total liabilities	<b>1,117,689</b>	1,087,789	985,091	1,098,031	1,188,165
Total net assets	<b>1,595,442</b>	1,487,058	1,482,481	1,587,984	1,647,778

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

# Changes in Share Capital and Information of Shareholders

## (I) Changes in shareholdings during the reporting period

Unit: Shares

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

### Notes:

- (1) During the reporting period, there is no change in the total number of the Company's shares and the shareholding structure. The Company did not repurchase, sell or redeem its listed securities.
- (2) As at 29 March 2012, the most practicable and recent date for the announcement of the Annual Report, based on information that is publicly available to the Company and so far as the Directors are aware, the Company has complied with the requirements of The Stock Exchange of Hong Kong Limited in relation to sufficient public float.
- (3) As at 31 December 2011, there was no shareholder of the Company who holds shares subject to trading moratorium (limited to the shares involved in the share reform scheme). There is no change to the shares subject to trading moratorium held by the Directors, Supervisors and senior management of the Company.

# Changes in Share Capital and Information of Shareholders (Continued)

## (II) Securities in issue and listings

### 1. Shares in issue and listings

	H Shares	A Shares
Date of issue	24 April- 2 May 1996	7-18 November 1996
Par value	RMB1.00 per share	RMB1.00 per share
Issue price	HK\$2.13 per share	RMB5.10 per share
Number of shares issued ( <i>share</i> )	242,000,000	23,000,000
Date of listing	2 May 1996	18 November 1996
Place of listing	Hong Kong	Shanghai
Aggregate number of shares permitted to be traded ( <i>shares</i> )	242,000,000	413,015,000
Opening price on the first trading day of listing	HK\$2.05	RMB11.00
Opening price on the first trading day of the year	HK\$2.19	RMB8.49
Closing price on the last trading day of the year	HK\$1.36	RMB5.30
The highest price during the year	HK\$2.49	RMB8.97
The lowest price during the year	HK\$1.08	RMB5.05
Total transaction volume during the year ( <i>0'000 Shares</i> )	12,883.74	43,138.08

### 2. Issue of shares during the past three years

During the past three years ended 31 December 2011, the Company did not issue new shares or place new shares for listing, etc.

### 3. Existing internal employee's share

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

## (III) Details of the Shareholders

As at 31 December 2011, The total number of shareholders, the number of shares held by the top ten shareholders and holders of shares not subject to trading moratorium of the Company are as follows:

Unit: Shares

Total number of shareholders as at the end of the reporting period	:	20,050, including 20,000 A share holders and 50 H share holders
Total number of shareholders as at the end of the month prior to the publication of this announcement	:	19,690, including 19,639 A share holders and 51 H share holders

# Changes in Share Capital and Information of Shareholders (Continued)

## (III) Details of the Shareholders (Continued)

### Details of the top ten shareholders

Name of shareholders	Type of shareholders (State-owned or foreign shareholders)	Percentage of shareholding (%)	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
PEGL	State-owned shareholder	51.10	334,715,000	0	167,350,000
HKSCC (Nominees) Limited	Foreign shareholder	36.75	240,729,599	0	Unknown
Huang Jitang	Others	0.331	2,170,081	0	Unknown
Peng Hongwan	Others	0.177	1,161,026	0	Unknown
Nanjing Changtai Electronic Technology Company Limited	Others	0.153	1,000,000	0	Unknown
Zheng Xinhua	Others	0.098	640,000	0	Unknown
Yang Chunyan	Others	0.071	466,854	0	Unknown
Wang Caihong	Others	0.070	459,486	0	Unknown
Rong Tao	Others	0.061	397,600	0	Unknown
Zhang Likun	Others	0.059	388,769	0	Unknown

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

Name of shareholders	Number of shares held not subject to trading moratorium	Class of shares
PEGL	334,715,000	A
HKSCC (Nominees) Limited	240,729,599	H
Huang Jitang	2,170,081	A
Peng Hongwan	1,161,026	A
Nanjing Changtai Electronic Technology Company Limited	1,000,000	A
Zheng Xinhua	640,000	A
Yang Chunyan	466,854	A
Wang Caihong	459,486	A
Rong Tao	397,600	A
Zhang Likun	388,769	A

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

#### Notes:

- Among the shareholders named above, PEGL held 334,715,000 shares of the Company on behalf of the State, representing 51.10% of the issued share capital of the Company, which were circulating shares not subject to trading moratorium. Among the shares held by PEGL, 167,350,000 shares were pledged on 28 November 2011.  
(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 1 December 2011, and on the websites of the Hong Kong Stock Exchange and the Company on 30 November 2011.)
- HKSCC (Nominees) Limited held 240,729,599 H Shares, 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 the total share capital issued by the Company.

## Changes in Share Capital and Information of Shareholders (Continued)

### (IV) Information of the controlling shareholders and the de facto controllers of the Company

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

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

The predecessor of PEGL was established in 1936, which was converted into a limited company upon approval by the Nanjing Municipal Government on 5 July 1999 and subsequently completed the conversion of indebtedness into equity interests on 4 June 2003. The registered capital of PEGL is RMB1,266,060,000 and its shareholders include China Huarong Assets Management Company, representing 36.84% of the share capital, Nanjing Xingang Development Corporation (南京新港開發總公司), representing 22.07% of the share capital, Jiangsu Provincial Guo Xin Asset Management Group Ltd (江蘇省國信資產管理集團有限公司), representing 21.59% of the share capital, China Construction Bank Corporation (中國建設銀行股份有限公司), representing 8.21% of the share capital, China Great Wall Asset Management Corporation (中國長城資產管理公司), representing 6.31% of the share capital, Nanjing Municipal Stateowned Assets Operation (Holding) Company (南京市國有資產經營(控股)有限公司), representing 4.32% of the share capital, and China Cinda Assets Management Company (中國信達資產管理公司), representing 0.66% of the share capital. The legal representative was Mr. Xu Guofei. PEGL is engaged in the development, manufacture and sales of telecommunication equipment, computer and other electronic equipment, electrical machinery and apparatus, as well as selling self developed and produced products and providing related technical services, etc. Its Organization Code is 13488315-2.

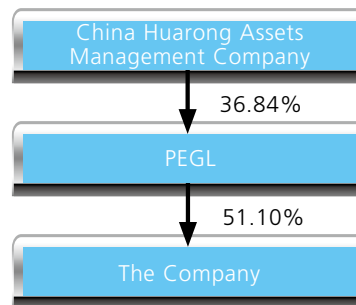
*Note:* During the reporting period, NEIC and China Cinda Asset Management Co., Ltd. (Jiangsu Branch) (中國信達資產管理股份有限公司江蘇省分公司) (“Jiangsu Cinda”) entered into an equity transfer agreement, pursuant to which Jiangsu Cinda transfers 8.87% of equity interest held by it in PEGL (including the 8.21% held by China Construction Bank Corporation) to NEIC. (For details, please refer to the relevant announcement published in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 30 December 2011 and on the websites of Hong Kong Stock Exchange and the Company on 29 December 2011.) PEGL is going through the registration procedure with the administration for industry and commerce.

2. China Huarong Assets Management Company, the de facto controller of the Company, was established on 1 November 1999, with a registered capital of RMB10 billion. Its legal representative is Lai Xiaomin and the registration Code is 72057964-7. Its principal operations are acquisition and operation of the assets disposed of by Industrial and Commercial Bank of China, demand for the payment of debt, re-allocation, transfer and sales of assets, debt restructure and corporate restructure, debt-equity swap and phase by phase shareholdings, securitization of assets and other operations approved by financial regulatory authorities. It holds 36.84% of shares in PEGL through debt-equity swap.

# Changes in Share Capital and Information of Shareholders (Continued)

## (IV) Information of the controlling shareholders and the de facto controllers of the Company (Continued)

3 The controlling relationship between the Company and the de facto controller is as follows:



### Notes:

1. Nanjing Electronics Information Industrial Corporation ("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 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) (《關於南京熊貓電子股份有限公司實際控制人變更有關問題的批覆》(國資產權[2009]843號)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, the ultimate controller of the Company will be changed to CEC upon completion of the establishment of NEIIC. The completion of the agreement is still subject to the relevant approval procedures of the CSRC and other relevant 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.

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



## Changes in Share Capital and Information of Shareholders (Continued)

### (IV) Information of the controlling shareholders and the de facto controllers of the Company (Continued)

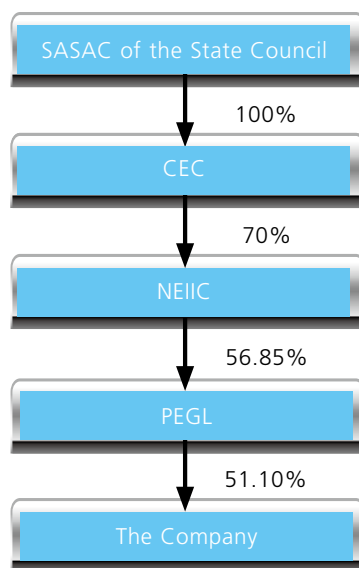
- 3 The controlling relationship between the Company and the de facto controller is as follows: (Continued)

Notes: (Continued)

2. At the beginning of 2012, CEC, Gou Xin Group and Nanjing SASAC entered into a supplemental agreement for the joint investment and restructuring of PEGL (《關於聯合投資重組熊猫集團等企業的補充協議》), pursuant to which, part of the contribution from Gou Xin Group and Nanjing SASAC in kind at RMB1 each in form of their equity interest in PEGL, i.e. 21.59% and 26.39% respectively, was changed to contribution in cash, at RMB1 each. Meanwhile, Gou Xin Group will transfer 21.59% of equity interest held by it in PEGL to NEIC, and Nanjing SASAC will transfer the total equity interest held by it through Nanjing Xingang Development Corporation (南京新港開發總公司) (holding 22.07% of equity interests in PEGL) and Nanjing Municipal State-owned Assets Operation (Holding) Company (南京市國有資產經營(控股)有限公司) (holding 4.32% of equity interests in PEGL) to NEIC with no consideration. The Jiangsu State-owned Assets Supervision and Administration Commission of the People's Republic of China (江蘇省人民政府國有資產監督管理委員會) has approved in its reply the transfer of 22.07%, 21.59% and 4.32% state-owned equity interests in PEGL held by Nanjing Xingang Development Corporation, Gou Xin Group and Nanjing Municipal State-owned Assets Operation (Holding) Company respectively to NEIC with nil consideration.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 6 March 2012 and on the websites of the Hong Kong Stock Exchange and the Company on 7 March 2012.)

Upon completion of the relevant approval procedure, the diagram of property rights and controlling relationship between the Company and the ultimate controller shall become:



## Changes in Share Capital and Information of Shareholders (Continued)

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

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2011.

# Profiles of Directors, Supervisors, Senior Management and Staff

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

### 1. Executive Directors

**Mr. LAI Weide**, born in 1958, is a senior accountant and holds a master's degree. Mr. Lai has served as Deputy Director-General and Director-General of the Ministry of Machine-Building and Electronics Industry of the PRC, Deputy Head and Head of the Assets and Finance Department of China Electronics Corporation and General Manager of Nanjing Electronics Information Industrial Corporation etc. He is now a Deputy General Manager of China Electronics Corporation, the Chairman of Nanjing Electronics Information Industrial Corporation, the Chairman of Panda Electronics Group Limited and the Chairman of Nanjing Panda Electronics Company Limited. He has engaged in the work of operation and management in central enterprises for a long period and has substantial experience in business management.

**Mr. XU Guofei**, born in 1962, is a senior post-graduate engineer and holds a bachelor degree. Mr. Xu has served as standing Deputy Manager of the Communication Equipment Department and General Manager of the Military Communications Department of PEGE, Deputy General Manager of PEGE and Deputy General Manager of NEIC etc. Mr. Xu is the General Manager of NEIC, the general manager of Nanjing China Electronics Panda LCD Technology Co., Ltd., the general manager of PEGE and the Vice Chairman of Nanjing Panda Electronics Company Limited. Mr. Xu has engaged in the work of development and management of communication technology for a long period and has extensive knowledge of electronics technology and experience in management.

### 2. Non-executive Directors

**Mr. ZHU Lifeng**, born in 1964, is a senior post-graduate engineer and holds a doctoral degree in management. Mr. Zhu has served as Deputy Manager of the Instruments and Meters Department and Manager of the Science and Technology Department of PEGE and the deputy general manager of Panda Electronics Group Limited etc. He is now a Deputy General Manager of PEGE, the Chairman of Nanjing Huaxian High Technology Company Limited and standing Deputy General Manager of Nanjing China Electronics Panda LCD Technology Co., Ltd. Mr. Zhu has engaged in the work of technological development and management for a long period and possesses extensive knowledge of electronics and experience in operation and management.

**Mr. DENG Weiming**, born in 1964, is a senior engineer and holds a master's degree. Mr. Deng has served in PEGE as Office Head, Deputy Head and Head of the First Design Institute, General Manager of Communications Department and Deputy General Manager of PEGE. He is now a Deputy General Manager of PEGE, a director and the General Manager of Nanjing CEC-Panda Home Appliances Co., Ltd. and the General Manager of Nanjing Panda Electronics Imp. & Exp. Co., Ltd. He has engaged in the work of communication technology development and management for a long period and has extensive experience in electronic technology and management.

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

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

### 2. Non-executive Directors (Continued)

**Mr. LU Qing**, born in 1965, is a senior engineer and holds a master's degree. Mr. Lu has served in PEGL as Deputy Head and Head of the Quality Inspection Department of the NFC Production Department, Head of the Quality Inspection Department and the Quality Inspection Department (Second Division) of the Communications Equipment Department, Deputy General Manager, standing Deputy General Manager and General Manager of the Military Communications Department, and General Manager Assistant and Deputy General Manager of PEGL etc. He is now a Deputy General Manager of PEGL, the General Manager of Nanjing Panda Handa Technology Co., Ltd. and Vice-Dean of China Electronics (Nanjing) Hi-Tech Research Institute. Mr. Lu has engaged in the development and management of communication technology for a long period and has extensive experience in the electronics profession and in operation management.

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

### 3. Independent Non-executive Directors

**Ms. ZHANG Xiuhua**, borned in 1945, is a senior accountant, senior auditor, certified public accountant and certified auditor, and is a college graduate. Ms. Zhang has worked as Director-General and Communist Party Committee Secretary of the Auditing Bureau of Nanjing from January 1993 to April 2003 and as Head of the Financial and Economic Committee of Nanjing National People's Congress Standing Committee from January 2003 to June 2008. Ms. Zhang has engaged in finance and auditing work for a long period and has extensive experience in corporate finance management and auditing work.

**Ms. LIU Danping**, born in 1957, is now an economics professor and a mentor of graduate students of the Faculty of Liberal Arts of the Capital University of Economics and Business, the PRC, a professor in the Venture Capital and Internet Economy Research Center and the Climate Change and Low-carbon Economy Research Institute of Renmin University of China. She also serves as independent non-executive director in China National Complete Plant Import and Export Corporation Ltd., Jiangsu Yuyue Medical Equipment Inc. and Focus Technology Co., Ltd. Ms. Liu has engaged in research and education work in financial management, accounting, taxation and finance for a long period and has solid professional knowledge and extensive experience.

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

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

### 3. Independent Non-executive Directors *(Continued)*

**Mr. Chu Wai Tsun**, Vincent, born in 1974, is a Certified Public Accountant in Australia. He obtained a master's degree in finance at the University of New South Wales in 2002. Mr. Vincent Chu served as Audit Manager in PricewaterhouseCoopers from April 2005 to December 2009, and Senior Audit Manager in Baker Tilly HK Limited from January 2009 to June 2010 and has been appointed as the Financial Controller of Eternal Optical & Perfumery (Far East) Limited since July 2010. Mr. Vincent Chu has engaged in auditing and finance work for a long period and has extensive experience in financial management.

### 4. Supervisors

**Ms. ZHANG Zhengping**, born in 1956, is an engineer for political work and an economist, and is a college graduate. Ms. Zhang has served in PEGL as Head of the Inspection and Supervision Office, Deputy Secretary of the Discipline Committee and Head of the Organization Department, Communist Party Committee Secretary and Secretary of the Discipline Committee etc. She is now the Dedicated Manager of PEGL. Ms. Zhang has engaged in corporate management and the Chinese Communist Party for a long period and has extensive knowledge of electronics technology and substantial experience in operation and management.

**Ms. FU Yuanyuan**, born in 1972, is a PRC Certified Public Accountant, an International Certified Internal Auditor and holds a bachelor's degree. Ms. Fu She once served as Deputy Head of the Audit Department, Chief Auditor and Deputy Head of the Supervision and Audit Department of Nanjing Panda Electronics Company Limited and Finance Manager of Nanjing Panda Electronics Manufacturing Co., Ltd. etc. She is now the director of the Supervision and Audit Department of Nanjing Panda Electronics Company Limited. Having worked in the field of corporate internal auditing and financial management for a long period, Ms. Fu has extensive experience in internal control and financial management.

**Mr. ZHOU Yuxin**, born in 1964, is an engineer and holds a bachelor degree. Mr. Zhou has served as Deputy Manager, Manager and Office Head of the labour union of Nanjing Zhenhua Audio Equipment Factory. He is the vice chairman of the labour union of the Nanjing Panda Electronics Company Limited. Mr. Zhou has engaged in the work of corporate management for a long period and has extensive knowledge of and experience in corporate management.

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

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

### 5. Senior management staff

**Mr. XIA Dechuan**, born in 1970, is a senior engineer and holds a master's degree in business administration from the Southeast University. Mr. Xia has served as Deputy Head of the Second NFC Design Institute, Deputy Head and Head of Communications Equipment Company Division I (通信裝備公司一部), Deputy General Manager, Standing Deputy General Manager and General Manager of Nanjing Panda Information Industry Co., Ltd., and Deputy General Manager of Nanjing Panda Electronics Company Limited etc. He is currently the General Manager of Nanjing Panda Electronics Company Limited, and General Manager of Nanjing Panda Information Industry Co., Ltd. Mr. Xia has long been engaged in the management of information technology industries, and has extensive professional knowledge and experience in operation and management.

**Mr. LIU Kun**, born in 1966, is a senior engineer and holds a bachelor's degree. Mr. Liu has served as Deputy Head of the Precision Machinery Department, General Manager of Nanjing Panda Accurate Machinery Co., Ltd., Deputy General Manager and General Manager of Electromechanical Instruments Industrial Corporation (機電儀產業集團), and Deputy General Manager of Nanjing Panda Electronics Company Limited etc. He is currently a Deputy General Manager of Nanjing Panda Electronics Company Limited, and General Manager of Nanjing Panda Electronic Equipment Co., Ltd. Mr. Liu has long been engaged in the development and management of electronic and industrial automation equipment, as well as environmental protection equipment, and has extensive professional knowledge and experience in operation and management.

**Mr. SHEN Jianlong**, born in 1963, is a senior accountant and holds a bachelor's degree. Mr. Shen has served as Director General of the Finance Department, Deputy Head of the Assets and Finance Department, and deputy chief accountant of Nanjing Panda Electronics Company Limited etc. He is currently the Chief Accountant, Secretary to the Board of the Company, and Secretary of Nanjing Panda Electronics Company Limited. Mr. Shen has long been engaged in the management of corporate finance, and has extensive professional knowledge in finance and experience in operation and management.

**Mr. ZHOU Guixiang**, born in 1971, is a senior engineer and holds a bachelor's degree. Mr. Zhou has served as Manager of Electronic Substrate Plant (電子基板廠), Manager of the Surface Mounting Center (表面裝聯中心), General Manager of Electronics Manufacturing Industrial Group (電子製造產業集團), General Manager of Electronic Appliance Industrial Group (家電產業集團), and Assistant to General Manager of Panda Electronics Group Limited etc. He is currently a Deputy General Manager of Nanjing Panda Electronics Company Limited, and General Manager of Nanjing Panda Electronics Manufacturing Co., Ltd. Mr. Zhou has long been engaged in the management of electronics manufacturing and has extensive experience in operation and management.

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

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

As of 31 December 2011, interests of the Directors, Supervisors and senior management staff of the Company in the domestic shares of the Company which were recorded in the register require to be kept by the Company under Section 352 of the Securities and Futures Ordinance (“SFO”) (Chapter 571) are as follows (the nature of such interests is personal interest):

Name	Position	Sex	Age	Term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB'000)	Whether received out of shareholders or connected parties
Lai Weide	Executive Director, Chairman	M	53	2012.03.06-2015.03.05	0	0	—	0	No
Xu Guofei	Executive Director, Vice Chairman	M	49	2012.03.06-2015.03.05	2,546	2,546	—	0	No
Zhu Lifeng	Non-executive Director	M	48	2012.03.06-2015.03.05	4,378	4,378	—	0	No
Deng Weiming	Non-executive Director	M	47	2012.03.06-2015.03.05	0	0	—	36	No
Lu Qing	Non-executive Director	M	47	2012.03.06-2015.03.05	0	0	—	36	No
Hsuan Jason	Non-executive Director	M	67	2012.03.06-2015.03.05	0	0	—	0	No
Zhang Xiuhua	Independent Non-executive Directors	F	67	2012.03.06-2015.03.05	0	0	—	0	No
Liu Daping	Independent Non-executive Directors	F	58	2012.03.06-2015.03.05	0	0	—	0	No
Chu Wai Tsun, Vincent	Independent Non-executive Directors	M	38	2012.03.06-2015.03.05	0	0	—	0	No
Zhang Zhengping	Chairman of the Supervisory Committee	F	55	2012.03.06-2015.03.05	4,648	4,648	—	15	No
Fu Yuan Yuan	Supervisor representing employees	F	40	2012.03.06-2015.03.05	0	0	—	0	No
Zhou Yuxin	Supervisor representing employees	M	47	2012.03.06-2015.03.05	0	0	—	15	No
Xia Dechuan	General Manager	M	41	2012.03.06-2015.03.05	0	0	—	36	No
Liu Kun	Deputy General Manager	M	45	2012.03.06-2015.03.05	0	0	—	30	No
Zhou Guixiang	Deputy General Manager	M	41	2012.03.06-2015.03.05	1,639	1,639	—	30	No
Shen Jianlong	Chief Accountant, Secretary to the Board, the company secretary	M	48	2012.03.06-2015.03.05	0	0	—	30	No
Cai Lianglin	Former Independent Non-executive Directors	M	70	2007.06.12-2010.06.11	0	0	—	0	No
Tang Yousong	Former Independent Non-executive Directors	M	60	2007.06.12-2010.06.11	0	0	—	0	No
Ma Chung Lai, Lawrence	Former Independent Non-executive Directors	M	57	2007.06.12-2010.06.11	0	0	—	6.5	No
Sun Suhua	Former Independent Supervisor	F	69	2007.06.12-2010.06.12	0	0	—	0	No
Wang Fei	Former Independent Supervisor	M	52	2008.12.31-2010.06.12	0	0	—	0	No
Tang Min	Former Supervisor representing employees	F	54	2007.06.12-2010.06.12	0	0	—	10	No
Total					13,211	13,211		244.5	

**Note:**

- As the terms of the Sixth Session of the Board and the Supervisory Committee of the Company expired, the Seventh Session of the Board and the Supervisory Committee were elected at the 2012 first extraordinary general meeting on 6 March 2012. Please refer to (VI) for details of changes and (I) for information of current Directors, Supervisors and senior management members. During the reporting period, the total remunerations of Directors, Supervisors and senior management members were RMB2.445 million, which was within the range approved by the general meeting.
- During the reporting period, the former Independent Non-executive Director Mr. Ma Chung Lai, Lawrence received remuneration of HK\$80,000, equivalent to RMB65,000 translated using the exchange rate of HK dollar against Renminbi as at 30 December 2011.

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

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

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

Save as disclosed above, none of the Directors, Supervisors and senior management staff of the Company or their associates had any interest in the share of the Company or any of its associated corporations (as defined in Part XV of the SFO of Hong Kong Stock Exchange) as of 31 December 2011, and none of the Directors or Supervisors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

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

Name	Name of the Company's Shareholder	Position held in the Company's Shareholder	Term of appointment	Whether receiving remuneration or allowance (Yes or No)
Lai Weide	PEGL	Chairman	From January 2009	No
Xu Guofei	PEGL	General Manager	From September 2004	No
Zhu Lifeng	PEGL	Deputy General Manager	From July 1999	No
Deng Weiming	PEGL	Deputy General Manager	From July 1999	No
Lu Qing	PEGL	Deputy General Manager	From January 2009	No
Zhang Zhengping	PEGL	Dedicated Manager	From March 2011	No

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

Name	Name of other units	Position held	Term of appointment
Lai Weide	CEC	Deputy General Manager	From July 2010
	NEIC	Chairman of the Board of Directors	From July 2010
Xu Guofei	NEIC	General Manager	From July 2010
Zhu Lifeng	Nanjing China Electronics Panda LCD Technology Co., Ltd.	Standing Deputy General Manager	From December 2009
Deng Weiming	Nanjing CEC-Panda Home Appliances Co., Ltd.	General Manager	From June 2009
Hsuan Jason	TPV Technology Limited	Chairman of the Board of Directors and the Chief Executive Officer	From 1990
Liu Danping	the Capital University of Economics and Business	Professor	From August 1984
Chu Wai Tsun, Vincent	Eternal Optical & Perfumery (Far East) Limited	Financial Controller	From July 2010



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

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

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

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

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

1. At the 20th Board meeting of the Sixth Session of the Board convened on 24 October 2011, Mr. Xia Dechuan (夏德傳) was appointed as the general manager and legal representative of the Company for a term of three years, including a probation period of one year.

(For details, please refer to the relevant announcement published in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 25 October 2011 and on the websites of Hong Kong Stock Exchange and the Company on 24 October 2011.)

2. At the extraordinary Board meeting convened on 9 December 2011, Mr. Zhou Guixiang (周貴祥) was appointed as the deputy general manager of the Company for a term of three years (including a probation period of one year).

(For details, please refer to the relevant announcement published in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 10 December 2011 and on the websites of Hong Kong Stock Exchange and the Company on 9 December 2011.)

3. The Independent Non-executive director Mr. Cai Lianglin passed away due to illness.

(For details, please refer to the relevant announcement published in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 15 December 2011 and on the websites of Hong Kong Stock Exchange and the Company on 14 December 2011.)

4. At the 22th meeting of the Sixth Session of the Board of the Company held on 16 January 2012, Mr. Lai Weide, Mr. Xu Guofei, Mr. Zhu Lifeng, Mr. Deng Weiming, Mr. Lu Qing, Mr. Hsuan Jason, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent were nominated as candidates for members of the Seventh Session of the Board and were successfully elected to the Board at the 2012 first extraordinary general meeting of the Company held on 6 March 2012. Their term of offices is three years.

At the 18th meeting of the Sixth Session of the Supervisory Committee of the Company held on 16 January 2012, Ms. Zhang Zhengping was nominated as a candidate for members of the Seventh Session of the Supervisory Committee and Ms. Fu Yuanyuan and Mr. Zhou Yuxin were recognized as Supervisors representing employees of the Seventh Session of the Supervisory Committee. Ms. Zhang Zhengping was elected Supervisor at the 2012 first extraordinary general meeting of the Company held on 6 March 2012. Her term of offices is three years.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 18 January 2012 and 7 March 2012 and on the websites of Hong Kong Stock Exchange and the Company on 17 January 2012 and 6 March 2012.)

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

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

5. Mr. Tang Yousong and Mr. Ma Chung Lai, Lawrence retired as Independent Non-executive directors after their term of office expired.
6. Ms. Tang Min retired as a Supervisor representing employees due to age.
7. Ms. Sun Suhua and Mr. Wang Fei retired as Independent Supervisors of the Company after their term of office expired.

(For details, please refer to the relevant announcement published in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 18 January 2012 and on the websites of Hong Kong Stock Exchange and the Company on 17 January 2012.)

8. At the First meeting of the Seventh Session of the Board of the Company held on 6 March 2012, Mr. Lai Weide and Mr. Xu Guofei were elected the Chairman and Vice-chairman of the Board respectively, Mr. Xia Dechuan as the General Manager of the Company, Mr. Liu Kun and Mr. Zhou Guixiang as Deputy General Managers of the Company and Mr. Shen Jianlong as the Chief Accountant and Secretary to the Board of the Company, all for a term of three years.
9. At the First meeting of the Seventh Session of the Board of the Company held on 6 March 2012, Mr. Lai Weide, Mr. Xu Guofei, Mr. Zhu Lifeng, Mr. Deng Weiming and Mr. Chu Wai Tsun, Vincent were elected members of the Strategy Committee. Mr. Lai Weide was elected the Chairman of the Strategy Committee. Mr. Deng Weiming, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent were elected members of the Audit Committee. Ms. Zhang Xiuhua was elected the Chairman of the Audit Committee. Mr. Lai Weide, Mr. Xu Guofei, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent were elected members of the Nomination Committee. Ms. Liu Danping was elected the Chairman of the Nomination Committee. Mr. Zhu Lifeng, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent were elected members of the Remuneration and Evaluation Committee. Mr. Chu Wai Tsun, Vincent was elected the Chairman of the Remuneration and Evaluation Committee.
10. At the First meeting of the Seventh Session of the Supervisory Committee of the Company held on 6 March 2012, Ms. Zhang Zhengping was elected the Chairman of the Supervisory Committee with a term of three years.

(For details, please refer to the relevant announcement published in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 7 March 2012 and on the websites of Hong Kong Stock Exchange and the Company on 6 March 2012.)

## (VII) Employees of the Company

As at 31 December 2011, there were 3,630 employees in the Company, of which 1,381 were engaged in production, 1,099 in technology, 358 in sales, 156 in finance and 270 in administration and management. Of these employees, 1,431 were graduates of tertiary institutions or above and 82 were masters or doctors. There were 366 retirees, for whom the Company undertook to pay retirement pension.

# Corporate Governance Report

## (I) Corporate Governance

During the reporting period, the Company complied with the relevant laws and regulations including the Company Law, the Securities Law. In accordance with requirements relating to corporate governance and proper operation issued by CSRC and the Securities and Futures Commission of Hong Kong and the requirements of the listing rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange, in view of its own actual situation, the Company continues to supplement and revise relevant corporate systems, improve its corporate governance structure and internal rules and systems and standardize the operation of the Company to meet the regulatory requirements.

During the reporting period, the Company adopted and strived to comply with the Code on 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").

1. The Company established various basic systems such as Rules of Procedure of General Meetings, Rules of Procedure of the Board, Rules of Procedure of the Supervisory Committee, Work System of Independent Directors, Work System of General Manager and Work System of the Secretary to the Board, specifying the terms of reference and operation rules of the shareholders' meeting, the Board, the Supervisory Committee and the operating management. Rights and responsibilities between power institution, decision-making institution, supervisory institution and operating management are clear, and they are operated on a standard basis. Both Directors and Supervisors exercise their own rights and perform their own obligations in accordance with requirements. The Company has established a corporate governance structure according to laws and regulations of mainland China and Hong Kong as well as relevant regulatory requirements to create a scientific and effective a mechanism of responsibilities division and checks and balances. Four special committees including the Strategy Committee, Nomination Committee, Remuneration and Evaluation Committee and Audit Committee were established under the Board and their respective rules of procedures were formulated to ensure the Board makes scientific and accurate decision making. The Company further strengthens the awareness of standardized operation and enhances corporate governance level based on various assignments designed to continuously and deeply conduct special activities of legal person governance.
2. The "Self-assessment Report on the Internal Control of the Company" and the "Report on Performance of Social Responsibilities of the Company" of the Company for year 2010 were considered and passed at the seventeenth meeting of the sixth Board of the Company convened on 25 March 2011. For details, please refer to the relevant announcement published on the websites of Hong Kong Stock Exchange and the Shanghai Stock Exchange on 25 March 2011 and 26 March 2011 respectively.
3. According to the Notice of the State Council on Approving and Forwarding the Opinions of China Securities Regulatory Commission on Improving the Quality of Listed Companies (《國務院批轉證監會關於提高上市公司質量意見的通知》) (Guo Fa [2005] No.34) and the Basic Standards for Enterprise Internal Control (《企業內部控制基本規範》) formulated by the Ministry of Finance, the CSRC, the National Audit Office, China Banking Regulatory Commission and the China Insurance Regulatory Commission and relevant supporting guidelines, in order to standardize the Company's operation, the Board considered and passed the Work Plan for Implementation of Internal Control of Nanjing Panda Electronics Company Limited on 13 April 2011. During the year, the Company phased in steadily the standards for internal control pursuant to the established plan and submitted the two reports on Progress in Internal Control Implementation by Nanjing Panda Electronics Company Limited and on Internal Control Implementation in 2011 by Nanjing Panda Electronics Company Limited to Jiangsu Provincial Regulatory Bureau of CSRC on 29 June 2011 and 30 December 2011 respectively. To apply the standards for internal control and improve the internal control system is conducive to enhancement of overall corporate management and risk prevention capabilities. For details, please refer to the section about internal control.

# Corporate Governance Report (Continued)

## (I) Corporate Governance (Continued)

4. According to the requirement of the Notice on the Promulgation of the Administrative Measures for Secretary of the Board of Directors of Listed Companies (《上海證券交易所上市公司董事會秘書管理辦法》(Amended) (Shang Zheng Gong Zi [2011] No.12) , in order to promote the standardized operation of the Company, the Board considered and passed the Work System of the Secretary to the Board of Nanjing Panda Electronics Company Limited on 12 May 2011. For details of the system, please refer to the information published on the websites of Hong Kong Stock Exchange and the Shanghai Stock Exchange on 12 May 2011 and 13 May 2011 respectively.
5. According to the requirements of the Provisions for Establishing a Registration and Administration System for Persons with Insider Information (《關於上市公司建立內部信息知情人登記管理制度的規定》) promulgated by CSRC (announcement of CSRC [2011] No. 30), in order to further tighten up the management of insider information of the Company, the Board considered and passed the Administration System for Persons with Insider Information of Nanjing Panda Electronics Company Limited on 14 December 2011. For details of the system, please refer to the information published on the websites of Hong Kong Stock Exchange and the Shanghai Stock Exchange on 14 December 2011 and 15 December 2011 respectively.
6. During the reporting period, the Company amended the Articles of Association, Rules of Procedure of the Board and Work System of Independent Directors in light of its own actual situation. For details, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Shanghai Stock Exchange on 21 October 2011 and 22 October 2011 respectively. In January 2012, the Company amended the Rules of Procedure of the Supervisory Committee and the Rules of Procedure of General Meetings in light of its own actual situation. For details, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Shanghai Stock Exchange on 17 January 2012, 18 January 2012 and 19 January 2012 respectively.
7. In order to improve the quality of information disclosure and ensure the truthfulness, accuracy and completeness of the information disclosed in the annual report, the Company established an Accountability System for Major Disclosure Errors in Annual Report. The Board of the Company would impose administrative or financial penalties on relevant responsible persons according to the seriousness of the matter, e.g. correction of major accounting errors and supplementation of omitted major information and correction of results prediction, which take place in the information disclosure in the annual report.
8. As a company listed both in China and Hong Kong, the Company considered and passed the "Self-assessment Report on the Internal Control of the Company" and the "Report on Performance of Social Responsibilities of the Company" for 2011 and the Audit Report on Internal Control of Financial Report issued by the certified public accountant at the 2nd meeting of the seventh Board of the Company held on 29 March 2012. For details, please refer to the relevant announcement published on the websites of Hong Kong Stock Exchange and the Shanghai Stock Exchange on 29 March 2012 and 30 March 2012 respectively.

# Corporate Governance Report (Continued)

## (II) Securities Transactions by Directors

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

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

## (III) The Board

### 1. Board Composition

During the reporting period, the sixth Board continued to hold office and its Board members were elected at the annual general meeting held on 12 June 2007. Former Directors, Ms. Liu Ailian, Mr. Li Anjian and Mr. Shi Qiusheng, resigned from their positions as Directors of the Company on 14 December 2009, 22 March 2010 and 9 April 2010 respectively due to age or job re-allocation arrangement; while Mr. Hsuan Jason, Mr. Lai Weide and Mr. Deng Weiming were elected Directors of the sixth Board of the Company at the 2009 first extraordinary general meeting and 2010 first extraordinary general meeting held on 23 December 2009 and 28 May 2010 respectively. During the reporting period, Mr. Cai Lianglin, a former Independent Non-executive Director of the Company, passed away due to illness in December 2011. Other Directors remained unchanged.

The seventh Board, which was elected at the 2012 first extraordinary general meeting held on 6 March 2012 comprises nine Directors, three of whom are Independent Non-executive Directors (including a certified public accountant). The biographies of serving Director are set out in Section V headed “Profiles of Directors, Supervisors, Senior Management and Staff” of the Annual Report.

#### **Executive Director**

Mr. Lai Weide (*Chairman*)  
Mr. Xu Guofei (*Vice Chairman*)

#### **Non-executive Director**

Mr. Zhu Lifeng  
Mr. Deng Weiming  
Mr. Lu Qing  
Mr. Hsuan Jason

#### **Independent Non-executive Directors**

Ms. Zhang Xiuhua  
Ms. Liu Danping  
Mr. Chu Wai Tsun, Vincent

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

# Corporate Governance Report (Continued)

## (III) The Board (Continued)

### 2. Nomination of Directors

The sixth Board established the sixth Nomination Committee on 12 June 2007 which comprised Mr. Li Anjian, Mr. Xu Guofei, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong. Mr. Tang Yousong was the Chairman. During the reporting period, the former member of the Nomination Committee, Mr. Li Anjian resigned as a member of the Nomination Committee on 22 March 2010 due to job re-allocation arrangement.

On 6 March 2012, the seventh Board established the seventh Nomination Committee chaired by Ms. Liu Danping and comprising Mr. Lai Weide, Mr. Xu Guofei, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent.

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

During the reporting period, the sixth Nomination Committee convened two meetings by way of written resolutions in accordance with the Articles of Association and Rules of Procedures of Nomination Committee. All members of the committee participated in the meeting at which it was resolved to propose the nomination of Mr. Xia Dechuan and Mr. Zhou Guixiang as candidates for General Manager and Deputy General Manager of the Company. The proposal was submitted to the Board for discussion.

In 16 January 2012, the sixth Nomination Committee of the Board held a meeting in the second conference room of the Company. Mr. Ma Chung Lai, Lawrence appointed Mr. Tang Yousong to attend and exercise the rights of members at the meeting on his behalf. At the meeting, it was resolved to propose the nomination of Mr. Lai Weide and Mr. Xu Guofei as candidates for Executive Directors of the seventh Board of the Company, the nomination of Mr. Zhu Lifeng, Mr. Deng Weiming, Mr. Lu Qing and Mr. Hsuan Jason as candidates for Non-executive Directors of the Seventh Session of the Board of the Company and the nomination of Ms. Zhang Xiuhua, Ms. Liu Danping and Chu Wai Tsun, Vincent as candidates for Independent Non-executive Directors of the Seventh Session of the Board of the Company. The proposal was submitted to the Board for discussion.

In March 2012, the seventh Nomination Committee of the Board held a meeting in the second conference room of the Company. All members of the committee attended the meeting at which it was resolved to propose the nomination of Mr. Xia Dechuan as the candidate for the General Manager of the Company, the nomination of Mr. Liu Kun and Mr. Zhou Guixiang as candidates for Deputy General Managers of the Company and the nomination of Mr. Shen Jianlong as the candidate for the chief accountant and secretary to the Board. The proposal was submitted to the Board for discussion.

# Corporate Governance Report (Continued)

## (III) The Board (Continued)

### 3. Chairman and Chief Executive Officer

The main duties of Chairman of the Board are to preside at the shareholder's meeting and convene the Board meetings, and to inspect the actual implementation of resolutions passed by the Board. (Details are set out in the Article 135 of Chapter 10 of the Articles of Association.) Mr. Lai Weide was elected the Chairman of the Board of the Company at the 1st meeting of the Seventh Session of the Board held on 6 March 2012.

General Manager (Chief Executive Officer) is responsible to the Board. His principal duties include presiding over the production, operation and management of the Company, to organize the implementation of resolutions of the Board, to organize the implementation of the annual operation plan and investment proposal. (Details were set out in the Article 153 of Chapter 12 of the Articles of Association.) Mr. Xia Dechuan was appointed and re-appointed as the General Manager of the Company at the 22nd meeting of the Sixth Session of the Board on 24 October 2011 and at the First meeting of the seventh Board on 6 March 2012 respectively.

### 4. Board Practices

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

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

The Board of the Company held five meetings in 2011 (details are set out in Section IX headed "Report of the Board" of the Annual Report) and the attendance of each director is as follows:

Name of Directors	Being an Independent Non-executive Director or not	Required attendances at the Board meetings	Attendances in person	Attendances by proxy	Absences	Failure to attend two consecutive meetings in person or not
Lai Weide	No	5	5	0	0	No
Xu Guofei	No	5	5	0	0	No
Zhu Lifeng	No	5	5	0	0	No
Deng Weiming	No	5	4	1	0	No
Lu Qing	No	5	5	0	0	No
Hsuan Jason	No	5	4	1	0	No
Cai Lianglin	Yes	5	5	0	0	No
Tang Yousong	Yes	5	5	0	0	No
Ma Chung						
Lai, Lawrence	Yes	5	4	1	0	No

# Corporate Governance Report (Continued)

## (III) The Board (Continued)

### 5. Performance of Duties by Independent Non-executive Directors

During the reporting period, the three Independent Non-executive Directors of Company diligently carried out their duties in accordance with the relevant laws, regulations and the Articles of Association. They participated in Board Meetings for the decision-making on material events. With their professional knowledge and experience, the Independent Non-executive Directors did a great deal of work regarding the Company's standardized operation and major decisions, provided pertinent and objective opinions in respective relevant matters and made active contributions to protect the overall interests of the Company and the legitimate rights of shareholders as a whole and promote the development of the Company.

During the reporting period, Independent Non-executive Directors discussed, reviewed and provided independent opinions on significant matters such as the Company's appointment of accounting firms to audit the annual report and internal control, proposal for profit distribution, provision of guarantee for controlled subsidiaries, whether the connected transaction regarding acquisition of equity interests qualified for exemption from requirements of the stock exchange, nomination of candidates for Directors of the new session of the Board, appointment of senior management members and whether continuing connected transactions were fair.

In March 2012, the three Independent Non-executive Directors of the Seventh Session of the Board participated in the work of Audit Committee to audit the Company's financial statements. During the preparation and disclosure of the 2011 Annual Report of the Company, the Independent Non-executive Directors had diligently fulfilled their duties and obligations. They have considered the reports submitted by the management regarding the Company's production and operation as well as the development of significant events for the year. On-site inspections of certain subsidiaries were conducted. They also communicated with certified public accountants for annual auditing, reviewed the relevant information and provided comments and advices.

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

### 6. Directors' Responsibility for the Financial Statements

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

### 7. Remuneration of Directors

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

The Seventh Session of the Board established the Seventh Remuneration and Evaluation Committee on 6 March 2012, which comprises Mr. Zhu Lifeng, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent. Mr. Chu Wai Tsun, Vincent is the Chairman.



