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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or transferred** all your shares in **Nanjing Panda Electronics Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**南京熊猫电子股份有限公司**

**NANJING PANDA ELECTRONICS COMPANY LIMITED**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0553)

**SHAREHOLDERS' RETURN PLAN,  
AMENDMENT TO THE ARTICLES OF ASSOCIATION AND  
CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders of Nanjing Panda Electronics Company Limited**



**粵海證券有限公司**  
GUANGDONG SECURITIES LIMITED

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Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 1 to 55 of this circular. A letter from the Independent Board Committee is set out on page 56 of this circular. A letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 57 to 80 of this circular. A notice convening the EGM was despatched to the Shareholders on 26 October 2012. Please refer to the announcement of the Company dated 2 November 2012 for details of the EGM which was postponed to be held at the Company's Conference Room, 301 Zhongshan Road East, Nanjing, the People's Republic of China on Friday, 21 December 2012 at 9:30 a.m. The Supplemental Proxy Forms were despatched to the Shareholders on 6 November 2012. Whether or not you are able to attend and vote at the EGM, please complete and return the Supplemental Proxy Form in accordance with the instructions printed thereon to the office of the Company as soon as possible and in any event not less than 24 hours before the time of the EGM or any adjournment thereof. Completion and return of the Supplemental Proxy Form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

6 December 2012

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## DEFINITIONS

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*In this circular, the following expressions shall have the following meanings unless the context otherwise requires:*

“2012 Notice”	“Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies” promulgated by the China Securities Regulatory Commission (Zheng Jian Fa [2012] No.37);
“Annual Cap(s)”	the proposed annual caps of the Existing Continuing Connected Transactions pursuant to the Existing CCT Agreements;
“Articles of Association”	the existing articles of association of the Company;
“Board”	the board of Directors;
“Business Days”	any day on which the Stock Exchange is open for the business of dealing in securities;
“CBRC”	China Banking Regulatory Commission;
“CCT Agreements”	(A) Sub-contracting Agreement, (B) CEC Sub-contracting Agreement, (C) Sale Agreement, (D) Purchase Agreement, (E) Lease Agreement, (F) NEIIC Group Lease Agreement, (G) Trademark Licence Agreement, (H) PEGL Import & Export Agency Agreement and (I) Financial Services Agreement;
“CEC”	China Electronics Corporation (中國電子信息產業集團有限公司), the ultimate controller of the Company;
“CEC Finance”	China Electronics Financial Co., Ltd (中國電子財務有限責任公司), a company incorporated in the PRC and a non-banking financial institute of CEC owned as to 50.932% by CEC;
“CEC Group”	a group comprising CEC, its subsidiaries (for the purpose of this announcement excluding the Group), its holding companies and their respective associates;
“CEC Home Appliances”	Nanjing CEC-Panda Home Appliances Co., Ltd. (南京中電熊貓家電有限公司), a subsidiary controlled by PEGL;

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## DEFINITIONS

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“CEC Panda Land”	CEC Panda Land Co., Ltd (南京中電熊貓置業有限公司), a company incorporated in the PRC and a non-wholly owned subsidiary of CEC;
“CEC Sub-contracting Agreement”	the sub-contracting services and composite services agreement entered into between the Company and CEC for the provision of services by CEC Group to the Group;
“Company”	Nanjing Panda Electronics Company Limited, a joint stock company incorporated in the PRC with limited liability;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Continuing Connected Transactions”	Existing Continuing Connected Transactions and New Continuing Connected Transaction;
“Director(s)”	the Directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held on Friday, 21 December 2012 for the purposes of considering and, if thought fit, approving, inter alia, adoption of the Shareholders’ Return Plan, amendments to the Articles of Association and the CCT Agreements;
“Existing Annual Cap(s)”	the maximum aggregate annual value of each of the Existing Continuing Connected Transactions;
“Existing CCT Agreements”	(A) Sub-contracting Agreement, (B) CEC Sub-contracting Agreement, (C) Sale Agreement, (D) Purchase Agreement, (E) Lease Agreement, (F) NEIIC Group Lease Agreement, (G) Trademark Licence Agreement and (H) PEGL Import & Export Agency Agreement;
“Existing Continuing Connected Transactions”	the continuing connected transactions contemplated under the Existing CCT Agreements;
“Financial Services Agreement”	the agreement entered into between the Company and CEC Finance for the provision of financial services by CEC Finance to the Group;

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## DEFINITIONS

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“Group”	the Company and its subsidiaries;
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the Hong Kong Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Continuing Connected Transactions and the New Continuing Connected Transaction;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administration Region of the PRC;
“Import & Export Company”	Nanjing Panda Electronics Import and Export Company (南京熊貓電子進出口有限公司), a wholly-owned subsidiary of PEGL;
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent;
“Independent Shareholders”	Shareholders other than CEC and its associates, PEGL and its associates;
“Latest Practicable Date”	3 December 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Lease Agreement”	the lease agreement entered into between the Company and NEIIC for the lease of factory premises and equipment by the Group to NEIIC Group;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules;

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## DEFINITIONS

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“Mr. Deng”	Mr. Deng Weiming, a non-executive Director;
“Mr. Hsuan”	Mr. Jason Hsuan, a non-executive Director;
“Mr. Lai”	Mr. Lai Weide, an executive Director;
“Mr. Lu”	Mr. Lu Qing, a non-executive Director;
“Mr. Xu”	Mr. Xu Guofei, an executive Director;
“Mr. Zhu”	Mr. Zhu Lifeng, a non-executive Director;
“Ms. Zhang”	Ms. Zhang Zhengping, a supervisor of the Company;
“NEIIC”	Nanjing Electronics Information Industrial Corporation (南京中電熊貓信息產業集團有限公司), the controlling shareholder of PEGL;
“NEIIC Group”	a group comprising NEIIC, its subsidiaries (for the purpose of this announcement, excluding the Group), its holding companies and their respective associates;
“NEIIC Group Lease Agreement”	the lease agreement entered into between the Group and NEIIC for the lease of factory premises and equipment by NEIIC Group to the Group;
“New CCT Agreement”	(I) the Financial Services Agreement;
“New Continuing Connected Transaction”	the continuing connected transactions contemplated under (I) the Financial Services Agreement;
“Non-competition Agreement”	the agreement on non-competition and rights of first refusal entered into between the Group and PEGL Group on 18 March 1996, as supplemented by a supplemental agreement dated 9 October 2000 between the Group and PEGL Group;

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## DEFINITIONS

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“Panda Electronics Manufacturing”	Nanjing Panda Electronics Manufacturing Co., Ltd (南京熊猫电子製造有限公司), a company incorporated under the law of the PRC and a subsidiary of the Company;
“Panda Industrial Enterprise”	Nanjing Panda Industrial Enterprise Co., Ltd (南京熊猫新興實業有限公司), a company incorporated under the law of the PRC and a wholly-owned subsidiary of the Company;
“Panda Information Industry”	Nanjing Panda Information Industry Co., Ltd. (南京熊猫信息產業有限公司), a company incorporated under the law of the PRC and a subsidiary of the Company;
“Panda LCD”	Nanjing China Electronics Panda LCD Technology Co., Ltd (南京中電熊猫液晶顯示科技有限公司), a company incorporated under the law of the PRC and a non-wholly owned subsidiary of CEC;
“PEGL”	Panda Electronics Group Limited (熊猫電子集團有限公司), the controlling Shareholder of the Company holding approximately 51.1% of the total issued share capital of the Company as at the date of this announcement;
“PEGL Group”	a group comprising PEGL, its subsidiaries (for the purpose of this circular, excluding the Group), its holding companies and their respective associates;
“PEGL Import & Export Agency Agreement”	the import and export agency agreement entered into between the Company and Import & Export Company for the provision of import and export services by the PEGL Group;
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau and Taiwan);
“PRC Lawyer”	Yongheng Partners (江蘇永衡昭輝律師事務所);
“Purchase Agreement”	the agreement on the sale of materials, components and parts entered into between the Company and CEC for the sale of materials by the Group to CEC Group;

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## DEFINITIONS

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“Restructure/Restructuring”	the restructuring whereby Jiangsu Provincial Guo Xin Asset Management Group Ltd (江蘇省國信資產管理集團有限公司) and Nanjing State-owned Assets Supervision and Administration Commission of the PRC (南京市人民政府國有資產監督管理委員會) transferred their respective shareholdings in PEGL (i.e. 21.59% and 26.39% respectively) to NEIIC, a subsidiary of CEC at nil consideration on 21 September 2012;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Agreement”	the agreement on the sale of materials, components and parts entered into between the Company and CEC for the sale of materials by the Group to CEC Group;
“SFO”	The Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong);
“Shareholder(s)”	holder(s) of the share(s) of the Company;
“Shareholders’ Return Plan”	the shareholders’ return plan, details of which are set out in Appendix II of this circular;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Sub-contracting Agreement”	the sub-contracting services and composite services agreement entered into between the Company and CEC for the provision of services by the Group to CEC Group;
“Supplemental Proxy Form”	the supplemental form of proxy for use at the EGM;
“TPV Technology”	TPV Technology Limited, a company incorporated in Bermuda with limited liability and listed on the Stock Exchange (Stock Code: 903) whose ultimate controlling shareholder is CEC and whose chairman is Mr. Hsuan;



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## DEFINITIONS

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“Trademark Licence Agreement” the trademark license agreement entered into between the Company and CEC Home Appliances for the licensing of PANDA trademark by the Group; and

“%” percentage.

*The English names of the PRC established companies/ entities in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.*



南京熊猫电子股份有限公司  
**NANJING PANDA ELECTRONICS COMPANY LIMITED**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0553)

*Executive Directors*

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

*Non-executive Directors*

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

*Independent non-executive Directors*

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

*Registered Address:*

Level 1-2, Block 5,  
North Wing, Nanjing High  
and New Technology  
Development Zone,  
Nanjing, the PRC

*Office Address:*

301 Zhongshan Road East,  
Nanjing, the PRC  
Postal Code: 210002

6 December 2012

*To the Shareholders*

Dear Sir or Madam,

**SHAREHOLDERS' RETURN PLAN,  
AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND  
CONTINUING CONNECTED TRANSACTIONS**

**I. INTRODUCTION**

Reference is made to the announcements issued by the Company dated 24 August 2012 in relation to, among other matters, the proposed adoption of the Shareholders' Return Plan and amendments to the Articles of Association, and 26 October 2012 in relation to, among other matters, the Continuing Connected Transactions, which are subject to the approval of Shareholders at the EGM.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with (i) details of the proposed adoption of the Shareholders' Return Plan; (ii) details of the proposed amendments to the Articles of Association; (iii) further details of the Continuing Connected Transactions; (iv) a letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders containing its advice on the Continuing Connected Transactions; and (v) a letter from the Independent Board Committee with its recommendations on the Continuing Connected Transactions to the Independent Shareholders.

### **II. SHAREHOLDERS' RETURN PLAN**

The Board proposed to adopt the Shareholders' Return Plan in order to further improve and perfect the dividend distribution system and supervision mechanism of the Company, ensuring the continuity and stability of profit distribution policies, actively reward its investors, steer investors towards long-term and reasonable investment, according to the requirement of the 2012 Notice.

The proposed Shareholders' Return Plan is subject to the approval of the Shareholders by way of passing an ordinary resolution at the EGM. The unofficial English translation of the proposed Shareholders' Return Plan is set out in Appendix II to this circular.

### **III. AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

The Board proposed to make certain amendments to the Articles of Association in order to comply with the 2012 Notice. The amendments aim to refine the provisions in the Articles of Association regarding dividend distribution procedure of the Company so as to build up a more transparent profit distribution system for the Shareholders and investors. The proposed amendments to the Articles of Association are subject to the approval of the Shareholders by way of passing a special resolution at the EGM. The unofficial English translation of the proposed amendments to the Articles of Association is set out in Appendix III to this circular.

The Board confirms that the proposed amendments to the Articles of Association conforms with the requirements of Appendix 3 and the applicable requirements set out in Part D of Appendix 13 of the Listing Rules.

#### **IV. CONTINUING CONNECTED TRANSACTIONS**

##### **BACKGROUND INFORMATION**

As disclosed in the announcements and circulars of the Company dated 15 October 2009, 5 November 2009, 21 October 2011 and 18 November 2011, the Company entered into certain continuing connected transactions between the Company and certain connected persons of the Company. Such continuing connected transactions last for a term of 3 years from 1 January 2010 to 31 December 2012.

As the ultimate controller of the Company changed to CEC on 21 September 2012 upon completion of the Restructuring, CEC and its subsidiaries become connected persons of the Company. The transactions to be entered into between the Company and CEC and its subsidiaries will constitute connected transactions of the Company.

The Existing CCT Agreements of the Company will expire on 31 December 2012 and the Existing Continuing Connected Transactions are expected to continue after the expiration. In light of the Restructuring and the growing business scale of the Group, the Board proposes to renew the Existing Continuing Connected Transactions with CEC Group and enter into the Financial Services Agreement with CEC Group as disclosed in the announcement of the Company dated 26 October 2012.

On 26 October 2012, the Company entered into the Financial Services Agreement with CEC Finance, pursuant to which CEC Finance will agree to provide to the Company the deposit services, credit financing services, loan and loan guarantee services, settlement services, general strategic advisory services and other financial services subject to the terms provided therein.

CEC Finance is a financial institution regulated by The People's Bank of China and the State Administration of Foreign Exchange. CEC is the ultimate controller of the Company and CEC Finance is owned as to 50.932% by CEC. CEC Finance is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

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## LETTER FROM THE BOARD

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### **Deposit services**

The proposed deposit services provided by CEC Finance for the placing of deposits by the Group with interest constitute financial assistance provided by the Company to CEC. As the Company is not a banking company and does not provide the financial assistance in its ordinary and usual course of business, and CEC Finance is not a subsidiary of the Company under the Listing Rules, and the relevant percentage ratios calculated in accordance with Chapter 14 of the Listing Rules for the proposed deposit transactions under the Financial Services Agreement exceed 5% but do not exceed 25%, the proposed deposit transactions constitute disclosable transactions subject to the reporting and announcement requirements under the Listing Rules. Further, as the relevant percentage ratios calculated in accordance with Chapter 14A of the Listing Rules for the proposed deposit transactions under the Financial Services Agreement exceed 5% and the aggregate amount of the deposits to be placed pursuant thereto is more than HK\$10,000,000, the proposed deposit transactions (together with the proposed deposit cap) are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

### **Loan and loan guarantee services**

As the provision of loan services by CEC Finance to the Company and the provision of guarantees by CEC Finance in favour of third parties in respect of credit facilities of the Company are provided for the benefit of the Group on normal commercial terms where no security over the assets of the Company will be granted to CEC Finance in respect of such services, the continuing connected transactions involving the provision of loan and loan guarantee services are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

### **Settlement services and general strategic advisory services**

CEC Finance will not charge the Company any fees for the provision of settlement and strategic advisory services, and as such, the continuing connected transactions involving the provision of the said services are exempt from the reporting, announcement and Independent Shareholders' approval requirements.

### **Other financial services**

As at the date of this circular, the Company has not entered into any separate agreement with CEC Finance for the provision of other financial services. The Company will comply with the applicable notification, disclosure and/or Shareholders' approval requirements under the Listing Rules in the event it enters into any such separate agreement with CEC Finance.