# Corporate Governance Report (Continued)

## (III) The Board (Continued)

### 7. Remuneration of Directors (Continued)

Roles and functions of the Remuneration and Evaluation Committee include formulating and reviewing remuneration policies and proposal of Directors and the senior management and developing relevant appraisal standards and conducting appraisals. The Remuneration and Evaluation Committee convened a meeting on 29 March 2012 during the reporting period. During the meeting appraisals of the Directors, Supervisors and the senior management of the Company were conducted and their remunerations were reviewed. The remuneration of Directors, Supervisors and the senior management for the reporting period were set in accordance with the results of appraisals. The remuneration of Directors is set out in Section V headed "Profiles of Directors, Supervisors, Senior Management and Staff" in this Annual Report.

## (IV) Audit Committee

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

The Board established the Sixth Audit Committee on 12 June 2007 which comprised Ms. Liu Ailian, Mr. Shi Qiusheng, Mr. Cai Lianglin, Mr. Ma Chung Lai, Lawrence and Mr. Tang Yousong. Mr. Cai Lianglin was the Chairman. Ms. Liu Ailian and Mr. Shi Qiusheng, the former members of the Audit Committee resigned as members of the Audit Committee on 14 December 2009 and 9 April 2010 due to age and job re-allocation respectively.

The Seventh Session of the Board established on 6 March 2012 the Seventh Audit Committee consisting of Mr. Deng Weiming, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Chu Wai Tsun, Vincent and chaired by Ms. Zhang Xiuhua.

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

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

1. The first meeting of 2011 was convened on 24 March 2011. All members of the Audit Committee attended the meeting to review the 2010 financial and accounting reports and the summary report on audit conducted by the accounting firms for the year and agreed to submit the same to the Board for consideration. The reappointment of Baker Tilly China (formerly known as Vocational International Certified Public Accountants Co., Ltd) and Baker Tilly Hong Kong Limited as the Company's domestic and international auditors for 2011 was resolved at the meeting and it was agreed to submit the relevant proposal to the Board for consideration.
2. The second meeting of 2011 was convened by way of written resolutions on 30 August 2011. All members of the Audit Committee attended the meeting to review the 2011 interim financial report of the Company, agreed to submit the same to the Board for consideration.

## Corporate Governance Report (Continued)

### (IV) Audit Committee (Continued)

During the preparation and disclosure of the 2011 financial report, the Audit Committee had conducted various communications and coordination with the Company's certified public accountants for annual auditing in accordance with the "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report". The Audit Committee reviewed and agreed with the "2011 Overall Audit Plan" submitted by the certified public accountants for annual auditing, and confirmed the schedule of the financial report for this year. The Audit Committee requested full attention and diligent performance from the accountants and the finance department of the Company in preparing the 2011 financial report and comply with regulations of regulatory authorities and the new accounting standards. The financial conditions and operating results of the Company in 2011 were reflected in an objective and fair manner. The Audit Committee also advised and recommended on significant audit issues that worth attention.

The Audit Committee convened a meeting on 28 March 2012. All members of the Audit Committee attended the meeting to review the 2011 financial report and the summary report on the 2011 annual audit conducted by the accounting firms and agreed to submit such reports to the Board for consideration. In addition, the re-appointment of Baker Tilly China and Baker Tilly Hong Kong Limited as the Company's PRC and international auditors for 2012 was approved at the meeting and was submitted to the Board for consideration.

### (V) Strategy Committee

The Company established the Strategy Committee of the sixth Board on 12 June 2007. Members included Mr. Li Anjian, Mr. Xu Guofei, Ms. Liu Ailian, Mr. Zhu Lifeng, Mr. Shi Qiusheng, Mr. Lu Qing and Mr. Ma Chung Lai, Lawrence. Mr. Xu Guofei was the Chairman of the committee. Ms. Liu Ailian, Mr. Li Anjian and Mr. Shi Qiusheng, the former members of the Strategy Committee resigned as a member of the Strategy Committee on 14 December 2009, 22 March 2010 and 9 April 2010 due to age and job re-allocation respectively.

The Seventh Session of the Board established on 6 March 2012 the Strategy Committee consisting of Mr. Lai Weide, Mr. Xu Guofei, Mr. Zhu Lifeng, Mr. Deng Weiming and Mr. Chu Wai Tsun, Vincent and chaired by Mr. Lai Weide.

Main functions of the Strategy Committee include studying issues such as the Company's long-term development and material investment, financing and material capital restructuring and providing relevant suggestions to the Company.

A Strategy Committee meeting was held on 24 March 2011 during the reporting period. The meeting discussed and studied the Company's development and recommended the Board to further enhance the development of its principal operations while facing the ongoing international financial crisis. The meeting also suggested the Company to strengthen the research and development of its core business, develop products with intellectual property rights diligently, facilitate the development of joint venture companies and ensure sustainable growth of such business through further international cooperation.

# Corporate Governance Report (Continued)

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

The business, staff, asset, organization and finance of the Company are completely separated from those of its controlling shareholders, and the Company has its own independent and complete businesses and possesses the capabilities for independent operation.

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

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

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

## (VIII) Auditors' Remunerations

Baker Tilly Hong Kong Limited and Baker Tilly China were engaged as the Company's international and PRC auditors for 2011, respectively. Remunerations paid by the Company to the abovementioned two certified public accountants for their audit services in 2011 for the annual report were RMB783,000 and RMB1,237,000 respectively, totaling RMB2,020,000 (the aggregate amount of 2010: RMB2,020,000).

## (IX) General Meeting

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

# Corporate Governance Report (Continued)

## (IX) General Meeting (Continued)

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

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

## (X) Communications with Shareholders and Investor Relations

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

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

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

Please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 29 March 2012 and 30 March 2012 respectively for the full text of the Internal Control Report.

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

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

Please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 29 March 2012 and 30 March 2012 respectively for the full text of the Social Responsibility Report.

# Internal Control

## (I) Establishment and soundness of the internal control system

As a pilot entity for implementation of internal control standards, Nanjing Panda Electronics Company Limited took active measures to apply the Basic Standards for Enterprise Internal Control and related supporting guidelines, formulated an internal control implementation plan according to the requirements of the Jiangsu Securities Regulatory Bureau and pressed ahead steadily with internal control according to the established plan. During the reporting period, the Company completed the implementation of the standardized internal control plan.

### 1. Introduction of the internal control standards implementation plan

The Company's internal control standards implementation plan included two stages - development of internal control and assessment of internal control. The first stage encompassed self examination, examination and rectification; the second stage involved self assessment, preparation of working papers regarding internal control and issuance of the assessment report on internal control.

### 2. Organisational support

The Company set up a leading group for standardizing internal control chaired by the Vice Chairman to preside over the affairs related to standardized internal control and a working team led by the supervision and audit department to ensure the effective implementation of the internal control standards formulated by the Company.

### 3. Promotion campaign and training initiative

Various means including lectures and distribution of related materials were used to promote internal control throughout the Company, raise awareness among all the staff members of the significance and necessity of establishing of a standardized internal control system, highlight the urgency of internal control system development and create a favourable environment for the establishment and operation of an internal control system.

### 4. Development and assessment of internal control

The scope for internal control assessment included all the departments and all subsidiaries of the Company with a focus on the head quarter and major subsidiaries.

The procedure for internal control assessment included preparing the assessment plan, establishing a working team for standardized internal control, conducting on-site tests, identifying defects in internal control, summarizing assessment results, drafting assessment report, etc.

The Company followed the principle of unified leadership and level-by-level responsibility taking and implemented internal control by using an orderly advancement approach. The Company placed greater emphasis on standardized internal control of the head quarter and major subsidiaries and engaged intermediaries to assist in the all-around assessment of the design and operation of internal control to ensure its comprehensiveness and objectivity. No material defect in internal control was identified during the inspection and assessment.

After summarizing and analyzing the assessment results of internal control and in light of the daily supervision and special oversight, the Company worked out a plan for the comprehensive promotion of internal control standards and rectification, specifying the responsibilities, progress, measures and reporting requirements for rectification. The working team for standardized internal control was responsible for the follow-up examination of rectification actions to make sure the results of internal control assessment was made good use of. Through internal control assessment and follow-up rectification, the head quarter and subsidiaries of the Company straightened up procedures, took remedies for identified weaknesses, completed the rectification for standardization, supplemented and improved their management systems and achieved the objectives for standardized internal control.

# Internal Control (Continued)

## (I) Establishment and soundness of the internal control system (Continued)

### 4. Development and assessment of internal control (Continued)

During the assessment of internal control, the working team for standardized internal control timely reported the assessment results, the plan for rectification, the progress of rectification and the inspection report to the leading group. The report on internal control assessment was submitted to the Board for consideration after being reviewed by the leading group. Meanwhile, the Company engaged Baker Tilly China to review the effectiveness of the Company's internal control.

## (II) Self-assessment Report on the Internal Control and Audit Report on the Internal Control

1. According to the requirements of the announcement ([2011] No. 41) published by CSRC on 31 December 2011, the Circular on Properly Handling the 2011 Annual Reports of Listed Companies (《關於做好上市公司2011年年度報告工作的通知》) and the Memoranda No.1 of the 2011 Annual Reports of Listed Companies - Preparation, Consideration and Disclosure of the Report on Internal Control (《上市公司2011年年度報告工作備忘錄第一號內控報告的編制、審議和披露》) issued by the Shanghai Stock Exchange, the Company prepared the 2011 Self-assessment Report on the Internal Control, which was disclosed together with the Company's annual report. For details, please refer to the website of the Shanghai Stock Exchange.
2. Baker Tilly China reviewed the effectiveness of the internal control relating to the Company's financial report and issued an unqualified audit report, which was disclosed together with the Company's annual report. For details, please refer to the website of the Shanghai Stock Exchange.

## (III) Establishment and operation of the internal control system for financial reporting

1. In respect of system development, while complying with the Accounting Standards for Business Enterprises and other requirements promulgated by the government, the Company put in place and effectively implemented a series of rules including the financial management system so as to improve and strengthen the functions and authorities of the accounting and financial management.
2. The Company set up a separate accounting division with its own position establishment and staff members to separate incompatible functions.
3. In respect of accounting treatment, the finance officers faithfully implemented the financial policies, laws and regulation promulgated by the State and dealt with relevant accounting matters in strict compliance with relevant requirements such as the Accounting Law and the Accounting Standards for Business Enterprises.
4. During the year, the Company identified no material defects in internal controls over financial reporting.

## (IV) Establishment and implementation of the Accountability System for Major Disclosure Errors in Annual Report

In order to ensure the truthfulness, accuracy and completeness of the information disclosed in the annual report, the Company established an Accountability System for Major Disclosure Errors in Annual Report in March 2010. The Board of the Company would impose administrative or financial penalties on relevant responsible persons according to the seriousness of the matter, e.g. correction of major accounting errors and supplementation of omitted major information and correction of results prediction, which take place in the information disclosure in the annual report. There was no major error found in information disclosure in the 2011 annual report. During the reporting period, there was no correction of major accounting errors and supplementation of omitted major information and correction of results prediction.

# Shareholders' General Meetings

(I) The Company held the 2011 first Extraordinary General Meeting (“EGM”) on 18 March 2011 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 28 January 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 29 January 2011.) A total of 2 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,508,171 shares or 87.86% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the People’s Republic of China and the Articles of Association of the Company.

1. The following resolution was considered at the EGM: To consider and approve by an ordinary resolution the appointment of Baker Tilly Hong Kong Limited as the Company’s international auditor for the year ended 31 December 2010 for a term up to the conclusion of the next annual general meeting of the Company, and authorize the Board to determine its remuneration.
2. The above resolution was considered and approved by shareholders present at the EGM as an ordinary resolution.
3. The EGM was witnessed by Mr. Sun Xianchao and Ms. Wen Jin Jiao, the PRC lawyers from Yongheng Partners, who issued a legal opinion certifying that the Extraordinary General Meeting was legally and validly held.

The announcement of the above resolution was published on the websites of the Hong Kong Stock Exchange and the Company on 18 March 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 19 March 2011.

(II) The Company held the 2010 Annual General Meeting (“AGM”) on 30 June 2011 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 12 May 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 13 May 2011.) A total of 27 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,491,913 shares or 87.86% of the Company’s total share capital, which was in compliance with the regulations of the Company Law of the People’s Republic of China and the Articles of Association of the Company.

1. The following resolutions were considered and approved at the AGM:
  - (1) To consider and approve the Report of the Board of the Company for the year 2010.
  - (2) To consider and approve the Report of the Supervisory Committee of the Company for the year 2010.
  - (3) To consider and approve the financial reports of the Company for the year 2010 audited by international and domestic auditors.
  - (4) To consider and approve the profit distribution plan (after tax) for the financial year of 2010. It was resolved that the Company would not declare any final dividend for the year ended 31 December 2010 nor make any capitalization of capital reserve.
  - (5) To consider and approve the re-appointment of Baker Tilly Hong Kong Limited and Baker Tilly China (formerly known as Vocation International Certified Public Accountants Co., Ltd) as the Company’s international and PRC auditors respectively for 2011, and authorize the Board to determine their remunerations.
2. The above resolutions Nos. (1) to (5) were considered and approved by shareholders present at the AGM as ordinary resolutions.
3. The AGM was witnessed by Mr. Sun Xianchao and Mr. Song Geng, the PRC lawyers from Yongheng Partners, who issued a legal opinion certifying that the AGM was legally and validly held.

The announcement of the above resolutions was published on the websites of the Hong Kong Stock Exchange and the Company on 30 June 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 1 July 2011.

## Shareholders' General Meetings (Continued)

(III) The Company held the 2011 second EGM on 28 December 2011 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 10 November 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 11 November 2011.) A total of 28 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,510,696 shares or 87.86% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company.

1. The following resolutions were considered and approved at the EGM:
  - 1.1 To consider and approve the Supplemental Sub-contracting Agreement for the provision of sub-contracting services and composite services;
  - 1.2 To consider and approve the revised annual cap for the provision of sub-contracting services and composite services;
  - 1.3 To authorise the Board of the Company to take all necessary steps to give effect to the Supplemental Sub-contracting Agreement for the provision of sub-contracting services and composite services.
  - 2.1 To consider and approve the Supplemental Sale Agreement for the sale of materials, components and parts;
  - 2.2 To consider and approve the revised annual cap for the sale of materials, components and parts;
  - 2.3 To authorise the Board of the Company to take all necessary steps to give effect to the Supplemental Sale Agreement for the sale of materials, components and parts;
  - 3.1 To consider and approve the Supplemental Purchase Agreement for the purchase of materials, components and parts;
  - 3.2 To consider and approve the revised annual cap for the purchase of materials, components and parts;
  - 3.3 To authorise the Board of the Company to take all necessary steps to give effect to the Supplemental Purchase Agreement for the purchase of materials, components and parts.
  - 4.1 To consider and approve the Supplemental Lease Agreement for the lease of premises and equipment;
  - 4.2 To consider and approve the revised annual cap for the lease of premises and equipment;
  - 4.3 To authorise the Board of the Company to take all necessary steps to give effect to the Supplemental Lease Agreement for the lease of premises and equipment.



## Shareholders' General Meetings (Continued)

(III) The Company held the 2011 second EGM on 28 December 2011 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 10 November 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 11 November 2011.) A total of 28 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,510,696 shares or 87.86% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company. (Continued)

1. The following resolutions were considered and approved at the EGM: (Continued)
  - 5.1 To consider and approve the Lease Agreement for the lease of premises and equipment;
  - 5.2 To consider and approve the revised annual cap for the lease of premises and equipment;
  - 5.3 To authorise the Board of the Company to take all necessary steps to give effect to the Lease Agreement for the lease of premises and equipment.
  6. To consider and approve the provision of guarantee by the Company to Nanjing Panda Information Industry Co., Ltd (南京熊猫信息产业有限公司) for financing in the sum of not exceeding RMB120,000,000.
  7. To consider and approve the provision of guarantee by the Company to Nanjing Panda Electronics Equipment Co., Ltd (南京熊猫电子装备有限公司) for financing in the sum of not exceeding RMB70,000,000.
  - 8.1 To consider and approve the amendments to Rule 3 of the Rules of the Board Meeting of the Company;
  - 8.2 To consider and approve the amendments to Rule 11 of the Rules of the Board Meeting of the Company;
  - 8.3 To consider and approve the amendments to Rule 13 of the Rules of the Board Meeting of the Company.
  - 9.1 To consider and approve the amendments to Rule 18 the Regulations for the Independent Directors of the Company;
  - 9.2 To consider and approve the amendments to Rule 19 the Regulations for the Independent Directors of the Company;
  - 9.3 To consider and approve the amendments to Rule 21 the Regulations for the Independent Directors of the Company.
  - 10.1 To consider and approve the amendments to Article 159 of the Articles of Association of the Company;
  - 10.2 To consider and approve the amendments to Article 160 of the Articles of Association of the Company.

## Shareholders' General Meetings (Continued)

(III) The Company held the 2011 second EGM on 28 December 2011 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 10 November 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 11 November 2011.) A total of 28 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,510,696 shares or 87.86% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company. (Continued)

1. The following resolutions were considered and approved at the EGM: (Continued)

The full text of the special resolutions:

1. Amendments to Article 159 of the Articles of Association (Matter No. 10.1 considered at the meeting)

The original Article 159 of the Articles of Association is as follows:

"Article 159 The Supervisory Committee shall comprise five members, of whom one member shall act as the chairman of the Supervisory Committee. The term of office for the Supervisors shall be three years and all Supervisors shall be eligible for re-election.

In the event that the re-election of a Supervisor fails to take place on a timely basis upon expiry of the term of office or a Supervisor resigns during his term of office which results in the number of members of the Supervisory Committee falling below the quorum, the original Supervisor shall continue to perform his duty as a Supervisor in accordance with the laws, administrative rules and the Articles of Association before a new Supervisor is elected and assumes office.

The appointment and removal of the chairman of the Supervisory Committee shall be made by a resolution passed by more than two-third of the members of the Supervisory Committee."

Amended as:

"Article 159 The Supervisory Committee shall comprise three members, of whom one member shall act as the chairman of the Supervisory Committee. The term of office for the Supervisors shall be three years and all Supervisors shall be eligible for re-election.

In the event that the re-election of a Supervisor fails to take place on a timely basis upon expiry of the term of office or a Supervisor resigns during his term of office which results in the number of members of the Supervisory Committee falling below the quorum, the original Supervisor shall continue to perform his duty as a Supervisor in accordance with the laws, administrative rules and the Articles of Association before a new Supervisor is elected and assumes office.

The appointment and removal of the chairman of the Supervisory Committee shall be made by a resolution passed by more than two-third of the members of the Supervisory Committee."

## Shareholders' General Meetings (Continued)

(III) The Company held the 2011 second EGM on 28 December 2011 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 10 November 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 11 November 2011.) A total of 28 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,510,696 shares or 87.86% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company. (Continued)

1. The following resolutions were considered and approved at the EGM: (Continued)

The full text of the special resolutions: (Continued)

2. Amendments to Article 160 of the Articles of Association (Matter No. 10.2 considered at the meeting)

The original Article 160 of the Articles of Association is as follows:

"Article 160 The Supervisory Committee shall comprise at least two representatives of the employees, two independent persons and the rest being representatives of the Shareholders. Employees' representatives shall be elected and removed by the employees while independent persons and Shareholders' representatives shall be elected and removed at the general meeting."

Amended as:

"Article 160 The Supervisory Committee shall comprise at least two representatives of the employees, and the rest being representatives of the Shareholders. Employees' representatives shall be elected and removed by the employees while Shareholders' representatives shall be elected and removed at the general meeting."

2. The above resolutions Nos. 1 to 9 were considered and approved by shareholders present at the EGM as ordinary resolutions and the resolution No.10 was approved as a special resolution.
3. The EGM was witnessed by Mr. Jing Zhong and Mr. Sun Xianchao, the PRC lawyers from Yongheng Partners, who issued a legal opinion certifying that the EGM was legally and validly held.

The announcement of the resolutions passed at this EGM was published on the websites of Hong Kong Stock Exchange and the Company on 28 December 2011 and in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 29 December 2011.

## Shareholders' General Meetings (Continued)

(IV) The Company held the 2012 first EGM on 6 March 2012 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 18 January 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 19 January 2011.) A total of 26 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,464,248 shares or 87.86% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company.

1. The following resolutions were considered at the EGM:
  - 1.1 To consider and approve the appointment of Mr. Lai Weide as the executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.2 To consider and approve the appointment of Mr. Xu Guofei as the executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.3 To consider and approve the appointment of Mr. Zhu Lifeng as the non-executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.4 To consider and approve the appointment of Mr. Deng Weiming as the non-executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.5 To consider and approve the appointment of Mr. Lu Qing as the non-executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.6 To consider and approve the appointment of Mr. Hsuan Jason as the non-executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.7 To consider and approve the appointment of Ms. Zhang Xiuhua as the independent non-executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.8 To consider and approve the appointment of Ms. Liu Danping as the independent non-executive Director of the Seventh Session of the Board for a term of office of three years;
  - 1.9 To consider and approve the appointment of Mr. Chu Wai Tsun, Vincent as the independent non-executive Director of the Seventh Session of the Board for a term of office of three years.
2. To consider and approve the remuneration determination for Directors of the Seventh Session of the Board on the basis that the total annual remuneration of all Directors, Supervisors and senior management of the Company shall not exceed the limit of RMB3,500,000.00.
3. To consider and approve the appointment of Ms. Zhang Zhengping as a non-staff-representative Supervisor of the Seventh Session of the Supervisory Committee for a term of office of three years.
4. To consider and approve the remuneration determination for Supervisors of the Seventh Session of the Supervisory Committee on the basis that the total annual remuneration of all Directors, Supervisors and senior management of the Company shall not exceed the limit of RMB3,500,000.00.

## Shareholders' General Meetings (Continued)

(IV) The Company held the 2012 first EGM on 6 March 2012 at its headquarter. (Notice of the meeting was published on the website of Hong Kong Stock Exchange on 18 January 2011 and in China Securities Journal and Shanghai Securities News and the website of the Shanghai Stock Exchange on 19 January 2011.) A total of 26 shareholders of the Company and duly authorized proxies attended the meeting, representing 575,464,248 shares or 87.86% of the Company's total share capital, which was in compliance with the regulations of the Company Law of the People's Republic of China and the Articles of Association of the Company. (Continued)

1. The following resolutions were considered at the EGM: (Continued)
  - 5.1 To consider and approve the amendment to Rule 3 of the Rules of Procedure for the Supervisory Committee of the Company;
  - 5.2 To consider and approve the amendment to Rule 5 of the Rules of Procedure for the Supervisory Committee of the Company;
  - 5.3 To consider and approve the amendment to Rule 14 of the Rules of Procedure for the Supervisory Committee of the Company.
  - 6.1 To consider and approve the amendment to Rule 3 of the Rules of Procedure for Shareholders' General Meeting of the Company;
  - 6.2 To consider and approve the amendment to Rule 7 of the Rules of Procedure for Shareholders' General Meeting of the Company;
  - 6.3 To consider and approve the amendment to Rule 30 of the Rules of Procedure for Shareholders' General Meeting of the Company;
  - 6.4 To consider and approve the amendment to Rule 31 of the Rules of Procedure for Shareholders' General Meeting of the Company;
2. The above resolutions were considered and approved by shareholders present at the EGM as ordinary resolutions.
3. The EGM was witnessed by Mr. Zhou Hao and Mr. Sun Xianchao, the PRC lawyers from Yongheng Partners, who issued a legal opinion certifying that the EGM was legally and validly held.

The announcement of the resolutions passed at this EGM was published on the websites of Hong Kong Stock Exchange and the Company on 6 March 2012 and in China Securities Journal and Shanghai Securities News and on the website of Shanghai Stock Exchange on 7 March 2012.

# Chairman's Statement

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

### 1. Principal operations of the Company

In 2011, in the face of the unfavorable circumstances such as slowdown in domestic macro-economy and wider economic difficulties, the management of the Company, according to requirements of the Board, fully implemented the strategic decisions of the shareholders' meeting to fulfill the operation and development goals of the year. The management put more efforts in business and product structure adjustment, pressed ahead with independent innovation and the commercialization of scientific and technological achievements, further strengthened basic management, improved productivity, expanded market presence and enhanced the Company's influence and controlling power. All these endeavors have led to a significant improvement in major economic indicators over the same period last year, laying a solid foundation for the development of the Company during the "Twelfth Five-Year Plan" period.

While the Company had made great strides in principal businesses such as electronic manufacturing products, electronic intelligent products, electronic equipment products and communication technology products, the Company had also improved its management services to its joint ventures so as to maintain their steady growth momentum.

According to the PRC Accounting Standards for Business Enterprises, revenue from operations of the Company for the year amounted to RMB2,142,390,000, representing an increase of 26.47% as compared with that of last year; profit of operations for the year amounted to RMB122,980,000 (2010: RMB556,500); net profit amounted to RMB110,070,000, representing an increase of 1,076.02% as compared with that of last year.

Under the Hong Kong Financial Reporting Standards ("HKFRSs"), revenue from principal operations of the Company for the year amounted to RMB2,115,640,000, representing an increase of 27.07% as compared with that of last year; profit of principal operations amounted to RMB243,120,000, representing an increase of 12.23% as compared with that of last year; net profit attributable to shareholders amounted to RMB110,070,000, representing an increase of 1,076.02% as compared with that of last year.

### 2. Principal Operations by businesses or products (prepared under the PRC Accounting Standards for Business Enterprises)

Unit: RMB'000

Business or product	Principal operating income	Principal operating costs	Principal operating profit margin (%)	Revenues from principal operation increase/ (decrease) from last year (%)	Principal operating costs increase/ (decrease) from last year (%)	Principal operating profit margin increase/ (decrease) from last year (%)
Electronic manufacturing products	629,507.96	500,026.39	20.57	5.58	14.16	-5.97
Electronic intelligent products	654,317.10	583,003.25	10.90	25.88	18.48	5.56
Electronic equipment products	442,603.97	401,042.67	9.39	58.50	60.88	-1.34
Communication technology products	294,249.18	278,353.88	5.40	32.57	31.14	1.03
Others	60,257.96	50,761.33	15.76	70.76	145.08	-25.55
Total	2,080,936.18	1,813,187.52	12.87	25.92	28.38	-1.67

## Chairman's Statement (Continued)

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

#### 3. Principal operations by geographical regions (prepared under the PRC Accounting Standards for Business Enterprises)

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

#### 4. Operation of the principal controlled and investee companies

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

ENC is held as to 27% by the Company, 25% by Telefonaktiebolaget L.M. Ericsson, 26% by Ericsson (China) Company Limited, 20% by China PTIC Information Corporation (中國普天信息產業集團公司), and 2% by Hong Kong Yung Shing Enterprise Company. ENC is mainly engaged in production of mobile telecommunication system products and network communication systems, etc. ENC is one of the supply pivots for Ericsson in the world, and is the largest supplier of mobile telecommunication equipments in China. In 2011, ENC significantly reduced losses from WCDMA, further cut hardware cost and put more efforts in and sped up the export business, 3G business in particular, and sustained rapid growth in economic benefits consequently.

Based on the international accounting standards, operating revenue of ENC for 2011 amounted to RMB21,087,760,000, representing an increase of 45.62% as compared to the corresponding period of last year; net profits amounted to RMB644,615,000, representing an increase of 43.02% as compared to the corresponding period of last year.

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

BMC is held as to 20% by the Company, 51% by Sony Ericsson Mobile Communication Limited, 27% by China PTIC Information Corporation (中國普天信息產業集團公司) and 2% by Hong Kong Yung Shing Enterprise Company. 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. Thanks to the breakthrough in product upgrades, BMC's operating profit grew several times and recorded far better results as compared to last year although sales income increased at a moderate level.

Based on the international accounting standards, operating revenue of BMC for 2011 amounted to RMB20,214,318,000, representing an increase of 4.40% as compared to the corresponding period of last year; net profits amounted to RMB447,602,000, representing an increase of 155.09% as compared to the corresponding period of last year.

# Chairman's Statement (Continued)

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

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

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

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

In September 2011, the Intermediate People's Court of Nanjing City, Jiangsu Province accepted the lawsuit brought by creditors of Hua Fei Company in respect of the winding up of Hua Fei Color Display Systems Company Limited. (For details, please refer to the relevant announcement published on the websites of the Hong Kong Stock Exchange and the Company on 21 September 2011 and in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 22 September 2011). As at 31 December 2011, the balance of the Company's long-term equity investment in Hua Fei Company was nil.

### 5. Major suppliers and customers

As at 31 December 2011, the aggregate turnover from the top five customers of the Company amounted to RMB784,520,000, accounting for 36.62% of the turnover of the Company for the year. The turnover from the largest customer made up 13.48% of the turnover of the Company for the year.

The aggregate amount of purchase from the top five suppliers of the Company amounted to RMB263,130,000, accounting for 14.30% of the total amount of purchase made by the Company for the year. The purchase amount from the largest supplier accounted for 4.43% of the total amount of purchase made by the Company for the year.

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

### 6. Outlook of the Company's future development

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

Through business structure adjustment, equity relationship rationalization and business layout optimization by the Company, a business segment centered on electronic equipment and electronic manufacturing basically took shape.

Electronic equipment industry is a strategic industry which provides technical equipments for various industries of national economy and is an important guarantee to promote industrial upgrade and technical advancements of various industries. Electronic equipment products which integrate mechanics, electronics, optics, control tech, computer and information are currently developing towards the intelligent and systematic direction. The Company will further strengthen R&D and investment in railway transit equipment, automatic transmission equipment, environmental protection equipment, and communication equipment so as to facilitate the Company's development in the electronic equipment industry.



# Chairman's Statement (Continued)

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

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

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

Electronic manufacturing industry has become an important industry of the national economy. The overall industry is still at its growing stage, with constant application of innovative technology and production processes and the improvement of core competitiveness of manufacturing industry, electronic manufacturing will continue to grow at a steady pace. To meet our customers' demands, the Company will improve the manufacturing model to provide customers full-package support services integrating product design, testing, marketing and logistics, and gradually develop relevant proprietary products.

Since technology is pivotal in electronic equipment, electronic manufacturing and the related products, the replacement speed of the products is fast. Together with constant market change and intense product competition, the Company is expected to face both good opportunities and great challenges.

- (2) Development strategy of the Company

By fully practicing the scientific outlook on development, and adjusting the industrial structure, corporate structure, assets structure and talents structure, the Company will accomplish industrial transformation and upgrading, build a brand-new marketing platform to boost its products sales capabilities, strengthen management of and services for joint ventures, exercise its financing function in the capital market, enhance its capability for sustained development and fulfill rapid and robust growth by fully leveraging existing resources and committing itself to technological innovation, management innovation and service innovation, striving to build itself into a first-class electronic and equipment products manufacturer and service provider in the PRC, which also enjoys extensive reputation worldwide.

- (3) Risk factors

"The Twelfth Five-Year Plan" of the State emphasizes an transforming economic development mode, promoting structure adjustment, optimization and upgrade. Expanding domestic demand, technological advancements and innovation will play an important role in transforming economic development mode, while it provides a favorable environment for the Company's principal operations including electronic manufacturing, electronic intelligence, electronic equipment and communication technology products, such opportunities are also accompanied by uncertainty and risks.

Due to fast changes and upgrades of electronics-related technologies, the Company is facing relevant technical risks. As the Company is in the electronic information industry, which is one of the most competitive industries, the Company is facing fierce competition in the market.

# Chairman's Statement (Continued)

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

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

#### (4) Development plans for 2012

2012 is an important year for the implementation of the "Twelfth Five-Year Plan". After several years of adjustment, the Company has established the capabilities and strengths for accelerating development to achieve a great-leap-forward development. The Company will unswervingly continue to speed up development, emancipate our minds, seize opportunities, stay grounded and work hard to make new breakthroughs. The Company will concentrate on the following six aspects:

- (i) Step up efforts for restructuring and consolidation in light of development requirements

Continue to reorganise and consolidate the specialized subsidiaries of the Company, apply specialized management modes for the governance, operation and development of all the enterprises and specialized subsidiaries to make them better and stronger pursuant to the requirements for adjustments to the industrial structure, the corporate structure, the assets structure and the talents structure.

- (ii) Strengthen the core competitive power by enhancing scientific research level

Continue to increase investment in R&D, enhance its capabilities for independent innovation, make elaborate arrangement for the formulation and implementation of R&D projects, strengthen intellectual property rights management, highlight invention patents, and promote the commercialization and application of scientific and technological achievements. Integrate external and internal technical resources in order to strengthen the cooperation among enterprises, universities and research institutes and push forward with the R&D projects to ensure the successful implementation of key projects as scheduled.

- (iii) Leverage comprehensive advantages and seize opportunities in domestic and overseas markets

Exploit the advantages as a state-owned enterprise, focus on the Company's own major and key projects, keep a close eye on external markets and seize opportunities coming from national major and key projects. Build and extend the Company's presence in the consumer goods market continuously and strive for breakthroughs in such moves.

# Chairman's Statement (Continued)

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

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

#### (4) Development plans for 2012 (Continued)

##### (iv) Intensify human resources strategy and build capable teams

Further intensify the human resources strategy of the Company and give priority to the introduction and development of leading talents in technology, management and marketing to create high-end talent teams. Meanwhile, develop employees at different levels, form stable workforce pillars and strengthen the low-level technician team. Further improve the performance appraisal and incentive system to motivate cadres and employees, encourage development in different levels and professions. Build capable teams for all parts of the operations including R&D, production, management, marketing and logistics.

##### (v) Diversify financing channels and improve assets management

Vigorously revitalize unproductive assets to reduce debt burdens, optimize assets structure and improve assets management. Further tighten up capital management, adjust financing structure to lower capital costs and prevent financial risks.

##### (vi) Uphold compliant operation and effectively control operation risks

Closely follow the business concept of "legal compliance, professionalism and high efficiency", start with strengthening of systems management, continue to promote basic management and enhance efficiency by improving management. Provide guidance and give professional advice on and supervise the compliant operation of all the production and operation entities of the Company to prompt implementation of prudent and mature operation strategies and benefit sustainable development.

- (5) The target operating revenue of the Company in 2012 is RMB2,009,720,000. The operating expenses during the period will be limited to RMB386,440,000 or below, out of which selling expenses to be at RMB54,140,000, administrative costs to be at RMB287,570,000 and finance costs to be at RMB44,730,000.

## (II) Investments of the Company

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

## Chairman's Statement (Continued)

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

#### 1. Financial status

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

##### 1.1 Major changes of accounts in balance sheet:

*Unit: RMB'000*

Items	2011	2010	Increase/ (decrease) (%)
Accounts receivable	<b>548,925.35</b>	303,886.55	80.63
Other receivables	<b>23,267.11</b>	198,665.15	-88.29
Construction in progress	<b>306.36</b>	3,883.49	-92.11
Bills payable	<b>69,060.35</b>	42,573.51	62.21
Accounts payable	<b>466,874.18</b>	330,430.92	41.29
Taxes payable	<b>-12,370.97</b>	13,766.01	-189.87
Interests payable	<b>969.06</b>	691.70	40.10
Dividends payable	<b>143.29</b>	1,799.34	-92.04
Non-current liabilities			
due within one year	<b>4,000.00</b>	1,278.67	212.83
Deferred income tax liabilities	<b>390.24</b>	68.91	466.30

Reasons for changes:

- (1) Increase in accounts receivable is mainly due to concentrated export sales in the fourth quarter, which resulted in increase in accounts receivable during the credit period.
- (2) Decrease in other receivables is mainly because the Company consolidated the results of Nanjing Panda Electronic Science Development Company Limited (南京熊猫电子科技发展有限公司) after its incorporation this year and transferred the investment capital from other receivables.
- (3) Decrease in construction in progress is mainly because Xingang plant project has reached intended use and has been transferred into fixed assets.
- (4) Increase in bills payable is mainly attributable to the increase in purchases which use bills for settlement in the year.
- (5) Increase in accounts payable is mainly attributable to the Company's business expansion.

## Chairman's Statement (Continued)

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

#### 1. Financial status (Continued)

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

Reasons for changes: (Continued)

- (6) Decrease in taxes payable is mainly attributable to rise in input taxes as a result of the growth of the processing business with imported material.
- (7) Increase in interests payable is mainly attributable to rise in interest rates on borrowings.
- (8) Decrease in dividend payable represents the dividends payable to minority shareholders which have not yet been paid by subsidiaries.
- (9) Increase in non-current liabilities due within one year is mainly because the long-term borrowings due in 2012 were transferred to this item.
- (10) Increase in deferred income tax liabilities is mainly because there are circumstances where certain subsidiaries are required to pay income tax in the foreseeable future.

##### 1.2 Major changes of accounts in income statement:

Unit: RMB'000

Items	2011	2010	Increase/ (decrease) (%)
Business taxes and surcharges	<b>15,718.93</b>	11,968.13	31.34
Loss in assets impairment	<b>17,860.00</b>	44,483.76	-59.85
Investment income	<b>188,191.18</b>	91,080.36	106.62
Operating profit	<b>122,983.47</b>	556.51	21999.06
Non-operating income	<b>10,788.63</b>	37,272.58	-71.05
Non-operating expenses	<b>841.94</b>	13,485.46	-93.76
Minority interests	<b>6,025.15</b>	-1,615.26	473.01

# Chairman's Statement (Continued)

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

### 1. Financial status (Continued)

#### 1.2 Major changes of accounts in income statement: (Continued)

Reasons for changes:

- (1) Increase in business taxes and surcharges is mainly attributable to the increase in sales.
- (2) Decrease in loss in assets impairment is mainly attributable to significant provision made for bad debts in the previous year.
- (3) Increase in investment income is mainly attributable to the increase in profit from some joint ventures in the period.
- (4) Increase in operating profit is mainly attributable to the increase in investment income in the year.
- (5) Decrease in non-operating income is attributable to the decrease in subsidy income in the year.
- (6) Decrease in non-operating expenses is mainly attributable to the renewal of machinery equipments of the Company and the disposal of a batch of old equipments in the previous year.
- (7) Decrease in minority interests is mainly attributable to the recognition of excess loss of certain subsidiaries.

#### 1.3 Major changes of accounts in cash flow statement:

Unit: RMB'000

Items	2011	2010	Increase/ (decrease) (%)
Net cash flows from investment activities	<b>293,366.41</b>	-76,753.59	482.22
Net cash flows from financing activities	<b>-151,590.92</b>	70,043.76	-316.42

# Chairman's Statement (Continued)

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

### 1. Financial status (Continued)

#### 1.3 Major changes of accounts in cash flow statement: (Continued)

Reasons for changes:

- (1) Increase in net cash flows from investment activities is mainly due to the dividend received by joint ventures and the fact that Company consolidated the results of Nanjing Panda Electronic Science Development Company Limited (南京熊猫电子科技发展有限公司) after its incorporation this year.
- (2) Decrease in net cash flows from financing activities is mainly attributable to the decrease in bank loans in the year.

### 2. Liquidity of capital

In accordance with the HKFRSs, the gearing ratio of the Company (the ratio between total liabilities and total assets), current liabilities, liquidity ratio and quick ratio were 41.20%, RMB1,117,300,000, 1.23 and 1.06 respectively as at 31 December 2011 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB446,890,000 as at 31 December 2011 as shown in the consolidated financial statements of the Company.

Loans: short-term bank loans amounted to RMB358,310,000 as at 31 December 2011 as shown in the consolidated financial statements of the Company.

During the reporting period, benchmark interest rate per annum from the beginning of the period to 8 February 2011 was 5.81%; benchmark interest rate per annum from 9 February 2011 to 5 April 2011 was 6.06%; benchmark interest rate per annum from 6 April 2011 to 6 July 2011 was 6.31%; benchmark interest rate per annum from 7 July 2011 to the date of the announcement was 6.56%.

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

**Lai Weide**  
Chairman

Nanjing, the PRC  
29 March 2012

# Report of the Board

The Board is pleased to submit its report together with the audited financial statements for the year ended 31 December 2011.

## Day-to-day Operation of the Board

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

Session of the meeting	Date of the meeting	Media for disclosure	Subject matter of the resolution	Date of disclosure
17th session of the sixth Board	25 March 2011	China Securities Journal B214 Shanghai Securities News 161	Matters related to the 2010 Annual Report	26 March 2011
18th session of the sixth Board	28 April 2011	China Securities Journal B029 Shanghai Securities News B75	2011 First Quarterly Report	29 April 2011
19th session of the sixth Board	30 August 2011	China Securities Journal B051 Shanghai Securities News B87	2011 Interim Report	31 August 2011
20th session of the sixth Board	24 October 2011	China Securities Journal B152 Shanghai Securities News B103	Appointment of the General Manager and legal representative	25 October 2011
21st session of the sixth Board	28 October 2011	China Securities Journal B042 Shanghai Securities News B42	2011 Third Quarterly Report	29 October 2011

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

None of the Company and its subsidiaries was included in the list of worst polluters published by environment protection agencies or was involved in any serious social safety issues.

### Establishment and implementation of the Administration System for Persons with Insider Information

The Company set up the Administration System for Persons with Insider Information in March 2010. According to the requirements of the Circular on Properly Handling the Registration and Administration of Persons with Insider Information (《關於做好內幕信息知情人登記管理有關工作的通知》) promulgated by the Jiangsu Regulatory Bureau (Su Zheng Jian Gong Si Zi [2011] No. 591), the Company revised relevant provisions of the Administration System for Persons with Insider Information to further tighten up the management of insider information and insiders. The System was implemented upon approval at the extraordinary Board meeting held on 14 December 2011. The Company conducted relevant investigation and the results showed that no material price-sensitive information was used prior to public disclosure by insiders to trade in the shares of the Company during the reporting period.



# Report of the Board (Continued)

## Day-to-day Operation of the Board (Continued)

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

### Statement of the Board's responsibility in respect of internal control

The internal control of the Company aims to provide reasonable assurance of the lawfulness and legal compliance of the Company's operation and management, safety of assets, truthfulness and completeness of financial reports and relevant information as well as effectiveness and efficiency of its operation so as to promote the achievement of the Company's development strategies and maximize shareholders' interests. The Board is accountable for the establishment and effective implementation of a sound internal control system. The Company has put in place a sound internal control system in accordance with the requirements of the Basic Standards for Enterprise Internal Control and relevant supporting guidelines and in view of the actual situation of its own operation. During the reporting period, the Company prevented operational risks and reasonably ensured the safety of assets as well as the truthfulness and completeness of financial reports and relevant information by standardizing operation pursuant to the internal control system. The Group needs to revise and improve internal control on an ongoing basis in response to the operation development and change in internal and external environments.

During the reporting period, the Company disclosed the 2011 Self-assessment Report of the Board on the Internal Control of the Company according to the requirements relating to the annual report. The Board is of the opinion that the Company maintained sound and effective internal control in respect of financial reporting, and no failing was identified in internal control in respect of non-financial reporting during the self assessment.

The Company engaged Baker Tilly China to assess the effectiveness of the Company's internal control in respect of the financial report for the year ended 31 December 2011. Baker Tilly China issued the Assurance Report on Internal Controls and expressed relevant opinions.

**There was no trading in shares by Directors, Supervisors and senior management in contravention of relevant regulations.**

## Newspapers and Websites for Information Disclosure

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

## Principal Activities

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

## Report of the Board (Continued)

### Turnover and Contribution by Business Segment

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

Type of products	Turnover RMB'000	Contribution to the Group's operating profit (loss) RMB'000
Electronic manufacturing products	649,877	57,963
Electronic intelligent products	655,866	1,068
Electronic equipment products	450,616	18,624
Communication technology products	301,647	15,501
Other operations	57,635	10,911
Operating profit		104,067
Unallocated corporate expense		-137,716
Interest income		4,966
Interest expenses		-26,578
Share of profit of associates		188,191
Profit before taxation		132,930

### Financial Summary

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

### Net Assets Per Share

The details of the net assets per share as at the balance sheet date for each of the three years ended 31 December 2011 are as follows.

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

	2011	2010 (Restated)	2009 (Restated)
Net assets per share (Net assets/Total number of shares) (RMB)	2.42	2.26	2.24
Increase/(decrease)	7.25%	0.68%	-6.67%

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

	2011	2010	2009
Net assets per share (Net assets/Total number of shares) (RMB)	2.42	2.26	2.24
Increase/(decrease)	7.25%	0.68%	-6.67%

# Report of the Board (Continued)

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

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

## Pre-emptive Rights

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

## Directors' and Supervisors' Remuneration

During the year, the aggregate remuneration of the Directors and Supervisors amounted to RMB785,000 and RMB400,000 respectively, exclusive of their pension scheme contributions. Save as disclosed above, the Company did not offer other remuneration, allowances, or bonuses to the Directors and Supervisors.

The remuneration paid or payable by the Company to each of the Directors and Supervisors was less than RMB400,000. The pension scheme for Executive Directors and Supervisors was included as part of the staff pension scheme of the Company as there was no other special arrangement.

## Highest Paid Individuals

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

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

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

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

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

## Service Agreements for Directors and Supervisors

Service agreements have been signed between the Company and all Directors and Supervisors. The term of such service agreements is three years.

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

## Privileges of Directors, Supervisors and Senior Management Staff

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

## Report of the Board (Continued)

### Material Contracts with PEGL Group

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

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

(For details of the aforesaid agreements, please refer to relevant announcements published in the China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 16 October 2009, and on the website of the Hong Kong Stock Exchange on 15 October 2009 and in the circular convening the first extraordinary general meeting for 2009 dated 5 November 2009.)

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

The Group entered into the following agreements in respect of adjustment to the Continuing Connected Transactions conducted from 2010 to 2012 with the PEGL Group:

1. A Supplemental Sub-contracting Agreement for the provision of sub-contracting services and composite services signed on 21 October 2011;
2. A Supplemental Sale Agreement for the sale of materials, components and parts signed on 21 October 2011;
3. A Supplemental Purchase Agreement for the purchase of materials, components and parts signed on 21 October 2011;
4. A Supplemental Lease Agreement for the lease of premises and equipment signed on 21 October 2011;
5. A Lease Agreement for the lease of premises and equipment signed on 21 October 2011.

# Report of the Board (Continued)

## Material Contracts with PEGL Group (Continued)

(For details of the aforesaid agreements, please refer to relevant announcements published in the China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 29 December 2011, and on the website of the Hong Kong Stock Exchange on 28 December 2011 and in the circular convening the 2011 second extraordinary general meeting dated 28 November 2011.)

The aforesaid agreements in respect of continuing connected transactions were approved by the independent shareholders at the 2011 second extraordinary general meeting held on 28 November 2011 and came into effect.

## Convertible Securities, Options, Warrants or Similar Rights

The Company had not issued or granted any convertible securities, options, warrants or similar rights as at 31 December 2011.

## Pension Scheme

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

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

## Management Contracts

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

## Results and Profit Distribution

Profits distributed by the Company in cash in the past three years are no less than 30% of the average annual distributable profits recorded in the past three years.

The results of the Group for the year ended 31 December 2011 and the financial status of the Company and the Group on that date are set out in the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and the PRC accounting standards.

The 2011 financial report of the Company has been audited by Baker Tilly Hong Kong Limited and Baker Tilly China. The Company's net profit attributable to shareholders of the parent company was RMB110,070,200 in 2011. Under the Articles of Association, the withdrawal from the statutory common fund was RMB5,186,900. In addition, the undistributed profit as at the end of 2010 was RMB151,449,700. Hence the actual profit attributable to shareholders amounted to RMB256,333,000.

According to the Articles of Association, it is recommended to pay a cash dividend of RMB0.5 (tax inclusive) for every 10 shares, based on the Company's total share capital of 655,015,000 shares as at 31 December 2011, to all shareholders of the Company, amounting to a total distribution of cash dividend of RMB32,750,750. The remaining distributable profit is to be carried forward to next year, and the Company resolved that capitalization of capital reserve would not be made.

The aforesaid profit distribution proposal is subject to the shareholders' approval at the 2011 annual general meeting.

# Report of the Board (Continued)

## Distribution of the last three years of the Company

Nil.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group, as of 31 December 2011, are set out in the notes to the financial statements prepared under Hong Kong Financial Reporting Standards.

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

## Reserves

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

## Fixed Assets

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

## Subsidiaries

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

## Code of Corporate Governance Practices and Model Code

Please refer to Corporate Governance Report in section VI of this annual report for details of compliance with the Code on Corporate Governance Practices and the Model Code.

## Confirmation by Independent Non-executive Directors on Connected Transactions

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

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

## Annual General Meeting

The Board proposes to convene the annual general meeting before 30 June 2012. Announcement will be made separately for relevant matters.

By Order of the Board  
**Lai Weide**  
Chairman

Nanjing, the PRC  
29 March 2012

# Report of the Supervisory Committee

## To all shareholders,

During the reporting period, all the members of the Supervisory Committee of the Company have followed the principle of honesty and integrity, faithfully performed their duties conferred by laws, regulations and the Articles of Association and tried to protect the interests of the Company and its shareholders in accordance with laws and regulations including the Company Law and the Securities Law, relevant requirements of domestic and international regulatory bodies and the Articles of Association.

### (I) Operation of the Supervisory Committee

During the reporting period, the Supervisory Committee held four meetings, with details as follows:

Session of the meeting	Date of the meeting	Media for disclosure	Subject matter of the resolution	Date of disclosure
14th session of the sixth Committee	25 March 2011	China Securities Journal B214 Shanghai Securities News 161	Matters related to the 2010 Annual Report	26 March 2011
15th session of the sixth Committee	28 April 2011	China Securities Journal B029 Shanghai Securities News B75	2011 First Quarterly Report	29 April 2011
16th session of the sixth Committee	30 August 2011	China Securities Journal B051 Shanghai Securities News B87	2011 Interim Report	31 August 2011
17th session of the sixth Committee	28 October 2011	China Securities Journal B042 Shanghai Securities News B42	2011 Third Quarterly Report	29 October 2011

### (II) The Company's Operations in Compliance with Laws

During the reporting period, all Supervisors attended general meetings and Board meetings and provided effective supervision to ensure all decisions made by general meetings and the Board and the convening and procedures of such meetings were in accordance with the requirements of the laws and regulations and the Company's Articles of Association, as well as in line with the Company's development and prospects and in accordance with shareholders' interests. The Supervisors also alerted the Board and the management of the Company of any potential risks in a timely manner.

The Supervisory Committee is of the opinion that during the reporting period, the Company followed standard operating procedures in strict compliance with laws and regulations including the Company Law and the Securities Law, listing rules of the Shanghai Stock Exchange and Hong Kong Stock Exchange and the Articles of Association, faithfully carried out resolutions passed at the general meetings, kept improving internal management and put in place a good internal management system.

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

### (III) Financial Conditions of the Company

The Supervisory Committee has duly examined the financial statements, the profit distribution scheme and other accounting information etc. for the year 2011 and is of the view that the financial income and expenditure accounts are clear; and that the accounting, auditing and financial management have complied with the relevant requirements without any problems identified. The domestic and international auditors of the Company have audited the 2011 financial statements of the Company in accordance with the PRC Accounting Standards for Business Enterprises and the HKFRSs, respectively, and have issued auditors' reports with standard unqualified audit opinions accordingly. The Supervisory Committee is of the view that the financial income and expenditure and the operating results of the Company are fairly and correctly reflected by the auditors' reports. The operating results achieved are truthful.

# Report of the Supervisory Committee (Continued)

## (IV) Use of raised proceeds

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

## (V) Acquisition and disposal of assets

During the reporting period, the Company acquired 80% and 20% of equity interests in Nanjing Longwill Communications Technology Co., Ltd (南京聯慧通信技術有限公司) from PEGL and natural persons respectively. The approval procedure was lawful and valid and the transaction value was fair and reasonable. The transaction involved no insider dealing and was not detrimental to shareholders' interests, nor did it result in erosion of the Company's assets.

## (VI) Connected Transactions of the Company

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

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

The Group and PEGL Group amended the agreements in respect of the continuing connected transactions contemplated to be conducted between 2010 and 2012 by both parties on 21 October 2011. The continuing connected transactions were considered and approved by the independent shareholders at the 2011 second EGM held on 28 December 2011.

## (VII) Self-assessment of Internal Control

The Supervisory Committee reviewed the Self-assessment Report on the Internal Control of the Company prepared by the Board and no material defect was found in the design and implementation of the internal control system. The Supervisory Committee was of the view that the Company's internal control system and its implementation were basically sound and effective during the reporting period, fulfilled the requirements of various aspects including corporate governance and operation and effectively controlled various operation management risks of the Company; as at 31 December 2011, the internal control system in relation to financial reporting was sound and effectively implemented. The Supervisory Committee agreed with the Board in its assessment of the internal control.

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

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

By Order of the Supervisory Committee  
**Zhang Zhengping**  
Chairman

Nanjing, the PRC 29 March 2012



# Significant Events

1. During the reporting period, the Company did not have material litigation or arbitration.
2. Material asset acquisition, disposal and merger during the reporting period

During the reporting period, the Company acquired 80% and 20% of equity interests in Nanjing Longwill Communications Technology Co., Ltd (南京聯慧通信技術有限公司) from PEGL and natural persons respectively. The approval procedure was lawful and valid and the transaction value was fair and reasonable. The transaction involved no insider dealing and was not detrimental to shareholders' interests, nor did it result in erosion of the Company's assets.

(For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 18 November 2011, and on the websites of the Hong Kong Stock Exchange and the Company on 17 November 2011.)

### 3. Connected transactions:

- (1) During the reporting period, other than the 2010-2012 Continuing Connected Transactions of the Company approved by the independent shareholders at the EGM held on 23 December 2009 and the adjusted 2010-2012 Continuing Connected Transactions approved by the independent shareholders at the second EGM of 2011 (namely, the continuing connected transactions which were conducted in the usual course of business on normal commercial terms), the Company did not have other material connected transactions and asset reorganization.

In 2011, the continuing connected transactions of the Company were entered into in the usual course of business on normal commercial terms which were required for normal business operation, and were audited by auditors. All connected transactions were confirmed by Independent Non-executive Directors (The details of which are contained in the Auditor's Report) and had not exceeded their respective annual caps.

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

Connected Transactions	Price	Total Amount (RMB'000)
(a) Provision of sub-contracting services and composite services by the Group to the PEGL Group	Market price	23,521
(b) Provision of sub-contracting services and composite services by the PEGL Group to the Group	Market price	7,774
(c) Sale of materials and components and parts by the Group to the PEGL Group	Market price	113,371
(d) Sale of materials and components and parts by the PEGL Group to the Group	Market price	44,119
(e) Import and export agency services provided by the PEGL Group to the Group		Nil
(f) Licensing of PANDA Trademarks by the Group to the PEGL Group		512
(g) Lease of factory premises by the Group to the PEGL Group	Market price	499
(h) Lease of factory premises and land use rights by PEGL Group to the Group		Nil

## Significant Events (Continued)

### 3. Connected transactions: (Continued)

- (2) During the reporting period, the transactions amount of sale of product and provision of service by the Company to related parties was RMB266,127,300, among which the connected transaction for sale of products and provision of services to the controlling shareholder and its subsidiaries amounted to RMB136,892,400; the transaction for purchase of products and acceptance of service from related parties amounted to RMB51,892,100.

Connected parties	Sale of products and provision of services to connected parties		Purchase of products and acceptance of services from connected parties	
	Amount of transaction	As a percentage of the amount of similar transactions	Amount of transaction	As a percentage of the amount of similar transactions
Nanjing Thales Panda Transportation	923.85	0.43%	—	—
Nanjing Ericsson Panda Communication Co., Ltd.	11,793.27	5.51%	—	—
Nanjing Panda Handa Technology Co., Ltd.	5,839.47	2.72%	—	—
Nanjing Panda Electronic Import/Export Company	4,268.73	1.99%	3,218.99	1.74%
Nanjing Panda Electronic Import/Export (Hong Kong) Co., Ltd.	939.51	0.44%	—	—
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	3.38	0.01%	0.85	0.01%
Nanjing Huaxian High Technology Company	206.37	0.10%	—	—
Panda Electronics Group Limited	266.50	0.12%	249.06	0.14%
Nanjing Panda Electronics Transportation Company	5.09	0.01%	220.10	0.12%
Nanjing Panda Electronics Technology Development Company Limited	72.11	0.03%	317.61	0.17%
Nanjing CEC-Panda Home Appliances Co.,Ltd.	2,257.13	1.05%	544.49	0.29%
Nanjing 21st Century Electronic and Technology Square Company Limited	33.00	0.01%	—	—
Nanjing Zhen Hua Packing Material Plant	—	—	553.45	0.30%
Nanjing Electronic Calibration Co., Ltd.	—	—	33.29	0.02%
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	—	—	51.37	0.03%
Nanjing Panda Piezoelectric Technique Co., Ltd.	4.32	0.01%	—	—
Total	26,612.73	12.43%	5,189.21	2.82%

During the reporting period, the transactions amount of sale of product and provision of service by the Company to the controlling shareholder and its subsidiaries amounted to RMB136,892,400.

## Significant Events (Continued)

### 3. Connected transactions: (Continued)

- (3) During the reporting period, the actual amount of the provision of fund by the Company to related parties was nil and the balance was RMB2,799,400, amongst which the actual amount provided to the controlling shareholder and its subsidiaries was nil and the balance was nil; the actual amount of the provision of fund by related parties to the Company was RMB134,000 and the balance was RMB10,137,300.
- (4) As at 31 December 2011, there were no non-operating funds supplied by the Company to its controlling shareholder PEGE and the related parties of PEGE.

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

### 5. Material guarantee

During the reporting period, the amount guaranteed by the Company for its subsidiaries amounted to RMB190,000,000 and the balance amounted to RMB97,930,000, the details of which are as follows:

As of 31 December 2011, the Company provided guarantee for bank loan of RMB5,000,000, bank acceptance of RMB22,840,000 and performance guarantee of RMB29,090,000 of its controlled subsidiary, Nanjing Panda Information Industry Co., Ltd., bank loan of RMB20,000,000 of Nanjing Huage Appliance and Plastic Industrial Company Limited, bank loan of RMB5,000,000 of Nanjing Panda Mechanical Manufacturing Co., Ltd., bank acceptance of RMB3,500,000 of Nanjing Panda Electronic Manufacture Co., Ltd. and bank loan of RMB10,000,000 and bank acceptance of RMB2,500,000 of Nanjing Panda Electronic Equipment Co., Ltd.

The said guarantees totaling RMB97,930,000, representing 6.14% of the Company's net asset, are provided to controlled subsidiaries. The gearing ratio of the above subsidiaries receiving guarantees was below 70%.

The independent non-executive directors of the Company have expressed their independent opinion on the above guarantees as follows: all the above mentioned guarantees had been considered and approved by the Board and approved by shareholders in general meeting, and relevant procedures were in compliance with applicable rules. The Company did not provide any guarantee to any independent third parties other than its controlled subsidiaries, nor to its controlling shareholder, de facto controller or their connected parties. The Company shall carefully study the external guarantee requirements of the CSRC, the Shanghai Stock Exchange and the Hong Kong Stock Exchange to ensure that the procedures of external guarantees stay in compliance with applicable rules and that sufficient information and risk disclosures are made.

### 6. At the 2011 first extraordinary general meeting held on 18 March 2011, the proposal for appointment of Baker Tilly Hong Kong Limited ("BT Hong Kong") as the international auditor of the Company for 2010 was considered and approved.

(For details, please refer to the relevant announcement published on the websites of the Hong Kong Stock Exchange and the Company on 18 March 2011 and in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 19 March 2011.)

At the Company's annual general meeting on 30 June 2011, the proposal for reappointment of Baker Tilly China ("BT China") and Baker Tilly Hong Kong Limited ("BT Hong Kong") as the PRC and international auditors of the Company for 2011 respectively was considered and approved.

## Significant Events (Continued)

6. At the 2011 first extraordinary general meeting held on 18 March 2011, the proposal for appointment of Baker Tilly Hong Kong Limited (“BT Hong Kong”) as the international auditor of the Company for 2010 was considered and approved. (Continued)

(For details, please refer to the relevant announcement published on the websites of the Hong Kong Stock Exchange and the Company on 30 June 2011 and in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 1 July 2011.)

BT China and BT Hong Kong were appointed to provide audit services to the Company for the fourth year and the second year respectively.

Remuneration paid by the Company to the abovementioned two certified public accountants for their audit services for the annual report were aggregately RMB2,020,000, of which RMB1,237,000 was paid to BT China while RMB783,000 was paid to the BT Hong Kong (the aggregate amount of 2010: RMB2,020,000).

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

(1) Tax policies

The Company is registered in the High and New Technology Development Zone in Nanjing which is approved by the State Council as a national high and new technology development zone. The Company was re-recognized in September 2011 as a high and new technology enterprise (certificate no. GF201132000407, which is valid for 3 years). The Company is entitled to the preferential enterprise income tax treatment of 15% under relevant regulations.

(2) Basic medical insurance for employees.

The Company acted pursuant to the Provisional Regulations on Basic Medical Insurance for Employees in Nanjing Municipality (the “Regulations”) and implemented a medical insurance scheme for its employees since 1 January 2001. The Company pays the premiums for such basic medical insurance scheme and the premiums are equivalent to 8.5% of the verified fee of all of the existing employees of the Company and provides subsidy to employees who have serious illness and whose medical expenses are covered under the medical scheme. The total allowance given in 2011 was not more than RMB2,499,900. Save for the aforesaid premiums, the Company is not responsible for other medical expenses.

## Significant Events (Continued)

### 10. Information disclosure

Matter	Name and section of newspaper for information disclosure	Date of publication	Website for information disclosure
Appointment of International Auditor	China Securities Journal B029	2011-1-29	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Notice of the First Extraordinary General Meeting in 2011	Shanghai Securities News 28		Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement of the Extraordinary General Meeting	China Securities Journal B006 Shanghai Securities News 43	2011-3-19	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Resolutions of the 17th Meeting of the Sixth Board of Directors	China Securities Journal B214 Shanghai Securities News 161	2011-3-26	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Resolutions Passed at the 14th Meeting of the Sixth Supervisory Committee			
Summary of 2010 Annual Report	China Securities Journal B214 Shanghai Securities News 161	2011-3-26	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Provision of Guarantee for a Controlled Subsidiary	China Securities Journal A32 Shanghai Securities News B6	2011-4-8	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Provision of Guarantee for a Controlled Subsidiary			
Announcement on Provision of Guarantee for a Controlled Subsidiary			
Extraordinary Announcement	China Securities Journal A10 Shanghai Securities News B54	2011-4-13	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
2011 First Quarterly Report	China Securities Journal B029 Shanghai Securities News B75	2011-4-29	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Notice of 2010 Annual General Meeting	China Securities Journal B011 Shanghai Securities News B14	2011-5-13	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Provision of Guarantee for a Controlled Subsidiary	China Securities Journal B002 Shanghai Securities News B15	2011-5-26	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement of Resolutions Passed at the 2010 Annual General Meeting	China Securities Journal B021 Shanghai Securities News B30	2011-7-1	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
2011 Interim Results Announcement	China Securities Journal B051 Shanghai Securities News B87	2011-8-31	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Provision of Guarantee for a Controlled Subsidiary	China Securities Journal B022 Shanghai Securities News B27	2011-9-20	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Winding up of an Investee Company	China Securities Journal A23 Shanghai Securities News B12	2011-9-22	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement of Resolutions Passed at the Board Meeting	China Securities Journal B007 Shanghai Securities News B39	2011-10-22	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Provision of Guarantee for a Subsidiary			
Announcement of Revision of Annual Caps for Existing Continuing Connected Transactions			
Announcement on Appointment of General Manager	China Securities Journal B152 Shanghai Securities News B103	2011-10-25	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>

## Significant Events (Continued)

### 10. Information disclosure (Continued)

Matter	Name and section of newspaper for information disclosure	Date of publication	Website for information disclosure
2011 Third Quarterly Report	China Securities Journal B042 Shanghai Securities News B42	2011-10-29	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Notice of the Second Extraordinary General Meeting in 2011	China Securities Journal B007 Shanghai Securities News B30	2011-11-11	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement of a Connected Transaction involving Acquisition of Equity	China Securities Journal B003 Shanghai Securities News A7	2011-11-18	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Pledge of Shares by the Controlling Shareholder	China Securities Journal B010 Shanghai Securities News B25	2011-12-1	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Provision of Guarantee for a Controlled Subsidiary			
Announcement on Appointment of Deputy General Manager	China Securities Journal B003 Shanghai Securities News 36	2011-12-10	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement of the Passing of an Independent Director	China Securities Journal B003 Shanghai Securities News B31	2011-12-15	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement of Resolutions Passed at the Extraordinary Board Meeting			
Announcement on Provision of Guarantee for a Controlled Subsidiary	China Securities Journal B002 Shanghai Securities News B15	2011-12-23	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement of Resolutions Passed at the Second Extraordinary General Meeting in 2011	China Securities Journal B023 Shanghai Securities News B34	2011-12-29	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Provision of Guarantee for a Controlled Subsidiary	China Securities Journal B007 Shanghai Securities News B64	2011-12-30	Shanghai Stock Exchange <a href="http://www.sse.com.cn">www.sse.com.cn</a> Hong Kong Stock Exchange <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>
Announcement on Equity Transfer of Controlling Shareholder			

# Independent Auditor's Report



**BAKER TILLY**  
**HONG KONG LIMITED**  
CERTIFIED PUBLIC ACCOUNTANTS

**天職香港會計師事務所有限公司**

2nd Floor, 625 King's Road  
North Point, Hong Kong  
香港北角英皇道625號2樓

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

We have audited the consolidated financial statements of Nanjing Panda Electronics Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 72 to 138, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

#### **Directors' responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

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

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

# Independent Auditor's Report (Continued)

## Auditor's responsibility (Continued)

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Baker Tilly Hong Kong Limited**

Certified Public Accountants

Hong Kong, 29 March 2012

Chan Kwan Ho, Edmond

Practising Certificate Number P02092



# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
<b>Turnover</b>	7	<b>2,115,641</b>	1,664,885
Cost of sales		<u>(1,872,519)</u>	<u>(1,448,255)</u>
<b>Gross profit</b>		<b>243,122</b>	216,630
Other income and net (losses)/gains	8	<b>19,573</b>	35,554
Distribution costs		<b>(40,690)</b>	(42,110)
Administrative expenses		<u>(255,654)</u>	<u>(257,938)</u>
<b>Operating loss</b>		<b>(33,649)</b>	(47,864)
Finance costs, net	9	<b>(21,612)</b>	(18,840)
Share of profits of associates		<u>188,191</u>	<u>91,047</u>
<b>Profit before taxation</b>	10	<b>132,930</b>	24,343
Income tax expense	12	<u>(16,835)</u>	<u>(16,599)</u>
<b>Profit and total comprehensive income for the year</b>		<u><b>116,095</b></u>	<u>7,744</u>
<b>Attributable to:</b>			
Equity holders of the Company		<b>110,070</b>	9,359
Non-controlling interests		<u>6,025</u>	<u>(1,615)</u>
		<u><b>116,095</b></u>	<u>7,744</u>
<b>Earnings per share (RMB cents)</b>			
— Basic and diluted	13	<u><b>16.80</b></u>	<u>1.43</u>

The notes on pages 80 to 138 form part of the consolidated financial statements.

# Consolidated Balance Sheet

at 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Land use rights	15	22,696	23,379	24,062
Property, plant and equipment	16	621,042	611,177	553,835
Associates	18	683,793	661,484	778,712
Available-for-sale equity securities	19	3,650	—	—
Deferred tax assets	20	5,991	6,509	2,782
		<u>1,337,172</u>	<u>1,302,549</u>	<u>1,359,391</u>
<b>Current assets</b>				
Inventories	21	196,693	187,726	142,866
Trade and bills receivables	22	564,646	318,202	235,601
Amounts due from customers for contract work	23	56,900	31,730	18,399
Deposits, prepayments and other receivables	24	110,832	112,337	85,917
Restricted bank deposits	25	103,105	229,933	61,579
Cash and cash equivalents	26	343,783	392,370	563,819
		<u>1,375,959</u>	<u>1,272,298</u>	<u>1,108,181</u>
<b>Total assets</b>		<u><u>2,713,131</u></u>	<u><u>2,574,847</u></u>	<u><u>2,467,572</u></u>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital	27	655,015	655,015	655,015
Share premium and reserves		932,025	824,728	814,677
		<u>1,587,040</u>	<u>1,479,743</u>	<u>1,469,692</u>
<b>Non-controlling interests</b>		<u>8,402</u>	<u>7,315</u>	<u>12,789</u>
<b>Total equity</b>		<u><u>1,595,442</u></u>	<u><u>1,487,058</u></u>	<u><u>1,482,481</u></u>

# Consolidated Balance Sheet (Continued)

at 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Other borrowing	29	—	4,000	4,000
Obligations under finance leases - non-current portion	30	—	—	1,279
Deferred tax liabilities	20	<b>390</b>	69	—
		<b>390</b>	4,069	5,279
<b>Current liabilities</b>				
Bank borrowings	31	<b>427,368</b>	520,574	399,454
Other borrowing	29	<b>4,000</b>	—	—
Trade payables	32	<b>466,874</b>	330,431	275,993
Accruals and other payables	33	<b>218,590</b>	221,871	299,400
Obligations under finance leases - current portion	30	—	1,279	2,215
Tax payable		<b>467</b>	9,565	2,750
		<b>1,117,299</b>	1,083,720	979,812
<b>Total liabilities</b>		<b>1,117,689</b>	1,087,789	985,091
<b>Total equity and liabilities</b>		<b>2,713,131</b>	2,574,847	2,467,572
<b>Net current assets</b>		<b>258,660</b>	188,578	128,369
<b>Total assets less current liabilities</b>		<b>1,595,832</b>	1,491,127	1,487,760

Approved and authorised for issue by the board of directors on 29 March 2012.

**XU Guofei**  
Director

**LU Qing**  
Director

The notes on pages 80 to 138 form part of the consolidated financial statements.

# Balance Sheet

at 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	15	22,696	11,382
Property, plant and equipment	16	402,377	388,667
Subsidiaries	17	493,097	408,818
Associates	18	180,911	576,975
Available-for-sale equity securities	19	3,650	—
		<u>1,102,731</u>	<u>1,385,842</u>
<b>Current assets</b>			
Inventories	21	8,363	10,678
Trade and bills receivables	22	64,777	28,352
Deposits, prepayments and other receivables	24	160,411	199,091
Dividend receivable		1,118	1,518
Restricted bank deposits	25	30,559	198,751
Cash and cash equivalents	26	58,996	151,591
		<u>324,224</u>	<u>589,981</u>
<b>Total assets</b>		<u><u>1,426,955</u></u>	<u><u>1,975,823</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	27	655,015	655,015
Share premium and reserves	28	281,754	691,402
<b>Total equity</b>		<u><u>936,769</u></u>	<u><u>1,346,417</u></u>

# Balance Sheet (Continued)

at 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other borrowing	29	—	4,000
<b>Current liabilities</b>			
Bank borrowings	31	251,119	433,438
Other borrowing	29	4,000	—
Trade payables	32	32,636	24,719
Accruals and other payables	33	202,431	167,249
		<b>490,186</b>	625,406
<b>Total liabilities</b>		<b>490,186</b>	629,406
<b>Total equity and liabilities</b>		<b>1,426,955</b>	1,975,823
<b>Net current liabilities</b>		<b>(165,962)</b>	(35,425)
<b>Total assets less current liabilities</b>		<b>936,769</b>	1,350,417

Approved and authorised for issue by the board of directors on 29 March 2012.

**XU Guofei**  
Director

**LU Qing**  
Director

The notes on pages 80 to 138 form part of the consolidated financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2011 (Expressed in Renminbi)

	Share capital	Share premium	Capital reserve	Statutory common funds	Asset revaluation reserve	Accumulated profits	Attributable to equity holders of the Company	Non-controlling Interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2011 (Restated)	655,015	389,338	(4,699)	204,743	35,688	199,658	1,479,743	7,315	1,487,058
Profit and total comprehensive income for the year	—	—	—	—	—	110,070	110,070	6,025	116,095
Business combination under common control	—	—	(2,773)	—	—	—	(2,773)	(245)	(3,018)
Profit appropriations	—	—	—	5,187	—	(5,187)	—	—	—
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	(4,693)	(4,693)
As at 31 December 2011	<u>655,015</u>	<u>389,338</u>	<u>(7,472)</u>	<u>209,930</u>	<u>35,688</u>	<u>304,541</u>	<u>1,587,040</u>	<u>8,402</u>	<u>1,595,442</u>

# Consolidated Statement of Changes in Equity (Continued)

for the year ended 31 December 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 (Restated)	655,015	389,338	(6,639)	204,496	35,688	191,794	1,469,692	12,789	1,482,481
Profit and total comprehensive income for the year	—	—	—	—	—	9,359	9,359	(1,615)	7,744
Disposal of a subsidiary	—	—	—	—	—	—	—	(431)	(431)
Profit appropriations	—	—	—	247	—	(247)	—	—	—
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	(5,006)	(5,006)
Dividends payable to former shareholders of a subsidiary relating to business combination under common control	—	—	—	—	—	(1,248)	(1,248)	(313)	(1,561)
Acquisition of additional interests in subsidiaries	—	—	1,940	—	—	—	1,940	(809)	1,131
Capital injection from non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	2,700	2,700
As at 31 December 2010 (Restated)	<u>655,015</u>	<u>389,338</u>	<u>(4,699)</u>	<u>204,743</u>	<u>35,688</u>	<u>199,658</u>	<u>1,479,743</u>	<u>7,315</u>	<u>1,487,058</u>

The notes on pages 80 to 138 form part of the consolidated financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
<b>Operating activities</b>			
Cash used in operations	34	(156,090)	(88,637)
Interest paid		(25,609)	(23,862)
Income tax paid		(25,094)	(13,581)
Net cash used in operating activities		(206,793)	(126,080)
<b>Investing activities</b>			
Purchase of property, plant and equipment		(42,250)	(116,228)
Purchase of available-for-sale equity securities		(3,650)	—
Acquisition of additional interests in subsidiaries		—	(809)
Decrease/(increase) in net amounts due with fellow subsidiaries and associates		10,516	(12,740)
Net cash outflow arising on disposal of a subsidiary	36	—	(425)
Proceeds from disposal of property, plant and equipment		1,417	2,716
Cash paid for business combination under common control		(3,018)	—
Decrease/(increase) in restricted bank deposit designated for capital contribution to a new subsidiary		175,000	(175,000)
Interest received		4,966	6,098
Dividends received from associates		165,882	208,275
Net cash generated from/(used in) investing activities		308,863	(88,113)
<b>Financing activities</b>			
Proceeds from borrowings		476,919	592,738
Repayments of borrowings		(570,125)	(471,618)
Repayments of advances from ultimate holding company		(1,296)	(80,501)
Repayments of obligations under finance leases		(1,279)	(2,215)
Dividends paid to non-controlling shareholders of subsidiaries		(4,693)	(5,006)
Dividends paid to former shareholders of a subsidiary relating to business combination under common control		(1,561)	—
Capital injection from non-controlling shareholders of a subsidiary		—	2,700
(Increase)/decrease in restricted bank deposits		(48,172)	6,646
Net cash (used in)/generated from financing activities		(150,207)	42,744
<b>Net decrease in cash and cash equivalents</b>		<b>(48,137)</b>	<b>(171,449)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>392,370</b>	<b>563,819</b>
<b>Effect of foreign exchange rate changes</b>		<b>(450)</b>	<b>—</b>
<b>Cash and cash equivalents at end of the year</b>	26	<b>343,783</b>	<b>392,370</b>

The notes on pages 80 to 138 form part of the consolidated financial statements.



# Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

## 1 General information

Nanjing Panda Electronics Company Limited (the “Company”) was established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 29 April 1992. The Company’s H shares have been listed on The Stock Exchange of Hong Kong Limited (“HKSE”) since 2 May 1996 and its A shares have been listed on the Shanghai Stock Exchange since 18 November 1996. The 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.

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

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.

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), Interpretations and Accounting Guidelines issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except that certain items of property, plant and equipment are stated at 1995 valuation less accumulated depreciation and impairment losses as explained in note 2.7 below.

In November 2011, the Company completed the acquisition of a total of 100% equity interest in Nanjing Longwill Communications Technology Co., Ltd (“Longwill”) from the ultimate holding company and five individual vendors for a total cash consideration of RMB3,018,000. This acquisition was regarded as business combination under common control as the Company and Longwill are controlled by PEGL both before and after the aforesaid transaction, and has been accounted for in accordance with the Accounting Guideline 5 “Merger accounting for common control combinations” issued by the HKICPA. As a result, the comparative figures in these consolidated financial statements have been restated in order to include the results of Longwill since the date of which first came under common control.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

The acquisition of Longwill had resulted in decrease in the Group's profit and total comprehensive income for the year ended 31 December 2011 by RMB4,143,000. Details of the adjustments for the common control combination on the Group's results for the year ended 31 December 2010 and the Group's financial position as at 31 December 2010 and 2009 are set out in note 35.

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

### 2.2 Subsidiaries and non-controlling interests

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

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

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.2 Subsidiaries and non-controlling interests (Continued)

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

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 2.9), unless the investments are classified as held for sale.

### 2.3 Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see note 2.9). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associate and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the Group's other comprehensive income.

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.3 Associates (Continued)

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

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (see note 2.9).

### 2.4 Goodwill

Goodwill represents the excess of

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

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2.9).

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

### 2.5 Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 2.19(ii) and (iii).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.5 Other investments in equity securities (Continued)

Investments in equity securities which are not held for trading are classified as available-for-sale equity securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2.19(ii). When these investments are derecognised or impaired (see note 2.9), the cumulative gain or loss is reclassified from equity to profit or loss.

Available-for-sale equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2.9).

Investments are recognised/derecognised at the date the Group commits to purchase/sale the investments.

### 2.6 Land use rights

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

### 2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost or 1995 valuation less accumulated depreciation and impairment losses (see note 2.9).

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.7 Property, plant and equipment (Continued)

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

— Buildings	20 to 30 years
— Plant, machinery and equipment	3 to 11 years
— Transportation equipment and motor vehicles	5 to 10 years

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

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

### 2.8 Leases

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

(a) Where the Group is the lessee

(i) Operating leases

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

(ii) Finance leases

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

# Notes to the Consolidated Financial Statements *(Continued)*

*(Expressed in Renminbi)*

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

### 2.8 Leases *(Continued)*

(b) Where the Group is the lessor

(i) Operating leases

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2.7 above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2.19(iv) below.

### 2.9 Impairment loss

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

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

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

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

- For investments in subsidiaries and associates, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2.9(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2.9(ii).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.9 Impairment loss (Continued)

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

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

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

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.



# Notes to the Consolidated Financial Statements *(Continued)*

*(Expressed in Renminbi)*

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

### 2.9 Impairment loss *(Continued)*

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

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

#### (ii) Impairment of other assets

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

- land use rights;
- property, plant and equipment; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

#### — Calculation of recoverable amount

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.9 Impairment loss (Continued)

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

##### — Recognition of impairment losses

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

##### — Reversals of impairment losses

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

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

### 2.10 Inventories

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

### 2.11 Project contract

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.11 Project contract (Continued)

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

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

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

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

### 2.12 Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2.9), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### 2.14 Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.15 Borrowings

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

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

### 2.16 Income tax

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

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

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.16 Income tax (Continued)

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

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

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

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.17 Financial guarantees

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2.18 if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in accruals and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

### 2.18 Provisions

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

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.19 Recognition of income

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

- (i) Revenue from the sale of products is recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.
- (ii) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.
- (iii) Interest income is recognised on a timely basis using the effective interest method.
- (iv) Rental income from operating leases is recognised on a straight-line basis over the lease term.
- (v) Revenue for providing technology services is recognised to the extent of services rendered and according to the terms of the agreement.
- (vi) Property management fee income is recognised when the related services are provided.
- (vii) Revenue from project contract is recognised when the outcome of a project contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveyors of work performed.

When the outcome of a project contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

### 2.20 Foreign currency translation

- (a) Functional and presentation currency

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.20 Foreign currency translation (Continued)

#### (b) Transactions and balances

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

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

#### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.21 Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.22 Retirement benefit scheme

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

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

### 2.23 Research and development costs

Research costs are expensed when incurred.

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

### 2.24 Government grants

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 2 Summary of significant accounting policies (Continued)

### 2.24 Government grants (Continued)

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

### 2.25 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 3 Application of new and revised HKFRSs

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

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)

HKAS 24 (revised 2009) simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related, or transactions with other entities related to the same government. These amendments have had no material impact on the Group's consolidated financial statements.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in note 4 has been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the consolidated financial statements in the current and previous periods.

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 7, Financial instruments: Disclosure - Transfers of financial assets	1 July 2011
Amendments to HKAS 12, Income taxes - Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to HKAS 1, Presentation of financial statements - Presentation of items of other comprehensive income	1 July 2012
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
HKAS 27 (2011), Separate financial statements	1 January 2013
HKAS 28 (2011), Investments in associates and joint ventures	1 January 2013
HKFRS 9, Financial instruments	1 January 2015

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 4 Financial Risk Management

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

### (a) Market risk

#### (i) Foreign currency risk

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

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

As at 31 December 2011, if RMB had weakened/strengthened by 5% against USD with all the variables held constant, post-tax profit for the year would have been RMB7,271,000 (2010 as restated: RMB961,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated monetary assets and liabilities.

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

#### (ii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from bank borrowings. As at 31 December 2011, a portion of borrowings were at floating rates.

As at 31 December 2011, if interest rates on such borrowings have been 100 basis points higher/lower with all other variables held constant, profit for the year would have been RMB2,687,000 (2010: RMB3,585,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 4 Financial Risk Management (Continued)

### (b) Credit risk

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

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

The Group has concentration of credit risk as 52% (2010 as restated: 35%) of the total trade and bills receivables was due from the Group's five largest customers.

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

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Further quantitative disclosures on exposure to credit risk arising from trade receivables are set out in note 22.

### (c) Liquidity risk

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

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

The Group	Carrying amount	Total contractual undiscounted cash flow	Within 1 year	Between 1 year and 2 years
	RMB'000	RMB'000	RMB'000	RMB'000
<b>2011</b>				
Borrowings	431,368	439,667	439,667	—
Trade payables	466,874	466,874	466,874	—
Accruals and other payables	218,590	218,590	218,590	—
	<u>1,116,832</u>	<u>1,125,131</u>	<u>1,125,131</u>	<u>—</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 4 Financial Risk Management (Continued)

### (c) Liquidity risk (Continued)

The Group	Carrying amount RMB'000 (Restated)	Total contractual undiscounted cash flow RMB'000 (Restated)	Within 1 year RMB'000 (Restated)	Between 1 year and 2 years RMB'000 (Restated)
<b>2010</b>				
Borrowings	524,574	538,668	534,656	4,012
Trade payables	330,431	330,431	330,431	—
Accruals and other payables	221,871	221,871	221,871	—
Obligations under finance leases	1,279	1,314	1,314	—
	<u>1,078,155</u>	<u>1,092,284</u>	<u>1,088,272</u>	<u>4,012</u>

The Company	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year RMB'000	Between 1 year and 2 years RMB'000
<b>2011</b>				
Borrowings	255,119	260,793	260,793	—
Trade payables	32,636	32,636	32,636	—
Accruals and other payables	202,431	202,431	202,431	—
	<u>490,186</u>	<u>495,860</u>	<u>495,860</u>	<u>—</u>

The Company	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year RMB'000	Between 1 year and 2 years RMB'000
<b>2010</b>				
Borrowings	437,438	449,609	445,597	4,012
Trade payables	24,719	24,719	24,719	—
Accruals and other payables	167,249	167,249	167,249	—
	<u>629,406</u>	<u>641,577</u>	<u>637,565</u>	<u>4,012</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 4 Financial Risk Management (Continued)

### (d) Categories of financial instruments

The Group	2011 <i>RMB'000</i>	2010 <i>RMB'000</i> (Restated)
<b>Financial assets</b>		
Loan and receivables (including cash and cash equivalents)	1,034,801	964,169
Available-for-sale equity securities	3,650	—
	<u>1,038,451</u>	<u>964,169</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	<u>1,116,832</u>	<u>1,078,155</u>
<b>The Company</b>	<b>2011</b> <b>RMB'000</b>	<b>2010</b> <b>RMB'000</b>
<b>Financial assets</b>		
Loan and receivables (including cash and cash equivalents)	305,419	566,066
Available-for-sale equity securities	3,650	—
	<u>309,069</u>	<u>566,066</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	<u>490,186</u>	<u>629,406</u>

### (e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010.

## 5 Capital risk management

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

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

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 5 Capital risk management (Continued)

The gearing ratios as at 31 December 2011 and 2010 were as follows:

	2011 RMB'000	2010 RMB'000 (Restated)
Total borrowings	431,368	525,853
Less: Cash and cash equivalents	<u>(343,783)</u>	<u>(392,370)</u>
Net debt	87,585	133,483
Total equity (excluding non-controlling interests)	<u>1,587,040</u>	<u>1,479,743</u>
Total capital	<u>1,674,625</u>	<u>1,613,226</u>
Gearing ratio	<u>5%</u>	<u>8%</u>

## 6 Critical accounting estimates and judgements

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

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

### (a) Useful lives of property, plant and equipment

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

### (b) Impairment of trade and other receivables

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



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 6 Critical accounting estimates and judgements (Continued)

### (c) Provision for obsolete inventories

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

## 7 Revenue and segmental information

The Group determines its operating segments based on the internal financial information reviewed by the board of directors of the Company that are used to make strategic decisions. For the year ended 31 December 2011, the Group has the following 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, production and sale of electronic intelligent products    |

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

Segment assets include all non-current and current assets with the exception of interests in associates, available-for-sale equity securities and other corporate assets. Segment liabilities include all non-current and current liabilities with the exception of other corporate liabilities.