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**LETTER FROM THE BOARD**

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**HISTORICAL AND PROPOSED ANNUAL CAPS**

The table below sets forth a summary of the categories and the historical and proposed annual caps of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction of the Company:

<b>Categories of the Continuing Connected Transactions</b>	<b>Annual Caps</b>	
	<b>Historical</b>	<b>Proposed</b>
	<b>1 January 2010 to 31 December 2012 <i>(RMB'000)</i></b>	<b>1 January 2013 to 31 December 2015 <i>(RMB'000)</i></b>
(A) Provision of sub-contracting services and composite services by the Group to the CEC Group	28,000	90,500
(B) Provision of sub-contracting services and composite services by the CEC Group to the Group	10,000	12,500
(C) Sale of materials, components and parts by the Group to the CEC Group	370,000	612,600
(D) Purchase of materials, components and parts by the Group from the CEC Group	56,000	292,900
(E) Lease of premises and relevant equipment by the Group to the NEIIC Group	11,000	11,000
(F) Lease of premises and relevant equipment by the NEIIC Group to the Group	2,000	2,000
(G) Licensing of Trademark by the Group to CEC Home Appliances	3,000	3,000
(H) Import and export agency services provided by the PEGL Group to the Group	1,000	1,000
(I) Financial Services Agreement		
Deposit balance	N/A	200,000
Loan, loan guarantee and other credit financing services	N/A	300,000

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## LETTER FROM THE BOARD

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### **PARTICULARS OF THE NEW CONTINUING CONNECTED TRANSACTION AND RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS**

Particulars of the renewal of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction are set out below. Such continuing connected transactions are conditional upon the Independent Shareholders' approval at the EGM to be convened.

The pricing policies of the Company ("the Pricing Policies") are as follows:

The Company shall enter into written agreements in respect of the connected transactions of the Company. Such agreements shall clearly state the pricing policies for the connected transactions. If in the course of performance of the connected transactions there is a material change in the pricing or other major terms of the agreements, the new prices shall go through the relevant approval process.

The pricing of the connected transactions of the Company shall be fair, with reference to the following principles:

1. if the transactions are subject to state-prescribed prices (政府定價), the state-prescribed prices shall be used ("Principle 1");
2. if the transactions are subject to state-recommended prices (政府指導價), the pricing shall be determined within a reasonable range of the state-recommended prices ("Principle 2");
3. if there are comparable market prices or standard fees of independent third parties other than state-prescribed prices or state-recommended prices, priority reference may be given to such market prices or standard fees to determine the pricing ("Principle 3");
4. if there are no market prices of independent third parties, nor independent non-connected transactions for reference, reasonably constituted prices may be used as the pricing basis, and such reasonably constituted prices shall be the sum of reasonable costs and reasonable profit ("Principle 4").

State-prescribed prices means the mandatory prices in respect of important commodities and services as prescribed by the department of government pricing or other relevant departments of the State Council in accordance with the provisions of the Price Law of the PRC (《中華人民共和國價格法》), the central pricing catalogue and other relevant regulations approved by the State Council, and within their authority and scope for setting prices. The department of government pricing and other relevant departments of provinces, autonomous regions and municipalities directly under the PRC Government shall prescribe prices to be executed in the relevant local regions in accordance with local pricing catalogues and within their authority under the relevant regulations.

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## LETTER FROM THE BOARD

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Where commodity or service prices are subject to state-prescribed prices, state-prescribed prices must be adopted unless approval from the relevant department of government pricing has been obtained.

State-recommended prices means the benchmark prices, their floating range with the maximum and minimum protective prices as prescribed by the department of government pricing or other relevant departments of the People's Government at or above the county level, in accordance with the provisions of the Price Law of the PRC (《中華人民共和國價格法》) and within their authority and scope for setting prices. Such prices are determined by the relevant departments in accordance with their authority under the relevant regulations and the market situation, to provide guidance to businesses in setting commodity prices and fees.

In addition, the audit committee of the Company (本公司審核委員會) will independently review the connected transactions from time to time.

As discussed further below, the Pricing Policies were universally applied to the Existing Continuing Connected Transactions. As the prices for the products and services provided and received by the Group are not governed by state-prescribed prices or state-recommended prices, at present, the Company adopts Principle 3 in determining the prices for the Existing Continuing Connected Transactions. State-prescribed prices in Principle 1 and state-recommended prices in Principle 2 are mandatory and administrative in nature, and are only required to be adopted if transactions are subject to such state-prescribed prices or state-recommended prices. Principle 4 would only be adopted if there are no market prices of independent third parties, nor independent non-connected transactions for reference.

### **(A) PROVISION OF SUB-CONTRACTING & COMPOSITE SERVICES BY THE GROUP**

1. Agreement: For the provision of sub-contracting services and composite services by the Group
2. Date: 26 October 2012
3. Term: From 1 January 2013 to 31 December 2015
4. Parties: (1) The Company  
(2) CEC



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## LETTER FROM THE BOARD

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5. Nature of transaction: Provision of sub-contracting services including manufacture of external plastic casings for television sets, processing of machinery facilities, processing of surface mount technology (“SMT”), and quality control services by the Group to the CEC Group.
- Provision of composite services including apparatus maintenance, periodic inspection of measuring instruments and equipment, and computer network services by the Group to the CEC Group.
6. Existing Annual Cap: RMB28,000,000.00
7. Reasons for the Transaction: The provision of sub-contracting and composite services by the Group to the CEC Group will enlarge the Group’s business and provide a stable source of income for the Group. Therefore, the continuation of such transactions is beneficial to and in the interest of the Group. In addition, the Company will renew the agreement with CEC for such sub-contracting and composite services in light of the Restructuring.
8. Pricing basis: The service fees for the provision of sub-contracting services and composite services by the Group to the CEC Group will continue to be determined in accordance with the Pricing Policies after arm’s length negotiation between the parties and on normal commercial terms with reference to the prevailing market prices, being prices no less favourable than those offered by an independent third party for similar services.

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## LETTER FROM THE BOARD

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In determining the service fees for the provision of sub-contracting services and composite services by the Group to the CEC Group, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to fees for similar and related services publicly quoted:

- (i) for the provision of SMT, research and development and systems installation services, in journals including China Electronic Market (《中國電子商情(基礎電子)》), Global Electronics China (《世界電子元器件》) and Journal of Electronic Component and Device News (《電子元器件資訊》) and websites including HC360.com (慧聰網) (<http://b2b.hc360.com>), Alibaba (阿里巴巴) (<http://china.alibaba.com/chanpin/--57.html>), ec-line.cn (中電易採) (<http://www.ec-line.cn>), hcs-index.org (華強北•中國電子市場價格指數) (<http://www.hcsindex.org/price/>) and Chinaecw.net (電子元器件資訊網) (<http://www.chinaecw.net>); and
- (ii) for the provision of property management services, with reference to the local market levels for the industry, by referral companies and in recruitment websites;

and the fees adopted in contracts for similar and related services between the Company and independent third parties.

9. Historical Figures: The historical amounts of sub-contracting and composite services provided by the Group to the PEGL Group are as follows:

	<b>Six months</b>		
	<b>ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Amount (RMB'000)	12,817	23,521	5,316

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## LETTER FROM THE BOARD

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The historical amounts of sub-contracting and composite services provided by the Group to the CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	14,130	29,830	6,030

The historical amounts of sub-contracting and composite services provided by the Group to Panda LCD of the CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	14,046	28,010	5,170

The historical amounts of sub-contracting and composite services provided by the Group to CEC Panda Land of the CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	12	1,640	860

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## LETTER FROM THE BOARD

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10. Annual Cap: The Board proposes to increase the annual cap from RMB28,000,000.00 to RMB90,500,000.00, the amount of which was determined with reference to the historical transaction amounts of the sub-contracting and composite services provided by the Group to PEGL Group and CEC Group and the estimated increase in demand for the sub-contracting and composite services from the PEGL Group, in particular Nanjing Panda Handa Technology Company Limited (“Nanjing Handa”), and the expected growth of CEC Group’s business (particularly its liquid crystal diode (“LCD”) panel business). Such increase is mainly attributable to the sub-contracting and composite services between Panda Electronics Manufacturing, Panda Information Industry and Panda Industrial Enterprise, being subsidiaries of the Company, and CEC and its subsidiaries Panda LCD and CEC Panda Land, which became the connected transactions of the Company after the Restructuring, and the increased business transactions between the Company’s subsidiaries Panda Industrial Enterprise and Nanjing Panda Communication Technology Company Limited (南京熊猫通信科技有限公司) and Nanjing Handa, being a subsidiary of the Company’s controlling shareholder PEGL.

The following sets out the major contracts for the provision of sub-contracting and composite services by the Group to PEGL Group and CEC Group for the years 2013-2015 (for reasons of brevity, contracts with smaller transaction amounts will not be discussed herein):

*Nanjing Handa of PEGL Group*

It is expected that in 2013-2015, Nanjing Panda Communication Technology Company Limited (南京熊猫通信科技有限公司) will accept three to four research and development projects on communications related products from Nanjing Handa, with an annual total revenue of about RMB10,000,000.

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## LETTER FROM THE BOARD

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Nanjing Panda Electronics Equipment Co., Ltd. (“Panda Electronics Equipment”), a subsidiary of the Company, has long provided stamping and spraying services for shell products and metal structural parts to Nanjing Handa. The annual total revenue for such services is expected to be about RMB4,500,000.

*Import & Export Company of PEGL Group*

Panda Electronics Equipment has long provided mechanical processing services for all types of machinery parts, mold parts and components to Import & Export Company. The annual total revenue for such services is expected to be about RMB3,600,000.

*Panda LCD of CEC Group*

In 26 December 2009, CEC and NEIIC signed an agreement with Sharp Corporation, Nanjing Engineering Group and Toppan Printing Company to invest in projects on eighth generation LCD panels and modules and domestic LCD panel production lines. It is expected that Panda Electronics Manufacturing will provide processing services to Panda LCD in respect of the high-generation LCD panels and modules which are expected to be launched in 2013. The Company expects the consideration for such services will be RMB30,000,000 each year.

*CEC Panda Land of CEC Group*

Panda Information Industry will provide security systems, monitoring systems and building automation services to CEC Panda Land in respect of Yi He Jia Yuan (頤和家園) and other real estate projects of CEC Panda Land. The total consideration for such services will be about RMB20,000,000.

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## LETTER FROM THE BOARD

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### *Transactions between Panda Industrial Enterprise and CEC Group*

Panda Industrial Enterprise has long provided property management services, maintenance and cleaning services, supply of water and electricity and other comprehensive services to members of the CEC Group, with an expected annual consideration of RMB11,800,000 (of which services with an expected annual consideration of RMB10,800,000 are provided to Nanjing Handa).

Panda Industrial Enterprise will also provide property management services, maintenance and cleaning services, canteen services and other comprehensive services to Panda LCD, with an expected annual consideration of RMB5,000,000.

### *CEC Home Appliances of CEC Group*

Panda Electronics Manufacturing, which possesses advanced SMT processing equipment, has long provided plug and patch services to CEC Home Appliances. The annual total consideration for such services is expected to be about RMB5,000,000.

As the transactions of the Group with members of the CEC Group have become connected transactions of the Company, it is expected that the maximum annual consideration for these new connected transactions together with that of the transactions of the Group with the PEGL Group will not exceed RMB90,500,000.00, and therefore the annual cap is proposed to be increased to RMB90,500,000.00.

### **(B) RECEIPT OF SUB-CONTRACTING & COMPOSITE SERVICES FROM THE CEC GROUP**

1. Agreement: For the receipt of sub-contracting services and composite services by the Group
2. Date: 26 October 2012

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## LETTER FROM THE BOARD

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3. Term: From 1 January 2013 to 31 December 2015
4. Parties: (1) The Company  
(2) CEC
5. Nature of transaction: Provision of sub-contracting services in respect of processing of raw materials or semi-finished products for satellite communication, electronic production, information and electromechanical products by the CEC Group to the Group.
- Provision of composite services including property management services, machinery maintenance services and other utility services in factory premises, and medical services, social and recreational services and other general welfare services for the Group's employees and families (if applicable) by CEC to the Group.
6. Existing Annual Cap: RMB10,000,000.00
7. Reasons for the Transaction: The provision of the sub-contracting and composite services by the CEC Group has provided the Group with better quality warranties of such services and has reduced cost in management and transportation, and hence the continuation of such arrangement is beneficial to and in the interest of the Group. In addition, the Company will renew the agreement with CEC for such sub-contracting and composite services in light of the Restructuring.
8. Pricing basis: The service fees for the receipt of sub-contracting and composite services by the Group from the CEC Group will continue to be determined in accordance with the Pricing Policies after arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market prices, being prices no less favourable than those offered by an independent third party for similar services.

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## LETTER FROM THE BOARD

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In determining the service fees for the receipt of sub-contracting and composite services by the Group from the CEC Group, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to fees for similar and related services publicly quoted in journals including China Electronic Market (《中國電子商情(基礎電子)》), Global Electronics China (《世界電子元器件》) and Journal of Electronic Component and Device News (《電子元器件資訊》) and websites including HC360.com (慧聰網) (<http://b2b.hc360.com>), Alibaba (阿里巴巴) (<http://china.alibaba.com/chanpin/--57.html>), ec-line.cn (中電易採) (<http://www.ec-line.cn>), hcs-index.org (華強北•中國電子市場價格指數) (<http://www.hcsindex.org/price/>) and Chinaecw.net (電子元器件資訊網) (<http://www.chinaecw.net>) and the fees adopted in contracts for similar and related services between the Company and independent third parties.

9. Historical  
Figures:

The historical amounts of sub-contracting and composite services received by the Group from the PEGL Group are as follows:

	<b>Six months</b>		
	<b>ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Amount (RMB'000)	1,765	7,774	3,252

The historical amounts of sub-contracting and composite services received by the Group from CEC Group are as follows:

	<b>Six months</b>		
	<b>ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Amount (RMB'000)	0	1,028	2,584



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## LETTER FROM THE BOARD

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10. Annual Cap: The Board proposes to increase the annual cap from RMB10,000,000.00 to RMB12,500,000.00, the amount of which was determined with reference to the historical transaction amounts of the sub-contracting and composite services received by the Group from PEGL Group and CEC Group and the estimated scale of the processing services to be provided by the PEGL Group and CEC Group to the Group as well as the needs of the Company's business development. Such increase is mainly attributable to the increased demand for transportation services by Panda Electronics Manufacturing, and Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司), and the expected new outsourcing transaction between Panda Electronics Manufacturing and Nanjing Changjiang Electronics Group Co., Ltd.

### (C) SALE OF MATERIALS, COMPONENTS & PARTS BY THE GROUP

1. Agreement: The sale agreement for the sale of materials, components and parts by the Group
2. Date: 26 October 2012
3. Term: From 1 January 2013 to 31 December 2015
4. Parties: (1) The Company  
(2) CEC
5. Nature of transaction: Provision of materials, components and parts by the Group to the CEC Group including raw materials, metal and plastic parts necessary for manufacture of television sets, shortwave communication products and trading business, office information products such as calculators and software, and provision of processing services.
6. Existing Annual Cap: RMB370,000,000.00

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## LETTER FROM THE BOARD

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7. Reasons for the Transaction: NEIIC, a controlled subsidiary of CEC, has been vigorously developing the LCD TV business recently, with both production volume and sales increasing significantly. In order to meet the demand of NEIIC, Panda Electronics Manufacturing, a subsidiary of the Company, increased its supply of components and parts to NEIIC. Therefore, an increase in the relevant annual cap is necessary. In addition, the Group will renew the agreement with CEC for such sales transactions in light of the Restructuring.
8. Pricing basis: The selling prices of the materials, components and parts by the Group to the CEC Group will continue to be determined in accordance with the Pricing Policies after arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market prices, being prices no less favourable than those offered by an independent third party for similar materials, components and parts.