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 7 Revenue and segmental information (Continued)

The following tables provide an analysis of the Group's revenue, results and certain assets, liabilities and expenditure information by reportable segments for the years ended 31 December 2011 and 2010:

### Year ended 31 December 2011

	Electronic manufacturing products RMB'000	Electronic equipment products RMB'000	Communication technology products RMB'000	Electronic intelligent products RMB'000	Other operations RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>Revenue</b>							
External sales	649,877	450,616	301,647	655,866	57,635	—	2,115,641
Internal sales	2,056	46,143	8,977	21,544	33,551	(112,271)	—
Total	<u>651,933</u>	<u>496,759</u>	<u>310,624</u>	<u>677,410</u>	<u>91,186</u>	<u>(112,271)</u>	<u>2,115,641</u>
<b>Results</b>							
Segment results	<u>57,963</u>	<u>18,624</u>	<u>15,501</u>	<u>1,068</u>	<u>10,911</u>	<u>—</u>	104,067
Unallocated corporate expenses							(137,716)
Interest income							4,966
Interest expense							(26,578)
Share of profits of associates							188,191
Income tax expense							<u>(16,835)</u>
Profit for the year							<u>116,095</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## Revenue and segmental information (Continued)

At 31 December 2011

	Electronic manufacturing products RMB'000	Electronic equipment products RMB'000	Communication technology products RMB'000	Electronic intelligent products RMB'000	Other operations RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>Assets</b>							
Segment assets	510,067	314,639	75,428	626,749	317,759	(333,215)	1,511,427
Associates							683,793
Available-for-sale equity securities							3,650
Unallocated corporate assets							514,261
Consolidated total assets							2,713,131
<b>Liabilities</b>							
Segment liabilities	161,470	204,198	75,047	454,074	103,125	(165,883)	832,031
Unallocated corporate liabilities							285,658
Consolidated total liabilities							1,117,689

	Electronic manufacturing products RMB'000	Electronic equipment products RMB'000	Communication technology products RMB'000	Electronic intelligent products RMB'000	Other operations RMB'000	Unallocated RMB'000	Consolidated RMB'000
<b>Other information</b>							
Capital expenditure	23,718	3,488	130	1,969	1,408	32,215	62,928
Depreciation and amortisation	28,684	3,783	386	1,164	601	18,648	53,266
Write-down of inventories	11,630	1,821	2,087	3,940	73	—	19,551
(Gain)/Loss on disposal of property, plant and equipment	—	(8)	—	(13)	(1,124)	208	(937)
Impairment loss recognised/ (reversed) on trade receivables	(102)	746	276	503	116	—	1,539

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 7 Revenue and segmental information (Continued)

### Year ended 31 December 2010

	Electronic manufacturing products RMB'000 (Restated)	Electronic equipment products RMB'000 (Restated)	Communication technology products RMB'000 (Restated)	Electronic intelligent products RMB'000 (Restated)	Other operations RMB'000 (Restated)	Elimination RMB'000 (Restated)	Consolidated RMB'000 (Restated)
<b>Revenue</b>							
External sales	603,421	284,750	233,295	517,660	25,759	—	1,664,885
Internal sales	5,104	22,638	26,977	77,340	21,154	(153,213)	—
Total	<u>608,525</u>	<u>307,388</u>	<u>260,272</u>	<u>595,000</u>	<u>46,913</u>	<u>(153,213)</u>	<u>1,664,885</u>
<b>Results</b>							
Segment results	<u>47,376</u>	<u>8,117</u>	<u>1,533</u>	<u>5,283</u>	<u>3,983</u>	<u>—</u>	66,292
Unallocated corporate expenses							(114,156)
Interest income							6,098
Interest expense							(24,938)
Share of profits of associates							91,047
Income tax expense							<u>(16,599)</u>
Profit for the year							<u>7,744</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## Revenue and segmental information (Continued)

At 31 December 2010

	Electronic manufacturing products RMB'000 (Restated)	Electronic equipment products RMB'000 (Restated)	Communication technology products RMB'000 (Restated)	Electronic intelligent products RMB'000 (Restated)	Other operations RMB'000 (Restated)	Elimination RMB'000 (Restated)	Consolidated RMB'000 (Restated)
<b>Assets</b>							
Segment assets	549,340	224,093	57,286	397,930	216,571	(222,640)	1,222,580
Associates							661,484
Unallocated corporate assets							690,783
Consolidated total assets							2,574,847
<b>Liabilities</b>							
Segment liabilities	258,370	157,066	50,282	233,550	107,109	(243,929)	562,448
Unallocated corporate liabilities							525,341
Consolidated total liabilities							1,087,789

	Electronic manufacturing products RMB'000 (Restated)	Electronic equipment products RMB'000 (Restated)	Communication technology products RMB'000 (Restated)	Electronic intelligent products RMB'000 (Restated)	Other operations RMB'000 (Restated)	Unallocated RMB'000 (Restated)	Consolidated RMB'000 (Restated)
<b>Other information</b>							
Capital expenditure	55,870	5,844	123	2,074	2,020	50,297	116,228
Depreciation and amortisation	23,700	4,873	239	701	812	13,289	43,614
Write-down of inventories	6,232	1,737	3,375	77	1,802	—	13,223
Impairment loss recognised on property, plant and equipment	—	5	—	—	—	—	5
Loss/(gain) on disposal of property, plant and equipment	11,577	—	—	6	(30)	—	11,553
Impairment loss recognised/ (reversed) on trade receivables	(187)	9,597	(79)	20,631	(184)	—	29,778

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 7 Revenue and segmental information (Continued)

### (a) Geographical information

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

### (b) Major customers

For the year ended 31 December 2011, there was one customer in the electronic intelligent products segment that accounted for over 10% of the Group's revenue. Sales to this customer amounted to RMB288,807,000.

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

## 8 Other income and net (losses)/gains

	<b>2011</b> <b>RMB'000</b>	2010 RMB'000 (Restated)
Other income		
Rental income	<b>4,494</b>	4,197
Property management fee income	<b>6,541</b>	6,055
Government subsidies	<b>5,531</b>	30,240
Sundry income	<b>4,086</b>	9,537
	<b>20,652</b>	50,029
Other net (losses)/gains		
Gain on disposal of a subsidiary (Note 36)	—	33
Gain/(loss) on disposal of property, plant and equipment	<b>937</b>	(11,553)
Exchange losses	<b>(2,016)</b>	(2,955)
	<b>(1,079)</b>	(14,475)
	<b>19,573</b>	35,554

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 9 Finance costs, net

	2011 RMB'000	2010 RMB'000 (Restated)
Interest expense		
— Bank and other borrowings wholly repayable within five years	(25,672)	(23,623)
— Finance lease interest	(35)	(239)
— Others	(871)	(1,076)
Finance costs	(26,578)	(24,938)
Finance income		
— Interest income on short-term deposits	4,966	6,098
Finance costs, net	(21,612)	(18,840)

## 10 Profit before taxation

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

	2011 RMB'000	2010 RMB'000 (Restated)
Cost of inventories recognised as an expense	1,109,407	964,589
Amortisation of land use rights	683	683
Depreciation of property, plant and equipment	52,583	42,931
Impairment loss recognised on property, plant and equipment	—	5
Impairment loss recognised/(reversed) on		
— Trade receivables	1,539	29,778
— Other receivables	(2,662)	1,996
— Amounts due from fellow subsidiaries and associates	(568)	(687)
Write-down of inventories	19,551	13,223
Research and development expenses <sup>#</sup>	86,066	53,555
Staff costs (including directors' and supervisors' emoluments)		
— Salaries and other allowances	224,415	173,212
— Retirement benefit scheme contributions	38,352	35,175
Auditor's remuneration	2,020	2,020
Operating lease rentals in respect of		
— Land and buildings	4,909	1,893
— Plant and equipment	1,363	1,156
— Motor vehicles	937	107

<sup>#</sup> Research and development expenses include RMB28,451,000 (2010 as restated: RMB15,816,000) relating to staff costs which is also included in the respective amounts disclosed separately above.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

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

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

The emoluments paid or payable to each of the fourteen (2010: sixteen) Directors and Supervisors were as follows:

#### Year ended 31 December 2011

Name	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<b>Executive Directors:</b>				
Lai Weide	—	—	—	—
Xu Guofei	—	—	—	—
	—	—	—	—
<b>Non-executive Directors:</b>				
Zhu Lifeng	—	—	—	—
Lu Qing	360	—	28	388
Jason Hsuan	—	—	—	—
Deng Weiming	360	—	28	388
	720	—	56	776
<b>Independent Non-executive Directors:</b>				
Cai Lianglin (Note i)	—	—	—	—
Tang Yousong (Note ii)	—	—	—	—
Ma Chung Lai, Lawrence (Note ii)	65	—	—	65
	65	—	—	65
<b>Supervisors:</b>				
Zhang Zhengping	—	150	28	178
Tang Min (Note ii)	—	100	28	128
Zhou Yuxin	—	150	28	178
	—	400	84	484
<b>Independent Supervisors:</b>				
Sun Suhua (Note ii)	—	—	—	—
Wang Fei (Note ii)	—	—	—	—
	—	—	—	—
Total	785	400	140	1,325

Notes:

(i) Deceased on 11 December 2011.

(ii) Retired on 6 March 2012.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

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

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

Year ended 31 December 2010

Name	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<b>Executive Director:</b>				
Li Anjian (Note i)	—	—	—	—
<b>Non-executive Directors:</b>				
Zhu Lifeng	280	—	—	280
Xu Guofei	340	—	—	340
Shi Qiusheng (Note ii)	—	—	—	—
Lu Qing	280	—	—	280
Jason Hsuan	—	—	—	—
Lai Weide (Note iii)	—	—	—	—
Deng Weiming (Note iii)	280	—	—	280
	1,180	—	—	1,180
<b>Independent Non-executive Directors:</b>				
Tang Yousong	—	—	—	—
Cai Lianglin	—	—	—	—
Ma Chung Lai, Lawrence	68	—	—	68
	68	—	—	68
<b>Supervisors:</b>				
Zhang Zhengping	—	300	26	326
Tang Min	—	140	26	166
Zhou Yuxin	—	140	26	166
	—	580	78	658
<b>Independent Supervisors:</b>				
Sun Suhua	—	—	—	—
Wang Fei	—	—	—	—
	—	—	—	—
Total	1,248	580	78	1,906

Notes:

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

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

### (b) The five highest paid individuals

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

	2011 RMB'000	2010 RMB'000
Salaries and other allowances	2,570	3,300
Retirement benefits scheme contributions	138	78
	<u>2,708</u>	<u>3,378</u>

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

	Number of employees	
	2011	2010
Nil to HKD1,000,000	<u>5</u>	<u>5</u>

## 12 Income tax expense

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

	2011 RMB'000	2010 RMB'000 (Restated)
Current tax		
— PRC enterprise income tax	17,749	21,326
— Over-provision in prior year	(1,753)	(930)
	<u>15,996</u>	<u>20,396</u>
Deferred tax (Note 20)		
— attributable to the origination and reversal of temporary differences	487	(3,850)
— resulting from a change in tax rate	352	53
	<u>839</u>	<u>(3,797)</u>
	<u>16,835</u>	<u>16,599</u>

PRC enterprise income tax is charged at the statutory rate of 25% (2010: 25%) of the assessable income as determined with the relevant tax rules and regulations of the PRC, except that the Company and certain subsidiaries in the PRC are subject to a preferential tax rate of 12.5% or 15% (2010: 12.5%, 15% or 22%).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 12 Income tax expense (Continued)

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

	2011 RMB'000	2010 RMB'000 (Restated)
<b>Profit before taxation</b>	<b>132,930</b>	24,343
Tax calculated at the statutory PRC tax rate of 25% (2010: 25%)	<b>33,233</b>	6,086
Exemption/reduction of income tax under preferential tax treatment	<b>(11,671)</b>	(4,298)
<b>Tax effect of:</b>		
Share of results of associates	<b>(28,227)</b>	(13,587)
Income not subject to tax	<b>(595)</b>	(384)
Expenses not deductible for tax purposes	<b>2,142</b>	3,264
Effect of change in tax rate	<b>352</b>	53
Unrecognised tax losses and other deferred tax assets	<b>24,254</b>	28,759
Utilisation of previously unrecognised tax losses and other deferred tax assets	<b>(900)</b>	(2,390)
Over-provision in prior year	<b>(1,753)</b>	(930)
Others	<b>—</b>	26
Tax charge for the year	<b>16,835</b>	16,599

## 13 Earnings per share

The calculation of the basic earnings per share is based on profit attributable to equity holders of the Company of RMB110,070,000 (2010 as restated: RMB9,359,000) and 655,015,000 shares in issue throughout the years 2011 and 2010.

The diluted earnings per share for the years ended 31 December 2011 and 2010 are the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during both years.

## 14 Dividend

Final dividend of RMB50 cents (2010: RMBnil) per ten shares for the year ended 31 December 2011 was proposed by the board of directors after the balance sheet date. This proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting on a date to be fixed.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

# Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

## 15 Land use rights

	The Group RMB'000	The Company RMB'000
<b>Cost:</b>		
At 1 January 2010 and 1 January 2011	27,219	13,423
Additions	—	11,771
At 31 December 2011	<u>27,219</u>	<u>25,194</u>
<b>Accumulated amortisation:</b>		
At 1 January 2010	3,157	1,657
Charge for the year	<u>683</u>	<u>384</u>
At 31 December 2010	3,840	2,041
Charge for the year	<u>683</u>	<u>457</u>
At 31 December 2011	<u>4,523</u>	<u>2,498</u>
<b>Carrying value:</b>		
At 31 December 2011	<u><u>22,696</u></u>	<u><u>22,696</u></u>
At 31 December 2010	<u><u>23,379</u></u>	<u><u>11,382</u></u>

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 16 Property, plant and equipment

The Group	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost or valuation:</b>					
As at 1 January 2010 (Restated)	402,324	274,162	12,209	85,591	774,286
Additions	—	24,371	3,398	88,459	116,228
Transfers	131,504	38,662	—	(170,166)	—
Disposals	(3,099)	(29,912)	(1,525)	—	(34,536)
Disposal of a subsidiary	—	(6,293)	—	—	(6,293)
As at 31 December 2010 and 1 January 2011 (Restated)	530,729	300,990	14,082	3,884	849,685
Additions	4,116	17,993	4,537	36,282	62,928
Transfers	27,901	11,959	—	(39,860)	—
Disposals	(23,304)	(7,797)	(683)	—	(31,784)
As at 31 December 2011	539,442	323,145	17,936	306	880,829
<b>Accumulated depreciation and impairment losses:</b>					
As at 1 January 2010 (Restated)	126,006	89,961	4,484	—	220,451
Charge for the year	12,663	29,026	1,242	—	42,931
Impairment loss	—	5	—	—	5
Written back on disposals	(2,344)	(16,961)	(962)	—	(20,267)
Disposal of a subsidiary	—	(4,612)	—	—	(4,612)
As at 31 December 2010 and 1 January 2011 (Restated)	136,325	97,419	4,764	—	238,508
Charge for the year	16,799	34,206	1,578	—	52,583
Written back on disposals	(23,304)	(7,418)	(582)	—	(31,304)
As at 31 December 2011	129,820	124,207	5,760	—	259,787
<b>Carrying value:</b>					
As at 31 December 2011	409,622	198,938	12,176	306	621,042
As at 31 December 2010 (Restated)	394,404	203,571	9,318	3,884	611,177

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 16 Property, plant and equipment (Continued)

The Company	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost or valuation:</b>					
As at 1 January 2010	343,028	35,070	2,990	85,509	466,597
Additions	—	2,553	660	47,186	50,399
Transfer	131,504	—	—	(131,504)	—
Disposals	(1,648)	(4,127)	(200)	—	(5,975)
<b>As at 31 December 2010 and 1 January 2011</b>	<b>472,884</b>	<b>33,496</b>	<b>3,450</b>	<b>1,191</b>	<b>511,021</b>
Additions	4,116	255	1,198	26,710	32,279
Transfer	27,901	—	—	(27,901)	—
Disposals	—	(5,827)	(211)	—	(6,038)
As at 31 December 2011	504,901	27,924	4,437	—	537,262
<b>Accumulated depreciation and impairment losses:</b>					
As at 1 January 2010	85,551	26,804	1,037	—	113,392
Charge for the year	11,572	2,034	343	—	13,949
Written back on disposals	(894)	(3,903)	(190)	—	(4,987)
As at 31 December 2010 and 1 January 2011	96,229	24,935	1,190	—	122,354
Charge for the year	15,769	2,152	319	—	18,240
Written back on disposals	—	(5,540)	(169)	—	(5,709)
As at 31 December 2011	111,998	21,547	1,340	—	134,885
<b>Carrying value:</b>					
As at 31 December 2011	392,903	6,377	3,097	—	402,377
As at 31 December 2010	376,655	8,561	2,260	1,191	388,667

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 16 Property, plant and equipment (Continued)

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

At the date of approval of these consolidated financial statements, the Group and the Company are still in the process of applying title certificates in respect of certain buildings with carrying value of RMB216,720,000 (2010: RMB211,701,000) and RMB199,999,000 (2010: RMB194,365,000) respectively.

At 31 December 2011, the Group had no plant and machinery held under finance leases (2010: RMB4,218,000).

## 17 Subsidiaries

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	514,534	430,255
Less: Impairment loss	<u>(21,437)</u>	<u>(21,437)</u>
	<u><b>493,097</b></u>	<u>408,818</u>

Except for Galant Limited which is incorporated and operates in Hong Kong, all subsidiaries are incorporated and operate in the PRC. Particulars of the subsidiaries as at 31 December 2011 are as follows:

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 17 Subsidiaries (Continued)

Name	Registered capital	Percentage of equity attributable to the Company		Principal activities
		directly	indirectly	
Nanjing Panda Accurate Machinery Co., Ltd.	RMB5,000,000	100%	—	Manufacture and sale of specialised electronic equipment
Nanjing Panda Appliance & Apparatus Co., Ltd.	RMB1,000,000	85.10%	—	Development and production of electromechanical products and installation of electronic communication systems
Nanjing Panda Mechanical Manufacturing Co., Ltd.	RMB10,000,000	70%	—	Manufacture of raw materials, components and parts for production
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	RMB60,000,000	—	100%	Manufacture and sale of plastic products and spare parts
Nanjing Panda Mechanical Co., Ltd.	RMB3,000,000	85.82%	—	Manufacture and subcontracting of mechanical parts
Nanjing Panda System Integration Co., Ltd.	RMB3,000,000	—	54.37%	Development and sale of computer software
Nanjing Panda Power Supply Technology Co., Ltd.	RMB11,000,000	79.55%	—	Design, manufacture and sale of UPS and special power supply systems and converters
Nanjing Panda Electronic Manufacture Co., Ltd.	USD20,000,000	75%	25%	Development and production of electronic components
Nanjing Panda Industrial Enterprise Co., Ltd.	RMB20,000,000	100%	—	Property management, sales of mechanical and electronic products, building and office supplies
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	RMB10,000,000	—	70%	Development, manufacture and sale of logistics equipment



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 17 Subsidiaries (Continued)

Name	Registered capital	Percentage of equity attributable to the Company		Principal activities
		directly	indirectly	
Nanjing Panda Electronic Equipment Co., Ltd.	RMB50,000,000	100%	—	Manufacture of industrial, environmental conservation and logistics equipment
Nanjing Panda Electronic Technology Development Company Limited	RMB250,000,000	99%	1%	General purpose equipment, technology service, software development, system integration, property management
Nanjing Longwill Communications Technology Co., Ltd.	RMB3,000,000	100%	—	Research and development, production and marketing of professional mobile communication products
Galant Limited	HKD1	100%	—	Trading and investment holding

## 18 Associates

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	—	—	690,987	690,987
Less: Impairment loss	—	—	(510,076)	(114,012)
Share of net assets	680,350	658,041	—	—
Goodwill	3,443	3,443	—	—
	<u>683,793</u>	<u>661,484</u>	<u>180,911</u>	<u>576,975</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 18 Associates (Continued)

In August 2011, Intenna (Nanjing) Company Limited, an associate in which the Company holds 35% equity interest, commenced dissolution; and Hua Fei Color Display Systems Co., Ltd., an associate in which the Company holds 25% equity interest, commenced creditors winding up. The Group's share of losses of these two associates up to the date of commencement of dissolution/winding up has exceeded its interests therein and, accordingly, the Group's interests in respective associates have been reduced to zero during the year. In the Company's balance sheet, the investments in these two associates totalling RMB394,643,000 were fully impaired as at 31 December 2011.

Particulars of the principal associates, which are all incorporated and operate in the PRC, as at 31 December 2011 are as follows:

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 18 Associates (Continued)

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

ENC, BMC and Jinhua are the most significant associates of the Group. The financial information set out below was extracted from the audited financial statements for the year ended 31 December 2011 of respective associates.

	2011			2010		
	ENC RMB'000	BMC RMB'000	Jinhua RMB'000	ENC RMB'000	BMC RMB'000	Jinhua RMB'000
Turnover	<u>21,087,760</u>	<u>20,214,318</u>	<u>840,173</u>	14,481,602	19,362,389	655,905
Profit before income tax	<u>763,176</u>	<u>600,240</u>	<u>46,805</u>	530,241	240,218	37,101
Income tax	<u>(118,561)</u>	<u>(152,638)</u>	<u>(11,671)</u>	(79,515)	(64,752)	(8,373)
Profit for the year	<u>644,615</u>	<u>447,602</u>	<u>35,134</u>	450,726	175,466	28,728
Profit for the year attributable to the Group	<u>174,046</u>	<u>89,520</u>	<u>10,921</u>	121,696	35,093	8,561
Financial position						
Non-current assets	<u>1,330,482</u>	<u>305,392</u>	<u>94,713</u>	1,049,977	278,646	107,172
Current assets	<u>8,727,188</u>	<u>4,236,412</u>	<u>292,381</u>	10,115,935	3,625,615	241,496
Non-current liabilities	<u>(13,852)</u>	—	—	(12,280)	—	—
Current liabilities	<u>(8,717,697)</u>	<u>(3,479,830)</u>	<u>(98,001)</u>	(10,004,978)	(3,134,889)	(69,417)
Net assets	<u>1,326,121</u>	<u>1,061,974</u>	<u>289,093</u>	1,148,654	769,372	279,251
Net assets attributable to the Group	<u>358,053</u>	<u>212,395</u>	<u>97,154</u>	310,137	153,874	94,984

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 19 Available-for-sale equity securities

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity securities, at cost	<u>3,650</u>	<u>—</u>	<u>3,650</u>	<u>—</u>

The unlisted equity securities are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

## 20 Deferred taxation

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

	Impairment loss on receivables	Write-down of inventories	Impairment loss on property, plant and equipment	Trade and other payables	Other temporary differences	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2010	1,243	793	224	470	52	2,782
(Charged)/credited to profit or loss (Note 12(a))	2,054	1,796	(28)	69	(41)	3,850
Effect of change in tax rate (Note 12(a))	(32)	—	—	(21)	—	(53)
Disposal of a subsidiary (Note 36)	(109)	—	—	(30)	—	(139)
As at 31 December 2010 and 1 January 2011	<u>3,156</u>	<u>2,589</u>	<u>196</u>	<u>488</u>	<u>11</u>	<u>6,440</u>
(Charged)/credited to profit or loss (Note 12(a))	(2,940)	3,060	(37)	(162)	(408)	(487)
Effect of change in tax rate (Note 12(a))	(216)	(33)	—	(111)	8	(352)
As at 31 December 2011	<u>—</u>	<u>5,616</u>	<u>159</u>	<u>215</u>	<u>(389)</u>	<u>5,601</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 20 Deferred taxation (Continued)

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

	2011 RMB'000	2010 RMB'000
Deferred tax assets	5,991	6,509
Deferred tax liabilities	(390)	(69)
	<u>5,601</u>	<u>6,440</u>

At 31 December 2011, the Group has unused tax losses of RMB242,013,000 (2010: RMB297,521,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams (2010: RMBnil). These tax losses will expire within five years.

## 21 Inventories

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Raw materials	56,603	47,576	4,008	2,553
Work in progress	67,322	49,511	2,432	414
Finished goods	72,283	90,130	1,923	7,707
Spare parts and consumables	485	509	—	4
	<u>196,693</u>	<u>187,726</u>	<u>8,363</u>	<u>10,678</u>

## 22 Trade and bills receivables

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Trade receivables	558,352	313,956	52,313	26,503
Less: Provision for impairment	(52,816)	(50,159)	(6,608)	(7,045)
	<u>505,536</u>	<u>263,797</u>	<u>45,705</u>	<u>19,458</u>
Bills receivable	15,720	14,315	2,706	8,192
Due from ultimate holding company	950	1,344	—	—
Due from fellow subsidiaries	29,141	8,019	16,366	702
Due from associates	13,299	30,727	—	—
	<u>196,693</u>	<u>187,726</u>	<u>8,363</u>	<u>10,678</u>
Total trade and bills receivables	<u>564,646</u>	<u>318,202</u>	<u>64,777</u>	<u>28,352</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 22 Trade and bills receivables (Continued)

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Within 1 year	554,235	306,878	62,386	23,058
1 to 2 years	10,238	2,132	2,391	33
2 to 3 years	74	8,100	—	5,261
Over 3 years	99	1,092	—	—
	<u>564,646</u>	<u>318,202</u>	<u>64,777</u>	<u>28,352</u>

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Up to 3 months	61,530	11,265	5,367	1,039
Over 3 months	2,476	18,615	26	158
	<u>64,006</u>	<u>29,880</u>	<u>5,393</u>	<u>1,197</u>

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 22 Trade and bills receivables (Continued)

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

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
At 1 January	50,159	21,176	7,045	2,973
Impairment loss recognised	1,539	29,778	545	4,430
Uncollectible amounts written back/ (written off)	1,118	(795)	(982)	(358)
At 31 December	<u>52,816</u>	<u>50,159</u>	<u>6,608</u>	<u>7,045</u>

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

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
USD	217,780	24,896	4	—
Euro dollar ("EUR")	829	2	—	—
HKD	75	—	1	—
	<u>218,684</u>	<u>24,898</u>	<u>5</u>	<u>—</u>

## 23 Amounts due from customers for contract work

	The Group	
	2011	2010
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses	91,062	42,765
Less: Progress billings	<u>(34,162)</u>	<u>(11,035)</u>
	<u>56,900</u>	<u>31,730</u>

At 31 December 2011, advances received from customers for contract work amounted to RMB48,324,000 (2010: RMB39,445,000).

The project contract revenue recognised for the year ended 31 December 2011 is RMB220,892,000 (2010: RMB169,395,000).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 24 Deposits, prepayments and other receivables

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Other receivables	34,704	40,178	8,375	11,756
Deposits and prepayments	88,834	81,229	8,167	13,675
Less: Provision for impairment	(18,357)	(22,281)	(5,883)	(7,683)
	105,181	99,126	10,659	17,748
Due from subsidiaries	—	—	145,543	175,060
Due from fellow subsidiaries	5,651	13,211	4,209	6,283
Total deposits, prepayments and other receivables	110,832	112,337	160,411	199,091

The above balances with related parties are unsecured, interest-free and repayable on demand.

## 25 Restricted bank deposits

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

The restricted bank deposits, except for the aforesaid balances, are pledged as security for:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Bills payable	44,683	29,090	5,559	4,219
Performance bonds given by banks to customers in respect of projects undertaken	58,422	25,843	25,000	21,282
	103,105	54,933	30,559	25,501

These restricted bank deposits carry interest at market rates ranging from 0.5% to 1.49% (2010: 0.36% to 1.91%) per annum and will mature in 3 to 6 months from the balance sheet date.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 26 Cash and cash equivalents

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Bank deposits	342,692	391,306	58,718	151,269
Cash on hand	1,091	1,064	278	322
	<u>343,783</u>	<u>392,370</u>	<u>58,996</u>	<u>151,591</u>

Bank deposits carry interest at market rates ranging from 0.5% to 1.49% (2010: 0.36% to 1.91%) per annum.

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
USD	19,368	9,731	4	4
EUR	951	406	—	—
HKD	76	35	1	1
	<u>20,395</u>	<u>10,172</u>	<u>5</u>	<u>5</u>

## 27 Share capital

	The Company 2011 and 2010	
	Number of shares '000	Nominal value RMB'000

Registered, issued and fully paid:

— State-owned legal person shares of RMB1.00 each	334,715	334,715
— A Shares of RMB1.00 each	78,300	78,300
— H Shares of RMB1.00 each	242,000	242,000
	<u>655,015</u>	<u>655,015</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 28 Share premium and reserves

The Company	Share premium RMB'000	Capital reserve RMB'000	Statutory common funds RMB'000	Asset revaluation reserve RMB'000	Accumulated (losses)/ profits RMB'000	Total RMB'000
As at 1 January 2010	389,338	18,399	183,742	26,381	(48,976)	568,884
Profit and total comprehensive income for the year	—	—	—	—	122,518	122,518
Profit appropriations	—	—	247	—	(247)	—
As at 31 December 2010 and 1 January 2011	389,338	18,399	183,989	26,381	73,295	691,402
Loss and total comprehensive loss for the year	—	—	—	—	(409,648)	(409,648)
Profit appropriations	—	—	5,187	—	(5,187)	—
As at 31 December 2011	<u>389,338</u>	<u>18,399</u>	<u>189,176</u>	<u>26,381</u>	<u>(341,540)</u>	<u>281,754</u>

Share premium arose from the issuance of shares at prices in excess of their par value and can be used to issue shares with the shareholders' approval.

Capital reserve mainly arose from (i) the difference between the aggregate of the consideration for business combination under common control and the aggregate of the historical costs of the assets and liabilities of the entities being acquired; and (ii) the difference between the amount paid or received for any transaction related to the change of shareholding in a subsidiary without the overall gain or loss of control in that subsidiary and the non-controlling interest being acquired or disposed of.

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

## 29 Other borrowing

This represents a specific-purpose loan provided by Jiangsu International Trust Co., Ltd. in November 2009 for financing certain software research and development activities of the Group. The loan bears interest at 0.3% (2010: 0.3%) per annum and matures in February 2012.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 30 Obligations under finance leases

	The Group 2011 RMB'000	2010 RMB'000
Within one year	—	1,314
In the second year	—	—
Total minimum finance lease payments	—	1,314
Future finance charges	—	(35)
Present value of finance lease obligations	<u>—</u>	<u>1,279</u>
The present value of finance lease obligations is as follows:		
Within one year	—	1,279
In the second year	—	—
	<u>—</u>	<u>1,279</u>

At 31 December 2010, the finance lease obligations bore interest at 9.99% per annum.

## 31 Bank borrowings

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Short term bank loans	<b>358,308</b>	478,000	<b>240,000</b>	425,000
Bills payables, secured	<b>69,060</b>	42,574	<b>11,119</b>	8,438
	<u><b>427,368</b></u>	<u>520,574</u>	<u><b>251,119</b></u>	<u>433,438</u>

At 31 December 2011, the Company's short term bank loans amounting to RMB70,000,000 (2010: RMB75,000,000) were secured by pledge of certain land use rights and buildings of the Company with carrying values of RMB1,150,000 (2010: RMB1,441,000) and RMB113,822,000 (2010: RMB119,949,000) respectively with banks, and short term bank loans amounting to RMB170,000,000 (2010: RMB350,000,000) were secured by corporate guarantees from the ultimate holding company.

At 31 December 2011, the effective interest rate of the short term bank loans was 6.43% (2010: 5.71%) per annum.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 32 Trade payables

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Trade payables	445,447	319,237	18,999	18,338
Due to ultimate holding company	4,087	3,968	2,114	2,125
Due to subsidiaries	—	—	6,665	1,813
Due to fellow subsidiaries	17,260	7,226	4,858	2,443
Due to associates	80	—	—	—
<b>Total trade payables</b>	<b>466,874</b>	<b>330,431</b>	<b>32,636</b>	<b>24,719</b>

(a) The following is an ageing analysis of trade payables:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
Within 1 year	395,206	266,610	20,421	11,664
1 to 2 years	28,844	24,712	2,863	1,391
2 to 3 years	18,094	19,162	650	32
Over 3 years	24,730	19,947	8,702	11,632
<b>Total</b>	<b>466,874</b>	<b>330,431</b>	<b>32,636</b>	<b>24,719</b>

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

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000
USD	43,246	9,009	—	—

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 33 Accruals and other payables

Included in other payables of the Group are amounts due to ultimate holding company, fellow subsidiaries and associates of RMB7,416,000 (2010 as restated: RMB8,148,000), RMB7,338,000 (2010: RMB4,301,000) and RMB2,475,000 (2010: RMB2,556,000) respectively.

Included in other payables of the Company are amounts due to ultimate holding company, subsidiaries and associates of RMB689,000 (2010: RMB808,000), RMB108,117,000 (2010: RMB73,960,000) and RMB2,175,000 (2010: RMB2,177,000) respectively.

These balances are unsecured, interest-free and repayable on demand.

## 34 Cash used in operations

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before taxation	132,930	24,343
Adjustments for:		
Interest income	(4,966)	(6,098)
Gain on disposal of a subsidiary	—	(33)
(Gain)/loss on disposal of property, plant and equipment	(937)	11,553
Exchange losses	450	—
Finance costs	26,578	24,938
Depreciation and amortisation	53,266	43,614
Impairment loss recognised on property, plant and equipment	—	5
Impairment loss recognised/(reversed) on trade and other receivables	(1,691)	31,087
Write-down of inventories	19,551	13,223
Share of profits of associates	(188,191)	(91,047)
Operating cash flows before changes in working capital	36,990	51,585
Increase in inventories	(28,518)	(58,083)
Increase in trade and bills receivables	(247,415)	(112,694)
Increase in amounts due from customers for contract work	(25,170)	(13,331)
Increase in deposits, prepayments and other receivables	(10,702)	(15,782)
Increase in trade payables	123,074	53,842
(Decrease)/increase in accruals and other payables	(4,349)	5,826
Net cash used in operations	(156,090)	(88,637)

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 35 Business combination under common control

Details of adjustments for common control combination of Longwill (see Note 2.1) on the Group's results for the year ended 31 December 2010 and the consolidated balance sheets at 31 December 2010 and 2009 are as follows:

	As previously reported RMB'000	Longwill RMB'000	Adjustments RMB'000	As restated RMB'000
<b>Year ended 31 December 2010</b>				
Turnover	1,645,946	19,177	(238)	1,664,885
Profit before taxation	24,123	220	—	24,343
Income tax expense	(16,588)	(11)	—	(16,599)
<b>Profit for the year</b>	<b>7,535</b>	<b>209</b>	<b>—</b>	<b>7,744</b>
<b>Earnings per share (RMB cents)</b>				
— Basic and diluted	1.40	0.04	(0.01)	1.43
<b>At 31 December 2010</b>				
<b>ASSETS</b>				
Non-current assets	1,301,840	709	—	1,302,549
Trade and bills receivables	313,738	4,466	(2)	318,202
Other current assets	946,266	7,830	—	954,096
<b>Total assets</b>	<b>2,561,844</b>	<b>13,005</b>	<b>(2)</b>	<b>2,574,847</b>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Share capital	655,015	3,000	(3,000)	655,015
Reserves	821,122	670	2,936	824,728
Non-controlling interests	1,476,137	3,670	(64)	1,479,743
	6,582	—	733	7,315
<b>Total equity</b>	<b>1,482,719</b>	<b>3,670</b>	<b>669</b>	<b>1,487,058</b>
<b>LIABILITIES</b>				
Non-current liabilities	4,069	—	—	4,069
Trade payables	327,200	3,902	(671)	330,431
Other current liabilities	747,856	5,433	—	753,289
<b>Total liabilities</b>	<b>1,079,125</b>	<b>9,335</b>	<b>(671)</b>	<b>1,087,789</b>
<b>Total equity and liabilities</b>	<b>2,561,844</b>	<b>13,005</b>	<b>(2)</b>	<b>2,574,847</b>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 35 Business combination under common control (Continued)

	As previously reported RMB'000	Longwill RMB'000	Adjustments RMB'000	As restated RMB'000
<b>At 31 December 2009</b>				
<b>ASSETS</b>				
Non-current assets	1,358,569	822	—	1,359,391
Deposits, prepayments and other receivables	84,914	1,014	(11)	85,917
Other current assets	1,013,457	8,807	—	1,022,264
<b>Total assets</b>	<b>2,456,940</b>	<b>10,643</b>	<b>(11)</b>	<b>2,467,572</b>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Share capital	655,015	3,000	(3,000)	655,015
Reserves	809,990	2,022	2,665	814,677
	1,465,005	5,022	(335)	1,469,692
Non-controlling interests	11,785	—	1,004	12,789
<b>Total equity</b>	<b>1,476,790</b>	<b>5,022</b>	<b>669</b>	<b>1,482,481</b>
<b>LIABILITIES</b>				
Non-current liabilities	5,279	—	—	5,279
Trade payables	276,240	433	(680)	275,993
Other current liabilities	698,631	5,188	—	703,819
<b>Total liabilities</b>	<b>980,150</b>	<b>5,621</b>	<b>(680)</b>	<b>985,091</b>
<b>Total equity and liabilities</b>	<b>2,456,940</b>	<b>10,643</b>	<b>(11)</b>	<b>2,467,572</b>

Note:

The above adjustments mainly represent adjustments to eliminate the paid-up capital of Longwill against the Company's investment cost in Longwill, intra-group transactions and current accounts between the Group companies and Longwill. No other significant adjustments were made to the net assets and net profit of any entities of the Group as a result of the common control combination to achieve consistency of accounting policies.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 36 Disposal of a subsidiary

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

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

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

## 37 Contingent liabilities

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Performance bonds given by banks to customers in respect of projects undertaken	58,422	25,843	25,000	21,282
Guarantees given in respect of banking facilities made available to subsidiaries	<u>—</u>	<u>—</u>	<u>190,000</u>	<u>110,743</u>

The maximum contingent liability of the Company under the guarantees given in respect of banking facilities made available to subsidiaries is the amount of facilities drawn down by the subsidiaries, being RMB97,926,000 (2010: RMB78,277,000).



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 38 Commitments

### (a) Capital commitments

At 31 December 2011, outstanding capital commitments not provided for in the financial statements are as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Contracted for				
— Property, plant and equipment	<u>14,842</u>	<u>51,710</u>	<u>14,842</u>	<u>51,710</u>
Approved but not contracted for				
— Capital injection to a subsidiary	<u>—</u>	<u>—</u>	<u>—</u>	<u>74,250</u>

### (b) Operating lease arrangements

At 31 December 2011, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 RMB'000	2010 RMB'000 (Restated)
Land and buildings		
Within 1 year	<u>1,467</u>	407
2-5 years	<u>1,100</u>	—
	<u>2,567</u>	407
Motor vehicles		
Within 1 year	<u>379</u>	327
2-5 years	<u>402</u>	403
	<u>781</u>	730
	<u>3,348</u>	1,137

Operating lease payments represent rental payable by the Group for certain of its office properties and motor vehicles. Leases are negotiated for an average term of 1 to 4 years with fixed rentals.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 38 Commitments (Continued)

### (b) Operating lease arrangements (Continued)

At 31 December 2011, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	2011 RMB'000	2010 RMB'000
Land and buildings		
Within 1 year	1,190	1,763
2-5 years	1,275	2,508
	<u>2,465</u>	<u>4,271</u>
Plant and equipment		
Within 1 year	—	11
2-5 years	—	53
	<u>—</u>	<u>64</u>
	<u>2,465</u>	<u>4,335</u>

Operating lease receipts represent rental payable by tenants for the use of the Group's properties. Leases are negotiated for an average term of 1 to 4 years with fixed rentals.

## 39 Related party transactions

### (a) Transactions with key management personnel

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

	2011 RMB'000	2010 RMB'000
Salaries and other allowances	1,660	1,828
Retirement benefit scheme contributions	194	78
	<u>1,854</u>	<u>1,906</u>

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in Renminbi)

## 39 Related party transactions (Continued)

### (b) Transactions with other related parties

In addition to those disclosed in notes 2.1, 31, 36 and 37, the Group entered into the following material related party transactions during the year:

	Fellow subsidiaries		Associates		The ultimate holding company	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Sales of components and parts (Note i)	111,706	99,777	31,549	53,648	1,665	231
Purchase of components and parts (Note i)	44,119	7,917	—	506	—	12
Fees paid for welfare, support and sub-contracting services (Note ii)	5,283	3,255	—	—	2,491	—
Income for welfare, support, and sub-contracting services (Note ii)	22,521	4,776	97,686	57,840	1,000	540
Rental income (Note i)	499	102	—	—	—	—
Trademark income (Note ii)	512	416	—	—	—	—

Notes:

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

Balances with related parties are disclosed in the balance sheets and in notes 22, 24, 32 and 33.

## 40 Comparative figures

As stated in notes 2.1 and 35, comparative figures have been restated to reflect the effect of a business combination under common control.

In addition, certain comparative figures have been reclassified to conform to the current year's presentation.

## 41 Difference between HKFRSs and PRC Accounting Standards for Business Enterprises

For the years ended 31 December 2011 and 2010, there were no material differences between the consolidated statements of comprehensive income and consolidated balance sheets of the Group prepared under HKFRSs and PRC Accounting Standards for Business Enterprises.

## 42 Subsequent event

On 17 January 2012, the Company entered into a relocation agreement with the municipal government of Baixia District, Nanjing, the PRC where the Company will relocate one of its factory plant in Nanjing and the municipal government will pay a total relocation compensation of RMB125,000,000 to the Company by instalments. In the opinion of the directors, the aforesaid factory plant had insignificant contribution to the Group's profit for the year ended 31 December 2011. Further details of the relocation agreement are set out in the Company's announcement dated 18 January 2012.

# Report of the Auditors

TZ Hu SJ(2012) No. 1147

## To All Shareholders of Nanjing Panda Electronics Company Limited:

We have audited the accompanying financial statements of Nanjing Panda Electronics Company Limited (hereinafter referred to as "Nanjing Panda"), which comprise the Balance Sheets and Consolidated Balance Sheet as at 31 December 2011, Income Statement, Consolidated Income Statement, Cash Flow Statement, Consolidated Cash Flow Statement, Statement of Change in Equity, Consolidated Statement of Changes in Equity, for the year ended 31 December 2011, and notes to the financial statements.

### I. Management's Responsibility for the Financial Statements

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

### II. Auditor's Responsibility

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

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

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

### III. Audit Opinion

In our opinion, Nanjing Panda's financial statements are prepared in conformity with the "Accounting Standards for Business Enterprises", and in all material respects, present fairly the financial position of the Company and the consolidated financial position of the Company as at 31 December 2011 and the results of its operations and cash flow and consolidated results of its operations and cash flow for the year then ended.