In determining the selling prices of the materials, components and parts by the Group to the CEC Group, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to prices of similar and related products publicly quoted in journals including China Electronic Market (《中國電子商情(基礎電子)》), Global Electronics China (《世界電子元器件》) and Journal of Electronic Component and Device News (《電子元器件資訊》) and websites including HC360.com (慧聰網) (<http://b2b.hc360.com>), Alibaba (阿里巴巴) (<http://china.alibaba.com/chanpin/--57.html>), ec-line.cn (中電易採) (<http://www.ec-line.cn>), hcs-index.org (華強北•中國電子市場價格指數) (<http://www.hcsindex.org/price/>) and Chinaecw.net (電子元器件資訊網) (<http://www.chinaecw.net>) and the prices adopted in contracts for similar and related products between the Company and independent third parties.

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## LETTER FROM THE BOARD

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9. Historical Figures: The historical amounts of materials, components and parts sold by the Group to the PEGL Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	58,060	113,371	90,987

The historical amounts of materials, components and parts sold by the Group to the CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	9,473	94,350	88,850

The historical amounts of materials, components and parts sold by the Group to China Electronic Appliance Corporation of the CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	840	0	32,500

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## LETTER FROM THE BOARD

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The historical amounts of materials, components and parts sold by the Group to Panda LCD of the CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount ( <i>RMB'000</i> )	8,633	94,350	55,820

The historical amounts of materials, components and parts sold by the Group to China Electronics Panda Crystal Corporation (中電熊貓晶體科技有限公司) of the CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount ( <i>RMB'000</i> )	0	0	530

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## LETTER FROM THE BOARD

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10. Annual Cap: The Board proposes to increase the annual cap to RMB612,600,000.00 and notes that it is a substantial increase from the Existing Annual Cap of RMB370,000,000.00. The amount was determined with reference to the historical amounts of materials, components and parts sold by the Group to PEGL Group and CEC Group, and based on (i) the expected huge demands for materials, components and parts, and processing services from CEC and its associates (especially NEIIC and its controlled subsidiaries which mainly engage in the production of LCD panels and PEGL's controlled subsidiaries which mainly engage in the production of television sets), and (ii) the development of the Company (the Company has possessed sophisticated technologies in the electronic manufacturing field and adopted scientific management methods enabling the Group to provide premium materials and components and parts to meet its orders, and the advanced technology and excellent performance of the Company's electronic equipment products). The significant increase in annual cap is mainly attributable to the sales transactions between Panda Electronics Manufacturing and Panda Electronics Equipment, being subsidiaries of the Company, and China Electronic Appliance Corporation and Panda LCD, being subsidiaries of CEC, which became the connected transactions of the Company after the Restructuring, and the expected additional significant sales transaction between Panda Electronics Manufacturing and Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司), being the Company's subsidiaries, and Panda LCD and China Electronics Panda Crystal Corporation (中電熊貓晶體科技有限公司), being subsidiaries of CEC.

The following sets out the major contracts for the sale of materials, components and parts by the Group to the PEGL Group and CEC Group for the years 2013-2015 (for reasons of brevity, contracts with smaller transaction amounts will not be discussed herein):

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## LETTER FROM THE BOARD

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### *Panda LCD*

In December 2011, Panda Electronics Manufacturing and Panda LCD entered into a basic framework agreement for the procurement and supply of production materials for the sale of T-CON boards and printed circuit boards connecting LCD modules to panels inside LCD televisions by Panda Electronics Manufacturing to Panda LCD (“the Framework Agreement”). In the second half of 2012, Panda LCD’s demand for such products has been steady, with a monthly sales volume of between RMB15,000,000 to RMB17,000,000. The Framework Agreement will be renewed upon its expiry. Annual sales of about RMB200,000,000 are expected.

Further, since August 2012, Panda Electronics Manufacturing has been designing and manufacturing 60-layer compact flash cards and accessories for Panda LCD for a total consideration of RMB25,974,000.00. Following the expansion of the operations of Panda LCD, Panda Electronics Manufacturing will also manufacture card holders (卡夾) for Panda LCD. Annual sales of RMB50,000,000 for the cards and card holders are expected.

Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司) will provide injection molded parts for related products of Panda LCD. Annual sales of RMB20,000,000 are expected.

### *Import & Export Company of PEGL Group and CEC Home Appliances of CEC Group*

Panda Electronics Equipment is engaged in the sale of reflow soldering, water heaters and environmental protection products through Import & Export Company. It is expected that more product categories will be made available, with expected annual sales of about RMB50,000,000.

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## LETTER FROM THE BOARD

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Panda Electronics Manufacturing possesses machine manufacturing capabilities, and has provided machine processing services to LG and other overseas companies. With reference to the overseas market for such services and considering its own capabilities, it is expected that annual export sales through Import & Export Company and China Electronic Appliance Corporation and other members of the CEC Group will amount to about RMB110,000,000.

Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司) has long provided injection molded parts of TV back covers to CEC Home Appliances. Annual sales of RMB10,000,000 are expected.

Panda Electronics Manufacturing provides machine processing services to CEC Home Appliances. In recent years, CEC has made developments in the flat panel display industry, incorporating Panda LCD developing sixth-generation production lines, creating sales platform of televisions, establishing a nationwide sales channel, with sales increasing year by year. Considering its own manufacturing capacities and the scale of expansion of CEC Home Appliances, annual sales of RMB100,000,000 are expected.

### *Nanjing Handa of PEGL Group*

Nanjing Panda Communication Technology Company Limited (南京熊貓通信科技有限公司) will continue to provide military communications equipment component parts to Nanjing Handa, with expected annual sales of about RMB20,000,000.

Panda Electronics Equipment will continue to provide intelligence warehouse programs and equipment to Nanjing Handa. Annual sales of about RMB40,000,000 are expected.

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## LETTER FROM THE BOARD

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As the transactions of the Group with members of the CEC Group have become connected transactions of the Company, it is expected that the maximum annual consideration for these new connected transactions together with that of the transactions of the Group with the PEGL Group will not exceed RMB612,600,000.00, and therefore the annual cap is proposed to be increased to RMB612,600,000.00.

### **(D) PURCHASE OF MATERIALS, COMPONENTS & PARTS FROM THE CEC GROUP**

1. Agreement: Purchase agreement for the purchase of materials, components and parts by the Group
2. Date: 26 October 2012
3. Term: From 1 January 2013 to 31 December 2015
4. Parties: (1) The Company  
(2) CEC
5. Nature of transaction: Provision of materials, components and parts necessary for production of electronic manufacturing, satellite communication, information and electronic equipment products by the CEC Group to the Group.
6. Existing Annual Cap: RMB56,000,000.00
7. Reasons for the Transaction: In light of the Group's expected growth in its liquid crystal display production and transmission equipments (TFT-LCD) projects, transforming station projects, and environmental protection projects, it is estimated that the procurement costs incurred by Panda Electronics Equipment, a controlled subsidiary of the Company, for purchasing imported equipment from Import & Export Company, a subsidiary of the PEGL Group, and China Electronic Appliance Corporation, a subsidiary of CEC, will increase. In addition, the Group will renew the agreement with CEC for such purchase transactions in light of the Restructuring.



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## LETTER FROM THE BOARD

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8. Pricing basis: The prices of the materials, components and parts to be purchased by the Group from CEC Group will continue to be determined in accordance with the Pricing Policies on arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market prices, being prices no less favourable than those offered by an independent third party for similar materials, components and parts.

In determining the prices of the materials, components and parts to be purchased by the Group from CEC Group, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to prices of similar and related products publicly quoted in journals including China Electronic Market (《中國電子商情(基礎電子)》), Global Electronics China (《世界電子元器件》) and Journal of Electronic Component and Device News (《電子元器件資訊》) and websites including HC360.com (慧聰網) (<http://b2b.hc360.com>), Alibaba (阿里巴巴) (<http://china.alibaba.com/chanpin/--57.html>), ec-line.cn (中電易採) (<http://www.ec-line.cn>), hcs-index.org (華強北•中國電子市場價格指數) (<http://www.hcsindex.org/price/>) and Chinaecw.net (電子元器件資訊網) (<http://www.chinaecw.net>) and the prices adopted in contracts for similar and related products between the Company and independent third parties.

9. Historical Figures: The historical amounts of materials, components and parts purchased by the Group from the PEGL Group are as follows:

	<b>Six months</b>		
	<b>ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Amount (RMB'000)	18,107	44,119	7,937

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## LETTER FROM THE BOARD

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The historical amounts of materials, components and parts purchased by the Group from CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	0	50	24,630

The historical amounts of materials, components and parts purchased by the Group from Panda LCD of CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	0	0	0

The historical amounts of materials, components and parts purchased by the Group from China Electronic Appliance Corporation of CEC Group are as follows:

	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Year ended 31 December 2011 (audited)</b>	<b>Year ended 31 December 2010 (audited)</b>
Amount (RMB'000)	0	50	24,630

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## LETTER FROM THE BOARD

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10. Annual Cap: The Board proposes to increase the annual cap from RMB56,000,000.00 to RMB292,900,000.00, the amount of which was determined with reference to the historical amounts of materials, components and parts purchased by the Group from PEGL Group and CEC Group, and based on the expected growth in the Group's production output, and the Company's plan to procure more materials, components and parts from CEC and its associates for the coming financial years. Such estimates mainly reflect the enlarged materials purchase by Panda Electronics Manufacturing (a subsidiary of the Company) through Import & Export Company and Nanjing Panda Electronics Import & Export (Hong Kong) Co., Ltd. to meet the development of its LCD business, the new purchase of communication components and devices by Nanjing Panda Communication Technology Company Limited (南京熊貓通信科技有限公司) (a subsidiary of the Company) through Nanjing Panda Electronics Import & Export (Hong Kong) Co., Ltd. and Panda (Beijing) International Information Technology Co., Ltd. (熊貓(北京)國際信息技術有限公司), the enlarged transactions between Panda Electronics Manufacturing and CEC Home Appliances, and the sales transaction between Panda Electronics Manufacturing (a subsidiary of the Company) and Panda LCD and China Electronic Appliance Corporation (being subsidiaries of CEC), which became the connected transactions of the Company after the Restructuring.

The following sets out the major contracts for the purchase of materials, components and parts by the Group from the PEGL Group and CEC Group for the years 2013-2015 (for reasons of brevity, contracts with smaller transaction amounts will not be discussed herein):

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## LETTER FROM THE BOARD

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*Import & Export Company of PEGL Group and CEC Home Appliances of CEC Group*

Panda Electronics Manufacturing has taken several overseas orders for machines which involve importing display screens according to customers' requirements. With reference to the overseas market for such machines, the cost of importing display screens and the capacity of Panda Electronics Manufacturing for the manufacture of machines, it is estimated that the annual purchases of imported display screens from Import & Export Company and CEC Home Appliances will amount to RMB55,000,000.

Panda Electronics Equipment has sixth-generation TFT-LCD projects with NEIC and has entered into sales of automatic transmission equipment with BOE Technology Group Co., Ltd. and TCL Corporation. Sales growth and expansion of the products of Panda Electronics Equipment is expected, and annual purchase fees of imported equipment from Import & Export Company and CEC Home Appliance are expected to increase accordingly to about RMB55,000,000.

Further, Nanjing Panda Communication Technology Company Limited (南京熊猫通信科技有限公司), which provides military communications equipment to Nanjing Handa, will continue to purchase imported core components through Import & Export Company. Annual purchase amounts of RMB5,000,000 are expected.

Panda Electronics Manufacturing, which provides machine manufacturing services to CEC Home Appliances, will purchase spare parts and components (including LCD screens) from CEC Home Appliances. Annual purchase amounts of RMB40,000,000 are expected.

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## LETTER FROM THE BOARD

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*Panda (Beijing) International Information Technology Co., Ltd.  
of PEGL Group*

Nanjing Panda Communication Technology Company Limited (南京熊猫通信科技有限公司) has expanded its trading business and has partnered with Panda (Beijing) International Information Technology Co., Ltd. (熊猫(北京)國際信息技術有限公司), a subsidiary of PEGL, to provide agency services for third-party communications products. It is expected that annual purchases by Nanjing Panda Communication Technology Company Limited (南京熊猫通信科技有限公司) of communication products through the agency services of Panda (Beijing) International Information Technology Co., Ltd. (熊猫(北京)國際信息技術有限公司) will be RMB80,000,000.

*Panda LCD of CEC Group*

Panda Electronics Manufacturing is expanding its business at home and abroad for television products. Considering the prospects for the development of the LCD TV market, CEC's flat panel display industry inputs, the concentration of LCD industries in the Nanjing region and its own machine manufacturing capacities, Panda Electronics Manufacturing will purchase various models of display screens from Panda LCD at open market prices. Annual purchase amounts of RMB5,000,000 are expected.

*Nanjing Zhen Hua Packing Material Plant (南京振華包裝材料廠)  
of PEGL Group*

Panda Electronics Manufacturing, Panda Electronics Equipment, Panda Information Industry and Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司) will continue to purchase cardboard boxes from Nanjing Zhen Hua Packing Material Plant (南京振華包裝材料廠), a subsidiary of the PEGL Group, with expected annual purchase amounts of RMB5,860,000.

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## LETTER FROM THE BOARD

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As the transactions of the Group with members of the CEC Group have become connected transactions of the Company, it is expected that the maximum annual consideration for these new connected transactions together with that of the transactions of the Group with the PEGL Group will not exceed RMB292,900,000.00, and therefore the annual cap is proposed to be increased to RMB292,900,000.00.

### (E) LEASE OF PREMISES AND EQUIPMENT BY THE GROUP

1. Agreement: Lease agreement for the lease of premises and equipment by the Group
2. Date: 26 October 2012
3. Term: From 1 January 2013 to 31 December 2015
4. Parties: (1) The Company  
(2) NEIC
5. Nature of transaction: Lease of vacant premises and certain idle equipment by the Group to the NEIC Group which are situated at No. 301, Zhongshan Road East, Nanjing City and Nanjing Xingang Economic and Technological Development Zone, for manufacture and operation purposes
6. Existing Annual Cap: RMB11,000,000.00
7. Reasons for the Transaction: The Group has leased premises and auxiliary equipment to Nanjing Handa, a wholly-owned subsidiary of PEGL. As Nanjing Handa has not fully completed construction and decoration of its factory premises, it proposed to lease premises and equipment from the Group. In addition, the Group will renew the agreement with NEIC for such lease in light of the Restructuring.

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## LETTER FROM THE BOARD

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8. Pricing basis: The lease of factory premises and equipment by the Group to the PEGL Group will continue to be conducted on arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market prices, being prices no less favourable than those accepted or offered by an independent third party for similar leases in similar locations and for similar equipment in the PRC.

In determining the fees for the lease of factory premises and equipment by the Group to the PEGL Group, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to prices of similar and related transactions publicly quoted:

- (i) for the lease of equipment, in journals including China Electronic Market (《中國電子商情(基礎電子)》), Global Electronics China (《世界電子元器件》) and Journal of Electronic Component and Device News (《電子元器件資訊》) and websites including HC360.com (慧聰網) (<http://b2b.hc360.com>), Alibaba (阿里巴巴) (<http://china.alibaba.com/chanpin/--57.html>), ec-line.cn (中電易採) (<http://www.ec-line.cn>), hcs-index.org (華強北•中國電子市場價格指數) (<http://www.hcsindex.org/price/>) and Chinaecw.net (電子元器件資訊網) (<http://www.chinaecw.net>); and
- (ii) for the lease of factory premises, with reference to local market conditions, by housing rental agencies and in advertisements published in newspapers and other media,

and the prices adopted in contracts for similar and related transactions between the Company and independent third parties.

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## LETTER FROM THE BOARD

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9. Historical Figures: The historical amounts of the rent paid by the PEGL Group to the Group are as follows:

	<b>Six months</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>ended</b>	<b>31 December</b>	<b>31 December</b>
	<b>30 June</b>	<b>2011</b>	<b>2010</b>
	<b>2012</b>	<b>(audited)</b>	<b>(audited)</b>
	(unaudited)		
Amount (RMB'000)	4,298	499	102

10. Annual Cap: The Board proposes to maintain the annual cap at RMB11,000,000, the amount of which was determined with reference to the historical rental paid by the PEGL Group to the Group, and the estimated increase in PEGL Group's demand for premises, given that (1) Nanjing Handa has not fully completed construction and decoration of its factory premises, and (2) with the business expansion of Nanjing Handa, to meet orders for products for military use, more premises will be needed to carry out debugging operations, and the Group can provide premises that meet the conditions for carrying out debugging operations.

### (F) LEASE OF PREMISES AND EQUIPMENT BY NEIIC GROUP

1. Agreement: Lease agreement for the lease of premises and equipment by the NEIIC Group
2. Date: 26 October 2012
3. Term: From 1 January 2013 to 31 December 2015
4. Parties: (i) The Company  
(ii) NEIIC
5. Nature of transaction: Lease of vacant premises situated at No. 301, Zhongshan Road East, Nanjing City, other vacant premises with title rights and other idle equipment by the NEIIC Group to the Group for its production and business purposes.



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## LETTER FROM THE BOARD

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6. Existing Annual Cap: RMB 2,000,000.00
7. Reasons for the transaction: Due to the restructuring of the Group's business structure and properties, the Group needs to temporarily lease production, storage and office premises as well as related equipment. Considering the proximity of the factories and offices between the Group and the NEIIC Group, renting the relevant production, storage, office premises and relevant equipment from the NEIIC Group ensures operating efficiency and is in the interest of the Group. In addition, the Group will renew the agreement with NEIIC for such leases in light of the Restructuring.
8. Pricing basis: The lease of factory premises and equipment by the NEIIC Group to the Group will be conducted in accordance with the Pricing Policies on arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market prices, being prices no less favourable than those accepted or offered by an independent third party for similar leases in similar locations and for similar equipment in the PRC.

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## LETTER FROM THE BOARD

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In determining the fees for the lease of factory premises and equipment by the NEIC Group to the Group, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to prices of similar and related transactions publicly quoted:

- (i) for the lease of equipment, in journals including China Electronic Market (《中國電子商情(基礎電子)》), Global Electronics China (《世界電子元器件》) and Journal of Electronic Component and Device News (《電子元器件資訊》) and websites including HC360.com (慧聰網) (<http://b2b.hc360.com>), Alibaba (阿里巴巴) (<http://china.alibaba.com/chanpin/--57.html>), ec-line.cn (中電易採) (<http://www.ec-line.cn>), hcs-index.org (華強北•中國電子市場價格指數)(<http://www.hcsindex.org/price/>) and Chinaecw.net (電子元器件資訊網) (<http://www.chinaecw.net>); and
- (ii) for the lease of factory premises, with reference to local market conditions, by housing rental agencies and in advertisements published in newspapers and other media,

and the prices adopted in contracts for similar and related transactions between the Company and independent third parties.

9. Historical figures: The historical amounts of the rents paid by the Group to the PEGL Group are as follows:

	<b>Six months</b>		
	<b>ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Amount (RMB'000)	0	0	0

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## LETTER FROM THE BOARD

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*Notes:*

1. The historical amounts of the rents paid by the Group to the PEGL Group in the year ended 31 December 2010 was nil as the Company did not have leasing needs in such year.
2. In October 2011, the Company applied for the annual caps in respect of the years 2011 and 2012 due to restructure of the Group and redevelopment of plants, the Group needed to lease additional production, storage and office premises for temporary use, and as the premises of PEGL situated at No. 301, Zhongshan Road East, Nanjing City were close to the office location of the Company, the Company entered into an agreement for the lease of premises by PEGL to the Group. As such annual caps were approved on 28 December 2011, no transactions had been entered into in the year ended 31 December 2011.
3. In 2012, the Group has continued to optimize its industry structure, but has not entered into any transactions with NEIIC for the leasing of premises yet in the first half of the year. With continuing adjustments to the Group's industry structure, several lease transactions have taken place in the second half of 2012.

Although the historical amounts of the rents paid by the Group to the PEGL Group were nil, the lease of production, storage and office premises by the NEIIC Group to the Group is taken into account in the continued optimization of the Group's industrial structure, which will enable the Group to improve its operating efficiency and is advantageous to the Group.

With the change in ultimate controller of the Company to CEC, PEGL's controlling shareholder NEIIC and its subsidiaries have become connected persons of the Company. The Company has therefore signed the lease agreement with NEIIC.

10. Annual Cap: The amount of the proposed annual cap maintains at RMB2,000,000.00, which has been reached after arm's length negotiation between the parties and on normal commercial terms with reference to the nature of the transaction and the prevailing market prices, being prices no less favourable than those accepted or offered by an independent third party for similar leases in similar locations in the PRC.

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## LETTER FROM THE BOARD

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### (G) LICENSING OF PANDA TRADEMARK BY THE GROUP

1. Agreement: Agreement for licensing of PANDA trademark by the Group
2. Date: 26 October 2012
3. Term: From 1 January 2013 to 31 December 2015
4. Parties:
  - (i) The Company
  - (ii) CEC Home Appliances
5. Nature of Transaction: The grant of the right to use the PANDA Trademark by the Group to CEC Home Appliances in respect of certain television sets series produced by CEC Home Appliances which do not fall within any product category of the Group as set out in the Non-competition Agreement. The right to use the PANDA Trademark granted by the Group to CEC Home Appliances is non-exclusive. CEC Home Appliances undertakes to protect and to procure its related parties to protect the PANDA Trademark during the term of the Trademark Licence Agreement. The Company shall file a copy of the Trademark Licence Agreement with the State Trademark Office of the State Administration for Industry and Commerce (國家工商行政管理局商標局) within 3 months of the signing of the said agreement. In addition, the Group will renew the agreement with CEC Home Appliances for such licensing of trademark in light of the Restructuring and the actual circumstances of the trademark licence.
6. Existing Annual Cap: RMB3,000,000.00
7. Reasons for the Transaction: The grant of the right to use the PANDA Trademark to CEC Home Appliances can provide the Group with a stable source of income and can enhance the brand popularity of “PANDA” which in turn helps generate more revenue for the Group in future. Hence, the entering into of such transaction is beneficial to and in the interest of the Group.

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## LETTER FROM THE BOARD

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8. Pricing basis: The licence fees payable by CEC Home Appliances to the Group for the right to use the PANDA Trademark will be conducted in accordance with the Pricing Policies on arm's length negotiation between the parties and on normal commercial terms with reference to the overall business conditions of the television set markets in the PRC. In view of the severe competition in the television set market in the PRC, the licence fees per unit shall be slightly lower than that charged under the previous Trademark Licence Agreement which are as follows:

<b>Type of television</b>	<b>Fee per unit</b>
LCD	RMB3.00
CRT (34")	RMB5.00
CRT (29")	RMB3.00
CRT (25")	RMB2.00
CRT (21")	RMB1.00

The annual licence fees shall be payable by CEC Home Appliances to the Company in February 2014, February 2015 and February 2016 in arrears.

The annual licence fees were determined through consultation between the Company and CEC Home Appliances and taking into account market factors such as industry indicators for CEC Home Appliances, the asset value of the PANDA Trademark, and influence on the promotion of the Group's products and brand promotion.

In determining the annual licence fees, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to the overall business conditions of the television set markets in the PRC and the prices adopted in contracts for similar and related products between the Company and independent third parties.

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## LETTER FROM THE BOARD

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9. Historical Figures: The historical amounts of the licence fees paid by PEGL Group to the Group are as follows:

	<b>Six months</b>		
	<b>ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Amount (RMB'000)	0	512	416

*Notes:*

As agreed, the licence fees shall be settled every February annually. Therefore, the historical amount of the licence fees paid by PEGL Group to the Group for the six months ended 30 June 2012 was nil.

As also agreed, monthly statistics of the usage of the PANDA Trademark shall be prepared and checked. If it is expected that the Annual Cap will be exceeded, the Company will obtain Shareholders' approval for any revised Annual Cap.

10. Annual Cap: The proposed Annual Cap of not exceeding RMB3,000,000 has been determined with reference to:

- (i) the historical licence fees paid by the PEGL Group to the Group; and
- (ii) the Company's estimate of a substantial increase in the demand for the PANDA Trademark from CEC Home Appliances, in particular, one of the major productions of CEC Group in the coming years is LCD television sets:

Since its incorporation, CEC Home Appliances has strengthened its marketing capacities, building nationwide sales channels, with increasing sales volume and operating income. Its operating income in 2010 and 2011 came mainly from sales of television sets as seen as follows:

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## LETTER FROM THE BOARD

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	Year ended 31 December 2011 (audited)	Year ended 31 December 2010 (audited)
Total operating income (RMB)	1,092,321,798.51	716,094,186.58
Including: from sales of television sets (RMB)	1,054,887,147.67	672,294,610.51

In addition, 61 models of energy efficient flat-panel televisions of CEC Home Appliances were finalists in the “Directory for the Promotion of High Efficiency Flat-Panel TVs of the People Benefitting Project of Energy Saving Products 《節能產品惠民工程高效節能平板電視推廣目錄》” jointly announced by the National Development and Reform Commission, Ministry of Finance and the Ministry of Industry, which will be a strong impetus to increase the sales of electrical appliances of CEC Home Appliances.

Furthermore, in recent years, CEC’s efforts in the LCD flat panel display industry, with a complete industrial chain, provide a platform for CEC Home Appliances to become more competitive and influential, which will help expand its sales scale.

### **(H) PROVISION OF IMPORT & EXPORT AGENCY SERVICES BY THE PEGL GROUP**

1. Agreement: Agreement for provision of import & export agency services by the PEGL Group
2. Date: 26 October 2012
3. Term: From 1 January 2013 to 31 December 2015
4. Parties:
  - (i) The Company
  - (ii) Import & Export Company

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## LETTER FROM THE BOARD

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5. Nature of Transaction: Provision of services of importing certain raw materials and parts necessary for the Group's production activities and exporting certain products abroad by the Import & Export Company.

During the three financial years ending 31 December 2013, 31 December 2014 and 31 December 2015 respectively, the Group will continue appointing Import & Export Company as its non-exclusive import and export agent in respect of its electromechanical and other products and businesses.

6. Existing Annual Cap: RMB1,000,000.00

7. Reasons for the Transaction: Two of the Company's subsidiaries, namely Panda Information Industry and Panda Electronics Manufacturing have now in their possession import and export rights to trade their own products. As such, their demand for import and export agency services from the Import & Export Company will decrease in the future. However, considering the favourable import and export channels and the service advantages of the Import & Export Company, the Company is of the view that the continuation of such arrangement will provide the Group with excellent import and export agency services and thus is beneficial to and in the interest of the Group.

8. Pricing basis: The import and export agency services fees will be determined in accordance with the Pricing Policies on arm's length negotiation between the parties and on normal commercial terms with reference to the prevailing market prices, being prices not higher than those offered by an independent third party for similar import and export services in the PRC.

In determining the import and export agency services fees, as such prices are not subject to state-prescribed prices or state-recommended prices, Principle 3 of the Pricing Policies was adopted, and reference was made to local market conditions and the fees adopted in contracts for similar and related services between the Company and independent third parties.



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## LETTER FROM THE BOARD

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9. Historical Figures: The historical amounts of the fees charged by PEGL Group for the provision of import and export agency services to the Group are as follows:

	Six months		
	ended	Year ended	Year ended
	30 June	31 December	31 December
	2012	2011	2010
	(unaudited)	(audited)	(audited)
Amount (RMB'000)	0	0	0

*Notes:*

The historical amounts of the fees charged by PEGL Group for the provision of import and export agency services to the Group in the year ended 31 December 2010, year ended 31 December 2011 and six months ended 30 June 2012 were zero due to the following:

For the years 2010 and 2011, the Company had not yet engaged in import and export business through the subsidiaries of NEIC which provide import and export services, but had purchased products directly from Import & Export Company. In recent years, import and export companies in the PRC have faced fierce competition, in response to the shrinking of overseas markets and fierce competition in the domestic market, many import and export companies have adopted direct sales to increase sales revenue.

10. Annual Cap: The proposed Annual Cap maintained at RMB1,000,000 has been determined with reference to (i) the historical transaction amounts of the import and export services provided by the PEGL Group; and (ii) the establishment of the Company's own import and export entities as mentioned in paragraph 6 "Reasons for the Transaction" above and hence the expected drastic drop in the demand for import and export agency services from the PEGL Group in the coming three financial years ending 31 December 2013, 31 December 2014 and 31 December 2015.

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## LETTER FROM THE BOARD

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The Company has retained this category of continuing connected transactions and maintained the Annual Cap as (1) numbers of foreign exporters (such as equipment suppliers of Panda LCD) have specified that sales shall be conducted through Import & Export Company, and (2) taking into account that the import and export businesses of state-owned enterprises have adopted the two forms of direct sales and agency collection fees, after consultation with Import & Export Company, it is expected that in the next three years the import and export business will adopt the form of agency collection fees.

### (I) Financial Services Agreement

1. Agreement: Agreement for provision of financial services by CEC Finance to the Group
2. Date: 26 October 2012
3. Term: The Financial Services Agreement will have a term of three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM
4. Parties:
  - (1) The Company
  - (2) CEC Finance, a financial institution in the PRC which holds a corporate business licence with registration number 100000000007843(4-1) and a financial institution licence (金融機構法人許可證) with licence number L0014H211000001 to carry out the financing business
5. Major terms:
  - (i) Pursuant to the Financial Services Agreement, the financial services to be provided by CEC Finance to the Group include deposit services, loan and finance leasing services, provision of guarantee services, fund settlement services, assistance in the receipt and payment of transaction proceeds, bill acceptance and discount services and other services falling within the business scope of CEC Finance and as approved by CBRC.

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## LETTER FROM THE BOARD

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(ii) CEC Finance shall provide the aforesaid financial services in accordance with the following service principles:

(a) Deposit services

- (i) the interest rate payable for the Group's deposits with CEC Finance shall not be lower than the interest rate for deposits offered by other commercial banks in the PRC during the same period and such interest shall be calculated by way of the Accumulated Interest Method (日積數計算法) and shall be payable by CEC Finance to the Group on a quarterly basis; and
- (ii) the maximum daily deposit amount (including accrued interest) placed by the Group with CEC Finance during the term of the Financial Services Agreement shall not exceed RMB200,000,000.00.

(b) Loan services

- (i) the interest rate for loan granted to the Group by CEC Finance shall not be higher than the rate charged by the other commercial banks in the PRC and such interest shall be calculated by way of the Accumulated Interest Method (日積數計算法) and shall be payable by the Group to CEC Finance on a quarterly basis;
- (ii) the maximum daily balance for loan, loan guarantee and other credit financing services to be provided by CEC Finance to the Group during the term of the Financial Services Agreement shall not exceed RMB300,000,000.00.