**Baker Tilly China**

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

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

Beijing, the People's Republic of China  
29 March 2012

# Consolidated Balance Sheet

31 December 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011/12/31	2010/12/31
<b>Current assets:</b>			
Cash and bank	VIII.1	<b>446,888,631.46</b>	447,303,135.61
Settlement provisions			
Placement			
Trading financial assets			
Bills receivable	VIII.2	<b>15,720,441.55</b>	14,315,380.42
Trade receivable	VIII.3	<b>548,925,350.05</b>	303,886,553.40
Prepayments	VIII.4	<b>91,165,039.41</b>	88,672,104.91
Premiums receivable			
Reinsurance receivable			
Reinsurance contract reserve			
Interest receivable			
Dividends receivable			
Other receivables	VIII.5	<b>23,267,110.10</b>	198,665,147.48
Financial assets purchased for resale			
Inventories	VIII.6	<b>249,992,893.28</b>	219,455,582.05
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>1,375,959,465.85</b>	1,272,297,903.87
<b>Non-current assets:</b>			
Entrusted loans and advances			
Available-for sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investment	VIII.7	<b>687,442,710.67</b>	661,484,199.39
Investment properties			
Fixed assets	VIII.8	<b>618,853,365.45</b>	604,704,925.61
Construction in progress	VIII.9	<b>306,362.89</b>	3,883,494.92
Construction supplies			
Clearance of fixed assets			
Biological assets for production			
Fuel assets			
Intangible assets	VIII.10	<b>24,577,950.24</b>	25,966,027.60
Development expenses			
Goodwill			
Long term deferred expenses			
Deferred income tax assets	VIII.11	<b>5,991,302.88</b>	6,509,257.63
Other non-current assets			
<b>Total non-current assets</b>		<b>1,337,171,692.13</b>	1,302,547,905.15
<b>Total assets</b>		<b>2,713,131,157.98</b>	2,574,845,809.02

Legal representative of the Company:  
Xia Dechuan

Chief Accountant:  
Shen Jianlong

Head of the Accounting Department:  
Wu Yuzhen

# Consolidated Balance Sheet (Continued)

31 December 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011/12/31	2010/12/31
<b>Current liabilities</b>			
Short term loans	VIII.14	<b>358,307,585.20</b>	478,000,000.00
Borrowing from PBOC			
Customer and interbank deposits			
Borrowing from interbank			
Trading financial liabilities			
Bills payable	VIII.15	<b>69,060,351.93</b>	42,573,506.11
Accounts payable	VIII.16	<b>466,874,177.25</b>	330,430,919.26
Advances from customers	VIII.17	<b>73,687,666.89</b>	67,140,397.45
Financial assets sold under repurchase agreements			
Bank charges and Commissions due			
Salaries payable	VIII.18	<b>44,677,781.13</b>	45,040,439.42
Taxes payable	VIII.19	<b>-12,370,970.32</b>	13,766,014.32
Interest payable	VIII.20	<b>969,055.41</b>	691,700.00
Dividend Payable	VIII.21	<b>143,289.96</b>	1,799,335.12
Other payables	VIII.22	<b>111,950,392.10</b>	102,998,133.80
Reinsurers due			
Insurance contract reserves			
Security trading of agency			
Securities underwriting			
Non-current liabilities due within one year	VIII.23	<b>4,000,000.00</b>	1,278,668.33
Other current liabilities			
<b>Total current liabilities</b>		<b><u>1,117,299,329.55</u></b>	<b><u>1,083,719,113.81</u></b>

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Consolidated Balance Sheet (Continued)

31 December 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011/12/31	2010/12/31
<b>Non-current liabilities:</b>			
Long term loans	VIII.24		4,000,000.00
Bonds payables			
Long term payables			
Specific payables			
Accrued liabilities			
Deferred income tax liabilities	VIII.11	<b>390,239.64</b>	68,911.17
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>390,239.64</b>	<b>4,068,911.17</b>
<b>Total liabilities</b>		<b>1,117,689,569.19</b>	<b>1,087,788,024.98</b>
<b>Shareholders' equity:</b>			
Share capital	VIII.25	<b>655,015,000.00</b>	655,015,000.00
Capital reserve	VIII.26	<b>467,473,413.43</b>	470,245,879.86
Less: treasury stock			
special reserve			
surplus reserve	VIII.27	<b>208,218,564.46</b>	203,031,623.67
general risk reserve			
undistributed profits	VIII.28	<b>256,332,969.10</b>	151,449,674.99
discounted spread in foreign currency statement			
shareholders of the parent company		<b>1,587,039,946.99</b>	1,479,742,178.52
Minority interests	VII.2	<b>8,401,641.80</b>	7,315,605.52
<b>Total shareholders' equity</b>		<b>1,595,441,588.79</b>	<b>1,487,057,784.04</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,713,131,157.98</b>	<b>2,574,845,809.02</b>

Legal representative of the Company:

**Xia Dechuan**

Chief Accountant:

**Shen Jianlong**

Head of the Accounting Department:

**Wu Yuzhen**

# Consolidated Profit and Loss Statement

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>1. Total operating income</b>		<b>2,142,395,293.37</b>	1,694,020,603.98
Include: Operating income	VIII.29	<b>2,142,395,293.37</b>	1,694,020,603.98
Interest income			
Premiums earned			
Income from Bank charges and Commissions			
<b>2. Total operating cost</b>		<b>2,207,603,007.62</b>	1,784,544,462.89
Include: Operating cost	VIII.29	<b>1,852,968,753.01</b>	1,435,031,999.34
Interest expenses			
Bank charges and Commissions			
Insurance withdrawal payment			
Net payment from indemnity			
Net provisions for insurance contract			
Insurance policy dividend paid			
Reinsurance cost			
Business taxes and surcharge	VIII.30	<b>15,718,925.20</b>	11,968,130.95
Selling expenses	VIII.31	<b>40,689,653.97</b>	42,110,173.57
Administrative expenses	VIII.32	<b>255,559,254.05</b>	227,539,801.24
Financial expenses	VIII.33	<b>24,806,419.77</b>	23,410,600.23
Loss in assets impairment	VIII.34	<b>17,860,001.62</b>	44,483,757.56
Add: Income from change in fair value (losses are represented by “—”)			
Investment income (losses are represented by “—”)	VIII.35	<b>188,191,184.04</b>	91,080,364.21
Include: Investment income of associates and joint ventures		<b>188,191,184.04</b>	91,047,489.92
Exchange gain (losses are represented by “—”)			
<b>3. Operating profit (losses are represented by “—”)</b>		<b>122,983,469.79</b>	556,505.30
Add: Non-operating income	VIII.36	<b>10,788,630.16</b>	37,272,575.88
Less: Non-operating expenses	VIII.37	<b>841,942.12</b>	13,485,458.93
Include: Loss from the disposal of non-current assets		<b>235,145.39</b>	12,320,728.63
<b>4. Total Profit(losses are represented by “—”)</b>		<b>132,930,157.83</b>	24,343,622.25
Less: Income tax	VIII.38	<b>16,834,775.88</b>	16,599,344.34
<b>5. Net Profit(losses are represented by “—”)</b>		<b>116,095,381.95</b>	7,744,277.91
Profit attributable to the equity shareholders of the Parent company		<b>110,070,234.90</b>	9,359,536.50
Minority interest		<b>6,025,147.05</b>	-1,615,258.59
<b>6. Earnings per share:</b>			
(1) Basic earnings per share	VIII.39	<b>0.1680</b>	0.0143
(2) Diluted earnings per share	VIII.39	<b>0.1680</b>	0.0143
<b>7. Other comprehensive income:</b>			
<b>8. Total comprehensive income:</b>		<b>116,095,381.95</b>	7,744,277.91
Total comprehensive income attributable to the equity shareholders of the Parent company		<b>110,070,234.90</b>	9,359,536.50
Total comprehensive income attributable to minority shareholders		<b>6,025,147.05</b>	-1,615,258.59

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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



# Consolidated Cash flow statement

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>1. Cash flows from operating activities</b>			
Cash received from the sale of goods and rendering of services		<b>2,178,283,259.16</b>	1,790,861,134.48
Net increase in Customer and interbank deposits			
Net increase in borrowing from PBOC			
Net cash increase in borrowing from other financial institutes			
Cash received from premiums under original insurance contract			
Net cash received from reinsurance business			
Net increase in deposits of policy holders and investment			
Net increase in disposal of financial assets			
Cash received from interest, bank charges and commissions			
Net increase in cash borrowed			
Net increase in cash received form repurchase operation			
Refunds of taxes		<b>2,645,029.74</b>	379,877.54
Cash received from relating to other operating activities	VIII.40	<b>26,342,586.40</b>	45,037,095.09
<b>Sub-total of cash inflows from operating activities</b>		<b>2,207,270,875.30</b>	<b>1,836,278,107.11</b>
Cash paid on purchase of goods and services received		<b>1,835,112,928.22</b>	1,499,467,927.20
Net increase in loans and advances			
Net increase in disposts 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		<b>263,129,195.34</b>	212,723,154.89
Cash paid to and on behalf of employees		<b>116,596,117.11</b>	96,333,528.62
Cash paid for all types of taxes		<b>182,344,392.73</b>	192,493,383.55
Cash paid relating to other operating activities	VIII.41		
<b>Sub-total of cash outflows from operating activities</b>		<b>2,397,182,633.40</b>	<b>2,001,017,994.26</b>
<b>Net cash flows from operating activities</b>	VIII.45	<b>-189,911,758.10</b>	<b>-164,739,887.15</b>

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Consolidated Cash flow statement (Continued)

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>2. Cash flows from investing activities:</b>			
Cash received from disposal of investments			
Cash received from return on investments		<b>165,882,672.76</b>	208,275,356.07
Net cash received from the disposal of fixed assets, intangible assets and other long term assets		<b>1,402,495.00</b>	2,586,321.53
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investment activities		<b>175,000,000.00</b>	
<b>Sub-total of cash inflows from investing activities</b>		<b>342,285,167.76</b>	210,861,677.60
Cash paid on purchase of fixed assets, intangible assets and other long term assets		<b>42,250,754.63</b>	111,644,684.25
Cash paid for acquisition of investments		<b>6,668,000.00</b>	175,545,264.64
Net increase in secured loans			
Net cash paid on acquisition of subsidiaries and other operating entities			
Cash paid on other investment activities	VIII.42		425,320.87
<b>Sub-total of cash outflows from investing activities</b>		<b>48,918,754.63</b>	287,615,269.76
<b>Net cash flows from investing activities</b>		<b>293,366,413.13</b>	-76,753,592.16

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Consolidated Cash flow statement (Continued)

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>3. Cash flows from financing activities:</b>			
Cash received from investment			2,700,000.00
Including: cash received by subsidiaries from minority shareholders' investment			
Cash received from borrowings		<b>450,432,454.10</b>	507,000,000.00
Cash received from issuing bonds			
Cash received from other financing activities			
<b>Sub-total of cash inflows from financing activities</b>		<b>450,432,454.10</b>	509,700,000.00
Cash paid on repayment of borrowings		<b>568,931,031.74</b>	409,000,000.00
Cash paid on distribution of dividends or profits, or interest expenses		<b>31,778,865.04</b>	28,405,893.86
Including: bonus and profit paid to minority shareholders by subsidiaries		<b>6,349,622.36</b>	4,766,916.59
Cash paid on other financing activities	VIII.44	<b>1,313,481.60</b>	2,250,350.18
<b>Sub-total of cash outflows from financing activities</b>		<b>602,023,378.38</b>	439,656,244.04
<b>Net cash flows from financing activities</b>		<b>-151,590,924.28</b>	70,043,755.96
<b>4. Effect of fluctuations in exchange rates on cash</b>		<b>-450,059.84</b>	
<b>5. Net increase in cash and cash equivalents</b>	VIII.45	<b>-48,586,329.09</b>	-171,449,723.35
Add: balance of cash and cash equivalents at the beginning of the year	VIII.45	<b>392,369,699.37</b>	563,819,422.72
<b>6. Balance of cash and cash equivalents at the end of the year</b>	VIII.45	<b>343,783,370.28</b>	392,369,699.37

Legal representative of the Company:  
Xia Dechuan

Chief Accountant:  
Shen Jianlong

Head of the Accounting Department:  
Wu Yuzhen

# Consolidated Statement of Change of Shareholders' equity

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	31 December 2011									
	Equity attributable to shareholders of the Parent company									Total shareholders' equity
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Minority Interest	
<b>1. Balance at the end of last year</b>	655,015,000.00	467,310,246.52			203,031,623.67		150,780,310.99		6,581,697.19	1,482,718,878.37
Add: change in accounting policies										
Correction of Previous Errors										
merger under same control		2,935,633.34					669,364.00		733,908.33	4,338,905.67
<b>2. Balance at the beginning of this year</b>	655,015,000.00	470,245,879.86			203,031,623.67		151,449,674.99		7,315,605.52	1,487,057,784.04
<b>3. Change of this year</b> (a decrease is represented by "-")		-2,772,466.43			5,186,940.79		104,883,294.11		1,086,036.28	108,383,804.75
(1) Net profit							110,070,234.90		6,025,147.05	116,095,381.95
(2) Other comprehensive income										
Subtotal of item(1)and(2) above							110,070,234.90		6,025,147.05	116,095,381.95
(3) Contribution and reduction of capital by shareholders		-2,772,466.43							-245,533.57	-3,018,000.00
1. Capital contribution by shareholders										-
2. Amount settled by shares accounted for in shareholders' equity										-
3. Others		-2,772,466.43							-245,533.57	-3,018,000.00
(4) Profit distribution					5,186,940.79		-5,186,940.79		-4,693,577.20	-4,693,577.20
1. Transfer from surplus reserves					5,186,940.79		-5,186,940.79			
2. Transfer from generic risk reserves										
3. Distribution to shareholders									-4,693,577.20	-4,693,577.20
4. Others										-
(5) Internal transfer of shareholders' equity										
1. Transfer of capital reserve to share capital										
2. Transfer of surplus reserve to share capital										
3. Compensation of loss from surplus reserve										
4. Others										
(6) Transfer and use of special reserve										
1. Transfer in current period										
2. Use in current period										
(7) Others										
<b>4. Balance at the end of the year</b>	655,015,000.00	467,473,413.43			208,218,564.46		256,332,969.10		8,401,641.80	1,595,441,588.79

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Consolidated Statement of Change of Shareholders' equity (Continued)

31 December 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	31 December 2010									
	Equity attributable to shareholders of the Parent company									Total shareholders' equity
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Minority Interest	
<b>1. Balance at the end of last year</b>	655,015,000.00	465,369,977.77			202,784,405.42		141,835,133.81		11,785,398.83	1,476,789,915.83
Add: change in accounting policies										—
Correction of Previous Errors										—
Merger under same control		2,935,633.34					1,750,637.74		1,004,226.77	5,690,497.85
<b>2. Balance at the beginning of this year</b>	655,015,000.00	468,305,611.11			202,784,405.42		143,585,771.55		12,789,625.60	1,482,480,413.68
<b>3. Change of this year</b>										
(a decrease is represented by "—")		1,940,268.75			247,218.25		7,863,903.44		-5,474,020.08	4,577,370.36
(1) Net profit							9,359,536.50		-1,615,258.59	7,744,277.91
(2) Other comprehensive income										
Subtotal of item(1)and(2) above							9,359,536.50		-1,615,258.59	7,744,277.91
(3) Contribution and reduction of capital by shareholders		1,940,268.75					—		1,459,075.41	3,399,344.16
1. Capital contribution by shareholders									2,700,000.00	2,700,000.00
2. Amount settled by shares accounted for in shareholders' equity										
3. Others		1,940,268.75							-1,240,924.59	699,344.16
(4) Profit distribution					247,218.25		-1,495,633.06		-5,317,836.90	-6,566,251.71
1. Transfer from surplus reserves					247,218.25		-247,218.25			
2. Transfer from generic risk reserves										
3. Distribution to shareholders							-1,248,414.81		-5,317,836.90	-6,566,251.71
4. Others										
(5) Internal transfer of shareholders' equity										
1. Transfer of capital reserve to share capital										
2. Transfer of surplus reserve to share capital										
3. Compensation of loss from surplus reserve										
4. Others										
(6) Transfer and use of special reserve										
1. Transfer in current period										
2. Use in current period										
(7) Others										
<b>4. Balance at the end of the year</b>	655,015,000.00	470,245,879.86			203,031,623.67		151,449,674.99		7,315,605.52	1,487,057,784.04

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Balance Sheet

31 December 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011/12/31	2010/12/31
<b>Current assets:</b>			
Cash and bank		<b>89,554,907.28</b>	177,092,185.38
Settlement provisions			
Interbank lending			
Trading financial assets			
Bills receivable		<b>2,705,695.37</b>	8,191,664.12
Trade receivable	IX.1	<b>62,071,745.67</b>	20,161,387.76
Prepayments		<b>10,442,132.04</b>	19,225,352.41
Premiums receivable			
Reinsurance receivable			
Reinsurance contract reserve			
Interest receivable			
Dividends receivable		<b>3,460,963.25</b>	3,860,963.25
Other receivables	IX.2	<b>149,969,007.09</b>	353,115,124.30
Financial assets purchased for resale			
Inventories		<b>8,362,496.01</b>	10,677,225.06
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>326,566,946.71</b>	<b>592,323,902.28</b>
<b>Non-current assets:</b>			
Entrusted loans and advances			
Available-for sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investment	IX.3	<b>1,166,364,445.40</b>	1,014,413,941.74
Investment properties			
Fixed assets		<b>400,611,454.76</b>	385,055,834.67
Construction in progress			1,191,304.57
Construction supplies			
Disposals of fixed assets			
Biological assets for production			
Fuel assets			
Intangible assets		<b>24,461,068.82</b>	13,802,074.43
Development expenses			
Goodwill			
Long term deferred expenses			
Deferred income tax assets			
Other non-current assets			
<b>Total non-current assets</b>		<b>1,591,436,968.98</b>	<b>1,414,463,155.41</b>
<b>Total assets</b>		<b>1,918,003,915.69</b>	<b>2,006,787,057.69</b>

Legal representative of the Company:  
Xia Dechuan

Chief Accountant:  
Shen Jianlong

Head of the Accounting Department:  
Wu Yuzhen

# Balance Sheet (Continued)

31 December 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011/12/31	2010/12/31
<b>Current liabilities</b>			
Short term loans		<b>240,000,000.00</b>	425,000,000.00
Borrowing from PBOC			
Customer and interbank deposits			
Borrowing from interbank			
Trading financial liabilities			
Bills payable		<b>11,118,761.39</b>	8,438,681.17
Accounts payable		<b>32,635,735.91</b>	24,718,867.25
Advances from customers		<b>6,462,138.00</b>	876,200.00
Financial assets sold under repurchase agreements			
Bank charges and Commissions due			
Salaries payable		<b>22,562,412.96</b>	28,853,680.80
Taxes payable		<b>4,361,014.76</b>	3,707,100.84
Interest payable		<b>521,752.78</b>	691,700.00
Dividend Payable			
Other payables		<b>168,524,052.57</b>	133,119,922.49
Reinsurers due			
Insurance contract reserves			
Security trading of agency			
Securities underwriting			
Non-current liabilities due within one year		<b>4,000,000.00</b>	
Other current liabilities			
<b>Total current liabilities</b>		<b>490,185,868.37</b>	625,406,152.55

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Balance Sheet (Continued)

31 December 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011/12/31	2010/12/31
<b>Non-current liabilities:</b>			
Long term loans			4,000,000.00
Bonds payables			
Long term payables			
Specific payables			
Accrued liabilities			
Deferred income tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>			<b>4,000,000.00</b>
<b>Total liabilities</b>		<b>490,185,868.37</b>	<b>629,406,152.55</b>
<b>Shareholders' equity:</b>			
Share capital		<b>655,015,000.00</b>	655,015,000.00
Capital reserve		<b>436,256,485.59</b>	437,688,751.31
Less: treasury stock			
special reserve			
Surplus reserve		<b>208,218,564.46</b>	203,031,623.67
generic risk reserve			
Undistributed profits		<b>128,327,997.27</b>	81,645,530.16
Discounted spread in foreign currency statement			
<b>Equity to the parent company</b>		<b>1,427,818,047.32</b>	<b>1,377,380,905.14</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,918,003,915.69</b>	<b>2,006,787,057.69</b>

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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



# Profit and Loss Statement

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>1. Total operating income</b>		<b>101,095,388.85</b>	165,611,469.84
Include: Operating income	IX.4	<b>101,095,388.85</b>	165,611,469.84
Interest income			
Premiums earned			
Income from Bank charges and Commissions			
<b>2. Total operating cost</b>		<b>250,758,257.26</b>	319,019,681.63
Include: Operating cost	IX.4	<b>64,465,124.41</b>	132,871,881.97
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		<b>1,292,850.50</b>	2,378,396.20
Selling expenses		<b>9,333,631.77</b>	13,025,805.93
Administrative expenses		<b>153,666,390.55</b>	151,305,718.00
Financial expenses		<b>20,123,790.56</b>	19,476,912.42
Impairment loss		<b>1,876,469.47</b>	-39,032.89
Add: Income from change in fair value (losses are represented by “—”)			
Investment income (losses are represented by “—”)	IX.5	<b>199,991,455.54</b>	133,993,577.07
Include: Investment income of associates and joint ventures		<b>188,117,695.48</b>	88,229,888.86
Exchange gain (losses are represented by “—”)			
<b>3. Operating profit (losses are represented by “—”)</b>		<b>50,328,587.13</b>	-19,414,634.72
Add: Non-operating income		<b>1,921,049.19</b>	22,176,397.03
Less: Non-operating expenses		<b>380,228.42</b>	289,579.86
Include: Loss from the disposal of non-current assets		<b>207,566.22</b>	144,815.67
<b>4. Total Profit (losses are represented by “—”)</b>		<b>51,869,407.90</b>	2,472,182.45
Less: Income tax			
<b>5. Net Profit (losses are represented by “—”)</b>		<b>51,869,407.90</b>	2,472,182.45
<b>6. Other comprehensive income:</b>			
<b>7. Total comprehensive income:</b>		<b>51,869,407.90</b>	2,472,182.45

Legal representative of the Company:  
Xia Dechuan

Chief Accountant:  
Shen Jianlong

Head of the Accounting Department:  
Wu Yuzhen

# Cash flow statement

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>1. Cash flows from operating activities</b>			
Cash received from the sale of goods and rendering of services		85,212,799.92	178,219,822.97
Net increase in Customer and interbank deposits			
Net increase in borrowing from PBOC			
Net cash increase in borrowing from other financial institutes			
Cash received from premiums under original insurance contract			
Net cash received from reinsurance business			
Net increase in deposits of policy holders and investment			
Net increase in disposal of financial assets			
Cash received from interest, bank charges and commissions			
Net increase in cash borrowed			
Net increase in cash received form repurchase operation			
Refunds of taxes			
Cash received from relating to other operating activities		107,099,565.90	77,995,113.17
<b>Sub-total of cash inflows from operating activities</b>		<b>192,312,365.82</b>	<b>256,214,936.14</b>
Cash paid on purchase of goods and services received		61,519,633.74	207,598,925.37
Net increase in loans and advances			
Net increase in disposits 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		70,428,111.43	75,043,323.15
Cash paid for all types of taxes		5,467,660.42	20,714,382.56
Cash paid relating to other operating activities		93,937,624.58	142,680,332.79
<b>Sub-total of cash outflows from operating activities</b>		<b>231,353,030.17</b>	<b>446,036,963.87</b>
<b>Net cash flows from operating activities</b>	IX.6	<b>-39,040,664.35</b>	<b>-189,822,027.73</b>

Legal representative of the Company:  
Xia Dechuan

Chief Accountant:  
Shen Jianlong

Head of the Accounting Department:  
Wu Yuzhen

# Cash flow statement (Continued)

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>2. Cash flows from investing activities:</b>			
Cash received from disposal of investments		<b>30,000,000.00</b>	31,288,716.43
Cash received from return on investments		<b>179,196,592.67</b>	229,054,777.88
Net cash received from the disposal of fixed assets, intangible assets and other long term assets		<b>122,105.00</b>	780,506.73
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investment activities			
<b>Sub-total of cash inflows from investing activities</b>		<b>209,318,697.67</b>	261,124,001.04
Cash paid on purchase of fixed assets, intangible assets and other long term assets		<b>23,196,666.40</b>	47,791,791.22
Cash paid for acquisition of investments		<b>36,668,000.00</b>	231,246,790.53
Net increase in secured loans			
Net cash paid on acquisition of subsidiaries and other operating entities			
Cash paid on other investment activities			
<b>Sub-total of cash outflows from investing activities</b>		<b>59,864,666.40</b>	279,038,581.75
<b>Net cash flows from investing activities</b>		<b>149,454,031.27</b>	-17,914,580.71

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Cash flow statement (Continued)

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2011	2010
<b>3. Cash flows from financing activities:</b>			
Cash received from investment			
Including: cash received by subsidiaries from minority shareholders' investment		240,000,000.00	425,000,000.00
Cash received from borrowings			
Cash received from issuing bonds			
Cash received from other financing activities			
<b>Sub-total of cash inflows from financing activities</b>		<b>240,000,000.00</b>	425,000,000.00
Cash paid on repayment of borrowings		425,000,000.00	338,000,000.00
Cash paid on distribution of dividends or profits, or interest expenses		18,009,295.32	21,627,488.46
Including: bonus and profit paid to minority shareholders by subsidiaries			
Cash paid on other financing activities			
<b>Sub-total of cash outflows from financing activities</b>		<b>443,009,295.32</b>	359,627,488.46
<b>Net cash flows from financing activities</b>		<b>-203,009,295.32</b>	65,372,511.54
<b>4. Effect of fluctuations in exchange rates on cash</b>			
<b>5. Net increase in cash and cash equivalents</b>	IX.6	<b>-92,595,928.40</b>	-142,364,096.90
Add: balance of cash and cash equivalents at the beginning of the year	IX.6	<b>151,591,454.98</b>	293,955,551.88
<b>6. Balance of cash and cash equivalents at the end of the year</b>	IX.6	<b>58,995,526.58</b>	151,591,454.98

Legal representative of the Company:  
Xia Dechuan

Chief Accountant:  
Shen Jianlong

Head of the Accounting Department:  
Wu Yuzhen

# Statement of Change of Shareholders' equity

Year 2011

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	31 December 2011								
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	Shareholders' equity
<b>1. Balance at the end of last year</b>	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									
<b>2. Balance at the beginning of this year</b>	655,015,000.00	437,688,751.31			203,031,623.67		81,645,530.16		1,377,380,905.14
<b>3. Change of this year</b> (a decrease is represented by "—")		-1,432,265.72			5,186,940.79		46,682,467.11		50,437,142.18
(1) Net profit							51,869,407.90		51,869,407.90
(2) Other comprehensive income									
Subtotal of item(1)and(2) above							51,869,407.90		51,869,407.90
(3) Contribution and reduction of capital by shareholders		-1,432,265.72							-1,432,265.72
1. Capital contribution by shareholders									
2. Amount settled by shares accounted for in shareholders' equity									
3. Others		-1,432,265.72							-1,432,265.72
(4) Profit distribution					5,186,940.79		-5,186,940.79		
1. Transfer from surplus reserves					5,186,940.79		-5,186,940.79		
2. Transfer from generic risk reserves									
3. Distribution to shareholders									
4. Others									
(5) Internal transfer of shareholders' equity									
1. Transfer of capital reserve to share capital									
2. Transfer of surplus reserve to share capital									
3. Compensation of loss from surplus reserve									
4. Others									
(6) Transfer and use of special reserve									
1. Transfer in current period									
2. Use in current period									
(7) Others									
<b>4. Balance at the end of the year</b>	655,015,000.00	436,256,485.59			208,218,564.46		128,327,997.27		1,427,818,047.32

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Statement of Change of Shareholders' equity (Continued)

Year 2010

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	31 December 2010								Shareholders' equity
	Share capital	Capital Reserve	Less: treasury stock	Special Reserve	Surplus Reserve	Generic risk reserve	Undistributed Profits	Other	
<b>1. Balance at the end of last year</b>	655,015,000.00	437,688,751.31			202,784,405.42		79,420,565.96		1,374,908,722.69
Add: change in accounting policies Correction of Previous Errors									
<b>2. Balance at the beginning of this year</b>	655,015,000.00	437,688,751.31			202,784,405.42		79,420,565.96		1,374,908,722.69
<b>3. Change of this year</b> (a decrease is represented by "—")					247,218.25		2,224,964.20		2,472,182.45
(1) Net profit							2,472,182.45		2,472,182.45
(2) Other comprehensive income									
Subtotal of item(1)and(2) above							2,472,182.45		2,472,182.45
(3) Contribution and reduction of capital by shareholders									
1. Capital contribution by shareholders									
2. Amount settled by shares accounted for in shareholders' equity									
3. Others									
(4) Profit distribution					247,218.25		-247,218.25		
1. Transfer from surplus reserves					247,218.25		-247,218.25		
2. Transfer from generic risk reserves									
3. Distribution to shareholders									
4. Others									
(5) Internal transfer of shareholders' equity									
1. Transfer of capital reserve to share capital									
2. Transfer of surplus reserve to share capital									
3. Compensation of loss from surplus reserve									
4. Others									
(6) Transfer and use of special reserve									
1. Transfer in current period									
2. Use in current period									
(7) Others									
<b>4. Balance at the end of the year</b>	655,015,000.00	437,688,751.31			203,031,623.67		81,645,530.16		1,377,380,905.14

Legal representative of the Company:  
**Xia Dechuan**

Chief Accountant:  
**Shen Jianlong**

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

# Notes to the Financial Statements

(All amounts in RMB thousands unless otherwise stated)

## I. Introduction to the Company

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

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

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

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## I. Introduction to the Company (Continued)

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 on 18 April 1997. Its registered capital was RMB655,015,000. The approved scope of business includes research and development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching systems, electronic component parts, apparatus, machinery and equipment, industrial moulds and other equipment, computers and system engineering. The parent of the Company is Panda Electronics Group Limited.

The Company received new business license with numbered 320100400008823 on 14 July 2009. The registered capital is RMB655,015,000. The 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 taxation 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 business. The registered address is floors 1 and 2 on North side of No.5 Building, Nanjing High Technology Development District. The parent of the Company is Panda Electronics Group Limited.

The Financial Statements of the Company were approved by the Board of the Company on 29 March 2011.

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

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

## III. Basis of preparation of financial statements

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



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IV. Accounting policies and accounting estimates adopted by the Company and prior period

### 1. Accounting period

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

### 2. Measurement currency

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

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

### 3. Principle of book-keeping and accounting measurement attribute

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

### 4. Recognition standard for cash equivalents

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

### 5. Foreign Currency businesses

#### (1) Foreign currency transaction

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 5. Foreign Currency businesses (Continued)

#### (2) Translation of Financial Statements Dominated in Foreign Currency

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

### 6. Financial Assets and Financial Liabilities

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

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

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

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 6. Financial Assets and Financial Liabilities (Continued)

#### (3) Transferral and Calculation of Financial Assets

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

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

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

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

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

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

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

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 6. Financial Assets and Financial Liabilities (Continued)

#### (5) Impairment of Financial Assets

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

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 6. Financial Assets and Financial Liabilities (Continued)

#### (5) Impairment of Financial Assets (Continued)

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

##### 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 Group in accordance with the consideration receivable from the buyer under contract or agreement. Receivables are presented at amortized cost using the effective interest method net of provision for bad debts.

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 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

- A. 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.
- B. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 9. Long-term equity investment (Continued)

#### (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.

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

- A. The cost of a long-term equity investment acquired by payment of cash shall be recognized at the actual purchase cost.
- B. 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;
- C. 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;
- D. 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.
- E. 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.



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 9. Long-term equity investment (Continued)

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

A. 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.

B. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 9. Long-term equity investment (Continued)

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

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 10. 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:

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

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

- A. The cost of a purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.
- B. 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.
- C. The cost of an investment property obtained by other means shall be recognized in accordance with the relevant accounting standards.
- D. 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 vice versa. The book value of the property prior to the conversion shall be entry value after conversion.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 11. Fixed Assets

#### (1) Recognition scope of fixed assets

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

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

#### (2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

- A. 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.

- B. 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.
- C. 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.
- D. Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognized based on the amount incurred and charged to the current profit and loss... Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term deferred expenses and amortized on a reasonable basis.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 11. Fixed Assets (Continued)

#### (2) Initial measurement of fixed asset (Continued)

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

#### (3) Categories of fixed assets

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

#### (4) Depreciation of Fixed assets

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

Categories of fixed assets	Estimated useful life (year)	Estimated residual value (%)	Depreciation rate (%)
Buildings	20-30	5	3.17-4.75
Machine equipment	5-11	3-5	8.636-19.4
Transportation equipment	5-10	3-5	9.5-19.4
Electronic equipment	3-7	3-5	13.57-32.33
Other equipment	5	3-5	19-19.4

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.

- B. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 11. Fixed Assets (Continued)

#### (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

##### A. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 11. Fixed Assets (Continued)

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

##### B. Measurement method for fixed assets acquired under finance leases

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

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

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

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

##### C. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 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:

- A. Meet the definition of intangible assets;
- B. The economic benefits pertinent to the assets are likely to flow into the Company;
- C. 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:

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



## Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

#### 13. Intangible assets (Continued)

##### (2) Initial measurement of intangible assets (Continued)

##### C. The cost of self-developed intangible assets

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

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 13. Intangible assets (Continued)

#### (3) Subsequent measurement of intangible assets

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

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

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

### 14. Goodwill

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

### 15. long-term prepaid expenses

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 16. Impairment of Assets

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

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

- A. The current market price of assets falls significantly, beyond the expectation based on the advance of time or normal use;
- B. Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the fixed assets is located, thus exerting an adverse effect on the enterprise;
- C. 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;
- D. Any evidence shows that the assets have become obsolete or physical damage occurred;
- E. The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;
- F. Any evidence in the internal report of the Company shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit (or loss) realized is lower (higher) than the expected amount, etc.;
- G. Other circumstances indicate that the asset may have been impaired.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 16. Impairment of Assets (Continued)

#### (3) Measurement of Recoverable Amount of Assets

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

#### (4) Recognition of Asset Impairment Losses

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

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

#### (6) Impairment of goodwill

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 17. Borrowing Costs

#### (1) Recognition Principles for Borrowing Cost Capitalization

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

- A. Capital expenditure has been incurred.
- B. The borrowing costs have been incurred.
- C. 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:

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 17. Borrowing Costs (Continued)

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

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

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

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

### 18. Employee benefits

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 19. Share-based Payments

- (1) The Equity-settled Share-based Payments
  - A. 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.
  - B. 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.
  - C. 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.
  - D. 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
  - A. The cash-settled share-based payments are measured at the fair value of liabilities born by the Company.
  - B. 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.
  - C. 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.
  - D. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 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:

- A. The major risks and rewards attached to ownership of the goods have been transferred to the buyers by the Company;
- B. The Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods;
- C. A reliable measurement can be made to the amount of the revenue;
- D. The relevant economic benefits are likely to flow into the Company;
- E. 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.



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 21. Revenue (Continued)

#### (2) Recognition method for the provision of service (Continued)

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:

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

#### (3) Recognition method for the revenue from an alienating use right of assets

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

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

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

##### B. Specific recognition method

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 22. Construction Contract

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

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

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

- (2) If the outcome of a construction contract cannot be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: If the contract costs can be recovered, the contract revenue shall be recognized in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period when they are incurred; If the contract costs 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:

- A. The Company can meet the conditions attached to the government subsidies;
- B. The Company can obtain the government subsidies.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 23. Government Subsidies (Continued)

#### (2) Measurement of government subsidies

- A. 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).
- B. 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.
- C. 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.
  - A. Non-monetary assets shall be recognized and measure, where a non-monetary assets transaction satisfies the following conditions at the same time:
    - a. The transaction is commercial in nature;
    - b. The fair value of the assets received or surrendered can be measured reliably.
  - B. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 24. Exchange of Non-monetary Assets (Continued)

- (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. (Continued)
  - C. 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
  - A. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 25. Debt Restructuring (Continued)

#### (2) Accounting treatment of debtors (Continued)

- B. 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

- A. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 25. Debt Restructuring (Continued)

#### (3) Accounting treatments of the creditor (Continued)

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

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

### 26. Leases

#### (1) Classification of Leases

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

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

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

- 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 becomes exercisable. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised.
- 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 (75% or above, typically).
- D. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 26. Leases (Continued)

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

- E. 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

##### A. Accounting treatments of lessees

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

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 26. Leases (Continued)

#### (3) Main accounting treatment of finance lease (Continued)

##### B. Accounting treatments of lessors

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

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

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

#### (4) Main accounting treatment of operating lease

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

### 27. Income Taxes

(1) Income taxes of the Company shall be accounted for using balance sheet liability method.

(2) Where the Company obtains assets or liabilities, it shall determine its tax base. Where there is difference between the carrying amount of the assets or liabilities and its tax base, the deferred income tax assets or the deferred income tax liabilities shall be recognized according to the provisions.



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 27. Income Taxes (Continued)

#### (3) Recognition of deferred income tax assets

A. 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.

B. Where the deductible temporary difference related to the investments of the subsidiaries, associated companies and joint venture companies can meet the following requirements simultaneously, the Company shall recognize the corresponding deferred income tax assets:

- a. The temporary differences are likely to be reversed in the expected future;
- b. It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

C. 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

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

- A. Initial recognition of goodwill;
- B. Initial recognition of assets or liabilities created in the transactions with the following characteristics:
  - a. The transaction is not a corporate merger;
  - b. When the transaction occurs, neither of the accounting profit and taxable income (or deductible loss) is not affected.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

### 27. Income Taxes (Continued)

#### (4) Recognition of deferred income tax liabilities (Continued)

B. As for the taxable temporary differences related to the investments of subsidiaries, associated enterprises and joint venture enterprises, the Company shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded:

- a. The investing enterprise can control the time of the reverse of temporary differences;
- b. The temporary differences are unlikely to be reversed in the excepted future.

#### (5) Measurement of income taxes

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

- A. Merger of enterprises;
- B. The transactions or events directly recognized as the owner's equity.

#### (6) Impairment of deferred income tax assets

A. 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.

B. Where it is likely to obtain sufficient taxable income taxes, the book value of deferred tax assets reduced can be recovered.

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

### 1. Statement of change in accounting policy

There is no change on accounting policy of the Company during this accounting period.

### 2. Change in Accounting Estimate and Correction to Previous Errors

There is no change in accounting estimate and correction to previous errors of the Company during this accounting period.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VI. Tax

### 1. Value-added tax

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

The value-added tax paid for purchase of raw materials of imported raw materials etc. can be offset against sales tax. The tax rate is 17%. Of this tax, application can be made for refund of the import duty paid for export of products, and the refund tax rate for export is 13% and 17%.

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

### 2. Sales Tax

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

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

### 3. Urban development tax and education surcharge

The Company's urban development tax and education surcharge are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 3%-5% respectively.

### 4. Enterprise income tax

The Company is recognized by Jiangsu Provincial Science and Technology Commission as a high-tech enterprise on 30 September 2011 with the effective period for 3 years and the Company was issued a high-tech enterprise certificate (Certificate No.GF201132000407) Accordingly, the Company enjoys a preferential tax policy of 15% from 1 January 2011 to 31 December 2013.

The applicable enterprise income rate for subsidiaries of the Company is 12.5%、15%、16.5% and 25% respectively.

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 2011 is the second year of three years 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 9 September 2011 with the effective period for 3 years and the Company was issued a high-tech enterprise certificate (Certificate No.GF201132000336).Accordingly, it paid income taxes by 15% of taxable income from 1 January 2011 to 31 December 2013.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VI. Tax (Continued)

### 4. Enterprise income tax (Continued)

Nanjing Huage Appliance and Plastic Industrial Co., Ltd., a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 30 September 2011, with an effective period of 3 years and the Company was issued a high-tech enterprise certificate (Certificate No. GF201132000917). Accordingly, it paid income taxes by 15% of taxable income from 1 January 2011 to 31 December 2013.

Nanjing Longwill Communications Technology Co., Ltd., a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 9 September 2011, with an effective period of 3 years and the Company was issued a high-tech enterprise certificate (Certificate No. GF201132000357). Accordingly, it paid income taxes by 15% of taxable income from 1 January 2011 to 31 December 2013.

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 and the Company was issued a high-tech enterprise certificate (Certificate No. GR200932001105). 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 and the Company was issued a high-tech enterprise certificate (Certificate No. GR201032000645). Accordingly, it paid income taxes by 15% of taxable income from 1 January 2010 to 31 December 2012.

Nanjing Panda Electronic Manufacture Co. Ltd., a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 9 September 2011, with an effective period of 3 years. Accordingly, it paid income taxes by 15% of taxable income from 1 January 2011 to 31 December 2013.

Galant Limited., a subsidiary of the Company, registered in Hong Kong, the applicable rate is 16.5%.

### 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. Other taxes

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements

### 1 Merger of enterprises

#### (1) Merger of enterprises under same control

##### A. 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.

##### B. Basis for determination of the merger date

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 1 Merger of enterprises (Continued)

#### (1) Merger of enterprises under same control (Continued)

- C. 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.

- D. 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

- A. 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.

- B. 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.

- C. Determination of the merger cost

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

b. In a merger of enterprises through several swap transactions, the transaction cost of prior acquired shares should be revalued by the fair value of acquisition date. The difference between cost on book and fair value should be booked in investment gain or loss.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 1 Merger of enterprises (Continued)

#### (2) Merger of enterprises not under same control (Continued)

##### C. Determination of the merger cost (Continued)

- 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.

##### D. 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.

##### E. Distribution of the merger cost

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

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

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 1 Merger of enterprises (Continued)

#### (3) Merger by absorption

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

- A. As for the merger by absorption under same control, assets and liabilities acquired by the Company on the merger date shall be recognized as per the original book value of such assets and liabilities in the acquiree (acquirees). If the accounting policy adopted by the acquiree (acquirees) is inconsistent with the Company, on the principle of materiality, the Company shall adjust the fair value of relevant assets and liabilities of the acquire (acquirees) in accordance with the Company's accounting policy based on which the Company shall recognize the book value of assets and liabilities acquired in the merger.
- B. 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

##### A. Recognition principle

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



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

#### B. Major subsidiaries and determination of consolidation scope for 2011

Company name	Registration address	Nature of business	Registered capital: (RMB'000)	Business scope
<b>I. Subsidiaries acquired from merger of enterprises under same control</b>				
Nanjing Panda Mechanical Engineering Plant	Nanjing	Service	4,500	Manufacture and sales of electronic products, communication equipment, appliance and apparatus.
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
Nanjing Longwill Communications Technology Co., Ltd	Nanjing	Industry	300	Development, manufacturing, sales of wireless radio and television transmitting equipment
<b>II. The subsidiaries acquired otherwise</b>				
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 Electronic Manufacture 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	6,000	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 Plastic Casings Factory	Nanjing	Service	1,149.76	PVC, ABS products
Nanjing Panda International Communication Systems Co.,Ltd	Nanjing	Industry	USD124	Development, production sale of telephone and telecommunication system
Nanjing Panda Electronic 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 Co., Ltd.	Nanjing	Industry	25,000	General equipment manufacturing, software development, property management
Galant Limited	Hong Kong	R & D	HKD1	R&D of communication products

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

#### B. Major subsidiaries and determination of consolidation scope for 2011 (Continued)

Company name	The Company's Actual investment (RMB0'000)	Balance of net investment in other accounts in subsidiaries (RMB0'000)	Shareholding percentage (%)	Percentage of voting rights (%)	Whether to consolidate
<b>I. Subsidiaries acquired from merger of enterprises under same control</b>					
Nanjing Panda Mechanical Engineering Plant	3,004.20		99.11	100	Yes
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.(b)	894.37		70	70	Yes
Nanjing Longwill Communications Technology Co.,Ltd	301.80		100	100	Yes
<b>II. The subsidiaries acquired otherwise</b>					
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 Electronic Manufacture Co., Ltd.	14,825.38		100	100	Yes
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	5,462.28		100	100	Yes
Nanjing Panda Power Sources Technology Co., Ltd.	875		79.55	79.55	Yes
Nanjing Guanghua Electronics Plastic Casings Factory	827.11		100	100	Yes
Nanjing Panda International Communication Systems Co.,Ltd	765.50		72	72	Yes
Nanjing Panda Industrial Enterprise Co., Ltd.(c)	2,000		100	100	Yes
Nanjing Panda Electronic Equipment Co., Ltd.(d)	5,000		100	100	Yes
Nanjing Panda Electronics Technology Development Co., Ltd.	17,500		100	100	Yes
Galant Limited	HKD1		100	100	Yes

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

#### C. Explanation to the change of Consolidation Scope

- a. Pursuant to the equity transfer agreement signed in 2011 with Panda Electronics Group Company, the Company promised to purchase the 80% stock equity of Nanjing Longwill Communications Technology Co., Ltd possessed by Panda Electronics Group Company at the price of RMB2,414,400. The date of transaction is 30 November 2011 which is the date the Company acquire the control over Nanjing Longwill Communications Technology Co., Ltd. As Panda Electronics Group Company is the parent company of the Company, this acquisition is merger under same control, Nanjing Longwill Communications Technology Co., Ltd is integrated into the scope of consolidation this year. Meanwhile, The Company acquired 20% individual equity of Nanjing Longwill Communications Technology Co., Ltd at the price of RMB603,600. After this acquisition, the Company actually possesses 100% equity of Nanjing Longwill Communications Technology Co., Ltd.