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## LETTER FROM THE BOARD

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(c) Guarantee services

The fees payable by the Group to CEC Finance for the provision of guarantees by CEC Finance in favour of third parties in respect of credit facilities of the Company shall not be higher than the guarantee fees charged by the other commercial banks in the PRC for the same services during the same period.

- (iii) the Group may turn to (switch to) CEC Finance for the settlement services, bills acceptance and discount services currently provided by banks and other financial institutions, if such services fall within the business scope of CEC Finance and it is beneficial to the Group.
- (iv) the Company agrees to give preference to CEC Finance within the maximum amount as set out in the Financial Services Agreement over independent third parties in respect of other financial services within the business scope of CEC Finance if the service terms are better or the same. The Company may base on the market information to decide whether such terms offered by CEC Finance are more favourable or worse than those offered by other independent financial institutions.
- (v) CEC Finance shall provide the following to the Company for review: (1) a copy of every regulatory report submitted by CEC Finance to the CBRC; and (2) the financial statements of CEC Finance on the tenth business day after the end of each quarter.
- (vi) CEC Finance shall notify the Company on a timely basis in the event that there are any material changes to its corporate structure, any equity transactions or operational risks that affect its normal operation, and the Company shall have the right to discontinue the services provided by CEC Finance in such circumstances.

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## LETTER FROM THE BOARD

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(vii) CEC Finance shall immediately notify the Company of any runs on deposits, its failure to meet debt obligations when they fall due, when it has a large amount of overdue loans or guarantee advances, or suffers a severe computer breakdown, or being robbed or falling a victim of fraud or if any of its directors or senior management is in material breach of any regulations or involved in criminal cases or other significant matters, and CEC Finance shall take emergency measures in this regard.

(viii) In case of any event that may bring potential risks to the deposits placed by the Company, CEC Finance shall immediately notify the Company and take necessary measures.

6.     Reasons for the transaction:     Before entering into the Financial Service Agreement, the Company had not entered into any transaction with CEC Finance. Through the connected transaction under the Financial Service Agreement, the Group can secure a long-term stable and reliable financing channel. The professional advantages and quality and convenient services of CEC Finance would help the Company to reduce finance costs and raise the utilization efficiency of the Group's funds, thereby improving the Group's overall economic benefits and contributing to its continuous stable development.

7.     Pricing policy:     Pursuant to the Financial Services Agreement, the fees and charges payable by the Group to CEC Finance or interest receivable by the Group from CEC Finance shall be determined according to the following basis:

(1)    Deposit services

The interest rate on deposits shall not be lower than that offered by other commercial banks in the PRC during the same period.

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## LETTER FROM THE BOARD

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(2) Loan, loan guarantee and other credit financing services

The fees payable by the Group to CEC Finance for guarantees for loans taken out by the Company and its controlled subsidiaries from third parties shall not be higher than the guarantee fees charged by the other commercial banks in the PRC during the same period.

8. Proposed caps: In recent years, by adjusting its industrial structure, rationalizing its shareholdings, optimizing the industrial layout, the business of the Company has developed rapidly. The Company's capital needs have increased along with the expansion of its business scale. Since 2009, the total short-term loans of the company has maintained at above RMB300,000,000.

The operating income and short-term loans of the Company since 2009 are as follows:

	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>Jan - Jun</b>	<b>31 Dec</b>	<b>31 Dec</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Operating income			
<i>(RMB'000)</i>	1,056,091	2,142,395	1,674,972
	<b>30 June</b>	<b>31 Dec</b>	<b>31 Dec</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(unaudited)	(audited)	(audited)
Short-term loans			
<i>(RMB'000)</i>	507,000	358,307	478,000
		<b>31 Dec</b>	<b>31 Dec</b>
		<b>2011</b>	<b>2009</b>
		(audited)	(audited)

Since 2009, the monetary policy in the PRC has emphasized more prudent financing. As a result, financing is more difficult to obtain and there has been an increase in financing costs. The Company signed the Financial Services Agreement with CEC Finance which will provide the Company with stable financing channels, with financing costs not higher than fees charged by other commercial banks in the PRC, and simplified loan approval procedures.

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## LETTER FROM THE BOARD

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(1) Deposit balance

The Group will diversify fund risks by placing a portion of its cash with CEC Finance and the remaining portion with other commercial banks in the PRC. The daily maximum balance of the Group's deposits with CEC shall be RMB200,000,000.00, which is determined with reference to (i) the deposit to loan ratio requirements of financial institutions, (ii) the security of the Company's cash and bank balances, (iii) the continuous growth and enlarged business scale of the Group; and (iv) the Group's estimates on future demands and operating conditions;

(2) Loan, loan guarantee and other credit financing services

The maximum daily balance for loan, loan guarantee and other credit financing services to be provided by CEC Finance to the Group during the term of the Financial Services Agreement shall not exceed RMB300,000,000.00, which is determined with reference to (i) the Company's actual funding requirements and business development needs in 2009 to 2012, (ii) the continuous growth and enlarged business scale of the Group; and (iii) the Group's estimates on future demands and operating conditions.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW CONTINUING CONNECTED TRANSACTION AND RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS**

The respective reasons for and benefits of each of the New Continuing Connected Transaction and renewal of the Existing Continuing Connected Transactions are set out under the respective paragraphs headed "Reasons for the Transaction" under the section headed "PARTICULARS OF THE NEW CONTINUING CONNECTED TRANSACTION AND RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS" above.

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## LETTER FROM THE BOARD

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The Board is of the opinion that as the Group started business relationship with the PEGL Group since the listing of the Company in 1996, the services mutually provided between the PEGL Group and the Group have reached satisfactory results and provided overall business and operational convenience to the Group. Moreover, it is expected that the Sub-contracting Agreement and Sale Agreement will provide a stable source of income to the Group, and that the Group will secure a steady and reliable supply of quality services, materials, components and parts through the CEC Sub-contracting Agreement and Purchase Agreement. In addition, the Group will renew relevant agreements with CEC /NEIIC for such continuing connected transactions in light of the Restructuring.

Before entering into the Financial Service Agreement, the Company had not entered into any transaction with CEC Finance. Through the transactions contemplated under the Financial Services Agreement, the Group can secure a long-term stable and reliable financing channel.

With CEC Finance providing settlement services to the Group, the funds remain within the Group and the economic interests of members of the Group are unaffected, CEC provides assistance to the enterprises to reduce their operating costs, optimize their financial processes, accelerate cash flow and improve operational efficiency as follows:

### **Reduction of operating costs and improving economic efficiency**

CEC Finance, to the extent as permitted by relevant policies and regulations and the financial environment, can maximize deposit and lending interest rate concessions to members of the Group. CEC Finance will exempt members of the Group from settlement fees for transfer of funds.

### **Safe and reliable online banking system to improve work efficiency**

CEC Finance will provide a secure and stable financial settlement system and fast and efficient clearing and settlement services, emphasizing confidentiality to clients. CEC Finance will also provide a safe and reliable online banking system to members of the Group, with complete autonomy in scheduling payments and deposits and other operations. Members of the Group may complete fund settlements online, which will greatly improve work efficiency.

### **Transmission time reduction and increasing speed of operation of funds**

CEC Finance's services will credit member-to-member transfers of funds to the accounts of members of the Group in real-time, with interbank operations (domestic or remote) to be settled within 2 hours through the People's Bank of China's clearing system, which assists members of the Group to reduce the amount of in-transit funds and accelerates cash flow.



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## LETTER FROM THE BOARD

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### **Personalized financial services and financing credit protection**

CEC Finance, as the financial institution for CEC, has an in-depth understanding of members of the Group, their business situation, development plans and operations, and is thus able to provide personalized financial services and comprehensive financial products with simplified and timely application and approval procedures to meet the needs of the members of the Group. In addition, CEC Finance shall operate as CEC's internal funding pool to provide assistance to members of the Group to effectively adapt to macro-controls and tightening of monetary policy which have made external financing more difficult to obtain with rising costs of financing, to ensure the stable development of the businesses of the members of the Group.

The professional advantages and quality and convenient services of CEC Finance described above would help the Company to reduce finance costs and raise the utilization efficiency of the Group's funds, thereby improving the Group's overall economic benefits and contributing to its continuous stable development.

Taking into account the above, the Board (including the independent non-executive Directors) considers that it is in the interest of the Company to renew the Existing Continuing Connected Transactions and to engage in the New Continuing Connected Transaction and that the terms of the CCT Agreements have been negotiated at arm's length and on normal commercial terms and the Annual Caps and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **REQUIREMENTS UNDER THE LISTING RULES**

As stated above, CEC is the ultimate controller of the Company and PEGL is the controlling shareholder of the Company, holding approximately 51.10% of the total issued share capital of the Company. Pursuant to the Listing Rules, CEC, PEGL and their respective associates are connected persons of the Company and the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company.

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## LETTER FROM THE BOARD

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As the respective applicable percentage ratios for the transactions contemplated under the Sub-contracting Agreement and the proposed deposit transactions contemplated under the Financial Services Agreement exceed 5% and the relevant annual consideration is more than HK\$10,000,000, and the respective applicable percentage ratios for transactions contemplated under the Sale Agreement and the Purchase Agreement exceed 25%, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However, as the respective applicable percentage ratios for the transactions contemplated under CEC Sub-contracting Agreement, the Lease Agreement, the NEIC Group Lease Agreement, the Trademark Licence Agreement and the PEGL Import & Export Agency Agreement are below 5%, such transactions are only subject to the reporting, annual review and announcement requirements and are exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However, for the sake of good corporate governance, the Board will submit all of the aforesaid agreements to the EGM for the Independent Shareholders' approval.

CEC and its associates will abstain from voting on the resolutions to approve the New Continuing Connected Transaction and renewal of the Existing Continuing Connected Transactions at the EGM.

### INFORMATION ON THE PARTIES

The Group is principally engaged in the development, manufacture and sale of electronic equipment products, electronic intelligent products, communication technology products and electronic manufacturing business.

The PEGL Group is principally engaged in the development, manufacture and sale of communication equipment, computer and other electronic equipment; instruments and apparatus, cultural and office machines; electricity transmission, distribution and control equipment; environmental protection, public safety and other equipment; financial tax control products, power supply products; computer services, software and system integration; as well as sale and technical support services for the products developed by the PEGL Group.

The NEIC Group is principally engaged in the research and development, services and transfer of electronic information technologies; research and development, manufacture, sale and relevant services of electronic products; design, construction and relevant services of electronic engineering; investment in real estate; property management; industrial investment and assets operation and management services.

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## LETTER FROM THE BOARD

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The CEC Group is engaged in operations including research and development, manufacture, trade, logistics and services of electronic information technologies and products, and provision of self-innovated electronic information technologies, products and services, making great contributions to the construction of national economic informationisation and guaranteeing the security of national information.

The predecessor of CEC Finance is China Information Trust Investment Corporation, which was approved by the People's Bank of China on 15 March 1988 and registered with the State Administration for Industry and Commerce on 21 April 1988. China Information Trust Investment Corporation was a national non-banking financial institution under the direct governance of the Ministry of Electronics Industry with its business operations under the administration and supervision of the People's Bank of China, the State Administration of Foreign Exchange and CBRC.

On 6 November 2000, China Information Trust Investment Corporation was reorganized into CEC Finance and was transformed from a non-banking financial institution rendering financial services to the public to a financial institution pursuing economic benefits for and providing financing services to the members of the CEC Group. CEC Finance has a registered capital of RMB1.05 billion (including US\$15 million), among which RMB535 million, representing 50.932% of the total share capital, was contributed by CEC, the largest shareholder and ultimate controller of CEC Finance; and a total of RMB515 million are contributed by five other group members.

CEC Finance holds a corporate business licence with registration number 100000000007843(4-1), with its operating range including:

- (i) provision of financial and financial advisory services,
- (ii) credit verification and consulting agency services,
- (iii) provision of assistance to member companies in receipt and payment of transaction proceeds;
- (iv) provision of guarantees to member companies;
- (v) dealing with commissioned loans and entrusted investments between member companies;
- (vi) provision of bill acceptance and bill discount services to member companies;
- (vii) provision of intra-group transfer and settlement services to member companies and liquidation planning;

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## LETTER FROM THE BOARD

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- (viii) provision of deposit services to member companies;
- (ix) provision of loans and finance leasing services to member companies;
- (x) interbank lending and borrowing;
- (xi) issuing bonds;
- (xii) underwriting corporate bonds of member companies;
- (xiii) portfolio investment, with investment range limited to government bonds in the interbank market, central bank bills, financial bonds, short-term financing bonds, corporate bonds, money market funds, and purchase of new shares.

In addition, CEC Finance holds a financial institution licence (金融機構法人許可證) with licence number L0014H211000001.

CEC, the ultimate controlling shareholder of the Company, owns 50.932% of CEC Finance and indirectly holds 56.85% of the issued share capital of PEG.L. PEG.L will be a subsidiary of CEC and holds 51.1% of the total issued shares of the Company. Hence CEC Finance is therefore a connected person of the Company.

As far as the Directors are aware, CEC Finance has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations. It has established corporate governance structure to ensure the effectiveness of its internal controls including the establishment of a number of committees including the nomination committee, remuneration and appraisal committee, the risk control committee and the audit committee to predict, evaluate and control the risks involved in its business operation.

In assessing the financial risks involved in placing deposits with CEC Finance, the Directors have taken into account the following factors:

- (a) the operations of CEC Finance are subject to the supervision of the People's Bank of China and CBRC and are regulated by the relevant PRC financial services rules and regulations;
- (b) CEC Finance has established internal control and risk management systems in accordance with the relevant PRC financial services rules and regulations;

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## LETTER FROM THE BOARD

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- (c) the major supervisory indicators of CEC Finance including the gearing ratio and current ratios are in compliance with Clause 34 of “Management of Group Finance Company” and other requirements of CBRC; and
- (d) Pursuant to Article 48 of the Articles of Association of CEC Finance, CEC undertakes to provide support by way of injecting additional capital to CEC Finance if and when CEC Finance has difficulties in meeting its payment obligations.

### **INTERNAL CONTROL PROCEDURES AND CORPORATE GOVERNANCE MEASURES**

In order to protect the interests of the Shareholders, the Company will adopt the following internal control procedures and corporate governance measures in relation to its utilisation of CEC Finance’s financial services:

- (a) the Company will establish a leading group for preventing and addressing the deposit risks to be in charge of matters in relation to deposit risk prevention and handling and monitoring the status of deposits and operations of CEC Finance;
- (b) the Company will establish a deposit risk reporting system, whereby the treasury and finance department will be responsible for drafting the deposit risk assessment report and assess the operation qualifications, business and risk profile of CEC Finance, which shall be regularly or provisionally reported to the Board of the Company;
- (c) during the existence period of deposit business, the Company will annually obtain and review the financial report of CEC Finance as audited by a qualified accounting firm, and designate special agencies and personnel to assess the risk profile of capital placed with CEC Finance every half year. The assessment report will be disclosed in the interim report and annual report of the Company after the consideration and approval by the Board of the Company;
- (d) a copy of every regulatory report submitted by CEC Finance to CBRC will be provided to the Company for review; and
- (e) the financial statements of CEC Finance will be provided to the Company for review on the tenth business day after the end of each quarter.

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## LETTER FROM THE BOARD

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The Board considers that the above internal control procedures and corporate governance measures proposed to be adopted by the Company concerning the continuing connected transactions are appropriate and that the procedures and measures will give sufficient assurance to the Shareholders that the continuing connected transactions will be appropriately monitored by the Company.

### V. THE EGM

A notice convening the EGM was despatched to the Shareholders on 26 October 2012. Please refer to the announcement of the Company dated 2 November 2012 for details of the EGM which was postponed to be held at the Company's Conference Room, 301 Zhongshan Road East, Nanjing, the People's Republic of China on Friday, 21 December 2012 at 9:30 a.m. The register of members relating to H-shares of the Company will be closed from 21 November 2012 to 21 December 2012, both days inclusive, during which period no transfer of H-shares of the Company will be registered. In order to attend the EGM, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Hong Kong Registrars Limited, at 46th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 20 November 2012.

Pursuant to Rule 14A.59(5) of the Listing Rules, any connected person with a material interest in any of the Continuing Connected Transactions, and any Shareholder with a material interest in the any of the Continuing Connected Transactions and its associates will not vote on such transactions.

As at the Latest Practicable Date, PEGL is the controlling Shareholder of the Company, holding approximately 51.10% of the total issued share capital of the Company, NEIIC is the controlling shareholder of PEGL holding 56.85% of the issued share capital of PEGL, and CEC is the ultimate controller of the Company, holding 70% of the issued share capital of NEIIC. PEGL, NEIIC and CEC are all therefore connected persons of the Company.

As disclosed in Appendix I to this circular, Mr. Lai holds offices in CEC and PEGL, Mr. Xu holds offices in NEIIC and PEGL, Mr. Zhu, Mr. Deng and Mr. Lu hold offices in PEGL, and Mr. Hsuan holds an office in TPV Technology, and are all therefore connected persons of the Company and had abstained from voting on the relevant resolutions of the Board approving the Existing Continuing Connected Transactions and/or the New Continuing Connected Transaction.

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## LETTER FROM THE BOARD

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Mr. Xu, Mr. Zhu and Ms. Zhang, who hold approximately 0.00039%, 0.00071% and 0.00067% respectively of the total issued share capital of the Company, are connected persons of the Company. Mr. Xu holds offices in NEIC and PEGL and Mr. Zhu and Ms. Zhang hold offices in PEGL as disclosed in Appendix I to this circular. Therefore, CEC, NEIC, PEGL and its associates, Mr. Xu, Mr. Zhu and Ms. Zhang will be required to abstain from voting in respect of the resolutions approving the Existing Continuing Connected Transactions and the New Continuing Connected Transaction. Save as disclosed above, no other associates of CEC, NEIC or PEGL holds any shares in the Company and will be required to abstain from voting in respect of the resolutions approving the Existing Continuing Connected Transactions and the New Continuing Connected Transaction.

### **VI. PROXY ARRANGEMENT**

The Supplemental Proxy Forms were despatched to the Shareholders on 6 November 2012. Whether or not you intend to attend the EGM, you are requested to complete the Supplemental Proxy Form in accordance with the instructions printed thereon and return the same to the office of the Company as soon as possible but in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the Supplemental Proxy Form will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

### **VII. VOTING BY POLL**

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by way of poll. The results of the poll will be published on the HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.panda.cn](http://www.panda.cn) after the EGM as soon as possible.

### **VIII. RECOMMENDATION**

The Directors (including the independent non-executive Directors) are of the opinion that the adoption of the proposed Shareholders' Return Plan, proposed amendments to the Articles of Association and the Continuing Connected Transactions are all in the interests of the Company and the Shareholders. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

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## LETTER FROM THE BOARD

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The text of the letter from the Independent Board Committee is set out on page 56 of this circular. The text of the letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on page 57 of this circular. Independent Shareholders are strongly recommended to read carefully these two letters for details of the advice.

### **IX. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices to this circular as required under the Listing Rules

By order of the Board  
**Nanjing Panda Electronics Company Limited**  
**Lai Weide**  
*Chairman*



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.*



**南京熊猫电子股份有限公司**  
**NANJING PANDA ELECTRONICS COMPANY LIMITED**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0553)

6 December 2012

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Continuing Connected Transactions contemplated under the CCT Agreements, details of which are set out in the Letter from the Board contained in the circular dated 6 December 2012 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Unless specified otherwise, capitalized terms used herein shall have the same meanings as those defined in the Circular.

Having considered the terms of the CCT Agreements and the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned and having considered the advice of Guangdong Securities and the principal factors and reasons taken into consideration by it in arriving at its advice as set out on pages 57 to 80 of the Circular, we are of the opinion that the terms of the CCT Agreements are fair and reasonable and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of the  
Independent Board Committee

**Ms. Zhang Xiuhua Ms. Liu Danping Mr. Chu Wai Tsun, Vincent**  
*Independent Non-executive Directors*

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## LETTER FROM GUANGDONG SECURITIES

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*Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction for the purpose of inclusion in this circular.*



Units 2505-06, 25/F.  
Low Block of Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

6 December 2012

*To: The independent board committee and the independent shareholders  
of Nanjing Panda Electronics Company Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 6 December 2012 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the announcements and circulars of the Company dated 15 October 2009, 5 November 2009, 21 October 2011 and 18 November 2011 in relation to, among other matters, certain continuing connected transactions between the Company and certain connected persons of the Company for a term of three years commencing from 1 January 2010 and expiring on 31 December 2012.

The Group carries out transactions with CEC and its subsidiaries from time to time in the ordinary and usual course of business. As the ultimate controller of the Company changed to CEC on 21 September 2012, CEC and its subsidiaries become connected persons of the Company. Therefore, the transactions to be entered into between the Company and CEC and its subsidiaries will also constitute connected transactions of the Company.

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## LETTER FROM GUANGDONG SECURITIES

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The Existing CCT Agreements of the Company will expire on 31 December 2012 and the Existing Continuing Connected Transactions are expected to continue after the expiration. As the business scale of the Group keeps growing, the Board proposes to renew the Existing Continuing Connected Transactions and enter into the New Continuing Connected Transaction between the Group and CEC Group.

As stated above, CEC is the ultimate controller of the Company and PEGL is the controlling shareholder of the Company, holding approximately 51.10% of the total issued share capital of the Company. Pursuant to the Listing Rules, CEC, PEGL and their respective associates are connected persons of the Company and the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company.

As the respective applicable percentage ratios for the transactions contemplated under the Sub-contracting Agreement and the deposit transactions (which constitutes the financial assistance provided by the Company to CEC) contemplated under the Financial Services Agreement exceed 5% and the relevant annual consideration is more than HK\$10,000,000, and the respective applicable percentage ratios for transactions contemplated under the Sale Agreement and the Purchase Agreement exceed 25%, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However, as the respective applicable percentage ratios for the transactions contemplated under CEC Sub-contracting Agreement, the Lease Agreement, the NEIIC Group Lease Agreement, the Trademark Licence Agreement and the PEGL Import & Export Agency Agreement are below 5%, such transactions are only subject to the reporting, annual review and announcement requirements and are exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However, for the sake of good corporate governance, the Board will submit all of the aforesaid agreements to the EGM for the Independent Shareholders' approval.

CEC and its associates will abstain from voting on the resolutions to approve the New Continuing Connected Transaction and renewal of the Existing Continuing Connected Transactions at the EGM.

The Independent Board Committee comprising Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Existing CCT Agreements (together with the Annual Caps) and the New CCT Agreement (together with its proposed annual caps (the "**Proposed Cap(s)**")) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the renewal of the Existing Continuing Connected Transactions and the entering into of the New Continuing Connected Transaction are in the interests of the Company and the Shareholders as a whole. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

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## LETTER FROM GUANGDONG SECURITIES

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### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the CEC Group, the NEIIC Group, the PEGL Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the renewal of the Existing Continuing Connected Transactions and the entering into of the New Continuing Connected Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

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## LETTER FROM GUANGDONG SECURITIES

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the renewal of the Existing Continuing Connected Transactions, the Annual Caps, the New Continuing Connected Transaction and its Proposed Caps, we have taken into consideration the following principal factors and reasons:

**(1) Background of the renewal of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction**

*Information on the Group*

The Group is principally engaged in the development, manufacture and sale of electronic equipment products, electronic intelligent products, communication technology products and electronic manufacturing business.

Set out below are the segmental information of the unaudited financial information on the Group for the six months ended 30 June 2012 and the two years ended 31 December 2011 as extracted from the interim report of the Company for the six months ended 30 June 2012 (the “**2012 Interim Report**”) and the annual report of the Company for the year ended 31 December 2011 (the “**2011 Annual Report**”):

	<b>For the six months ended 30 June 2012</b>	<b>For the year ended 31 December 2011</b>	<b>For the year ended 31 December 2010</b>	<b>% growth from 2010 to 2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Electronic manufacturing products	300,677	649,877	603,421	7.70
Electronic equipment products	218,062	450,616	284,750	58.25
Communication technology products	244,196	301,647	233,295	29.30
Electronic intelligent products	238,048	655,866	517,660	26.70
Other operations	40,762	57,635	25,759	123.75
<b>Total turnover</b>	<b><u>1,041,745</u></b>	<b><u>2,115,641</u></b>	<b><u>1,664,885</u></b>	<b><u>27.07</u></b>

The above table depicted that the Group’s financial performance in all business segments improved significantly from 2010 to 2011, especially for the segment of electronic equipment products and other operations.

### *Information on the PEGL Group*

The PEGL Group is principally engaged in the development, manufacture and sale of (i) communication equipment, computer and other electronic equipment; (ii) instruments and apparatus, cultural and office machines; (iii) electricity transmission, distribution and control equipment; (iv) environmental protection, public safety and other equipment; (v) financial tax control products, power supply products; (vi) computer services, software and system integration; as well as sale and technical support services for the products developed by the PEGL.

### *Information on the NEIIC Group*

The NEIIC Group is principally engaged in the research and development (“**R&D**”), services and transfer of electronic information technologies; R&D, manufacture, sale and relevant services of electronic products; design, construction and relevant services of electronic engineering; investment in real estate; property management; industrial investment and assets operation and management services.

### *Information on the CEC Group*

The CEC Group is engaged in the operations including R&D, manufacture, trade, logistics and services of electronic information technologies and products, and provision of self-innovated electronic information technologies, products and services, making great contributions to the construction of national economic informationisation and guaranteeing the security of national information.

### *Information on the CEC Finance*

The predecessor of CEC Finance is China Information Trust Investment Corporation, which was approved by the People’s Bank of China on 15 March 1988 and registered with the State Administration for Industry and Commerce on 21 April 1988. China Information Trust Investment Corporation was a national non-bank financial institution under the direct governance of the Ministry of Electronics Industry with its business operations under the administration and supervision of the People’s Bank of China, the State administration of Foreign Exchange and CBRC.

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## LETTER FROM GUANGDONG SECURITIES

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On 6 November 2000, China Information Trust Investment Corporation was reorganized into CEC Finance and was transformed from a non-bank financial institution rendering financial services to the public to a financial institution pursuing economic benefits for and providing financing services to the members of the group company. CEC Finance has a registered capital of RMB1.05 billion (including US\$15 million), among which RMB535 million, representing 50.932% of the total share capital, was contributed by CEC, the largest shareholder and ultimate controller of CEC Finance.

**(2) Reasons for the renewal of the Existing Continuing Connected Transactions and the entering into of the New Continuing Connected Transaction**

With reference to the Board Letter, the Board is of the opinion that as the Group started business relationship with the PEGL Group since the listing of the Company in 1996, the services mutually provided between the PEGL Group and the Group have reached satisfactory results and provided overall business and operational convenience to the Group. Moreover, it is expected that the Sub-contracting Agreement and Sale Agreement will provide a stable source of income to the Group, and that the Group will secure a steady and reliable supply of quality services, materials, components and parts through the CEC Sub-contracting Agreement and Purchase Agreement. In addition, the Group will renew relevant agreements with CEC/NEIIC for such continuing connected transactions in light of the Restructuring.

The respective reasons for entering into the CCT Agreements for the Connected Transactions, are set out under the respective paragraphs headed “Reasons for the transaction” under the section headed “Particulars of the New Continuing Connected Transaction and renewal of the Existing Continuing Connected Transactions” in the Board Letter. The Directors consider that it is in the interest of the Company to renew the Existing Continuing Connected Transactions and to be engaged in the New Continuing Connected Transaction.

We noted that both of the Lease Agreement and the NEIIC Group Lease Agreement cover the lease of vacant premises and other idle equipments situated at No. 301, Zhongshan Road East, Nanjing City. We have enquired into the Directors and were advised that the Lease Agreement and the NEIIC Group Lease Agreement cover different vacant premises and other idle equipments situated at the same land. The above leasing arrangement is determined based on the operational needs (e.g. areas required, equipments required, and production lines required) of each of the Group and the NEIIC Group.

In addition, with reference to the Board Letter, through the transactions contemplated under the Financial Services Agreement, the Group can secure a long-term stable and reliable financing channel. The professional advantages and quality and convenient services of CEC Finance would help the Company to reduce finance costs and raise the utilisation efficiency of the Group’s funds, thereby improving the Group’s overall economic benefits and contributing to its continuous stable development.

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## LETTER FROM GUANGDONG SECURITIES

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Having considered the reasons for and benefits of the renewal of the Existing Continuing Connected Transactions and the entering into of the New Continuing Connected Transaction, we concur with the Directors that the renewal of the Existing Continuing Connected Transactions and the entering into of New Continuing Connected Transaction are in the interests of the Company and the Shareholders as a whole as such transactions have facilitated and would continue to facilitate the operation and growth of the Group's business (as the case may be).

### (3) Principal terms of the Supplemental Agreements

The tables below summarise the major terms of each of the CCT Agreements dated 26 October 2012 as referred to in the Board Letter:

#### (A) *Provision of sub-contracting & composite services by the Group ("CCT 1")*

<b>Agreement:</b>	Sub-contracting Agreement
<b>Date:</b>	26 October 2012
<b>Term:</b>	From 1 January 2013 to 31 December 2015
<b>Parties:</b>	(i) The Company  (ii) CEC
<b>Nature of transaction:</b>	Provision of sub-contracting services including manufacture of external plastic casings for television sets, processing of machinery facilities, processing of surface mount technology, and quality control services by the Group to the CEC Group.  Provision of composite services including apparatus maintenance, periodic inspection of measuring instruments and equipments, and computer network services by the Group to the CEC Group.
<b>Annual Cap:</b>	RMB90,500,000 for each of the three years ending 31 December 2015



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## LETTER FROM GUANGDONG SECURITIES

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For our due diligence purpose, we have reviewed, on a random basis, certain sub-contracting agreements entered into between (i) the Group and independent third parties; and (ii) the Group and the CEC Group. We noted that (i) the major terms (including the pricing, payment terms, quality check, etc.) offered by the Group to those independent third parties for sub-contracting services provided by the Group are similar to those offered by the Group to the CEC Group; and (ii) the pricing of the CCT 1 is in accordance with the applicable Pricing Policies.

**(B) Receipt of sub-contracting & composite services from the CEC Group (“CCT 2”)**

**Agreement:** CEC Sub-contracting Agreement

**Date:** 26 October 2012

**Term:** From 1 January 2013 to 31 December 2015

**Parties:** (i) The Company

(ii) CEC

**Nature of transaction:** Provision of sub-contracting services in respect of processing of raw materials or semi-finished products for satellite communication, electronic production, information and electromechanical products by the CEC Group to the Group.