	Revenue from the beginning of the consolidating year to the date of acquisition	Net loss from the beginning of the consolidating year to the date of acquisition	Cash flow of operating activities from the beginning of the consolidating year to the date of acquisition
<b>The merged party</b>			

Nanjing Longwill Communications Technology Co., Ltd	9,001,444.64	(2,441,873.82)	825,593.51
--	--------------	----------------	------------

- b. Nanjing Panda Electronics Technology Development Co., Ltd. was established on 6 January 2011, with registered capital of RMB250,000,000, and the actual paid-in capital is RMB175,000,000. Nanjing Panda Electronics Technology Development Company Limited is the wholly-owned subsidiary of the Company and is consolidated this year.

Company Name	Year-end net assets	Net loss of the year
Nanjing Panda Electronics Technology Development Co., Ltd.	<b>174,938,585.43</b>	(61,414.57)

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (1) Consolidation scope (Continued)

##### C. Explanation to the change of Consolidation Scope (Continued)

- c. Nanjing Panda Technology Industry Co., Ltd have completed all the procedure of merger with the Company in 2011 and have gone through the cancellation of business and tax registration. Therefore, Nanjing Panda Technology Industry Co., Ltd is not integrated into the scope of consolidation this year.

The type of merger	The main merged assets		The main merged liabilities		
	Merger under same control	Item	Amount	Item	Amount
	Nanjing Panda Industrial Enterprise Co., Ltd.	Other receivables	65,958,708.54		
		Intangible assets			
		— land			
		use rights	11,771,384.95		
		Total	77,730,093.49		

#### (2) Preparation method of consolidated financial statements

##### A. Basic preparation method of consolidated financial statements

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (2) Preparation method of consolidated financial statements (Continued)

##### B. 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.

##### C. 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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VII. Merger of enterprises and consolidated financial statements (Continued)

### 2. Consolidated financial statements (Continued)

#### (3) Minority interests

##### A. Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Panda Appliance & Apparatus Co. Ltd.	<b>486,504.84</b>	438,601.71
Nanjing Panda Mechanical Manufacturing Co. Ltd.	<b>7,061,178.63</b>	6,348,770.04
Nanjing Panda Mechanical Co., Ltd.	<b>500,244.79</b>	463,924.31
Nanjing Panda System Integration Co., Ltd.	<b>896,850.54</b>	(214,543.92)
Nanjing Panda Electromechanical Instruments Technology Co., Ltd.	<b>6,095,912.42</b>	5,870,070.97
Nanjing Panda International Communication Systems Co., Ltd	<b>(3,917,822.01)</b>	(3,460,848.64)
Nanjing Panda Power Supply Technology Co., Ltd.	<b>(2,721,227.41)</b>	(2,864,277.28)
Nanjing Longwill Communications Technology Co., Ltd		733,908.33
Total	<b>8,401,641.80</b>	7,315,605.52

## VIII. Notes to major items of consolidated financial statements

Unless specified otherwise in the following notes (including the notes to the financial statements of the Company), the terms "opening balance" and "closing balance" refer to the balances as of 1 January 2011 and 31 December 2011 respectively, and the terms "last year" and "the year" refer to year 2010 and year 2011 respectively.

### 1. Cash and Bank Balances

	Closing balance	Opening balance
Cash	<b>1,091,139.29</b>	1,063,998.88
Bank balances	<b>342,692,230.99</b>	391,305,700.49
Other cash and bank balances	<b>103,105,261.18</b>	54,933,436.24
Total	<b>446,888,631.46</b>	447,303,135.61

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 1. Cash and Bank Balances (Continued)

Cash and bank balances include the following foreign currencies:

	Closing Balance			Opening Balance		
	Amount in original currency	Exchange rate	Equivalent amount in CNY	Amount in original currency	Exchange rate	Equivalent amount in CNY
USD	3,052,537.57	6.3009	19,233,733.97	1,469,441.64	6.6227	9,730,865.56
HKD	88,061.59	0.8107	71,391.53	40,408.77	0.8509	35,412.30
EUR	116,554.30	8.1625	951,374.47	46,200.34	8.8065	406,205.70
Total			<u>20,256,499.97</u>			<u>10,172,483.56</u>

- (1) The closing balance of other cash and bank balances amounting to RMB103,105,261.18 at the year end (the opening balance is RMB54,933,436.24) mainly included bank bill payables' deposits and contract guarantee deposits.
- (2) The Company's bank balances included call deposits totaling RMB110,362,876.73 (the opening balance is RMB180,466,250.00).

### 2. Bills Receivable

- (1) Details of bills receivable

Types of Bills	Closing balance	Opening balance
Bank acceptance notes	<u>15,720,441.55</u>	<u>14,315,380.42</u>
Total	<u>15,720,441.55</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 year-end bills receivable had no pledge or security.
- (4) The bills receivable that had been endorsed to the third party but not yet matured is RMB36,196,204.08.
- (5) Details of the five largest debtors of bills receivable that had been endorsed undue at the end of the period listed are as following:

Bills From	Date of issue	Due date	Amount	Note
ZTE Corporation	2011.11.16	2012.3.20	2,500,000.00	
ZTE Corporation	2011.11.16	2012.3.20	2,500,000.00	
Anfushi Radio Frequency System (Shanghai) Co.,Ltd	2011.11.25	2012.3.25	1,207,005.28	
Shenzhen Guangtian Decoration Group Co.,Ltd	2011.9.29	2012.1.29	1,057,820.12	
Shanghai Le Zhi Yun Communications Equipment Co., Ltd	2011.8.22	2012.1.11	<u>1,000,000.00</u>	
Total			<u>8,264,825.40</u>	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable

#### (1) Break-down of accounts receivable by categories

Items	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)	469,841,032.07	78.05	29,449,607.68	6.27
Other unsubstantial amount of accounts receivable with specific provision (note 2)	<u>132,130,215.76</u>	<u>21.95</u>	<u>23,596,290.10</u>	17.86
Total	<u><u>601,971,247.83</u></u>	<u><u>100.00</u></u>	<u><u>53,045,897.78</u></u>	

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	66.49	30,024,773.23	12.43
Other unsubstantial amount of accounts receivable with specific provision	<u>121,710,850.48</u>	<u>33.51</u>	<u>29,322,689.25</u>	24.09
Total	<u><u>363,234,015.88</u></u>	<u><u>100.00</u></u>	<u><u>59,347,462.48</u></u>	

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



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable

#### (1) Break-down of accounts receivable by categories

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	181,520,092.12			Expected can be recovered
Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD	37,938,932.01			Expected can be recovered
Oechsler Plastic Products(Taicang) Co., Ltd.	24,670,400.04			Expected can be recovered
PACIC DIGIT CORP	22,604,326.37	22,604,326.37	100.00	Expected cannot be recovered
Shanghai Wandekai Industrial Co., Ltd.	21,010,000.00			Expected can be recovered
Nanjing Lopu Co., Ltd.	20,733,000.00			Expected can be recovered
Jiangsu DAIFUKU automatic conveyer Co., Ltd.	18,074,639.48			Expected can be recovered
JIU ZHOU GROUP(HK)HOLDINGS LTD	16,725,802.79			Expected can be recovered
Binhai Radio and Television Bureau	15,338,100.00	202,095.00	1.32	Current value of the expected future cash flow is lower than its carrying value
Nanjing Sharp Electronics Co., Ltd.	15,120,189.39			Expected can be recovered
Nanjing subway limited liability company	14,702,793.03	951,811.52	6.47	Current value of the expected future cash flow is lower than its carrying value
Changzhou Hengcheng Plastic Machinery Co., Ltd.	13,285,408.90			Expected can be recovered
Heilongjiang Radio and Television Network Co.Ltd	12,558,480.00			Expected can be recovered
Nanjing Ericsson Panda Communication Co.,Ltd	10,101,168.64			Expected can be recovered
Nanjing Panda Electronics Import/Export Co.,Ltd	8,727,172.06			Expected can be recovered
Nanjing Guobo Electronics Co., Ltd	7,300,000.00			Expected can be recovered
Radio frequency system (Shanghai) Company Limited	6,758,141.85			Expected can be recovered
Andrew telecommunications equipment (China) Co., Ltd.	6,119,235.76			Expected can be recovered
Shenzhen The First Environmental Technology Co., Ltd.	5,686,500.00	5,686,500.00	100.00	Expected cannot be recovered
Suzhou Compu International Co., Ltd.	5,441,208.08			Expected can be recovered
Suzhou Raken Technology Co., Ltd.	5,425,441.55	4,874.79	0.09	Current value of the expected future cash flow is lower than its carrying value
Total	469,841,032.07	29,449,607.68		

Note 2. For other unsubstantial amount of accounts receivable with specific provision, a provision of RMB23,596,290.10 for impairment of the receivable is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable (Continued)

#### (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	539,040,394.90	89.55	525,810.51	0.10	294,792,727.26	81.16	2,230,038.57	0.76
1-2 years	14,720,103.84	2.44	4,482,062.24	30.45	14,842,780.81	4.09	12,710,525.02	85.63
2-3 years	10,113,269.22	1.68	10,039,090.81	99.27	36,447,866.56	10.03	28,347,787.65	77.78
3-5 years	28,866,949.88	4.80	28,768,404.23	99.66	10,643,273.89	2.93	9,976,549.29	93.74
more than 5 years	9,230,529.99	1.53	9,230,529.99	100.00	6,507,367.36	1.79	6,082,561.95	93.47
Total	601,971,247.83	100.00	53,045,897.78		363,234,015.88	100.00	59,347,462.48	

#### (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	181,520,092.12	30.15	Within 1 year
Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD	37,938,932.01	6.30	Within 1 year
Oechsler Plastic Products (Taicang) Co., Ltd.	24,670,400.04	4.10	Within 1 year
PACIC DIGIT CORP	22,604,326.37	3.76	3-5 year
Shanghai Wandekai Industrial Co., Ltd.	21,010,000.00	3.49	Within 1 year
Total	287,743,750.54	47.80	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable (Continued)

(4) The situation of reversal accounts receivable:

Name of debtor	The Reason of Reversal	The Reason for provision	The Amount Refund	Amount
PACIC DIGIT CORP	Refund of amount written off	Expect can not refund	1,703,076.25	1,703,076.25
Zibo Xincheng Xinzhong teaching equipment limited company	Refund of amount written off	Expect can not refund	397,490.00	397,490.00
Total			<u>2,100,566.25</u>	<u>2,100,566.25</u>

(5) The situation of written-off accounts receivable:

Name of debtor	Amount	Nature	Reason for written-off	Related party transactions
Nanjing Hongye Television Limited company	8,390,380.57	Payment for goods	Company bankruptcy cancellation	Yes
Yancheng radio and Television Information Development Limited company	982,447.00	Payment for goods	Debt restructuring agreement	No
Others	505.73	Payment for goods	Expected can be recovered	No
Total	<u>9,373,333.30</u>			

Item	Amount in original currency	2011		2010		
		Exchange rate	Equivalent amount in CNY	Amount in original currency	Exchange rate	Equivalent amount in CNY
USD	37,988,952.08	6.3009	239,364,588.16	4,362,606.03	6.6227	28,892,230.95
HKD	88,061.59	0.8107	71,391.53			
EUR	101,559.73	8.1625	828,981.30	511,699.84	8.8065	4,506,284.64
Total			<u>240,264,960.99</u>			<u>33,398,515.59</u>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 3. Accounts Receivable (Continued)

- (7) The closing balance of accounts receivable included RMB962,224.50 due from Panda Electronics Group Company, the shareholder holding 51.10% shares of the Company.
- (8) The closing balance of accounts receivable includes RMB43,619,237.26 due from related parties, representing 7.25% of the total accounts receivable (the opening balance: RMB49,346,454.52, representing 13.59%). Please refer to Note X3(9) for disclosure of relevant related transactions.
- (9) The closing balance of accounts receivable increased by 65.73% from the opening balance with the main reason of sharp growth of exports in the fourth season, which caused increase in the accounts receivable balances within the credit term.

### 4. Prepayment

- (1) Details of prepayment

Ageing	Closing Balance				Opening Balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 year	71,867,145.22	73.27	241,779.92	0.34	82,534,386.95	87.59	292,161.98	0.35
1-2 years	20,236,125.84	20.63	2,527,674.44	12.49	7,483,492.22	7.94	1,963,898.30	26.24
2-3 years	2,428,258.40	2.48	1,183,778.22	48.75	1,798,705.36	1.91	1,218,443.36	67.74
More than 3 years	3,549,281.05	3.62	2,962,538.52	83.47	2,408,631.04	2.56	2,078,607.02	86.30
Total	98,080,810.51	100.00	6,915,771.10		94,225,215.57	100.00	5,553,110.66	

- (2) Prepayment with aging more than one year mainly consisted of construction payment which was not settled.
- (3) Details of the five largest debtors of prepayment at the end of the period

Client	Amount	Percentage %	The relationship with the prepared company	The time of prepayment	Reasons of unsettled accounts
Nanjing Mei Ding Science and technology limited company	15,632,910.00	15.94	The third party	Within 1 year	Products not reached
Nanjing Panda Electronic Technology Co., Ltd	5,647,038.95	5.76	The Related Party	1~2 years	Project not completed
Nanjing Zhiyuan Information Technology Co., Ltd.	4,463,184.09	4.55	The third party	Within 1 year	Products not reached
Jiangyin TengLe Science Technology Limited company	3,896,756.83	3.97	The third party	Within 1 year	Products not reached
Wuhan Donghao Investment and development company	3,600,000.00	3.67	The third party	Within 1 year	Project not completed
Total	33,239,889.87	33.89			

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 4. Prepayment (Continued)

- (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 RMB5,647,038.95 due from related parties (the opening balance:12,997,095.25), accounting for 5.76% of the total prepayment (the opening balance: 13.79%). Please refer to Note X3(9) for disclosure of relevant related transactions.

### 5. Other Receivables

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

Item	Balance	Closing Balance		Percentage of provision for bad debts %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables with specific provision (note 1)	11,930,893.96	31.81	2,799,417.23	23.46
Other unsubstantial amount of other receivables with specific provision (note 2)	25,575,966.67	68.19	11,440,333.30	44.73
Total	37,506,860.63	100.00	14,239,750.53	

Item	Balance	Opening Balance		Percentage of provision for bad debts %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables with specific provision	175,000,000.00	80.97		
Other unsubstantial amount of other receivables with specific provision	41,129,446.20	19.03	17,464,298.72	42.46
Total	216,129,446.20	100.00	17,464,298.72	

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 5. Other Receivables (Continued)

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

Note 1. Substantial amount of single other receivable with specific provision.

Name of debtor	Amount	Provision for bad debt	Percentage of provision for bad debts %	Reasons
China Life Insurance Company Ltd.	3,067,166.67			Expected can be recovered
Yunnan Provincial Administration of Radio, Film and Television	3,825,548.06			Expected can be recovered
Nanjing Panda(Kunshan)Co.,Ltd	2,799,417.23	2,799,417.23	100.00	Expected can not be recovered
Radio, Film &Television Department of Shanxi Province	2,238,762.00			Expected can be recovered
<b>Total</b>	<b>11,930,893.96</b>	<b>2,799,417.23</b>		

Note 2. For the unsubstantial amount of other receivables, a provision of RMB11,440,333.30 for impairment of the receivable is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

#### (2) Ageing analysis of other receivables

Ageing	Closing Balance				Opening Balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 years	18,275,697.14	48.73	2,046,742.18	11.20	197,416,937.56	91.34	799,187.61	0.40
1-2 years	6,374,678.81	17.00	683,251.42	10.72	4,342,890.01	2.01	2,295,492.48	52.86
2-3 years	2,341,206.85	6.24	994,479.10	42.48	1,844,211.90	0.85	1,844,211.90	100.00
3-5 years	1,289,220.32	3.43	1,289,220.32	100.00	3,350,980.37	1.55	3,350,980.37	100.00
More than 5years	9,226,057.51	24.60	9,226,057.51	100.00	9,174,426.36	4.25	9,174,426.36	100.00
<b>Total</b>	<b>37,506,860.63</b>	<b>100.00</b>	<b>14,239,750.53</b>		<b>216,129,446.20</b>	<b>100.00</b>	<b>17,464,298.72</b>	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 5. Other Receivables (Continued)

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

Name of debtor	Amount	Percentage in the total value of the other Receivable %	Ageing	Nature
Yunnan Provincial Administration of Radio, Film and Television	3,825,548.06	10.20	1-2 years	Deposit
China Life Insurance Company Ltd.	3,067,166.67	8.18	Within 1 year	Insurance fee
Nanjing Panda (Kunshan) Co.,Ltd	2,799,417.23	7.46	Within 1 year	Loan and interest
Shanxi Radio Bureau	2,238,762.00	5.97	Within 1 year	Deposit
Insolvency administrator of Hua Fei Color Display Systems Co.,Ltd	1,100,000.00	2.93	Within 1 year	(Note)
Total	13,030,893.96	34.74		

Note: The receivables of 'insolvency administrator of Hua Fei Color Display Systems Co.,Ltd' is the fee paid on behalf of insolvency administrator. The Nanjing intermediate people's court of Jiangsu Province accepted the bankruptcy application according to the debtors' lawsuit application. Hua Fei color display system Co.,Ltd has been handed over to the bankruptcy administrator to management.

(4) The situation of reversal of bad debts and provision of bad debts

Name of debtor	Reason for reversal of bad debt or provision of bad debt	Reason for provision of bad debts	The reasons of cancellation after verification	Related party Transaction
Nanjing Panda Digital Technology Development Co., Ltd.	Received the arrears	Expected cannot be recovered	3,540,000.00	3,540,000.00
Intenna (Nanjing) Co., Ltd	Received the arrears	Expected cannot be recovered	1,000,000.00	1,000,000.00
Nanjing radio and television network limited liability company	Received the arrears	Expected cannot be recovered	500,000.00	500,000.00
Total			5,040,000.00	5,040,000.00

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 5. Other Receivables (Continued)

(5) The situation of written-off other receivables:

Name of debtor	Amount	Nature	The reasons of written-off	Related party Transaction
China mobile communication group Beijing branch	200,000.00	Deposit	The deposit was confiscated	No
Total	200,000.00			

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

(7) The closing balance of other receivables included RMB2,799,417.23 due from related parties (the opening balance: RMB2,799,417.23), representing 7.46% of the total other receivables (the opening balance: 1.30%). Please refer to Note X3(9) for disclosure of relevant related transactions.

(8) The closing balance of accounts receivable decreased by 82.65% from the opening balance, and the main reason was that 175 million which was invested to Nanjing Panda Electronics Technology Development Co., Ltd, which has established at the beginning of 2011 was classified in long-term equity investment.

### 6. Inventories

(1) Details of inventories

Items	Closing Balance			Opening Balance		
	Balance of inventories	Provision	Value of inventories	Balance of inventories	Provision	Value of inventories
Raw materials	101,882,359.30	15,256,846.31	86,625,512.99	59,561,898.74	15,599,746.26	43,962,152.48
Packaging materials	236,709.45		236,709.45	170,927.82		170,927.82
Low-value consumables	485,273.83		485,273.83	508,412.45		508,412.45
Work in progress	83,863,344.94	9,168,436.03	74,694,908.91	86,977,746.24	5,726,709.92	81,251,036.32
Stored commodities	91,423,374.15	28,117,278.17	63,306,095.98	100,234,112.25	25,656,469.90	74,577,642.35
Consigned commodities	3,513,104.19		3,513,104.19	3,443,134.82		3,443,134.82
Delivered commodities	22,874,968.08	1,743,680.15	21,131,287.93	17,539,415.91	1,997,140.10	15,542,275.81
Total	304,279,133.94	54,286,240.66	249,992,893.28	268,435,648.23	48,980,066.18	219,455,582.05



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 6. Inventories (Continued)

#### (2) Provision for diminution in value of inventories

Item	Opening Balance	Decrease in The year	Provision in the year			Closing Balance	Portion of reversal (%)
			Reverse	Write-off	Total		
Raw materials	15,599,746.26	2,971,188.66	70,112.67	3,243,975.94	3,314,088.61	15,256,846.31	0.07
Work in progress	5,726,709.92	4,093,842.49	67,110.70	585,005.68	652,116.38	9,168,436.03	0.08
Stored commodities	25,656,469.90	12,666,715.59	73,970.62	10,131,936.70	10,205,907.32	28,117,278.17	0.08
Delivered commodities	1,997,140.10	44,552.02	14,417.75	283,594.22	298,011.97	1,743,680.15	0.06
Total	48,980,066.18	19,776,298.76	225,611.74	14,244,512.54	14,470,124.28	54,286,240.66	

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

### 7. Long-term equity investment

#### (1) Details of long-term equity investment

Item	Opening balance	Increase In the year	Decrease In the year	Closing balance
Investment in associated companies	664,440,836.26	274,567,442.49	252,258,931.21	686,749,347.54
Other Equity Investment		3,650,000.00		3,650,000.00
Less: provision for impairment of long term investment	2,956,636.87			2,956,636.87
Total	661,484,199.39	278,217,442.49	252,258,931.21	687,442,710.67

Other equity investment is the investment in Jiangsu Provincial City Rail Transport Research & Design Institute Co., Ltd, The cost of investment amounting to Rmb 3.65 million, accounting for 7.3%. No impairment was found by the year end of 2012.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 7. Long-term equity investment (Continued)

#### (2) Details of investment in associated companies

Name of investee	Opening balance	Increase In this year	Decrease In this year	Closing balance	Registration Address	Nature of business
<b>Associated company</b>						
Beijing SE Putin Mobile Communications Co., Ltd	157,317,400.00	89,525,800.00	31,000,000.00	215,843,200.00	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	1,611,114.01		1,611,114.01		Nanjing	Technology Development
Hua Fei Colour Display Systems Company Limited (note 1)	83,574,966.26		83,574,966.26		Nanjing	Manufacture
MPower Batteries (Nanjing) Co., Ltd.					Nanjing	Manufacture
Nanjing Ericsson Panda communication Company Limited	310,136,580.00	174,045,960.36	126,129,870.36	358,052,670.00	Nanjing	Manufacture
Shenzhen Jinghua Electronics Co., Ltd.	94,984,316.93	10,922,193.57	8,752,802.40	97,153,708.10	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd. (note 2)	1,190,178.18		1,190,178.18		Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.					Nanjing	Manufacture
Nanjing Electronics (Kunshan) Co. Ltd.					Kunshan	Manufacture
Nanjing Thales Panda Transportation System Company Limited	12,669,644.01	73,488.56		12,743,132.57	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00			2,756,525.00	Korea	
Nanjing Panda Medical Electronics Co. Ltd.	200,111.87			200,111.87	Nanjing	Manufacture
<b>Total</b>	<b>664,440,836.26</b>	<b>274,567,442.49</b>	<b>252,258,931.21</b>	<b>686,749,347.54</b>		

Name of investee	The Company's		Total assets at the end of the period	Total debts at the end of the period	Total net assets at the end of the period	Total revenue from operations for the year	Net profit for the year
	The Company's shareholding percentage	The percentage in voting rights of the investee					
<b>Associated companies</b>							
Beijing SE Putian Mobile Communications Co., Ltd.	20	20	4,541,804,000	3,479,830,000.00	1,061,974,000.00	20,214,318,000.00	447,602,000.00
Nanjing Ericsson Panda Communication Company Limited	27	27	10,057,670,000.00	8,731,549,000	1,326,121,000.00	21,087,760,000.00	644,615,000.00
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	387,094,388.31	98,000,653.21	289,093,735.10	840,173,793.82	29,558,590.60
Nanjing Thales Panda Transportation System Company Limited	40	40	58,281,475.93	26,423,644.50	31,857,831.43	43,160,975.76	183,721.41
Nanjing Huaxian High Technology Company Limited	20	20	101,918,613.53	102,857,094.65	(938,481.12)	5,070,790.44	(8,994,051.16)

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 7. Long-term equity investment (Continued)

#### (2) Details of investment in associated companies (Continued)

*Note 1:* The Company holds 25% shares of Hua Fei Colour Display Systems Company Limited ("Hua Fei"). On 9 August, 2011, the Nanjing intermediate people's court of Jiangsu province accepted the bankruptcy liquidation application of Hua Fei. At the year end of 2011, Hua Fei has been in the stage of bankruptcy with the negative net assets. The company recognized all the long-term equity investment balance at the end of 2010 as investment loss.

*Note 2:* The Company holds 35% shares of Intenna (Nanjing) Company Limited. It has been approved to dissolve and was announced liquidation publicly. Based on the actual financial status of Intenna (Nanjing) Company Limited, the Company recognized the long-term equity investment balance at the end of 2010 as the investment loss.

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

Name of investee	Investment cost	Opening Balance	Additional investment in the year	Increase/decrease of the investee's equity	Cash bonus distributed	Closing Balance
Beijing SE Putian Mobile Communications Co., Ltd	50,361,373.68	157,317,400.00		89,525,800.00	31,000,000.00	215,843,200.00
Nanjing Huaxian High Technology Company Limited	10,000,000.00	1,611,114.01		(1,611,114.01)		
Hua Fei Colour Display Systems Company Limited	392,892,722.42	83,574,966.26		(83,574,966.26)		
MPower Batteries (Nanjing) Limited	4,200,000.00					
Nanjing Ericsson Panda communication Company Limited	60,863,279.60	310,136,580.00		174,045,960.36	126,129,870.36	358,052,670.00
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	94,984,316.93		10,922,193.57	8,752,802.40	97,153,708.10
Intenna (Nanjing) Co. Ltd.	1,750,000.00	1,190,178.18		(1,190,178.18)		
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00					
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.88					
Nanjing Thales Panda Transportation System Company Limited	8,626,600.00	12,669,644.01		73,488.56		12,743,132.57
Panda Korea Chen Xi Joint Venture Company Limited	3,494,075.00	2,756,525.00				2,756,525.00
Nanjing Panda Medical Electronics Co. Ltd.	500,000.00	200,111.87				200,111.87
<b>Total</b>	<b>638,902,758.33</b>	<b>664,440,836.26</b>		<b>188,191,184.04</b>	<b>165,882,672.76</b>	<b>686,749,347.54</b>

#### (4) Impairment for the Long-term equity investment

Name of investee	Opening balance	Provision during the year	Decrease in the year			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
<b>Total</b>	<b>2,956,636.87</b>					<b>2,956,636.87</b>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 8. Fixed Assets

#### (1) Details of fixed assets

	Buildings	Machinery and equipment	Transportation equipment	Electronic equipment	Other equipment	Total
<b>Cost</b>						
Opening Balance	530,730,108.57	306,241,773.69	14,081,988.89	37,631,078.72	17,583,593.10	906,268,542.97
Transfer from CIP	27,900,982.27	9,510,372.56		1,370,211.54	1,078,512.83	39,860,079.20
Other Current Addition	4,115,751.12	10,472,909.38	4,536,834.90	1,805,992.81	5,619,985.69	26,551,473.90
Other Current Disposal	23,303,620.19	7,075,177.13	682,627.00	721,459.21		31,782,883.53
Closing Balance	539,443,221.77	319,149,878.50	17,936,196.79	40,085,823.86	24,282,091.62	940,897,212.54
<b>Accumulated Depreciation</b>						
Opening Balance	128,016,364.11	126,775,803.61	4,639,476.01	25,388,097.66	8,004,351.23	292,824,092.62
Current Depreciation	16,798,925.32	25,990,957.19	1,578,356.94	3,898,039.33	3,516,869.16	51,783,147.94
Current Disposal	17,967,138.85	6,647,649.37	581,742.94	644,792.41		25,841,323.57
Closing Balance	126,848,150.58	146,119,111.43	5,636,090.01	28,641,344.58	11,521,220.39	318,765,916.99
<b>Impairment Provision</b>						
Opening Balance	8,308,602.45	344,879.32		80,834.17	5,208.80	8,739,524.74
Current Increase						
Current Decrease	5,336,481.34	93,094.70		32,018.60		5,461,594.64
Closing Balance	2,972,121.11	251,784.62		48,815.57	5,208.80	3,277,930.10
<b>Net book value</b>						
Closing Balance	409,622,950.08	172,778,982.45	12,300,106.78	11,395,663.71	12,755,662.43	618,853,365.45
Opening Balance	394,405,142.01	179,121,090.76	9,442,512.88	12,162,146.89	9,574,033.07	604,704,925.61

- (2) As at 31 December 2011, the buildings with a net book value of RMB113,821,516.45 (the original cost of RMB193,082,652.10) had been pledged as security for short-term borrowings of RMB70,000,000. Please refer to Note X8(14) for disclosure of relevant information.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 8. Fixed Assets (Continued)

#### (3) Fixed assets leased out by operating lease

Items	Original book Value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	61,995,460.16	24,577,670.98	2,930,788.83	34,487,000.35
Total	61,995,460.16	24,577,670.98	2,930,788.83	34,487,000.35

#### (4) Fixed assets without certification

Items	Original book Value	Accumulated depreciation	Impairment provision	Book value
Buildings	249,366,444.01	29,673,918.00	2,972,121.11	216,720,404.90
Total	249,366,444.01	29,673,918.00	2,972,121.11	216,720,404.90

The buildings with the origin cost of RMB214,823,802.89 have no building certificates are because the buildings have not been completed by settlement. The certificates are expected to be obtained in 2012.

#### (5) Impairment provision of fixed assets

Items	Opening balance	Provision during the year	Decrease in the year			Closing balance
			Reversal	Write-off	Total	
Buildings	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			32,018.60	32,018.60	48,815.57
Other equipment	5,208.80					5,208.80
Total	8,739,524.74			5,461,594.64	5,461,594.64	3,277,930.10

Some fixed assets were disposed this year. Therefore, the write-off of the impairment with the amount of RMB5,461,594.64 incurred during the year.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 9. Construction in progress

(1) The balance of Construction in progress

Items	Closing Balance			Opening Balance		
	The balance on account	Provision during the year	Value on account	The balance on account	Provision during the year	Value on account
Project				2,008,556.11		2,008,556.11
Machinery and equipment	<u>306,362.89</u>		<u>306,362.89</u>	<u>1,874,938.81</u>		<u>1,874,938.81</u>
Total	<u>306,362.89</u>		<u>306,362.89</u>	<u>3,883,494.92</u>		<u>3,883,494.92</u>

(2) Details of Construction in progress

Name of project	Budget	Opening balance	Increase in the year	Transferred to fixed assets in the year		Other decrease	Closing balance	% of completion	% of budget	Resource of fund
Xin Gang No.4 and No.5 Plant										
Project	180,000,000		24,791,488.12	24,791,488.12				73.67	73.67	Its own fund
Xin Gang No.3, Plant; Canteen of No.1, No.2										
Plant	9,040,000		104,720.52	104,720.52				100.00	100.00	Its own fund
Xin Gang No.1, No2 Plant; Canteen of No.9, No.10 Plant										
Machinery and equipment	18,290,000	2,008,556.11	360,027.23	2,368,583.34				95.66	95.66	Its own fund
		<u>1,874,938.81</u>	<u>11,026,711.30</u>	<u>12,595,287.22</u>	<u>306,362.89</u>					Its own fund
Total		<u>3,883,494.92</u>	<u>36,282,947.17</u>	<u>39,860,079.20</u>	<u>306,362.89</u>					

(3) The Company has no capitalization of borrowing costs for the year. The Company made no impairment provision for construction in progress as there is no indication of impairment.

(4) The closing balance of the CIP decreased by 92.11% from the opening balance, mainly due to that Xin Gang plants reached the status of usage and was transferred into the fixed assets by the end of the year..

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 10. Intangible assets

#### (1) Details of intangible assets

Items	Cost	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Accumulative amortization in the year	Closing balance
Land use rights	27,219,260.67	23,379,019.05			682,842.74	4,523,084.36	22,696,176.31
Trademark use right	158,640,000.00	210,000.00				158,430,000.00	210,000.00
Others	4,617,293.72	2,587,008.55	94,550.00		799,784.62	2,735,519.79	1,881,773.93
Total	190,476,554.39	26,176,027.60	94,550.00		1,482,627.36	165,688,604.15	24,787,950.24

#### (2) Impairment provision for intangible assets

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

- (3) As at 31 December 2011, the land-use right with a net book value of RMB1,149,662.08 (the original cost of RMB2,097,551.00) had been pledged as security for short-term borrowings of RMB70,000,000.00. Please refer to Note X8(14) for disclosure of relevant information.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 11. Deferred Income Tax Assets and Deferred Income Tax Debts

(1) Details of deferred income tax assets

Items	Closing Balance		Opening Balance	
	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference
Provision for asset impairment	5,615,952.90	37,064,712.58	5,744,964.54	40,147,895.77
Salaries payable	176,640.82	1,177,605.42	443,609.48	2,292,229.74
Depreciation of fixed assets	159,249.79	729,281.31	199,626.80	860,138.61
Salaries payable(more than 3 years)	38,526.53	256,843.54	29,826.27	198,841.78
Intangible assets amortization	932.84	6,218.92	46,928.87	196,192.56
Accrued expenses			44,301.67	295,344.48
Total	<u>5,991,302.88</u>	<u>39,234,661.77</u>	<u>6,509,257.63</u>	<u>43,990,642.94</u>

(2) Details of deferred income tax debts

Items	Closing Balance		Opening Balance	
	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference
Unrecognized financing expenses	390,239.64	2,601,597.60	68,911.17	287,129.88
Total	<u>390,239.64</u>	<u>2,601,597.60</u>	<u>68,911.17</u>	<u>287,129.88</u>

(3) Details of unrecognized deferred income tax assets

Items	Closing Balance	Opening Balance
Deductible temporary difference	128,515,951.47	75,920,020.13
Deductible loss	27,982,010.40	36,416,673.93
Total	<u>156,497,961.87</u>	<u>112,336,694.06</u>



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 11. Deferred Income Tax Assets and Deferred Income Tax Debts (Continued)

(4) Details of unrecognized deferred income tax assets will due at the end of next year

Items	Closing balance	Opening balance	Notes
2011		13,463,093.77	
2012	<b>15,092,917.03</b>	15,092,917.03	
2013			
2014	<b>1,763,990.42</b>	3,255,660.84	
2015	<b>3,697,013.30</b>	4,605,002.29	
2016	<b>7,428,089.65</b>		
Total	<b>27,982,010.40</b>	36,416,673.93	

### 12. Details of Provision for Impairment of Assets

Items	Opening balance	Provision in the year	Reversal	Decrease in the year			Closing balance
				Write-off	Other	Total	
<b>1. Total provision for bad debt</b>	82,364,871.86	8,307,851.72	3,100,566.25	9,998,537.12	9,573,333.30	19,571,870.42	74,201,419.41
Including: Accounts receivable	59,347,462.48	3,480,421.49	2,100,566.25	2,509,219.14	9,373,333.30	11,882,552.44	53,045,897.78
Other receivables	17,464,298.72	2,274,209.66	1,000,000.00	6,298,757.85	200,000.00	6,498,757.85	14,239,750.53
Prepayment	5,553,110.66	2,553,220.57		1,190,560.13		1,190,560.13	6,915,771.10
<b>2. Total provision for impairment of inventories</b>	48,980,066.18	19,776,298.76		225,611.74	14,244,512.54	14,470,124.28	54,286,240.66
Including: Raw materials	15,599,746.26	2,971,188.66		70,112.67	3,243,975.94	3,314,088.61	15,256,846.31
Work in progress	5,726,709.92	4,093,842.49		67,110.70	585,005.68	652,116.38	9,168,436.03
Commodity inventories	25,656,469.90	12,666,715.59		73,970.62	10,131,936.70	10,205,907.32	28,117,278.17
Consigned Processing material							
Delivered Commodities	1,997,140.10	44,552.02		14,417.75	283,594.22	298,011.97	1,743,680.15
<b>3. Total provision for impairment of long term equity investment</b>	2,956,636.87						2,956,636.87
<b>4. Total provision for impairment of fixed assets</b>	8,739,524.74				5,461,594.64	5,461,594.64	3,277,930.10
Including: Buildings	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				32,018.60	32,018.60	48,815.57
Other equipment	5,208.80						5,208.80
<b>5. Provision for impairment of intangible assets</b>	210,000.00						210,000.00
Including: Trademark	210,000.00						210,000.00
Total	143,251,099.65	28,084,150.48	3,100,566.25	10,224,148.86	29,279,440.48	39,503,589.34	134,932,227.04

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 13. Restricted Assets

Restricted Assets	Opening balance	Increase In the year	Decrease In the year	Closing balance
<b>I. Fixed assets to be guaranteed</b>				
Pledged fixed assets	119,949,009.61		6,127,493.16	<b>113,821,516.45</b>
Pledged intangible assets	1,441,394.08		291,732.00	<b>1,149,662.08</b>
<b>II. Other reasons for restricted assets</b>				
Bank bill payables deposits	30,008,398.66	103,742,570.10	89,067,668.67	<b>44,683,300.09</b>
Contract guarantee deposits	23,034,750.95	44,947,188.46	10,027,978.32	<b>57,953,961.09</b>
Letter of Credit deposits	1,855,468.80		1,387,468.80	<b>468,000.00</b>
Others	34,817.83		34,817.83	
Total	<u>176,323,839.93</u>	<u>148,689,758.56</u>	<u>106,937,158.78</u>	<u><b>218,076,439.71</b></u>

### 14. Short Term Loans

(1) Details of Short term loans

Type of loan	Closing Balance	Opening Balance
Credit loan	<b>78,307,585.20</b>	53,000,000.00
Guaranteed loan	<b>210,000,000.00</b>	350,000,000.00
Collateral loan	<b>70,000,000.00</b>	75,000,000.00
Total	<u><b>358,307,585.20</b></u>	<u>478,000,000.00</u>

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

(3) Details of collateral loans of the Company RMB70,000,000.00 (2010:RMB75,000,000.00) and its subsidiaries, please refer to Note VIII 8 (2) and VIII 10 (3)

(4) Details of guaranteed loan of the Company and its subsidiaries, please refer to Note X3 (5) and (6).

(5) The weighted average interest rate of the short term loans for the year is 6.43% (year 2010: 5.71%).

### 15. Bills payable

Types of Bills	Closing Balance	Opening Balance	Amount due in the next accounting period
Bank acceptance notes	<u><b>69,060,351.93</b></u>	<u>42,573,506.11</u>	
Total	<u><b>69,060,351.93</b></u>	<u>42,573,506.11</u>	

The closing balance of bills receivable increased by 62.21% from the opening balance is mainly due to the increased use of bank notes to settle the trade payment.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements

### 16. Accounts payable

(1) Details of accounts payable

Aging	Closing Balance		Opening Balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	<b>395,205,804.67</b>	<b>84.64</b>	266,609,860.50	80.68
1-2 years	<b>28,843,783.97</b>	<b>6.18</b>	24,711,925.30	7.48
2-3 years	<b>18,094,238.78</b>	<b>3.88</b>	19,161,821.86	5.80
More than 3 years	<b>24,730,349.83</b>	<b>5.30</b>	19,947,311.60	6.04
Total	<b>466,874,177.25</b>	<b>100.00</b>	330,430,919.26	100.00

(2) The closing balance of accounts payable includes RMB4,086,716.39 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 RMB21,426,590.15 (the opening balance: RMB11,271,216.92) due to related parties. Please refer to Note X3(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	Unsettled	No
Guangdong Zhicheng (Electronic Group)	3,970,550.20	Could not get in touch	No
Zhangzhou Sanyuan Project	3,248,461.70	The project is not completed	No
Yancheng College	2,788,598.71	The project is not completed	No
Fuzhou Wanda Square	2,281,943.38	The project is not completed	No
Nanjing Runkai Technology Co.,Ltd	1,924,303.54	Could not get in touch	No
Nanjing Construction Co.,Ltd	1,632,688.93	Unsettled	No
Wuxi Huishan Keda Packaging Printing Plant factory	1,339,736.40	Unsettled	No
Thales e-Transactions CGA S.A.	1,268,720.93	Unsettled	No
China Railway Signal &Communication Shanghai Engineering Group	<u>1,265,444.84</u>	The project is not completed	No
Total	<u>26,220,879.98</u>		

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 16. Accounts payable

- (5) The closing balance of the account payable increased by 41.29% from the opening balance, mainly due to the increased demand for raw-material with the expanded business of processing with imported materials. Some suppliers of imported goods provided a term period of credit term for payment is another reason to explain the flux.

### 17. Advances from customers

- (1) Details of Advances from customers

Aging	Closing Balance		Opening Balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	<b>48,372,300.87</b>	<b>65.64</b>	53,671,630.36	79.94
1-2 years	<b>20,991,025.14</b>	<b>28.49</b>	11,668,965.86	17.38
2-3 years	<b>2,608,512.24</b>	<b>3.54</b>	1,035,670.28	1.54
More than 3 years	<b>1,715,828.64</b>	<b>2.33</b>	764,130.95	1.14
Total	<b>73,687,666.89</b>	<b>100.00</b>	67,140,397.45	100.00

- (2) The closing balance of advances includes no shareholder over 5% of shareholding with voting power in the Company.
- (3) The closing balance of advances from customers includes RMB7,091,953.93 (the opening balance: RMB3,833,400.68) due to related parties. Please refer to Note X3(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.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 18. Salaries payable

	Opening Balance	Increase	Decrease	Closing Balance
1. Salaries and bonus	7,279,862.85	191,679,865.91	184,844,376.32	14,115,352.44
2. Expenses for employee benefits		14,395,204.25	14,395,204.25	
3. Expenses for social security	2,703,390.28	38,352,209.83	38,622,431.69	2,433,168.42
Including: Medical insurance	434,333.11	10,716,829.64	10,771,783.97	379,378.78
Pension fund	2,130,760.42	23,388,763.10	23,621,582.32	1,897,941.20
Unemployment insurance	93,578.56	2,181,266.76	2,166,961.51	107,883.81
Injury insurance	13,883.97	823,414.34	822,346.52	14,951.79
Maternity insurance	30,834.22	1,241,935.99	1,239,757.37	33,012.84
4. Housing reserve fund	812,404.53	12,000,143.55	11,828,747.79	983,800.29
5. Trade union funds and employee education funds	2,556,851.37	2,668,881.88	2,903,718.44	2,322,014.81
6. Compensation for employment termination	108,000.00	470,028.17	470,028.17	108,000.00
7. Laid-off benefits	31,512,296.94	2,940,670.55	9,791,054.08	24,661,913.41
8. Others	67,633.45	259,532.91	273,634.60	53,531.76
Total	<u>45,040,439.42</u>	<u>262,766,537.05</u>	<u>263,129,195.34</u>	<u>44,677,781.13</u>

- (1) There are not any salaries payable in arrears and all the salaries, bonuses and benefits (retired employees excluded) are paid to employees in line with the Company's payment schedule.
- (2) Laid-off benefits are the total accrued expenses of internal laid-off staff since 1 January 2012 to the retirement date, including the unrecognized financing expenses amounting to RMB1,611,863,55 (the opening balance: 2,711,221,88). 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	<b>(15,200,507.51)</b>	836,685.40
Business tax	Refer to Note VI: Taxation	<b>485,830.31</b>	1,316,023.78
Urban development tax	Refer to Note VI: Taxation	<b>538,952.11</b>	758,071.40
Education surcharges	Refer to Note VI: Taxation	<b>331,805.73</b>	367,793.25
Enterprise income tax	Refer to Note VI: Taxation	<b>466,931.42</b>	9,565,019.19
Individual income tax		<b>979,921.00</b>	895,146.55
Others		<b>26,096.62</b>	27,274.75
Total		<u><b>(12,370,970.32)</b></u>	<u>13,766,014.32</u>

The closing balance of tax payable decreased by 189.87% from the opening balance is due to that the Company expanded its business of processing with imported materials, thus the input tax increased accordingly.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 20. Interest Payable

Items	Closing Balance	Opening Balance
Short-term loan interest	969,055.41	691,700.00
Total	969,055.41	691,700.00

The closing balance of Interest Payable increased by 40.10% from the opening balance is due to the rising interest rate.

### 21. Dividend Payable

Name of investors	Closing Balance	Opening Balance	Reason not to pay more than one year
Individual shareholders	143,289.96	238,816.60	
Panda Electronics Group Company		1,560,518.52	
Total	143,289.96	1,799,335.12	

The closing balance of dividend payable decreased by 92.04% from the opening balance is due to that the Nanjing Longwill Communications Technology Co., Ltd has paid the dividend payable to Panda Electronics Group Co., Ltd, which accrued before the acquisition under the same control.

### 22. Other payables

Aging	Closing Balance		Opening Balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	37,947,486.44	33.90	43,031,355.38	41.78
1-2 years	25,789,338.61	23.03	25,434,596.10	24.69
2-3 years	17,440,780.60	15.58	3,387,501.50	3.29
More than 3 years	30,772,786.45	27.49	31,144,680.82	30.24
Total	111,950,392.10	100.00	102,998,133.80	100.00

(1) The closing balance of other payables included RMB7,416,030.00 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 RMB10,137,286.44 payables to related parties (the opening balance: RMB11,093,514.07). Please refer to Note X3(9) for disclosure of relevant related transactions.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 22. Other payables (Continued)

(3) Other payables in large amount

Name of creditor	Amount	Nature
department of the treasury-project of stereoscopic television set	13,355,169.10	R&D fee
Panda electronics group Co. Ltd	7,416,030.00	Property management fee
Nanjing Pengda Services Advisory Co. Ltd	7,101,306.24	Labor costs
Nanjing Bureau of Finance	5,506,564.00	Project fund
Baixia District Bureau of Finance	5,300,000.00	Government subsidies
Nanjing Economic Technology and Development Zone administration committee	4,424,425.48	Government subsidies
Total	<u>43,103,494.82</u>	

### 23. Long Term Payables within one year

	Closing Balance	Opening Balance
Long-term loan due within one year	<b>4,000,000.00</b>	
Finance leasing fee due within one year		<u>1,278,668.33</u>
Total	<u><b>4,000,000.00</b></u>	<u>1,278,668.33</u>

Please refer to Note VIII (24) for disclosure of long-term loan due within one year.

The closing balance of the non-current liabilities due within one year increased by 212.83% from the opening balance, because the long-term loan was classified as it and the finance lease payables was totally paid off.

### 24. Long Term Loan

Items	Closing Balance	Opening Balance
Finance lease payables	<b>4,000,000.00</b>	4,000,000.00
Less: Finance lease payables due within 1 year	<b>4,000,000.00</b>	
Total	<u></u>	<u>4,000,000.00</u>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 24. Long Term Loan (Continued)

The long-term loan was assessed by the Bureau of Science and Technology, Jiangsu Province and granted by Jiangsu International Trust Co., Ltd. through the special fund of scientific and technological achievements of Jiangsu Province. The purpose of the loan was to finance the research and industrialization of the automatic fare collection (AFC) and the ticket clearance management center (ACC) system software. The loan period is from 27 November, 2009 to 27 February, 2012, with the weighted average annual interest rate of 0.3%. The principal and interest will be paid when loan term ends (the opening balance: 0.3%).

The closing balance of long-term loan decreased by 100.00% from the opening balance because the loan was going to be due within one year and was classified to the non-current liabilities due within one year..

### 25. Share Capital

	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Shares subject to trading moratorium —				
State owned shares				
State-owned legal person shares				
Other domestic shares				
Foreign shares				
Subtotal				
Shares not subject to trading moratorium-				
RMB denominated ordinary shares	413,015,000.00			413,015,000.00
China-listed foreign shares				
Overseas-listed foreign shares	242,000,000.00			242,000,000.00
Others				
Subtotal	655,015,000.00			655,015,000.00
Total	655,015,000.00			655,015,000.00

During the reporting period, Panda Electronics Group Company, the company's controlling shareholder did not increase or reduce shareholdings of the Company.



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 26. Capital Reserve

	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Capital premium	455,880,462.70		2,772,466.43	453,107,996.27
Other capital reserve	<u>14,365,417.16</u>			<u>14,365,417.16</u>
Total	<u>470,245,879.86</u>		<u>2,772,466.43</u>	<u>467,473,413.43</u>

The company spent RMB2,414,400 to purchase 80% shares of Nanjing Longwill Communications Technology Co., Ltd. As Nanjing Longwill Communications Technology Co., Ltd and the Company are under the ultimate control of the same party, Panda Electronics Group Co., Ltd, before and after the merger and the control is not temporary, it shall be merger of enterprises under same control. Total acquisition price RMB2,414,400 offsets capital reserves.

The Company also acquired 20% minority stockholders' interest of Nanjing Longwill Communications Technology Co., Ltd, and the amount exceeding the value of the minority interest, RMB358,066.43, offsets capital reserves of this period.

### 27. Surplus Reserve

	Opening Balance	Increase in the year	Decrease in the year	Closing Balance
Statutory surplus reserve	132,654,982.34	5,186,940.79		137,841,923.13
Discretionary surplus reserve	<u>70,376,641.33</u>			<u>70,376,641.33</u>
Total	<u>203,031,623.67</u>	<u>5,186,940.79</u>		<u>208,218,564.46</u>

According to "the Company law of the PRC", the Company's Articles of Association, the Company appropriates 10% of net profits of the year to statutory surplus reserve. The Company shall not appropriate statutory surplus reserve when it reaches above 50% of the total share capital. The statutory surplus reserve could be used to recover loss or increase share capital. Based on resolution at the Board of Directors, the Company appropriated statutory surplus reserve amounting to RMB5,186,940.79, which amounted to 10% net profit of the Company this year (year 2010: RMB247,218.25).

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 28. Undistributed Profit

Items	2011	2010
<b>Closing balance of previous year</b>	<b>150,780,310.99</b>	141,835,133.81
Add: Changes in accounting policies		
Correction of previous errors		
Merger under the same control	<b>669,364.00</b>	1,750,637.74
<b>Opening balance of the year</b>	<b>151,449,674.99</b>	143,585,771.55
Add: Consolidated net profit		
attributable to parent company	<b>110,070,234.90</b>	9,359,536.50
Compensation of loss from surplus reserve		
Other transfer-in		
Less: Transfer to statutory surplus reserve	<b>5,186,940.79</b>	247,218.25
Transfer to discretionary surplus reserve		
Distribution to shareholders		1,248,414.81
<b>Closing balance of the year</b>	<b>256,332,969.10</b>	151,449,674.99

For the large increase of net profit, the closing balance of undistributed profit increased by 69.25%, compared with the opening balance.

### 29. Operating Income and Cost

(1) Income from principal activities and other activities

Items	2011	2010
Income from principal activities	<b>2,080,936,185.51</b>	1,652,535,950.79
Income from other activities	<b>61,459,107.86</b>	41,484,653.19
Total operating income	<b>2,142,395,293.37</b>	1,694,020,603.98
Cost of principal activities	<b>1,813,187,524.50</b>	1,412,309,341.70
Cost of other activities	<b>39,781,228.51</b>	22,722,657.64
Total operating cost	<b>1,852,968,753.01</b>	1,435,031,999.34

## Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

### VIII. Notes to major items of consolidated financial statements (Continued)

#### 29. Operating Income and Cost (Continued)

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

Business segment	Income from principal activities	2011	
		Cost of principal activities	Profit of principal activities
Electronic manufacture products	629,507,963.45	500,026,388.46	129,481,574.99
Electronic intelligent products	654,317,103.79	583,003,252.21	71,313,851.58
Electronic Equipment products	442,603,969.54	401,042,672.83	41,561,296.71
Communication technology products	294,249,183.93	278,353,883.53	15,895,300.40
Others	60,257,964.80	50,761,327.47	9,496,637.33
Total	<u>2,080,936,185.51</u>	<u>1,813,187,524.50</u>	<u>267,748,661.01</u>

Business segment	Income from principal activities	2010	
		Cost of principal activities	Profit of principal activities
Electronic manufacture products	596,219,775.70	438,011,657.70	158,208,118.00
Electronic intelligent products	519,811,643.39	492,053,949.57	27,757,693.82
Electronic Equipment products	279,252,080.79	249,276,545.19	29,975,535.60
Communication technology products	221,963,785.54	212,254,692.91	9,709,092.63
Others	35,288,665.37	20,712,496.33	14,576,169.04
Total	<u>1,652,535,950.79</u>	<u>1,412,309,341.70</u>	<u>240,226,609.09</u>

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

(4) Sales revenue from the largest five customers totaled RMB784,519,693.79, accounting for 36.62% of total sales revenue of the year.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 30. Sales tax and surcharges

Items	2011		2010	
	Calculation basis	Amount	Calculation basis	Amount
Business tax	5% of lease income and others	6,852,207.36	5% of lease income and others	7,293,391.41
City maintenance tax	7% of turnover tax	5,477,821.39	7% of turnover tax	2,973,800.98
Education surcharges	3%-5% of turnover tax	3,388,896.45	4% of turnover tax	1,700,938.56
Total		<u>15,718,925.20</u>		<u>11,968,130.95</u>

The Business tax and surcharges increased by 31.34% in 2011 from that of 2010. According to the government paper [2010] No.35, foreign-investment enterprise begins to assume the obligation to pay the urban development tax and education surcharge from December,2010.

### 31. Selling expenses

Items	2011	2010
Salaries and Benefits	13,720,052.87	13,360,115.62
Advertising fee	6,676,260.63	9,056,312.74
Transport fee	6,420,650.36	5,235,807.21
Entertainment	3,097,317.71	3,306,887.70
Labor expenses	2,517,093.69	2,882,592.44
Insurance fee	2,469,546.27	824,603.12
Office expenses	2,070,173.90	3,812,684.58
Travelling expenses	1,874,498.20	2,150,876.73
Others	1,844,060.34	1,480,293.43
Total	<u>40,689,653.97</u>	<u>42,110,173.57</u>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 32. General and administrative expenses

Items	2011	2010
Salaries and Benefits	<b>103,742,629.80</b>	110,892,617.01
R&D expenses	<b>86,065,848.90</b>	53,554,697.05
Depreciation and Amortization	<b>15,869,045.05</b>	12,729,571.44
Entertainment and Travel	<b>11,917,329.01</b>	13,210,559.86
Agent fee	<b>8,954,979.54</b>	7,851,147.21
Office expenses	<b>7,779,519.36</b>	8,638,554.49
Tax	<b>4,588,731.98</b>	4,028,097.68
Utilities	<b>2,305,830.20</b>	3,061,390.81
Leasing and property management fees	<b>1,550,511.51</b>	2,084,999.65
Others	<b>12,784,828.70</b>	11,488,166.04
Total	<b>255,559,254.05</b>	227,539,801.24

### 33. Financial expenses

Items	2011	2010
Interest expenses	<b>25,706,598.09</b>	23,861,316.91
Less: Interest income	<b>4,966,137.00</b>	6,097,371.95
Exchange loss	<b>3,584,591.70</b>	4,494,774.32
Less: Exchange gain	<b>1,568,883.99</b>	1,539,220.59
Bank charges	<b>814,970.68</b>	616,466.88
Unrecognized financing expenses	<b>871,421.09</b>	1,076,023.54
Others	<b>363,859.20</b>	998,611.12
Total	<b>24,806,419.77</b>	23,410,600.23

### 34. Assets Impairment Loss

Items	2011	2010
Bad debt losses	<b>(1,690,685.40)</b>	31,255,575.98
Loss from inventory impairment	<b>19,550,687.02</b>	13,222,972.78
Fixed asset impairments loss		5,208.80
Total	<b>17,860,001.62</b>	44,483,757.56

Assets impairment loss for year 2011 decreased by 59.85% from that of 2010, due to the large amount of bad debts provision was accrued in the last year.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 35. Investment Income

(1) Listed by Items

Items	2011	2010
Share of profit of investees under equity method of accounting	<b>188,191,184.04</b>	91,047,489.92
Income on disposal of long-term equity investments		32,874.29
Total	<b>188,191,184.04</b>	91,080,364.21

(2) Investment income listed by investees

Name of Investees	2011	2010	Remarks
Nanjing Ericsson Panda Communication Company Limited	<b>174,045,960.36</b>	121,696,133.67	(1)
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	<b>89,525,800.00</b>	35,093,200.00	(1)
Hua Fei Colour Display Systems Company Limited	<b>(83,574,966.26)</b>	(76,762,202.91)	(2)
Shenzhen Jingwah Electronics Co., Ltd	<b>10,922,193.57</b>	8,562,252.11	
Intenna (Nanjing) Co. Ltd.	<b>(1,190,178.18)</b>	(127,628.64)	
Nanjing Thales Panda Transportation System Company Limited	<b>73,488.56</b>	2,817,601.06	
Nanjing Huaxian High Technology Company Limited	<b>(1,611,114.01)</b>	(231,865.37)	
Nanjing Electronic Calibration Co., Ltd.(Note VIII 47)		32,874.29	
Total	<b>188,191,184.04</b>	91,080,364.21	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 35. Investment Income (Continued)

#### (2) Investment income listed by investees (Continued)

- A. The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2011, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
- B. Hua Fei Color Display Systems Company Limited, an associated company of the Company, has been in bankruptcy liquidation stage with the negative net assets. The Company has recognized the long-term equity investment at the end of 2010 as investment losses.
- C. Since i) there was no material difference in the accounting policies and accounting periods adopted between the investee and those of the Company; ii) there was no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs to be offset between the investee and the Company. The Company recognized investment income based on the investee's book value of net profit.

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

- D. There was no material restriction on the remittance of the investment income to the Company.

- (3) Investment income for year 2011 increased by 106.62% from that of 2010, due to the increase in investment income from Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd.

### 36. Non-operating Income

#### (1) Details of Non-operating income

Items	2011	2010	Amount recorded in the current profits and losses
Gains from disposal of non-current assets	<b>1,172,222.77</b>	767,343.25	1,172,222.77
Including: gains from disposal of fixed assets	<b>1,172,222.77</b>	767,343.25	1,172,222.77
Gains from disposal of other non-current fixed assets			
Write off payables	<b>1,591,477.74</b>	3,643,050.22	1,591,477.74
Governmental subsidy	<b>5,531,492.76</b>	30,239,423.12	4,513,607.32
Net gain from fine payments	<b>218,775.34</b>	338,602.27	218,775.34
Compensation revenue		2,063,538.33	
Other	<b>2,274,661.55</b>	220,618.69	2,274,661.55
<b>Total</b>	<b>10,788,630.16</b>	<b>37,272,575.88</b>	<b>9,770,744.72</b>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 36. Non-operating Income (Continued)

#### (2) Governmental subsidy

Items	2011	Data sources
Grants for PDP plant	113,437.50	CJ[2010]No.128
Grants for stereoscopic television	32,128.00	CQ[2009]No.391
Grants for chip components project	446,041.84	CQ[2008]No.120
Tax rebate for software	726,010.22	Certificate for software company
Rewards for high-tech business	100,000.00	BKF[2011]No.10
Subsidy for social insurance	117,423.92	NZF[2009]No.22, NZF[2010] No.5
Grants for technology development plan	250,000.00	NK[2010]No.133 NCJ[2010] No.473
Subsidy for projects	500,000.00	NCQ[2010] No.955
Subsidy for projects	500,000.00	NCQ[2010] No.644
Subsidy for social insurance	181,616.06	Subsidy for social insurance
Special grants for industrial transformation and upgrading in Jiangsu Province	1,200,000.00	NJXTZ[2010] No.474 NCQ[2011] No.1147
The grants for technology development from Baixia District	500,000.00	BKF[2010]No.11
Subsidy for Economic Development Zone	180,000.00	NKWJZ[2001] No.119
Subsidy for child care from Nanjing	392,960.00	NJC[2011] No.8
Grants from Municipal Science and Technology Bureau	140,000.00	SCJ[2010] No.177
Tax exemption for contract of Technology development	93,242.67	CSZ[1994] No.010
Refund VAT for software products	58,632.55	CKZ[1995] No.006
<b>Total</b>	<b>5,531,492.76</b>	

Items	2010	Data sources
Refund VAT for software products	1,189,275.29	
Subsidy for projects from government	29,050,147.83	
<b>Total</b>	<b>30,239,423.12</b>	

The governmental subsidies of 2010 are granted according to CJ[2010]No.128, NJTZZ[2009] No.236 and so on.

- (3) The non-operating income for year 2011 decreased by 71.05% from that of 2010, due to the decrease in governmental subsidy.



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 37. Non-operating Expenses

Items	2011	2010	Amount recorded in the current profits and losses
Loss from the disposal of non-current assets	<b>235,145.39</b>	12,320,728.63	235,145.39
Including: Loss from disposal of fixed assets	<b>235,145.39</b>	12,320,728.63	235,145.39
Loss from the disposal of other non-current assets			
Donation expenses	<b>50,000.00</b>	154,400.00	50,000.00
Fine payment expenses	<b>33,310.37</b>	16,387.27	33,310.37
Compensation expenses	<b>23,314.00</b>	742,808.93	23,314.00
Others	<b>500,172.36</b>	251,134.10	499,972.36
Total	<b>841,942.12</b>	13,485,458.93	841,742.12

The non-operating expenses for year 2011 decreased by 93.76% from that of 2010, due to disposal of old equipment and machines for updating of the production capacity last year.

### 38. Income Tax Expenses

(1) Composition of income tax expenses (gains)

Items	2011	2010
Current income tax	<b>15,995,492.66</b>	20,396,508.90
Deferred income tax	<b>839,283.22</b>	(3,797,164.56)
Total	<b>16,834,775.88</b>	16,599,344.34

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 38. Income Tax Expenses (Continued)

- (2) The reconciliation from total profit presented in the consolidated financial statements to the income tax expenses is as follows:

Items	2011	2010
Total profit	<b>132,930,157.83</b>	24,343,622.25
Income tax expenses calculated at the applicable tax rate	<b>33,232,539.46</b>	6,085,905.56
Exemption/reduction of income tax under preferential tax treatment	<b>(11,670,848.19)</b>	(4,298,013.03)
Adjustment on previous income tax	<b>(1,752,909.23)</b>	(902,981.11)
Share of results of associates	<b>(28,226,840.39)</b>	(13,586,683.46)
Income not subject to tax	<b>(595,248.06)</b>	(383,916.16)
Expenses not deductible for tax purposes	<b>2,141,798.98</b>	3,263,272.80
Effect of change in tax rate	<b>352,107.43</b>	53,171.70
Utilization of previously unrecognized tax losses	<b>(899,681.75)</b>	(2,390,287.01)
Unrecognized deductible temporary difference and deductible tax loss	<b>24,253,857.63</b>	28,758,875.05
Income tax expenses	<b>16,834,775.88</b>	16,599,344.34

### 39. Basic Earnings per Share and Diluted Earnings per Share

Items	2011	2010
Basic earnings per share	<b>0.1680</b>	0.0143
Diluted earnings per share	<b>0.1680</b>	0.0143

Note:

- (1) Calculation of basic earnings per share

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

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

Including: "S<sub>0</sub>" represents total number of shares at the beginning of the period; "S<sub>1</sub>" represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period; "S<sub>i</sub>" represents shares increased from issue of new shares or debt to equity during reporting period; "S<sub>j</sub>" represents the reduced shares arising from repurchase during reporting period; "S<sub>k</sub>" represents the number of reduced shares during the reporting period; "M<sub>0</sub>" represents months in the reporting period; "M<sub>i</sub>" represents the months from the next month of the increase of shares to the end of the reporting period; "M<sub>j</sub>" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 39. Basic Earnings per Share and Diluted Earnings per Share (Continued)

Note: (Continued)

(2) Calculation of diluted earnings per share

Diluted earnings per share =  $P1 / (S0 + S1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond})$

Including, "P1" represents net profit attributable to ordinary shareholders, taking into consideration of impact from potential diluted ordinary shares and adjustments according to the Enterprise Accounting Standards and Accounting System for business enterprises. In calculating diluted earnings per share, the Company takes into consideration of impact from all potential diluted ordinary shares on net profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares. The potential diluted ordinary shares are included in the calculation of diluted earnings per share in sequence to the degree of dilution till diluted earnings per share become minimum.

### 40. Cash Received Relating to Other Operating Activities

Among the "cash received relating to other operating activities", the items with large amount are listed as follows:

Items	2011	2010
Government subsidy	<b>15,672,082.75</b>	25,818,161.78
Interest Income	<b>4,966,137.00</b>	6,097,371.95
Cash receipts from Acceptance deposit & Commitment deposit		6,645,143.15
Cash receipts from Panda Electronics Group Co., Ltd.		674,987.50
Others	<b>5,704,366.65</b>	5,801,430.71
Total	<b>26,342,586.40</b>	45,037,095.09

### 41. Cash Paid Relating to Other Operating Activities

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

Items	2011	2010
Cash payment to Panda Electronics Group Co., Ltd.		80,000,000.00
Research & development expenses	<b>65,442,710.97</b>	45,815,205.55
Receipt of deposit of commitment	<b>48,171,824.94</b>	
Entertainment expenses	<b>11,448,322.22</b>	12,583,490.93
Office expenses	<b>9,799,693.26</b>	15,205,787.65
Agent fee	<b>8,954,979.54</b>	7,841,797.21
Advertising fee	<b>6,676,260.63</b>	8,687,829.87
Travelling expenses	<b>5,440,822.70</b>	6,148,045.14
Transportation fee	<b>6,420,650.36</b>	5,235,807.21
Service fee	<b>2,517,093.69</b>	2,882,592.44
Insurance fee	<b>2,469,546.27</b>	824,603.12
Others	<b>15,002,488.15</b>	7,268,224.43
Total	<b>182,344,392.73</b>	192,493,383.55

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 42. Other Cash receipt in Connection with Investment Activities

Among the “Other Cash Receipt in Connection with Investment Activities”, the items with large amount are listed as follows:

Items	2011	2010
Investment	<u>175,000,000.00</u>	
Total	<u>175,000,000.00</u>	

### 43. 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	2011	2010
Deposit of share of subsidiary		<u>425,320.87</u>
Total		<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	2011	2010
Payment of amount under finance lease	<u>1,313,481.60</u>	<u>2,250,350.18</u>
Total	<u>1,313,481.60</u>	<u>2,250,350.18</u>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 45. Supplemental Information of Cash Flow Statements

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

Items	2011	2010
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	116,095,381.95	7,744,277.91
Add: Provision for asset impairment	17,860,001.62	44,483,757.56
Depreciation of fixed assets	51,783,147.94	42,314,472.91
Amortization of intangible assets	1,482,627.36	1,401,459.98
Amortization of long term deferred expenses		
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by “—”)	(937,077.38)	11,553,385.38
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 “—”)	24,962,820.77	23,861,316.91
Loss on investment (gains are represented by “—”)	(188,191,184.04)	(91,080,364.21)
Decrease in deferred income tax assets (Increase is represented by “—”)	517,954.75	(3,727,257.88)
Increase in deferred income tax liabilities (decrease is represented by “—”)	321,328.47	68,911.17
Decrease in inventories (increase is represented by “—”)	(50,087,998.25)	(70,233,658.25)
Decrease in trade receivables (Increase is represented by “—”)	(302,313,229.10)	(121,682,814.28)
Increase in trade payables (Decrease is represented by “—”)	138,594,467.81	(9,443,374.35)
Net cash flow from operating activities	<u>(189,911,758.10)</u>	<u>(164,739,887.15)</u>
2. Material investment and financial activities not involving cash:		
3. Net change in cash and cash equivalents:		
Cash balance as at end of the year	343,783,370.28	392,369,699.37
Less: cash balance as at beginning of the year	392,369,699.37	563,819,422.72
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
Net increase in cash and cash equivalents	<u>(48,586,329.09)</u>	<u>(171,449,723.35)</u>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 45. Supplemental Information of Cash Flow Statements (Continued)

#### (2) Information on cash and cash equivalents

Items	2011	2010
<b>I. Cash</b>	<b>343,783,370.28</b>	392,369,699.37
Including: Cash on hand	<b>1,091,139.29</b>	1,063,998.88
Bank deposit available for payment at any time	<b>342,692,230.99</b>	391,305,700.49
Other cash fund available for payment at any time		
<b>II. Cash equivalents</b>		
Including: Bond investment due within three months		
<b>III. Closing balance of cash and cash equivalents</b>	<b>343,783,370.28</b>	392,369,699.37

### 46. Segment Report

Primary reporting format — business segments

#### (4) Segment information as at and for the year is as follows:

	Electronic manufacturing products	Electronic intelligent products	Communication technology products	Electronic Equipment products	Other	Unallocated	Elimination among segments	Total
Trade income from third party	655,651,614.29	660,526,068.43	455,342,225.39	302,343,075.22	68,532,310.04			2,142,395,293.37
Trade income between segments	2,055,634.00	3,678,636.38	5,338,164.83	8,238,973.20	34,591,461.72		(53,902,870.13)	
Interest income	1,207,399.80	822,966.51	297,624.56	199,159.35	1,068,580.00	5,880,661.99	(4,510,255.21)	4,966,137.00
Interest expense	2,519,371.92	3,457,165.69	2,467,614.12	950,741.68	166,000.00	20,657,642.77	(4,511,938.09)	25,706,598.09
Investment income from joint ventures and associated enterprises		73,488.56				188,117,695.48		188,191,184.04
impairment of assets	13,767,197.62	3,378,939.41	2,620,521.56	3,308,519.49	188,417.07	69,753.94	(5,473,347.47)	17,860,001.62
Depreciation and amortisation expense	28,683,510.71	1,163,895.92	3,782,741.66	386,323.07	600,571.02	18,648,732.92		53,265,775.30
Total Profit	56,589,921.77	14,199,393.15	25,642,917.29	1,232,921.60	6,915,273.13	45,670,166.43	(17,320,435.54)	132,930,157.83
Income tax expense	8,962,752.72	3,278,007.16	3,978,529.63		615,486.37			16,834,775.88
Net profit	47,627,169.05	10,921,385.99	21,664,387.66	1,232,921.60	6,299,786.76	45,670,166.43	(17,320,435.54)	116,095,381.95
Total assets	429,817,393.91	604,934,370.27	301,871,889.92	74,414,464.88	317,634,612.35	1,808,493,622.94	(824,035,196.29)	2,713,131,157.98
Total liabilities	161,469,881.92	445,528,441.79	190,462,607.04	74,033,079.11	102,999,687.86	435,819,690.99	(292,623,819.52)	1,117,689,569.19
Other non-cash expense beside Depreciation and amortisation expense								
Long term investment for joint ventures and associated enterprises		12,743,132.57				671,049,578.10		683,792,710.67
an increase in other non-current assets besides long-term investment	23,718,170.16	1,968,878.85	3,487,698.41	130,604.00	1,407,864.03	32,215,755.62		62,928,971.07

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 46. Segment Report (Continued)

(5) Segment information as at and for the last year is as follows:

	Electronic manufacturing products	Electronic intelligent products	Communication technology products	Electronic Equipment products	Other	Unallocated	Elimination among segments	Total
Trade income from third party	605,913,402.62	522,026,866.29	289,308,606.55	234,072,825.64	42,698,902.88			1,694,020,603.98
Trade income between segments	5,103,976.33	67,593,498.41	8,511,341.00	399,284.42	20,757,888.39		(102,365,988.55)	
Interest income	960,764.27	1,930,218.32	212,276.03	80,305.02	1,187,769.45	7,971,856.15	(6,245,817.29)	6,097,371.95
Interest expense	1,521,367.70	3,543,821.15	1,601,204.50	1,832,237.60	57,707.50	21,550,795.75	(6,245,817.29)	23,861,316.91
Investment income from joint ventures and associated enterprises		2,817,601.06				88,229,888.86		91,047,489.92
impairment of assets	6,721,942.95	21,816,818.17	10,279,580.92	4,296,318.09	1,555,393.27	(7,327,527.64)	7,141,231.80	44,483,757.56
Depreciation and amortisation expense	23,629,040.18	928,998.73	3,635,375.10	375,315.39	1,129,979.81	14,017,223.68		43,715,932.89
Total Profit	46,545,036.98	10,682,483.14	6,334,307.78	34,972.11	7,589,571.22	6,916,005.33	(53,758,754.31)	24,343,622.25
Income tax expense	9,977,806.07	756,282.11	6,008,650.73	11,822.54	(155,217.11)			16,599,344.34
Net profit	36,567,230.91	9,926,201.03	325,657.05	23,149.57	7,744,788.33	6,916,005.33	(53,758,754.31)	7,744,277.91
Total assets	481,690,360.46	361,892,175.71	217,147,686.77	57,285,582.12	216,570,544.34	1,918,846,616.97	(678,587,157.35)	2,574,845,809.02
Total liabilities	250,970,017.52	208,392,207.02	149,637,447.70	50,282,105.98	107,107,496.25	592,463,508.99	(271,064,758.48)	1,087,788,024.98
Other non-cash expense beside Depreciation and amortisation expense								
Long term investment for joint ventures and associated enterprises		12,669,644.01				648,814,555.38		661,484,199.39
an increase in other non-current assets besides long-term investment	55,869,711.39	2,073,531.96	7,580,960.55	123,082.39	2,215,778.70	50,397,594.09		118,260,659.08

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 47. Merger of subsidiaries

Nanjing Longwill Communications Technology Co.,Ltd

The company acquired 80% stock equity of Nanjing Longwill Communications Technology Co., Ltd from Panda Electronics Group Company on 30 November 2011. The consolidation date was 30 November 2011 which was also the date the Company acquired the actual control over Nanjing Longwill Communications Technology Co.,Ltd. As the Nanjing Longwill Communications Technology Co.,Ltd and the Company were both under the control of Panda Group and the control was not temporary, such acquisition is regarded as a business combination under common control.

The acquisition cost of combination and the carrying amount of net assets acquired are as follows:

Cost of combination-	
Cash paid	2,414,400.00
The carrying value of non-cash assets transferred	
Carrying amount of the liabilities incurred or assumed	
Carrying amount of the liabilities incurred or assumed	
Total cost of consolidation	2,414,400.00
minus: the carrying value of net assets acquired	982,134.28
Amount of capital surplus adjusted	1,432,265.72

The carrying amount of assets, liabilities of Nanjing Longwill Communications Technology Co.,Ltd at the date of the combination, and cash flows related to the combination are as follows:

	Carrying amount	
	Date of combination	31 December 2010
Cash and cash equivalents	1,091,219.56	1,956,725.12
Financial assets held for trading		
Trade receivables	826,567.46	4,466,069.14
Inventories	5,434,509.05	5,093,765.62
Other current assets	512,758.75	779,908.45
Available-for sale financial assets		
Held-to-maturity investments		
Long-term equity investment		
Fixed assets	598,304.65	708,524.36
Intangible assets		
Other non-current assets		
Less: Short term loans		
Accounts payable	1,300,357.13	3,903,279.90
Salaries payable	303,725.69	225,045.32
Other liabilities	5,631,608.80	5,207,125.80
Net assets	1,227,667.85	3,669,541.67
less: Minority interests	245,533.57	733,908.33
Net assets acquired	982,134.28	2,935,633.34



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## VIII. Notes to major items of consolidated financial statements (Continued)

### 47. Merger of subsidiaries (Continued)

The revenue, net profit and cash flows of the year 2010 and from 1 Jan 2011 to the date of consolidation are as follows:

	From 1 Jan 2011 to the merger date	2010
Revenue	9,001,444.64	19,286,163.94
Net profit (loss)	(2,441,873.82)	208,926.34
Cash flow from operating activities	825,593.51	(1,388,473.34)
Net cash flow	(865,505.56)	(1,508,679.67)

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

### a) Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Balance	Closing balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single accounts receivable with specific provision (note 1)	56,643,012.73	82.47	5,888,595.00	10.40
Other unsubstantial amount of accounts receivable with specific provision (note 2)	12,036,364.84	17.53	719,036.90	5.97
Total	68,679,377.57	100.00	6,607,631.90	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### a) Accounts Receivable (Continued)

#### (1) Break-down of accounts receivable by categories (Continued)

Items	Balance	Opening balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single accounts receivable with specific provision	19,576,432.50	71.20	6,154,820.38	31.44
Other unsubstantial amount of accounts receivable with specific provision	<u>7,918,526.39</u>	<u>28.80</u>	<u>1,178,750.75</u>	14.89
Total	<u>27,494,958.89</u>	<u>100.00</u>	<u>7,333,571.13</u>	

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

Note 1. Breakdown of substantial amount of single accounts receivable with specific provision.

Name of debtor	Amount	Provision for bad debt	Percentage of provision for bad debt %	Reasons for provision
Nanjing panda HanDa technology Co., Ltd	15,855,032.73			Expected can be recovered
Binhai county administration of Radio, Film and Television	15,338,100.00	202,095.00	1.32	Current value of the expected future cash flow is lower than its carrying value
Heilongjiang radio and television network Co. Ltd	12,558,480.00			Expected can be recovered
Shenzhen no.1 environmental science and technology Co. Ltd	5,686,500.00	5,686,500.00	100.00	Expected can not be recovered
Sihong county Radio and television Information Network Co. Ltd	3,691,500.00			Expected can be recovered
Feng County radio and Television information network Co. Ltd	3,513,400.00			Expected can be recovered
Total	<u>56,643,012.73</u>	<u>5,888,595.00</u>		

Note 2. For other unsubstantial amount of accounts receivable with specific provision, a provision of RMB719,036.90 for impairment of the receivable is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### a) Accounts Receivable (Continued)

(2) The ageing analysis of accounts receivable

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 year	59,716,944.74	86.95	36,182.39	0.06	15,009,027.79	54.59	141,629.65	0.94
1-2 years	2,631,238.32	3.83	240,255.00	9.13	5,908,525.00	21.49	5,875,315.00	99.44
2-3 years	5,771,400.00	8.40	5,771,400.00	100.00	6,017,489.59	21.89	756,709.97	12.58
More than 3 years	559,794.51	0.82	559,794.51	100.00	559,916.51	2.03	559,916.51	100.00
Total	68,679,377.57	100.00	6,607,631.90		27,494,958.89	100.00	7,333,571.13	

(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
Nanjing panda HanDa technology Co., Ltd	15,855,032.73	23.09	Within 1 year
Binhai County Administration of Radio, Film and Television	15,338,100.00	22.33	Within 1 year 1-2 years
Heilongjiang Radio and Television Network Co. Ltd	12,558,480.00	18.29	Within 1 year
Shenzhen no.1 Environmental Science and Technology Co. Ltd	5,686,500.00	8.28	2-3 years
Sihong County Radio and Television Information Network Co. Ltd	3,691,500.00	5.37	Within 1 year
Total	53,129,612.73	77.36	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### a) Accounts Receivable (Continued)

- (4) The closing balance of account receivable included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (5) The closing balance of accounts receivable includes RMB16,366,623.73 due from related parties, representing 23.83% of the total accounts receivable.
- (6) The closing balance of accounts receivable increased by 149.79% from the opening balance, and the main reason was the sharp growth of export business in the fourth season, which caused the increase in the accounts receivable within the credit term.

### b) Other Receivables

- (1) Breakdown of other receivables by categories

Items	Balance	Closing balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables with specific provision (note 1)	158,985,376.36	88.25	21,606,736.60	13.59
Other unsubstantial amount of other receivables with specific provision (note 2)	21,165,646.07	11.75	8,575,278.74	40.52
Total	180,151,022.43	100.00	30,182,015.34	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### b) Other Receivables (Continued)

#### (1) Breakdown of other receivables by categories (Continued)

Items	Balance	Opening balance		Percentage of provision for bad debt %
		Percentage %	Provision for bad debt	
Substantial amount of single other receivables	361,115,548.08	94.40	19,745,866.00	5.47
Other unsubstantial amount of other receivables	<u>21,422,037.62</u>	<u>5.60</u>	<u>9,676,595.40</u>	<u>45.17</u>
Total	<u>382,537,585.70</u>	<u>100.00</u>	<u>29,422,461.40</u>	

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

Note 1. Substantial amount of single other receivable with specific provision

Name of debtor	Amount	Provision for bad debt	Percentage of provision for bad debt %	Reasons for provision
Galant Limited	58,144,371.57			Expected can be recovered
Nanjing Panda International Communication Systems Co.,Ltd	35,605,228.22	7,023,166.34	19.73	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda Electronic Equipment Co., Ltd	32,371,639.11	1,614,479.85	4.99	Current value of the expected future cash flow is lower than its carrying value
Nanjing Panda Information Industry Co.,Ltd	19,133,881.32	956,694.07	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	7,045,778.30	100.00	Expected can not be recovered
Nanjing Panda machinery Co.,Ltd	6,684,477.84	4,966,618.04	74.30	Current value of the expected future cash flow is lower than its carrying value
Total	<u>158,985,376.36</u>	<u>21,606,736.60</u>		

Note 2. For other unsubstantial amount of accounts receivable with specific provision, a provision of RMB8,587,028.74 for impairment of the receivables is established at the difference between the carrying amount of the receivable and the current value of estimated future cash flows.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### b) Other Receivables (Continued)

#### (2) Ageing analysis of other receivables

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %	Amount	Percentage %	Provision for Bad debt	Percentage of provision for bad debts %
Within 1 year	63,141,917.79	35.05	4,047,027.96	6.41	351,147,401.73	91.79	8,133,375.28	2.32
1-2 years	89,784,639.46	49.84	4,946,120.02	5.51	12,867,221.59	3.36	3,199,467.66	24.87
2-3 years	12,636,467.42	7.01	6,955,973.08	55.05	4,941,604.34	1.29	4,624,081.13	93.57
3-5 years	8,153,603.65	4.53	7,798,500.17	95.64	5,610,413.21	1.48	5,494,592.50	97.94
Over 5 years	6,434,394.11	3.57	6,434,394.11	100.00	7,970,944.83	2.08	7,970,944.83	100.00
Total	<u>180,151,022.43</u>	<u>100</u>	<u>30,182,015.34</u>		<u>382,537,585.70</u>	<u>100</u>	<u>29,422,461.40</u>	

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

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Galand Co.,Ltd	58,144,371.57	32.28	1-2 year
Nanjing Panda International Communication Systems Co.,Ltd	35,605,228.22	19.76	Within 3 years
Nanjing Panda Electronic Equipment Co., Ltd	32,289,596.93	17.92	Within 1 year
Nanjing Panda Information Industry Co.,Ltd	18,898,881.32	10.49	Within 1 year
Nanjing Panda Technology Equipment Co.,Ltd	<u>7,045,778.30</u>	<u>3.91</u>	Within 5 years
Total	<u>151,983,856.34</u>	<u>84.36</u>	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### b) Other Receivables (Continued)

- (4) The closing balance of other receivable included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (5) The closing balance of other receivable includes RMB3,996,00 due from related parties, representing 0.00% of the total accounts receivable
- (6) The closing balance of accounts receivable decreased by 52.91% from the opening balance, and the main reason was that 175 million was invested to Nanjing Panda Electronic Technology Development Co., Ltd, which has established at the beginning of 2011. Therefore, the other receivables were classified in long-term equity investment; meanwhile, the Company received the share transfer payment from Nanjing Panda Electronic Manufacture Co. Ltd for the merger of Nanjing Huage Appliance and Plastic Industrial Co.,Ltd., the subsidiary company of the company.