Provision of composite services including property management services, machinery maintenance services and other utility services in factory premises, and medical services, social and recreational services and other general welfare services for the Group’s employees and families (if applicable) by the CEC Group to the Group.

**Annual Cap:** RMB12,500,000 for each of the three years ending 31 December 2015

For our due diligence purpose, we have reviewed, on a random basis, certain sub-contracting agreements entered into between (i) the Group and independent third parties; and (ii) the Group and the CEC Group. We noted that (i) the major terms (including the pricing, payment terms, responsibilities, etc.) offered by those independent third parties to the Group for sub-contracting services provided to the Group are similar to those offered by CEC Group to the Group; and (ii) the pricing of the CCT 2 is in accordance with the applicable Pricing Policies.

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## LETTER FROM GUANGDONG SECURITIES

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*(C) Sale of materials, components & parts by the Group (“CCT 3”)*

<b>Agreement:</b>	Sale Agreement
<b>Date:</b>	26 October 2012
<b>Term:</b>	From 1 January 2013 to 31 December 2015
<b>Parties:</b>	(i) The Company  (ii) CEC
<b>Nature of transaction:</b>	Provision of materials, components and parts by the Group to the CEC Group including raw materials, metal and plastic parts necessary for manufacture of television sets, shortwave communication products and trading business, office information products such as calculators and software as well as processing products.
<b>Annual Cap:</b>	RMB612,600,000 for each of the three years ending 31 December 2015

For our due diligence purpose, we have reviewed, on a random basis, certain sales and purchase agreements entered into between (i) the Group and independent third parties; and (ii) the Group and the CEC Group. We noted that (i) the major terms (including the pricing, payment terms, delivery terms, quality check, etc.) offered by the Group to those independent third parties for products of the Group are similar to those offered by the Group to the CEC Group; and (ii) the pricing of the CCT 3 is in accordance with the applicable Pricing Policies.

*(D) Purchase of materials, components & parts from the CEC Group (“CCT 4”)*

<b>Agreement:</b>	Purchase Agreement
<b>Date:</b>	26 October 2012
<b>Term:</b>	From 1 January 2013 to 31 December 2015
<b>Parties:</b>	(i) The Company  (ii) CEC

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## LETTER FROM GUANGDONG SECURITIES

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**Nature of transaction:** Provision of materials, components and parts necessary for production of electronic manufacturing, satellite communication, information and electronic equipment products by the CEC Group to the Group.

**Annual Cap:** RMB292,900,000 for each of the three years ending 31 December 2015

For our due diligence purpose, we have reviewed, on a random basis, certain sales and purchase contracts entered into between (i) the Group and independent third parties; and (ii) the Group and the CEC Group. We noted that the major terms (including the pricing, payment terms, delivery terms, quality check, etc.) offered by the independent third parties for the provision products to the Group is similar to those offered by the CEC Group to the Group; and (ii) the pricing of the CCT 4 is in accordance with the applicable Pricing Policies.

*(E) Lease of premises by the Group and Equipment (“CCT 5”)*

**Agreement:** Lease Agreement

**Date:** 26 October 2012

**Term:** From 1 January 2013 to 31 December 2015

**Parties:** (i) The Company

(ii) NEIIC

**Nature of transaction:** Lease of vacant premises and certain idle equipment by the Group to the NEIIC Group which are situated at No. 301, Zhongshan Road East, Nanjing City and Nanjing New Economic and Technological Zone, for the purpose of manufacture and operation.

**Annual Cap:** RMB11,000,000 for each of the three years ending 31 December 2015

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## LETTER FROM GUANGDONG SECURITIES

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For our due diligence purpose, we have reviewed, on a random basis, certain rental contracts entered into between (i) the Group and independent third parties; and (ii) the Group and the NEIIC Group. We noted that the major terms (including the rental price, payment terms, maintenance obligations, termination clauses, etc.) offered by the Group to those independent third parties for similar leases in similar locations are similar to those offered by the Group to the NEIIC Group; and (ii) the pricing of the CCT 5 is in accordance with the applicable Pricing Policies.

**(F) *Lease of premises by the NEIIC Group and Equipment (“CCT 6”)***

**Agreement:** NEIIC Group Lease Agreement

**Date:** 26 October 2012

**Term:** From 1 January 2013 to 31 December 2015

**Parties:** (i) The Company  
(ii) NEIIC

**Nature of transaction:** Lease of vacant premises situated at No. 301, Zhongshan Road East, Nanjing City, other vacant premises with title rights and other idle equipments by the NEIIC Group to the Group for its production and business purposes.

**Annual Cap:** RMB2,000,000 for each of the three years ending 31 December 2015

For our due diligence purpose, we have reviewed, on a random basis, certain rental contracts entered into between (i) the NEIIC Group and independent third parties; and (ii) the Group and the NEIIC Group. We noted that the major terms (including the rental price, payment terms, maintenance obligations, termination clauses, etc.) offered by the NEIIC Group to such independent third parties for similar leases in similar locations are similar to those offered by the NEIIC Group to the Group; and (ii) the pricing of the CCT 6 is in accordance with the applicable Pricing Policies.

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## LETTER FROM GUANGDONG SECURITIES

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**(G) *Licensing of panda trademark by the Group (“CCT 7”)***

**Agreement:** Trademark Licence Agreement

**Date:** 26 October 2012

**Term:** From 1 January 2013 to 31 December 2015

**Parties:** (i) The Company  
(ii) CEC Home Appliances

**Nature of transaction:** The grant of the right to use the PANDA Trademark by the Group to CEC Home Appliances in respect of certain television sets series produced by CEC Home Appliances which do not fall within any product category of the Group as set out in the Non-competition Agreement. The right to use the PANDA Trademark granted by the Group to CEC Home Appliances is non-exclusive. CEC Home Appliances undertakes to protect and to procure its related parties to protect the PANDA Trademark during the term of the Trademark Licence Agreement. The Company shall file a copy of the Trademark Licence Agreement with the State Trademark Office of the State Administration for Industry and Commerce within 3 months of the signing of the said agreement. In addition, the Group will renew the agreement with CEC Home Appliances for such licensing of trademark in light of the Restructuring and the actual circumstances of the trademark licence.

**Annual Cap:** RMB3,000,000 for each of the three years ending 31 December 2015

Upon our enquiry, we were advised by the Directors that the Company has not granted the right to use the PANDA Trademark to independent third parties. Accordingly, there is no comparable agreement to the Trademark Licence Agreement. Nevertheless, we noted that the right to use the PANDA Trademark to be granted to CEC Home Appliances is properly governed by stringent terms under the Trademark Licence Agreement, including but not limited to that (i) the right to use the PANDA Trademark shall not be transferred to a third party without the prior consent from the Company; (ii) the use of the PANDA Trademark shall not exceed the scope of use; (iii) CEC Home Appliances should meet the quality control requirement for use of the PANDA Trademark as set by the Company; and (iv) the Company has right to terminate the Trademark Licence Agreement in the event that CEC Home Appliances continuously harms the goodwill of the Company regarding, amongst other things, the quality of the product (with PANDA Trademark) and the after-sale service. In addition, we noted that the pricing of the CCT 7 is in accordance with the applicable Pricing Policies.

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## LETTER FROM GUANGDONG SECURITIES

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*(H) Provision of import & export agency services by the PEGL Group (“CCT 8”)*

**Agreement:** PEGL Import & Export Agency Agreement

**Date:** 26 October 2012

**Term:** From 1 January 2013 to 31 December 2015

**Parties:** (i) The Company  
(ii) Import & Export Company

**Nature of transaction:** Provision of services of importing certain raw materials and parts necessary for the Group’s production activities and exporting certain products abroad by the Import & Export Company.

**Annual Cap:** RMB1,000,000 for each of the three years ending 31 December 2015

For our due diligence purpose, we have reviewed, on a random basis, certain import and export agency agreements entered into between the Import & Export Company and independent third parties and noted that the major terms (including the pricing, payment terms, responsibilities, etc.) offered by Import & Export Company to those independent third parties for the provision of services of import and export by the Import & Export Company are similar to those offered by the Import & Export Company to the Group. In addition, we noted that the pricing of the CCT 8 is in accordance with the applicable Pricing Policies.

*(I) Financial Services Agreement (“CCT 9”)*

**Agreement:** Financial Services Agreement

**Date:** 26 October 2012

**Term:** three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM

**Parties:** (i) The Company  
(ii) CEC Finance

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## LETTER FROM GUANGDONG SECURITIES

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**Nature of transaction:** Financial services to be provided by CEC Finance to the Group include deposit services, loan and finance leasing services, provision of guarantee services, fund settlement services, assistance in the receipt and payment of transaction proceeds, bill acceptance and discount services and other services falling within the business scope of CEC Finance and as approved by CBRC.

**Annual Cap:** Deposit balance: Not exceed RMB200,000,000 for the three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM.

Loan and other credit financing services: Not exceed RMB300,000,000 for the three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM.

For our due diligence purpose, we have reviewed, on a random basis, certain loan agreements entered into between the Group and other commercial banks and noted that such loan agreements contained more stringent terms and oblige more performance of the Group (as a borrower) as compared to the Financial Services Agreement.

Having taking into account our limited scope as the Independent Financial Adviser, we consider that the aforesaid comparable contracts/agreements are sufficient for us to form our view.

We noted that each of the Sub-contracting Agreement, the CEC Sub-contracting Agreement, the Sale Agreement, the Purchase Agreement, the Lease Agreement and the NEIIC Group Lease Agreement is on terms no less favourable than those offered to/by an independent third party. Details of the pricing basis and the Pricing Policies are set out under the section headed “Particulars of the new continuing connected transaction and renewal of the existing continuing connected transactions” in the Board Letter.

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## LETTER FROM GUANGDONG SECURITIES

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Pursuant to Rule 14A.37 of the Listing Rules, each year the independent non-executive Directors must review the continuing connected transactions and confirm in the annual report and accounts that the transactions have been entered into: (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. With reference to the 2011 Annual Report and as confirmed by the Directors, the independent non-executive Directors had made the aforesaid confirmation for the Existing Continuing Connected Transactions for the year ended 31 December 2011.

Pursuant to Rule 14A.38 of the Listing Rules, each year the auditors must provide a letter to the Board, confirming that the continuing connected transactions: (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company; (iii) have been entered into in accordance with the relevant agreement governing the transactions; and (iv) have not exceeded the cap disclosed in previous announcement(s). As confirmed by the Directors, Baker Tilly Hong Kong Limited (“**Baker Tilly**”), as the independent auditor to the Company, had made the aforesaid confirmation for the Existing Continuing Connected Transactions for the year ended 31 December 2011. Baker Tilly had conducted their engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants.

In addition, we noted that it is stipulated under the Financial Services Agreement that (i) the interest rate on deposits shall not be lower than that offered by other commercial banks in the PRC during the same period; (ii) the interest rate on loan shall not be higher than that offered by other commercial banks in the PRC during the same period; and (iii) the fees payable by the Group to CEC Finance for guarantees for loans taken out by the Company and its controlled subsidiaries from third parties shall not be higher than the guarantee fees charged by the other commercial banks in the PRC during the same period.

Further details of the CCT Agreements are contained under the section headed “Particulars of the New Continuing Connected Transaction and renewal of the Existing Continuing Connected Transactions” in the Board Letter.



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**LETTER FROM GUANGDONG SECURITIES**

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In light of all of the above, we concur with the Directors that the terms of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

**(4) The Annual Caps and the Proposed Caps**

Each of the renewal of the Existing Continuing Connected Transactions will be subject to, among other things, the Annual Caps for the three years ending 31 December 2015 and the New Continuing Connected Transaction will be subject to, among other things, the Proposed Caps for three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM. From the Board Letter, we noted that the historical amounts of the actual transactions and the Annual Caps/Proposed Caps for each of the Existing Continuing Connected Transaction/New Continuing Connected Transaction are as follow:

	<b>Annual Caps/ Proposed Caps RMB'000</b>	<b>Existing Annual Caps RMB'000</b>	<b>Historical amounts (including CEC Group and PEGL Group)</b>		
			<b>For the 6 months ended 30 September 2012 RMB'000</b>	<b>For the year ended 31 December 2011 RMB'000</b>	<b>For the year ended 31 December 2010 RMB'000</b>
CCT 1	90,500	28,000	26,947	53,351	11,346
CCT 2	12,500	10,000	1,765	8,802	5,836
CCT 3	612,600	370,000	67,533	207,721	179,837
CCT 4	292,900	56,000	18,107	44,169	32,567
CCT 5	11,000	11,000	4,298	499	102
CCT 6	2,000	2,000	—	—	—
CCT 7	3,000	3,000	—	512	416
CCT 8	1,000	1,000	—	—	—
CCT 9 (deposit balance)	200,000	N/A	—	—	—
CCT 9 (loan and other credit financing services)	300,000	N/A	—	—	—

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## LETTER FROM GUANGDONG SECURITIES

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The Directors confirmed that the Annual Caps were determined generally with reference to (i) the historical amounts of the actual transactions for the Existing Continuing Connected Transactions recorded in the two years ended 31 December 2011 and the six months ended 30 June 2012; and (ii) the expected demand for the goods/services, the use of premise and equipments by the Group (or vice versa, as the case may be) and the licensing fee under the respective Existing Continuing Connected Transactions given the expected business development of the Group as well as the CEC Group.

The Directors also confirmed that the Proposed Caps were determined generally with reference to (i) the deposit to loan ratio requirements of financial institutions; (ii) the security of the Company's cash and bank balances; (iii) the Company's actual funding requirements and business development needs in 2009 to 2012; (iv) the continuous growth and enlarged business scale of the Group; and (v) the Group's internal estimates on future demands and operating conditions.

To assess the fairness and reasonableness of the Annual Caps and the Proposed Caps, we have discussed with the management of the Company regarding the basis and assumptions underlying the projections of the Annual Caps and the Proposed Caps.

As set forth in the section headed "Information on the Group" of this letter, the Group is principally engaged in the development, manufacture and sale of electronic equipment products, electronic intelligent products, communication technology products and electronic manufacturing business. We understand from the management of the Company that the Group has been providing the relevant goods/services and the premise and equipments to the PEGL Group (or vice versa, as the case may be) and there have been upstream and downstream business linkages between the Group and the PEGL Group since the listing of the Company on the Stock Exchange in 1996.

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## LETTER FROM GUANGDONG SECURITIES

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According to the Board Letter, the Annual Cap under CCT 1 was estimated based on (i) the historical transaction amounts of the sub-contracting and composite services provided by the Group to PEGL Group and CEC Group; (ii) the estimated increase in demand for the sub-contracting and composite services from the PEGL Group, in particular Nanjing Handa; and (iii) the expected growth of CEC Group's business (particularly its LCD panel business). For our due diligence purpose, we have obtained and reviewed the indication from the PEGL Group and CEC Group on the demand of sub-contracting and composite services to be provided by the Group, which the Annual Cap is to cater for. Upon our enquiry, the Directors advised us that the increase in demand was mainly due to the business expansion of the PEGL Group and CEC Group and the said indication was determined based on (i) the estimated production and sales volume of the PEGL Group and CEC Group which requires sub-contracting and composite services to be provided by the Group; and (ii) the estimated pricing of the sub-contracting and composite services to be provided by the Group. As further advised by the management of the Company, the expected growth of CEC Group's business (particularly its LCD panel business) was mainly driven by (i) a project for the production of LCD panels using 6th generation glass substrates with the production capacity of 80,000 substrates per month (initial capacity at the start of operation shall be 60,000 substrates per month) and construction of its LCD panel plant; (ii) the development of the Nanjing LCD Valley; and (iii) the establishment of a joint venture to build a G10 TFT-LCD factory in Nanjing, the PRC. In addition, we were advised by the Directors that the increased Annual Cap under CCT 1 also cater for the transactions to be entered into between the Company and CEC Group which will constitute connected transactions of the Company upon completion of the Restructuring.