### c) Long-term Equity Investment

- i. Details of long-term equity investment

Item	Opening balance	Increase In the year	Decrease In the year	Closing balance
Investment in subsidiaries	387,036,330.94	204,835,734.28	78,770,253.34	513,101,811.88
Investment in associated companies	648,814,555.38	188,117,695.48	165,882,672.76	671,049,578.10
Other equity investment		3,650,000.00		3,650,000.00
Less: provision for impairment of long term investment	21,436,944.58			21,436,944.58
Total	<u>1,014,413,941.74</u>	<u>396,603,429.76</u>	<u>244,652,926.10</u>	<u>1,166,364,445.40</u>

- ii. Other equity investment this year means to the long-term equity investment in Jiangsu Province City Rail Transit Design and Research Institute Co.,Ltd, it cost RMB3,650,000.00 of the Company, accounting for 7.3% of the Company's investment and no impairment occurred. Details of investment in associated companies and major financial data of the associated companies this year.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### c) Long-term Equity Investment (Continued)

Name of investee	Opening balance	Increase In this year	Decrease In this year	Closing balance	Registration Address	Nature of business
Associated company						
Beijing SE Putian						
Mobile Communications Co., Ltd	157,317,400.00	89,525,800.00	31,000,000.00	215,843,200.00	Beijing	Manufacture
Nanjing Huaxian High Technology Company Development	1,611,114.01	(1,611,114.01)			Nanjing	Technology
Hua Fei Colour Display Systems Company	83,574,966.26	(83,574,966.26)			Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.					Nanjing	Manufacture
Nanjin Ericsson Panda Communication Company Limited	310,136,580.00	174,045,960.36	126,129,870.36	358,052,670.00	Nanjing	Manufacture
Shenzhen Jinghua Electronics Co., Ltd.	94,984,316.93	10,922,193.57	8,752,802.40	97,153,708.10	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	1,190,178.18	(1,190,178.18)			Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.					Nanjing	Manufacture
Total	<u>648,814,555.38</u>	<u>188,117,695.48</u>	<u>165,882,672.76</u>	<u>671,049,578.10</u>		

### iii. Long-term equity investment accounted for using equity method

Name of investee	Investment cost	Opening Balance	Investment amount increased (less the equity transfer for the year)	Increase/ decrease of the investee's equity	Cash dividends Distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd.						
	50,361,373.68	157,317,400.00		89,525,800.00	31,000,000.00	215,843,200.00
Nanjing Huaxian High Technology Company						
	10,000,000.00	1,611,114.01		(1,611,114.01)		
Hua Fei Colour Display Systems Company						
	392,892,722.42	83,574,966.26		(83,574,966.26)		
MPower Batteries (Nanjing) Ltd.						
	4,200,000.00					
Nanjin Ericsson Panda Communication Company Limited						
	60,863,279.60	310,136,580.00		174,045,960.36	126,129,870.36	358,052,670.00
Shenzhen Jinghua Electronics Co., Ltd.						
	69,687,437.75	94,984,316.93		10,922,193.57	8,752,802.40	97,153,708.10
Intenna (Nanjing) Co. Ltd.						
	1,750,000.00	1,190,178.18		(1,190,178.18)		
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.						
	<u>34,769,364.00</u>					
Total	<u>624,524,177.45</u>	<u>648,814,555.38</u>		<u>188,117,695.48</u>	<u>165,882,672.76</u>	<u>671,049,578.10</u>



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### c) Long-term Equity Investment (Continued)

#### iv. Long-term equity investment accounted for at cost

Name of investee	Initial investment	Opening balance	Increase in the year	Decrease in the year	Closing balance	Dividend
Subsidiaries						
Nanjing Panda Appliance & Apparatus Co. Ltd.	992,700.00	992,706.88			992,706.88	
Nanjing Panda Mechanical Manufacturing Co. Ltd.	7,000,000.00	7,000,000.00			7,000,000.00	5,413,919.91
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 Mechanical 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 Manufacturing Company Limited	111,221,994.10	111,221,994.10			111,221,994.10	7,500,000.00
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 Communication Systems Co.,Ltd	7,655,000.00	7,655,000.00			7,655,000.00	
Nanjing Panda Electronic Technology Development Co. Ltd	173,250,000.00		173,250,000.00		173,250,000.00	
Nanjing Longwill Communications Technology Co. Ltd	3,018,000.00		1,585,734.28		1,585,734.28	
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	
Total	636,523,213.23	387,036,330.94	204,835,734.28	78,770,253.34	513,101,811.88	12,913,919.91

The current year's increase of long-term equity investment on Nanjing Longwill Communications Technology Co., Ltd. could be referred to Note VII 2(3)A.

The current year's increase of long-term equity investment on Nanjing Panda Electronic Technology Development Co. Ltd. could be referred to Note VII 2(3)B.

The current year's decrease of long-term equity investment on Nanjing Panda Technology Industry Co., Ltd could be referred to Note VII 2(3)C.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### c) Long-term Equity Investment (Continued)

#### v. Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision during the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
Nanjing Panda Technology Equipment Co., Ltd.	5,031,944.58					5,031,944.58
Nanjing Panda International Communication Systems Co., Ltd.	7,655,000.00					7,655,000.00
Nanjing Panda Power Supply Technology Co., Ltd.	8,750,000.00					8,750,000.00
Total	<u>21,436,944.58</u>					<u>21,436,944.58</u>

### d) Operating Income and Operating Cost

#### i. Income from principal business and other business

Items	2011	2010
Income from principal business	<b>73,060,114.57</b>	136,101,581.77
Income from other business	<b>28,035,274.28</b>	29,509,888.07
Total income from operation	<b>101,095,388.85</b>	165,611,469.84
Cost of principal business	<b>55,079,349.65</b>	125,379,725.60
Cost of other business	<b>9,385,774.76</b>	7,492,156.37
Total operating cost	<b>64,465,124.41</b>	132,871,881.97

#### ii. Income, cost and profit from principal operation of business segments

Business segment	Income from principal activities	2011	
		Cost of principal activities	Profit of principal activities
Electronic Intelligent products	<b>48,111,924.89</b>	<b>43,705,442.11</b>	<b>4,406,482.78</b>
Electronic equipment products	<b>500,854.70</b>	<b>500,854.70</b>	
Communication Technology products	<b>14,356,208.56</b>	<b>5,134,927.20</b>	<b>9,221,281.36</b>
Other	<b>10,091,126.42</b>	<b>5,738,125.64</b>	<b>4,353,000.78</b>
Total	<b>73,060,114.57</b>	<b>55,079,349.65</b>	<b>17,980,764.92</b>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### d) Operating Income and Operating Cost (Continued)

#### ii. Income, cost and profit from principal operation of business segments (Continued)

Business segment	Income from principal activities	2010	
		Cost of principal activities	Profit of principal activities
Electronic Intelligent products	74,903,578.39	74,668,852.37	234,726.02
Electronic equipment products	6,861,385.07	7,768,762.39	(907,377.32)
Communication technology products	35,474,743.83	33,273,181.15	2,201,562.68
Other	18,861,874.48	9,668,929.69	9,192,944.79
Total	<u>136,101,581.77</u>	<u>125,379,725.60</u>	<u>10,721,856.17</u>

(3) The company's main business area is in Nanjing area.

(4) Sales revenue from the largest five customers totaled RMB54,919,861.28 in 2011, accounting for 54.32% of total sales revenue for the year.

(5) The decrease of sales revenue by 38.96% in 2011 from that of 2010 was due to the completion of the satellite digital mobile installation CCT project.

### e) Investment Income

#### i. According to the program listed

Source of investment income	2011	2010
Long-term equity investment income accounted for at cost	<b>12,913,919.91</b>	19,797,802.13
Long-term equity investment income accounted for using equity method	<b>188,117,695.48</b>	88,229,888.86
Investment income from the disposal of the long-term equity investment (3)	<b>(1,040,159.85)</b>	<u>25,965,886.08</u>
Total	<b><u>199,991,455.54</u></b>	<u>133,993,577.07</u>

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

Name of the invested entity	2011	2010	Notes
Nanjing Panda Mechanical Manufacturing Co. Ltd	<b>5,413,919.91</b>	4,851,245.69	
Nanjing Panda Electronic Manufacture Co., Ltd	<b>7,500,000.00</b>	7,500,000.00	
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.		4,731,436.31	
Nanjing Panda Mechanical Co., Ltd		396,423.15	
Nanjing Panda Appliance & Apparatus Co. Ltd.		2,318,696.98	
Total	<b><u>12,913,919.91</u></b>	<u>19,797,802.13</u>	

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### e) Investment Income (Continued)

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

Name of the invested entity	2011	2010	Notes
Nanjin Ericsson Panda Communication Company Limited	<b>174,045,960.36</b>	121,696,133.67	(1)
Beijing SE Putian Mobile Communications Co., Ltd.	<b>89,525,800.00</b>	35,093,200.00	(1)
Hua Fei Colour Display Systems Company	<b>(83,574,966.26)</b>	(76,762,202.91)	(2)
Shenzhen Jinghua Electronics Co., Ltd.	<b>10,922,193.57</b>	8,562,252.11	
Intenna (Nanjing) Co. Ltd.	<b>(1,190,178.18)</b>	(127,628.64)	
Nanjing Huaxian High Technology Company	<b>(1,611,114.01)</b>	(231,865.37)	
Total	<b>188,117,695.48</b>	88,229,888.86	

- i. The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2011, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
- ii. Hua Fei Color Display Systems Company Limited, an associated company of the Company, has been in bankruptcy liquidation stage with the negative net assets. The Company has recognized the long-term equity investment at the end of 2010 as investment losses..
- iii. The Company completed the absorption merger of Nanjing Panda Industrial Enterprise Co., Ltd.. The difference between the long-term equity investment and net assets amounting to RMB1,040,159.85 was recognized as investment losses. The absorption merger date was 30 September 2011.
- iv. Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company; ii) there was no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs offset between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit. The investment income or loss was recognized based on the share of profit or loss of investees under equity method of accounting.

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### f) Cash flow Supplementary Information

i. Information on reconciliation of net profit to net cash flows from operating activities:

Items	2011	2010
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>		
<b>Net profit</b>	<b>51,869,407.90</b>	2,472,182.45
Add: Provision for asset impairment	<b>1,876,469.47</b>	(39,032.89)
Depreciation of fixed assets	<b>17,497,803.53</b>	13,289,000.67
Amortization of intangible assets	<b>1,200,390.56</b>	1,044,757.27
Amortization of long term deferred expenses		
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by “—”)	<b>207,566.22</b>	144,815.67
Loss from fixed assets scrapped (gains are represented by “—”)		
Loss from change in fair value (gains are represented by “—”)		
Financial expense (gains are represented by “—”)	<b>17,839,348.10</b>	21,849,828.10
Loss on investment (gains are represented by “—”)	<b>(199,991,455.54)</b>	(133,993,577.07)
Decrease in deferred income tax assets (Increase is represented by “—”)		
Increase in deferred income tax assets (Decrease is represented by “—”)		
Decrease in inventories (Increase is represented by “—”)	<b>2,288,035.41</b>	(2,005,151.72)
Decrease in trade debtors (Increase is represented by “—”)	<b>(39,520,727.98)</b>	44,935,342.47
Increase in trade creditors (Decrease is represented by “—”)	<b>107,692,497.98</b>	(137,520,192.68)
Others		
<b>Net cash flows from operating activities</b>	<b>(39,040,664.35)</b>	(189,822,027.73)
<b>2. Material investment and financial activities not involving cash:</b>		
Debt capitalization		
Convertible bonds due within one year		
Fixed assets acquired under finance leases		
<b>3. Net change in cash and cash equivalents:</b>		
Cash balance as at end of the year	<b>58,995,526.58</b>	151,591,454.98
Less: cash balance as at beginning of the year	<b>151,591,454.98</b>	293,955,551.88
Add: balance of cash equivalents as at the end of the year		
Less: balance of cash equivalents as at the beginning of the year		
<b>Net increase in cash and cash equivalents</b>	<b>(92,595,928.40)</b>	(142,364,096.90)

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## IX. Notes to major items of the financial statements of parent company (Continued)

### f) Cash flow Supplementary Information

#### ii. Information on Cash and Cash Equivalents

Items	2011	2010
<b>I. Cash</b>	<b>58,995,526.58</b>	151,591,454.98
Including: Cash on hand	<b>277,972.33</b>	322,292.72
Bank deposit available for payments at any time	<b>58,717,554.25</b>	151,269,162.26
Other cash fund available for payment at any time		
<b>II. Cash equivalents</b>		
Including: Bond investment due within three months		
<b>III. Closing balance of cash and cash equivalents</b>	<b>58,995,526.58</b>	151,591,454.98

## X. Relationship and transactions with related parties

### a) Related parties

#### i. 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 deem it as a related party.

#### ii. Parent Company of the Company

Name of the parent company	Code of Organization	Legal Representative	Type of Company	Registered Address	Nature of business	Registered capital	Shareholding percentage in the Company %	Voting right percentage in the Company %
Panda Electronics Group Ltd	134883152	Xu Guofei	a company with limited liabilities	Nanjing economy and technology development zone	Manufacture	RMB 1,266,060,000	51.10	51.10

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### a) Related parties (Continued)

#### iii. Subsidiaries of the Company

Name of subsidiaries	Code of Organization	Legal Representative	Registered Address	Industry	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	Services	RMB5,000,000	100	100
Nanjing Panda Technology Equipment Co., Ltd.	24981058-6	Xu Guofei	Nanjing	Manufacture	RMB5,000,000	100	100
Nanjing Panda Power Supply Technology Co., Ltd.	76816539-8	Zhou Guixiang	Nanjing	Manufacture	RMB11,000,000	79.55	79.55
Nanjing Panda Information Industry Co., Ltd.	60897073-4	Xia Dechuan	Nanjing	Manufacture	USD15,000,000	100	100
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	73316319-X	Wang Wenbo	Nanjing	Manufacture	RMB60,000,000	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 Communication Systems Co.,Ltd	60892596-8	Dong Zhiming	Nanjing	Manufacture	USD 1,240,000	72	72
Nanjing Panda Electronic Manufacture Co.,Ltd	76214760-7	Zhou Guixiang	Nanjing	Manufacture	USD20,000,000	100	100
Nanjing Guanghua Electronics Plastic Casings Factory	13491197-7	Zhou Guixiang	Nanjing	Service industry	RMB11,497,600	100	100
Nanjing Panda Machinery Co., Ltd.	73317462-2	Liu Guozhong	Nanjing	Manufacture	RMB3,000,000	85.82	85.82
Panda Mechanical Manufacturing Co. Ltd.	72609764-9	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 Electromechanical Instruments Technology Co., Ltd.	73888466-6	Guo Qing	Nanjing	Manufacture	RMB10,000,000	70	70
Nanjing Panda Industrial Enterprise Co., Ltd.	69043834-0	Wen Yuan	Nanjing	Service industry	RMB20,000,000	100	100
Nanjing Panda Electronic Equipment Co., Ltd.	69460069-1	He Zaiding	Nanjing	Manufacture	RMB50,000,000	100	100
Nanjing Longwill Communications Technology Co.,Ltd	777014380	Dong Zhiming	Nanjing	Manufacture	RMB3,000,000	100	100
Nanjing Panda Electronic Technology Development Co. Ltd	56721194-1	Wen Yuan	Nanjing	Manufacture Development of communication products	RMB250,000,000	100	100
Galant Limited	1006135	Xu Guofei	Hong Kong		HKD1	100	100

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### a) Related parties (Continued)

#### iv. Related parties with non-controlling relationship

Name of related parties	Code of Organization	Relationship with the Company
Nanjing HongYe Television Co. Ltd.	716223402	Subsidiary of the Group
Nanjing 21st Century Electronic and Technology Square Company Limited	71627148X	Subsidiary of the Group
Nanjing Panda Garden Property Management	134961667	Subsidiary of the Group
Nanjing Panda Electronic Technology Development Company Limited	134870044	Subsidiary of the Group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the Group
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	134941148	Subsidiary of the Group
Nanjing Panda Piezoelectric Technique Co., Ltd.	742394272	Subsidiary of the Group
Nanjing Zhen Hua Packing Material Plant	13487319X	Subsidiary of the Group
Nanjing Panda Electronic Import/Export Company	134850684	Subsidiary of the Group
Nanjing Panda Handa Technology Co., Ltd	79710227-3	Subsidiary of the Group
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	79712003-3	Subsidiary of the Group
Panda (Beijing) International Information Technology Co., Ltd	765031909	Subsidiary of the Group
Panda Electronics Material Usage Co., Ltd.	134888156	Subsidiary of the Group
Nanjing Electronic Calibration Co., Ltd.	13487289-1	Subsidiary of the Group
Nanjing Panda Zhongdian Furniture Company Limited	690402137	Subsidiary of the Group
Nanjing Panda Electronic Import/Export (HK)Company		Subsidiary of the Group
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	608977514	Associated company
Nanjing Electronics (Kunshan) Co. Ltd.	718679729	Associated enterprise of Subsidiary of the Group subsidiary
Nanjin Ericsson Panda communication Company Limited	60891684-2	Associated company
Nanjing Huaxian High Technology Company	78711237-1	Associated company
Intenna (Nanjing) Co. Ltd.	60898216-1	Associated company
Nanjing Thales Panda Transportation System Company Limited	76819214-2	Associated enterprise of Subsidiary of the Group subsidiary
Hua Fei Color Display Systems Co., Ltd.	608910950	Associated company



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### b) Pricing policy

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

### c) Transactions with related parties

#### i. Purchase of goods

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2011	Percentage of Similar transaction (%)	2010	Percentage of Similar transaction (%)
			Amount		Amount	
Nanjing Panda Electronic Import/Export Company	Electronic products	Fair price in the market	32,189,841.32	1.87	783,129.91	0.06
Nanjing Zhen Hua Packing Material Plant	Packing material	Fair price in the market	5,534,547.43	0.32	5,742,570.25	0.47
Nanjing Panda Zhongdian Furniture Company Limited	Electronic products	Fair price in the market	5,444,934.49	0.32		
Nanjing Panda Electronic Technology Development Company Limited	Electronic products	Fair price in the market	910,191.75	0.05	931,623.93	0.08
Nanjing Electronic Calibration Co., Ltd.	Electronic products	Fair price in the market	17,733.34		2,136.75	
Nanjing Panda Electronics Transportation Company	Electronic products	Fair price in the market	12,991.45			
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Electronic products	Fair price in the market	8,471.79		458,266.13	0.04
Nanjing Electronics (Kunshan) Co. Ltd.	Electronic products	Fair price in the market			505,688.44	0.04
Panda Electronics Group Ltd	Electronic products	Fair price in the market			11,772.00	
Total			44,118,711.57	2.56	8,435,187.41	0.69

#### ii. Receipt of services

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2011	Percentage of Similar transaction (%)	2010	Percentage of Similar transaction (%)
			Amount		Amount	
Panda Electronics Group Ltd	Receipt of services	Fair price in the market	2,490,628.17	2.13	297,009.45	0.42
Nanjing Panda Electronic Technology Development Company Limited	Receipt of services	Fair price in the market	2,265,879.67	1.94		
Nanjing Panda Electronics Transportation Company	Receipt of services	Fair price in the market	2,188,052.20	1.87	2,950,288.55	4.21
Nanjing Panda Construction And Decoration Engineering Co., Ltd.	Receipt of services	Fair price in the market	513,746.39	0.44		
Nanjing Electronic Calibration Co., Ltd.	Receipt of services	Fair price in the market	315,160.55	0.27		
Nanjing Zhen Hua Packing Material Plant	Receipt of services	Fair price in the market			7,217.95	0.01
Total			7,773,466.98	6.65	3,254,515.95	4.64

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### iii. Sales of products

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2011	Percentage of Similar transaction	2010	Percentage of Similar transaction
			Amount	(%)	Amount	(%)
Nanjing Panda Handa Technology Co., Ltd	Electronic products	Fair price in the market	44,915,338.44	2.52	53,110,334.13	3.77
Nanjing Panda Electronic Import/Export Company	Electronic products	Fair price in the market	34,072,453.30	1.91	18,014,640.81	1.28
Nanjing Panda Zhongdian Furniture Company Limited	Electronic products	Fair price in the market	22,528,589.89	1.26	25,105,096.03	1.78
Nanjin Ericsson Panda communication Company Limited	Electronic products	Fair price in the market	20,246,758.63	1.13	28,861,884.83	2.05
Nanjing Panda Electronic Import/Export (HK) Company	Electronic products	Fair price in the market	9,395,058.13	0.53		
Nanjing Thales Panda Transportation System Company Limited	Electronic products	Fair price in the market	9,238,502.62	0.52	23,589,958.50	1.67
Nanjing Huaxian High Technology Company	Electronic products	Fair price in the market	2,063,700.79	0.12	1,196,581.20	0.08
Panda Electronics Group Ltd	Electronic products	Fair price in the market	1,664,552.98	0.09	231,066.64	0.02
Nanjing Panda Electronic Technology Development Company Limited	Electronic products	Fair price in the market	721,143.10	0.04	24,907.09	
Nanjing Panda Piezoelectric Technique Co., Ltd.	Electronic products	Fair price in the market	43,205.13		31,384.62	
Nanjing Panda Electronics Transportation			25,877.00		50,000.00	
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Electronic products	Fair price in the market	4,774.92		3,440,944.65	0.24
Total			<u>144,919,954.93</u>	<u>8.12</u>	<u>153,656,798.50</u>	<u>10.89</u>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### iv. Provision of services

Name of related parties	Content of related parties	Pricing policy and Decision-making process	2011	Percentage	2010	Percentage
			Amount	of Similar transaction (%)	Amount	of Similar transaction (%)
Nanjing Ericsson Panda communication Company Limited	Provision of services	Fair price in the market	97,685,979.96	32.80	57,840,312.09	19.40
Nanjing Panda Handa Technology Co., Ltd	Provision of services	Fair price in the market	13,479,344.25	4.53	3,646,318.91	1.22
Nanjing Panda Electronic Import/Export (HK) Company	Provision of services	Fair price in the market	8,614,835.00	2.89		
Panda Electronics Group Ltd	Provision of services	Fair price in the market	1,000,423.08	0.34	540,000.00	0.18
Nanjing 21st Century Electronic and Technology Square Company Limited	Provision of services	Fair price in the market	330,000.00	0.11		
Nanjing Panda Zhongdian Furniture Company Limited	Provision of services	Fair price in the market	42,735.04	0.01	87,920.00	0.03
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	Provision of services	Fair price in the market	29,005.22	0.01	272,494.56	0.09
Nanjing Panda Electronics Transportation Company	Provision of service	Fair price in the market	25,046.78	0.01		
Panda Electronics Material Usage Co., Ltd	Provision of services	Fair price in the market			769,230.78	0.26
Total			<u>121,207,369.33</u>	<u>40.70</u>	<u>63,156,276.34</u>	<u>21.18</u>

#### v. Provision of guarantee

- The Company provided a maximum amount guarantee for bank credit of RMB40,000,000.00 granted to Nanjing Huage Appliance and Plastic Industrial Co., Ltd, a subsidiary of the Company, with a term from 17 November 2011 to 22 May 2012, from Sales Department of Jiangsu Bank Co., Ltd. As at 31 December 2011, the loan amounted to RMB20,000,000.00 with a term from 22 November 2011 to 21 November 2012. Nanjing Huage Appliance and Plastic Industrial Co.,Ltd provides counter-guaranty with all of its assets.

The Company provided a maximum amount guarantee for bank loan of RMB10,000,000.00 granted to Nanjing Huage Appliance and Plastic Industrial Co., Ltd, a subsidiary of the Company, with a term from 21 December 2011 to 20 December 2012, from Nanjing Bank Co., Ltd. Nanjing Huage Appliance and Plastic Industrial Co.,Ltd provides counter-guaranty with all of its assets. As at 31 December 2011, no credit was used.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### v. Provision of guarantee (Continued)

2. The Company provided a maximum amount guarantee for bank credit of RMB20,000,000.00 granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company with a term from 30 June 2011 to 30 June 2012, from Huaxia Bank Co., Ltd. As at 31 December 2011, the credit amounted to RMB14,344,474.57. Nanjing Panda Information Industry Co. Ltd provides counter-guaranty with all of its assets.

The Company provided a maximum amount guarantee for bank line of credit of RMB25,000,000.00 granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company with a term from 10 March 2011 to 10 March 2012, from Nanjing Branch of China Merchants Bank. As at 31 December 2011, the used credit line amounted to RMB20,092,634.97, among which, the Company provided guarantee for bank loan of RMB5,000,000.00 and for bank acceptances of RMB2,801,308.82 as well as secured promissory notes of RMB12,291,326.15. Nanjing Panda Information Industry Co. Ltd provides counter-guaranty with all of its assets.

The Company provided a maximum amount guarantee for 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 single credit guarantee surpassed the term of the maximum amount guarantee, the term of single guarantee worked. As at 31 December 2011, the used credit line amounted to RMB22,489,283.76, among which, the Company provided guarantee for bank acceptances of RMB5,893,064.25 as well as secured promissory notes of RMB16,596,219.51. Nanjing Panda Information Industry Co. Ltd provides counter-guaranty with all of its assets.

3. The Company provided a maximum amount guarantee for bank loan of RMB5,000,000.00 granted to Nanjing Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, from Nanjing Branch of China Merchants Bank. As at 31 December 2011, the loan amounted to RMB5,000,000.00 with a term from 10 March 2011 to 10 March 2012. Nanjing Panda Mechanical Manufacturing Co. Ltd provides counter-guaranty with all of its assets.
4. The Company provided a maximum amount guarantee for bank loan of RMB30,000,000.00 granted to Nanjing Panda Electronic Manufacture Co. Ltd., a subsidiary of the Company, with a term from 13 December 2011 to 19 July 2012, from Nanjing Branch of Industrial Bank Co., Ltd. As at 31 December 2011, the Company provided guarantee for bank acceptances of RMB2,500,000.00. Nanjing Panda Electronic Manufacture Co. Ltd., provides counter-guaranty with all of its assets.

The Company provided a maximum amount guarantee for bank loan of RMB10,000,000.00 granted to Nanjing Panda Electronic Manufacture Co. Ltd., a subsidiary of the Company from Nanjing Branch of Shenzhen Development Bank Co., Ltd. As at 31 December 2011, the Company provided guarantee for bank acceptances of RMB1,000,000.00. Nanjing Panda Electronic Manufacture Co. Ltd., provides counter-guaranty with all of its assets.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### v. Provision of guarantee (Continued)

5. The Company provided a maximum amount guarantee for bank loan of RMB20,000,000.00 granted to Nanjing Panda Electronic Equipment Co. Ltd., a subsidiary of the Company with a term from 22 July 2011 to 28 June 2012 from Nanjing Branch of Pudong Development Bank Co., Ltd. As at 31 December 2011, the used credit line amounted to RMB12,500,000.00, among which, the Company provided guarantee for bank loan of RMB10,000,000.00 and for bank acceptances of RMB2,500,000.00. Nanjing Panda Electronic Equipment Co.,Ltd provides counter-guaranty with all of its assets.

As at 31 December 2011, the Company provided guarantee to its subsidiaries with an amount of RMB97,926,393.30 (Year 2010: RMB78,276,868.34)

#### vi. 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 granted to the Company from Chengdong Branch of Nanjing Branch of China Merchants Bank during the credit period from 10 March 2011 to 1 February 2011. As at 31 December 2011, details of unpaid borrowings under the guarantee contract are as follows:

Name of borrowers	Name of bank	Borrowing Amount	Period
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
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
Total		<u>120,000,000.00</u>	

2. 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 of RMB50,000,000.00 granted to the Company from Nanjing Branch of Hua Xia Bank with the loan term from 11 March 2011 to 11 March 2012.

As at 31 December 2011, the Company had acceptance of guarantee provided by Panda Electronics Group Limited, the controlling shareholder of the Company with an amount of RMB170,000,000.00 (Year 2010: RMB350,000,000.00).

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### (7) Lease of assets

Name of related parties	2011 Amount	2010 Amount
Nanjing Panda Electronics Transportation Company	498,776.00	33,744.00
Nanjing Panda Handa Technology Co., Ltd		68,140.80
Total	498,776.00	101,884.80

#### (8) Remuneration of key management

During the reporting period, total annual remuneration for directors, supervisors and senior management received from the Company was RMB2,306,600, details of which are as follows:

Position	Total annual remuneration	Number of
Director	Below RMB100,000	7
	From RMB300,000 to RMB400,000	2
Sub-total	RMB452,700	9
Supervisor	Below RMB100,000	2
	From RMB100,000 to RMB200,000	3
Sub-total	RMB483,100	5
Senior management	From RMB300,000 to RMB400,000	4
Sub-total	RMB1,370,800	4
Total	RMB2,306,600	18

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### (9) Balance of due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
<b>Accounts receivable</b>				
Nanjing Ericsson Panda Communications Co. Ltd	11,795,415.81	21,506,033.64		
Nanjing Panda Handa Technology Co., Ltd	19,184,398.16	7,273,341.47		
Nanjing Panda Electronics Import/Export Co. Ltd.	9,062,065.07	150,717.90		
Nanjing Thales Panda Transportation System Company Limited	1,505,496.96	9,661,726.88		
Panda Electronics Group Co. Ltd.	962,224.50	1,356,209.98		
Nanjing Panda Zhongdian Furniture Company Limited	534,383.82	496,609.18		
Nanjing Panda Electronic Technology Development Company Limited	369,506.00			
Panda (Beijing) International Information Technology Co., Ltd	107,685.29	107,685.29		
Panda Electronic (Kun Shan) Co. Ltd.	35,850.00	35,850.00		
Hua Fei Color Display Systems Co., Ltd.	33,450.00	33,450.00		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	24,981.65	183,749.71		
Nanjing Electronic Calibration Co., Ltd	3,780.00	3,780.00		
Nanjing HongYe Television Co. Ltd.		8,390,380.57		
Nanjing Panda Electronics Transportation Company		131,840.38		
Nanjing Panda DaSheng Electronics Technology Company Limited		11,610.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd.		3,469.52		
Total	43,619,237.26	49,346,454.52		
<b>Accounts receivable-provision for bad debt</b>				
Panda (Beijing) International Information Technology Co., Ltd	107,685.29	107,685.29		
Panda Electronic (Kun Shan) Co. Ltd.	35,850.00	35,850.00		
Hua Fei Color Display Systems Co., Ltd.	33,450.00	33,450.00		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	24,981.65			
Panda Electronics Group Co. Ltd.	12,354.50	11,789.50		
Nanjing Panda Electronics Import/Export Co. Ltd.	9,778.35	4,698.00		
Nanjing Panda Handa Technology Co., Ltd	2,980.03	162,653.04		
Nanjing Ericsson Panda Communications Co. Ltd	2,721.29	382,814.64		
Nanjing Thales Panda Transportation System Company Limited	381.99	58,340.90		
Nanjing HongYe Television Co. Ltd.		8,390,380.57		
Nanjing Panda DaSheng Electronics Technology Company Limited		580.50		
Total	230,183.10	9,188,242.44		

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### (9) Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
<b>Prepayments</b>				
Nanjing Panda Electronics Technology Development Company Limited	5,647,038.95	6,134,502.12		
Nanjing Panda Electronics Import/Export Co. Ltd.		6,626,616.00		
Nanjing Panda Construction And Decoration Engineering Co., Ltd.		235,977.13		
Total	<u>5,647,038.95</u>	<u>12,997,095.25</u>		
<b>Other receivables</b>				
Panda Electronic (Kun Shan) Co. Ltd.	<u>2,799,417.23</u>	2,799,417.23		
Total	<u>2,799,417.23</u>	<u>2,799,417.23</u>		
<b>Other receivables-provision for bad debt</b>				
Panda Electronic (Kun Shan) Co. Ltd.	<u>2,799,417.23</u>	2,799,417.23		
Total	<u>2,799,417.23</u>	<u>2,799,417.23</u>		
<b>Accounts payable</b>				
Nanjing Panda Electronics Import/Export Co. Ltd.	14,113,421.57	3,959,605.40		
Panda Electronics Group Co. Ltd.	4,086,716.39	3,967,676.80		
Nanjing Zhen Hua Packing Material Plant	2,075,772.90	1,493,307.66		
Nanjing Panda Electronics Transportation Company	490,042.39	473,232.39		
Nanjing Panda Electronics Technology Development Company Limited	471,110.71	1,189,427.05		
Nanjing Panda Zhongdian Furniture Company Limited	90,072.53	0		
Panda Electronic (Kun Shan) Co. Ltd.	63,139.64	63,139.64		
Nanjing Thales Panda Transportation System Company Limited	16,410.02	16,410.02		
Nanjing Electronic Calibration Co., Ltd	9,992.00	6,544.00		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	9,912.00	9,912.00		
Nanjing Panda DaSheng Electronics Technology Company Limited		72,883.96		
Panda Electronics Material Usage Co., Ltd.		10,310.00		
Nanjing Panda Handa Technology Co., Ltd		8,768.00		
Total	<u>21,426,590.15</u>	<u>11,271,216.92</u>		



# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### (9) Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
<b>Advances from customers</b>				
Nanjing Panda Electronics Import/Export (HK) Co. Ltd.	6,357,442.06			
Nanjing Panda Electronics Transportation Company	538,313.32			
Nanjing Panda Handa Technology Co., Ltd	184,620.80	65,820.80		
Nanjing Panda Huaxin Technology Industrial Co., Ltd.	11,577.75			
Nanjing Panda Electronics Import/Export Co. Ltd.		3,684,692.69		
Nanjing HongYe Television Co. Ltd.		82,887.19		
Total	<u>7,091,953.93</u>	<u>3,833,400.68</u>		
<b>Other payables</b>				
Panda Electronics Group Co. Ltd.	7,416,030.00	8,148,806.69		
Intenna (Nanjing) Co. Ltd.	2,175,073.67	2,176,942.55		
Panda Electronic (Kun Shan) Co. Ltd.	300,000.00	300,000.00		
Nanjing Panda Electronics Technology Development Company Limited	134,000.00			
Nanjing Panda Garden Property Management Centre	51,831.26	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 Panda DaSheng Electronics Technology Company Limited	200.00	200.00		
Nanjing 21st Century Electronic and Technology Square Company Limited		41,100.00		
Total	<u>10,137,286.44</u>	<u>11,093,514.07</u>		
<b>Dividend Payable</b>				
Nanjing Panda Electronic Group Co.,Ltd		1,560,518.52		
Total		<u>1,560,518.52</u>		

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## X. Relationship and transactions with related parties (Continued)

### c) Transactions with related parties (Continued)

#### (10) Trademark licensing

Name of related parties	2011 Amount	2010 Amount
Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD	<u>511,591.00</u>	415,876.00
Total	<u>511,591.00</u>	<u>415,876.00</u>

Pricing policy of trademark licensing granted to the related party: The related party will be offered a trademark license fee of RMB2 to 5 for each unit of Panda color television or CD player sold. Given to the higher cost or more resources is required for entering overseas market, the above license fee for each unit will be reduced if the products manufactured and sold are for export use.

## XI. Contingencies

1. Please refer to Note X3(5) for the guarantees provided by the Company for bank borrowings of its subsidiaries.
2. As at 31 December 2011, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

## XII. Commitments

### a) Operating lease commitment

The future aggregate minimum lease payments due under non-cancelable operating leases are as follows:

	2011	2010
Within 1 year	<b>1,845,592.00</b>	733,730.42
1-2 years	<b>1,346,769.00</b>	250,100.00
2-3 years	<b>93,600.00</b>	153,000.00
More than 3 years	<b>62,400.00</b>	
Total	<u><b>3,348,361.00</b></u>	<u>1,136,830.42</u>

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## XII. Commitments (Continued)

### b) Capital expenditure commitment

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

	2011	2010
Buildings	<u>14,841,953.04</u>	<u>51,710,492.30</u>

## XIII. Post Balance Sheet Events

1. Pursuant to the government notice "About initiation of relocation of Nanjing Panda Electronics Company Ltd." issued by the People's government of Nanjing Baixia district on 5 January 2012, Nanjing Panda Mechanical Engineering Plant, which is located in Haifu Lane No.118 Guanghua Road, Baixia District, was decided by the government to initiation of reallocation. Base on the agreement between People's government of Nanjing Baixia district and the Company, People's government of Nanjing Baixia district will provided the Company of RMB125,000,000.00 as governmental compensation for the relocation. The case is expected to give impact to the company's extraordinary items from 2012 to 2014.
2. According to the profit distribution plan released on the second of the Seventh conference of the Board of Directors, the profit will be distributed at the base of the share capital of 655,015,000. Every 10 shares will be paid by Rmb0.5 cash dividends. The profit distribution plan should be executed after the approval of the general meeting of shareholders of the Company.
3. Saved as above, there were no other material post balance sheet events in the Company as at the date when the financial was approved for issue.

## XIV. Other Significant Events

1. According to the "reply of mortifying part of the state-owned equity share of Panda Electronics Group Co., Ltd. for free" issued by Jiangsu Provincial People's Government State-owned Assets Supervision and Administration Commission on 1 March 2012, Nanjing Xingang Development Corporation, Jiangsu Guoxin Asset Management Group Limited and Nanjing Municipal State-owned Assets Management ( Holdings ) Limited, which separately owned 22.07%, 21.59% and 4.32% of the state-owned equity of Panda Electronics Group Co., Ltd., were approved to transfer their state-owned equity share to Nanjing Panda China Electronics Information Industry Group Co., Ltd freely. China Electronics Corporation Group Company Ltd. has prepared relevant materials to apply for the approval by State-owned Assets Supervision and Administration Commission of the State Council. The procedures of changing the actual controller are still in the process.

According to equity transfer contract signed by Nanjing China Electronics Panda Group Company and the Jiangsu provincial branch of China Xinda Asset Management Co. Ltd., the Jiangsu provincial branch of China Xinda Asset Management Co. Ltd. transferred 8.87% shares of Panda Electronics Group Co. LTD, which is the holding company of the Company, to Nanjing China Electronics Panda Group Company. The procedure of transferring stock rights is still in process.

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## XIV. Other Significant Events (Continued)

2. According to the second extraordinary meeting of the general meetings of 2011 on 28 December 2011, the Company will provide a maximum amount guarantee for borrowing of RMB120 million granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company with a term till 30 June 2013; a maximum amount guarantee for borrowing of RMB70 million granted to Nanjing Panda Electrical Equipment Co., Ltd, a subsidiary of the Company with a term till 30 June 2013. According to the resolutions of general meetings of 2009 on 30 June, 2010, the Company will provide a maximum amount guarantee for borrowing of RMB50 million. a maximum amount guarantee for borrowings of RMB60 million. a maximum amount guarantee for borrowings of RMB15 million granted to Nanjing Panda Electronic Manufacture Co., Ltd. Nanjing Huage Appliance and Plastic Industrial Co., Ltd, and Nanjing Panda Mechanical Manufacturing Co. Ltd, subsidiaries of the Company respectively with a term till 30 June 2013.
3. The Company's controlling shareholders Panda Electronics Group Co., Ltd ("Panda Group") provided a pledge guaranty for Nanjing Panda Handa Technology Co., Ltd for a loan amounting to RMB700,000,000.00 with a term of two years from China Electronics Financial Co. Ltd, Jiangsu branch of Bank of communications and Nanjing Zhongyangmen sub-branch of China Construction Bank. The Panda Group provided the guaranty at the pledge of 167,350,000 unlimited shares of the Company. As at 28 November 2011, Panda Group has completed the stock pledge registration formalities at Shanghai Branch of China Securities Depository and clearing Corporation
4. Lease
  - i. Finance lease of the Company during the reporting period are as follows:

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

# Notes to the Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

## XIV. Other Significant Events (Continued)

### 4. Lease (Continued)

- i. Finance lease of the Company during the reporting period are as follows: (Continued)

Minimum lease payments in the following years

As at 31 December 2011, the balance of unrecognized financing expenses amounted to RMB0.00 (the opening balance: RMB34,813.27), which was amortized by the effective interest method.

- ii. Details of operating lease of the Company during the reporting period are as follows:

Categories of assets leased out	Closing balance	Opening balance
Buildings	<u>61,995,460.16</u>	<u>167,811,342.73</u>
Total	<u>61,995,460.16</u>	<u>167,811,342.73</u>

## XV. Reconciliation of Hong Kong and PRC Accounting Standards Differences (Unit: RMB thousands)

Items	Closing Balance	Opening Balance
Equity attributable to the shareholders of parent company under PRC accounting standards and accounting principles generally accepted in Hong Kong during the year	<u>1,587,040</u>	<u>1,479,743</u>

Items	Closing Balance	Opening Balance
Net profit attributable to the shareholders of parent company under accounting principles generally accepted in Hong Kong	<u>110,070</u>	<u>9,359</u>

# Supplementary Information

## I. Related financial indicators

Profit during reporting period	Reporting period	Return on net assets (%)	Earnings per share (RMB/share)	
		Weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	2011	7.17	0.1680	0.1680
	2010	0.63	0.0143	0.0143
Net profit attributable to holders of ordinary shares after extraordinary items	2011	6.77	0.1590	0.1590
	2010	-0.76	-0.0172	-0.0172

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

1) Fully diluted return on net assets

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

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

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

Including: "P" respectively represents net profit attributable to holders of ordinary shares of the Company and the net profit attributable to holders of ordinary shares of the Company after extraordinary items; "NP" represents net profit attributable to holders of ordinary shares of the Company; "E<sub>0</sub>" represents net assets attributable to holders of ordinary shares of the Company at the beginning of the reporting period; "E<sub>i</sub>" 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<sub>j</sub>" represents net assets attributable to holders of ordinary shares of the Company, reduced from repurchase or cash dividend during the reporting period; "M<sub>0</sub>" represents the months in reporting period and; "M<sub>i</sub>" represents the months from the next month of the increase of assets to the end of the reporting period; "M<sub>j</sub>" represents the months from the next month of the decrease of assets to the end of the reporting period; "E<sub>k</sub>" represents the increase or decrease of net assets arising from other transactions or matters; "M<sub>k</sub>" represents the months from the next month of the increase or decrease of other assets to the end of the reporting period.

## Supplementary Information (Continued)

### I. Related financial indicators (Continued)

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

3) Basic earnings per share

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

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

Including: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company; "S" represents the weighted average of outstanding ordinary shares; "S<sub>0</sub>" represents total number of shares at the beginning of the reporting period; "S<sub>1</sub>" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S<sub>i</sub>" represents shares increased from issue of new shares or debt to equity during the reporting period; "S<sub>j</sub>" represents the reduced shares arising from repurchase during reporting period; "S<sub>k</sub>" represents the number of reduced shares during the reporting period; "M<sub>0</sub>" represents months in the reporting period; "M<sub>i</sub>" represents the months from the next month of the increase of shares to the end of the reporting period; "M<sub>j</sub>" 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 =  $\frac{P + (\text{The interests of the diluted potential ordinary shares determined to be expenses in the current period} - \text{Conversion expenses}) \times (1 - \text{Income tax ratio})}{S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{The weighted average number of ordinary shares, increased from subscription warrant share option and convertible bond}}$

Including, "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company. "S<sub>0</sub>" represents total number of shares at the beginning of the reporting period; "S<sub>1</sub>" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S<sub>i</sub>" represents shares increased from reporting period issue of new shares or debt to equity, etc; "S<sub>j</sub>" represents the reduced shares arising from repurchase during reporting period; "S<sub>k</sub>" represents the number of reduced shares during the reporting period; "M<sub>0</sub>" represents months in the reporting period; "M<sub>i</sub>" represents the months from the next month of the increase of shares to the end of the reporting period; "M<sub>j</sub>" represents the months from the next month of the decrease of shares to the end of the reporting period. In calculating diluted earnings per share, the company takes into consideration of influence from all diluted potential ordinary shares till diluted earnings per share become minimized.

## Supplementary Information (Continued)

### II. Statement of extraordinary items

Unit: RMB

Items	2011	2010
(1) Profit and loss of disposal of non-current assets	937,077.38	(11,520,511.09)
(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)	4,513,607.32	27,784,396.48
(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		
(10) Expenses of enterprise restructuring, such as staff replacement, integration expenses, etc.		
(11) Loss and profit exceeding fair value of transaction with unfair consideration		
(12) Net profits and losses of the current period of subsidiaries under same control arising for merger of enterprise from the beginning of period to the date of merger	(2,441,873.82)	208,926.34
(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 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	3,478,317.90	5,101,415.17
(21) Other non-recurring profit and loss items recognized by CSRC		
<b>Sub-total</b>	<b>6,487,128.78</b>	21,574,226.90
Less: the impact from income tax	801,897.74	(252,675.64)
<b>Net non-recurring profit and loss</b>	<b>5,685,231.04</b>	21,826,902.54
Net non-recurring profit and loss attributable to ordinary shareholders of the Company	5,928,105.06	20,642,007.05
Net non-recurring profit and loss attributable to minority shareholders	(242,874.02)	1,184,895.49



## Documents Available for Inspection

---

1. Original financial statements signed and sealed under the hand of the legal representative, chief accountant and the person in charge of the accounting matters of the Company.
2. Original auditors' report, with the auditing firms' chop affixed, signed and sealed by certified public accountants.
3. Original copies of all documents and text announcements of the Company publicly disclosed in newspapers designated by CSRC during the reporting period.
4. This annual report is prepared in Chinese and English. In case of any discrepancies in interpretation, the Chinese version shall prevail.