According to the Board Letter, the Annual Cap under CCT 2 was estimated based on (i) the historical transaction amounts of the sub-contracting and composite services received by the Group from the PEGL Group and CEC Group; (ii) the estimated scale of the processing services to be provided by the PEGL Group and CEC Group to the Group; and (iii) the needs of the Company's business development. For our due diligence purpose, we have obtained and reviewed the purchase estimation for CCT 2, which the Annual Cap is to cater for. As advised by the Directors, the said estimation was based on (i) the estimated production and sales volume of the Group which requires sub-contracting and composite services to be provided by the CEC Group; and (ii) the estimated pricing of the sub-contracting and composite services to be provided by the CEC Group. Upon our enquiry, the Directors further advised us that the increase in the Annual Cap is mainly attributable to the increased demand for transportation services by Panda Electronics Manufacturing and Nanjing Huage Appliance and Plastic Industrial Co., Ltd., and the expected new outsourcing transaction between Panda Electronics Manufacturing and Nanjing Changjiang Electronics Group Co., Ltd.

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## LETTER FROM GUANGDONG SECURITIES

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According to the Board Letter, the Annual Cap under CCT 3 was estimated based on (i) the historical amounts of materials, components and parts sold by the Group to PEGL Group and CEC Group; (ii) the expected huge demands for materials, components and parts, and processing services from the CEC Group and its associates (especially NEIC and its controlled subsidiaries which mainly engages in the production of LCD panels and PEGL's controlled subsidiaries which mainly engages in the production of television sets), and (iii) the development of the Company, which has developed sophisticated technologies in the electronic manufacturing field and adopted scientific management methods enabling the Group to provide premium materials and components and parts to meet its orders and the advanced technology and excellent performance of the Company's electronic equipment products. For our due diligence purpose, we have obtained and reviewed the purchase indication from the PEGL Group and the CEC Group for CCT 3, which the Annual Cap is to cater for. As advised by the Directors, the said indication was determined based on (i) the estimated production and sales volume of the PEGL Group and the CEC Group which requires materials, components and parts to be provided by the Group; and (ii) the estimated pricing of the materials, components and parts to be provided by the Group. Upon our enquiry, the Directors advised us that the significant increase in Annual Cap is mainly attributable to the sales transactions between Panda Electronics Manufacturing and Panda Electronics Equipment, being subsidiaries of the Company, and China Electronic Appliance Corporation and Panda LCD, being subsidiaries of CEC, which will become the connected transactions of the Company after the Restructuring, and the expected additional significant sales transaction between Panda Electronics Manufacturing and Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司), being the Company's subsidiaries, and Panda LCD and China Electronics Panda Crystal Corporation (中電熊貓晶體科技有限公司), being subsidiaries of CEC. In addition, we were advised by the Directors that the increased Annual Cap under CCT 3 also cater for the transactions to be entered into between the Company and CEC Group which will constitute connected transactions of the Company upon completion of the Restructuring.

According to the Board Letter, the Annual Cap under CCT 4 was estimated based on (i) the historical amounts of materials, components and parts purchased by the Group from the PEGL Group and CEC Group; (ii) the expected growth in the Company's production output; and (iii) the Company's plan to procure more materials, components and parts from CEC and its associates for the coming financial years. Such estimates was determined based on the enlarged materials purchase by Panda Electronics Manufacturing (a subsidiary of the Company) through Import & Export Company and Nanjing Panda Electronics Import & Export (HK) Co., Ltd. to meet the development of its LCD business, the new purchase of communication components and devices by Nanjing Panda Communication Technology Company Limited (南京熊貓通信科技有限公司) (a subsidiary of the Company) through Nanjing Panda Electronics Import & Export (Hong Kong) Co., Ltd. and Panda (Beijing) International Information Technology Co. Ltd. (熊貓(北京)國際信息技術有限公司), the enlarged transactions between Panda Electronics Manufacturing and CEC Home Appliances, and the sales transaction between Panda Electronics

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## LETTER FROM GUANGDONG SECURITIES

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Manufacturing (a subsidiary of the Company) and Panda LCD and China Electronic Appliance Corporation (being subsidiaries of CEC), which will become the connected transactions of the Company after the Restructuring. For our due diligence purpose, we have obtained and reviewed the purchase estimation of the Group for CCT 4, which the Annual Cap is to cater for. As advised by the Directors, the said indication was determined based on (i) the estimated production and sales volume of the Group which requires materials, components and parts to be provided by the PEGL Group and CEC Group; and (ii) the estimated pricing of the materials, components and parts to be provided by the PEGL Group and CEC Group. In addition, we were advised by the Directors that the increased Annual Cap under CCT 4 also cater for the transactions to be entered into between the Company and CEC Group which will constitute connected transactions of the Company upon completion of the Restructuring.

According to the Board Letter, the Annual Cap under CCT 5 was estimated based on (i) the historical rental paid by the PEGL Group to the Group; and (ii) the estimated increase of the PEGL Group in its demand for premises, given that (a) Nanjing Handa has not fully completed construction and decoration of its factory premises; and (b) with the business expansion of Nanjing Handa, to meet orders for products for military use, more premises will be needed to carry out debugging operations, and the Group can provide premises that meet the conditions for carrying out debugging operations. We noted that the Annual Cap under CCT 5 of RMB11,000,000 is the same as the Existing Annual Caps of RMB11,000,000. For our due diligence purpose, we have obtained and reviewed the rental indication from the NEIIC Group for CCT 5, which the Annual Cap is to cater for. As advised by the Directors, the said indication was determined based on the operational need of the NEIIC Group and the rental rate to be charged by the Group.

According to the Board Letter, the Annual Cap under CCT 6 has been reached after arm's length negotiation between the parties and on normal commercial terms with reference to the nature of the transaction, the prevailing market prices, being prices no less favourable than those accepted or offered by an independent third party for similar leases in similar locations in the PRC. For our due diligence purpose, we have obtained and reviewed the rental estimation from the Group for CCT 6, which the Annual Cap is to cater for. As advised by the Directors, the said estimation was determined based on the operational need of the Group and the rental rate to be charged by the NEIIC Group. The CCT 6 was first entered into between the Company and NEIIC on 21 October 2011 and would be effective from the approval of the agreement at the relevant extraordinary general meeting of the Company (i.e. 28 December 2011) to 31 December 2012. With reference to the Board Letter and as confirmed by the Directors, no transaction under the CCT 6 took place in 2011. Nevertheless, with continuing adjustments to the Group's industry structure, several lease transactions have taken place in the second half of 2012.

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## LETTER FROM GUANGDONG SECURITIES

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According to the Board Letter, the Annual Cap under CCT 7 was estimated based on (i) the historical licence fees paid by the PEGL Group to the Group; and (ii) the Company's estimate of a substantial increase in the demand for the PANDA Trademark from CEC Home Appliances, in particular, one of the major productions of CEC Group in the coming years is LCD televisions sets. For our due diligence purpose, we have obtained and reviewed the licence fee estimation for CCT 7, which the Annual Cap is to cater for. As referred to in the Board Letter, the licence fees shall be settled annually. Therefore, the historical amount of the licence fees paid by PEGL Group to the Group for the six months ended 30 June 2012 was nil.

According to the Board Letter, the Annual Cap under CCT 8 was estimated based on (i) the historical transaction amounts of the import and export services provided by the PEGL Group; and (ii) the establishment of the Company's own import and export entities. In this relation, we understand from the Directors that following the establishment of the Company's own import and export entities, there would likely to be a drastic drop in the demand for import and export agency services from the PEGL Group. Nevertheless, considering the favourable import and export channels and the service advantages of the Import & Export Company, the Company is of the view that the continuation of such arrangement will provide the Group with excellent import and export agency services and thus is beneficial to and in the interest of the Group. Accordingly, the Annual Cap is set at a low level of RMB1,000,000. For our due diligence purpose, we have obtained and reviewed the demand estimation for CCT 8, which the Annual Cap is to cater for. With reference to the Board Letter, although the historical amount for CCT 8 was zero for the two years ended 31 December 2011 and the six months ended 30 June 2012 due to the reasons as set out in the section headed "(H) Provision of import & export agency services by the PEGL Group" of the Board Letter, the Board expected that the import and export business of the Group will adopt the form of agency collection fees which may utilise the Annual Cap for CCT 8.

During the review of the aforesaid estimation/indication, we have reviewed the figures which derive the Annual Caps and understood the basis in determining such figures from the Directors.

With reference to the Board Letter, the Proposed Caps under CCT 9 for deposit balance, loan and other credit financing services were determined based on (i) the deposit to loan ratio requirements of financial institutions; (ii) the security of the Company's cash and bank balances; (iii) the Company's actual funding requirements and business development needs in 2009 to 2012; (iv) the continuous growth and enlarged business scale of the Group; and (v) the Group's estimates on future demands and operating conditions.

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## LETTER FROM GUANGDONG SECURITIES

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We noted from the 2011 Annual Report that the Group experienced continuous growth in turnover since 2007. The Group's turnover for the year ended 31 December 2011 was increased by approximately 27.07% as compared to the year ended 31 December 2010. In addition, we also noted from the financial information of the PEGL Group and CEC Group as provided by the Company that the PEGL Group's turnover for the year ended 31 December 2011 increased substantially as compared to the year ended 31 December 2010. In addition, we have noticed the development of the Nanjing LCD Valley from a news article released by China Electronic News dated 1 April 2011. According to the said article, the commencement in production of the sixth generation LCD panel is a breakthrough and the Nanjing LCD Valley will continue to develop new advanced technological projects. In addition, we have also found that certain products of the Group and the PEGL Group were included in 《當前優先發展的高技術產業化重點領域指南 (2011年度)》(Guidance on prior development of advanced technology industries 2011\*) (the "**Guidance**") jointly issued by (i) National Development and Reform Commission; (ii) Ministry of Science and Technology; (iii) Ministry of Industry and Information Technology; (iv) Ministry of Commerce; and (v) State Intellectual Property Office, of the PRC, on 23 June 2011. The PRC government would support the development of the industries under the Guidance and would promote the optimization of their industrial structures.

Furthermore, we noted the announcement published by TPV Technology Limited (Stock code: 903) ("**TPV**") on 27 April 2012 that 南京中電熊貓液晶顯示科技有限公司 (CEC Panda LCD Technology Co., Ltd.\*) ("**Panda-LCD**"), a non-wholly owned subsidiary of CEC, and Top Victory Investments Limited ("**Top Victory**"), a subsidiary of TPV, entered into a joint venture agreement to establish a joint venture to build a G10 TFT-LCD factory in Nanjing, the PRC, being the first G10 TFT-LCD factory in the PRC with competitive economic cutting for 60"/70" LCD panel, and to manufacture and to sell products, including but not limited to, G10 TFT-LCD panels, colour filters and LCD modules. On 1 June 2012, Panda-LCD and Top Victory entered into a procurement agreement, pursuant to which Top Victory and its subsidiary may procure the products, including but not limited to the LCD panels from Panda-LCD, its parent companies, subsidiaries, associates and connected persons with the annual caps of US\$241,573,000, US\$556,800,000, and US\$679,440,000 for the period from the effective date of the procurement agreement to 31 December 2012 and the two years ending 31 December 2014.

With reference to the statistics of National Bureau of Statistics of China, from 2006 to 2011, the PRC's gross domestic product ("**GDP**") increased at a compound annual growth rate ("**CAGR**") of approximately 16.87% and reached approximately RMB47,156.4 billion in 2011. The PRC also experienced substantial growth in GDP per capita with a CAGR of approximately 16.11% from 2006 to 2010 and reached approximately RMB29,992 in 2010. During the period from 2006 to 2010, annual disposable income of urban households per capita increased from approximately RMB11,760 to approximately RMB19,109, representing a CAGR of approximately 12.91%. Household consumption expenditure per capita also increased from

\* for identification purposes only

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## LETTER FROM GUANGDONG SECURITIES

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approximately RMB6,263 to approximately RMB9,968 from 2006 to 2010, representing a CAGR of approximately 12.32%. We noted from a press release dated 11 October 2012 by a department of Ministry of industry and Information Technology of the PRC that the electronic and intelligent industry, which the Group, the PEGL Group and the CEC Group is engaged in, increased for the eight months ended 31 August 2012. The completed fixed asset investment (value over RMB5 million) of the electronic and intelligent industry amounted to RMB599.8 billion for the eight months ended 31 August 2012, representing an increase of approximately 7.1% as compared to the corresponding period in 2011. Export of the electronic and intelligent products was amounted to approximately US\$737.6 billion for the eight months ended 31 August 2012, representing an increase of approximately 2.2% as compared to the corresponding period in 2010. Upon our enquiries, the Directors advised us that they are optimistic on the business expansion of the Group, the PEGL Group and the CEC Group

Given the above, we consider that the Annual Caps for each of the three years ending 31 December 2015 and the Proposed Caps for each of the three years starting from the date when the approval of the Independent Shareholders is obtained at the EGM are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as the Annual Caps/the Proposed Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2015, and they do not represent forecasts of revenue, purchase or rental income/costs to be incurred from the renewal of the Existing Continuing Connected Transactions/New Continuing Connected Transaction. Consequently, we express no opinion as to how closely the actual revenue, purchase or rental income/costs to be incurred under the renewal of the Existing Continuing Connected Transactions/New Continuing Connected Transaction will correspond with the Annual Caps/the Proposed Caps.

**(5) Listing Rules implication and internal control of the Group**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.37 to 14A.41 of the Listing Rules pursuant to which (i) the values of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction must be restricted by the Annual Caps/the Proposed Caps for the three years ending 31 December 2015; (ii) the terms of the Existing CCT Agreements (together with the Annual Caps) and the Financial Services Agreement (together with the Proposed Caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Existing CCT Agreements (together with the Annual Caps) and the Financial Services Agreement (together with the Proposed Caps) must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the



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## LETTER FROM GUANGDONG SECURITIES

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Board confirming, among other things, that the renewal of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction are carried out in accordance with the pricing policies of the Company, and the Annual Caps and the Proposed Caps are not being exceeded. In the event that the total amounts of the renewal of the Existing Continuing Connected Transactions/New Continuing Connected Transaction exceed the Annual Caps/the Proposed Caps, or that there is any material amendment to the terms of the Existing CCT Agreements and the Financial Services Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Existing Continuing Connected Transactions (together with the Annual Caps) and the New Continuing Connected Transaction (together with the Proposed Caps) and hence the interest of the Independent Shareholders would be safeguarded.

### RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Existing CCT Agreements (together with the Annual Caps) and the Financial Services Agreement (together with the Proposed Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the renewal of the Existing Continuing Connected Transactions and the New Continuing Connected Transaction are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the renewal of the Existing Continuing Connected Transactions (together with the Annual Caps) and the New Continuing Connected Transaction (together with the Proposed Caps) and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

**Yours faithfully,**  
**For and on behalf of**  
**Guangdong Securities Limited**  
**Graham Lam**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (A) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in domestic shares of the Company:

Name of Director	Position	Capacity	Nature of interests	No. of shares held (Long position)	Percentage of share capital in issue (%)
Xu Guofei	Executive Director	Beneficial owner	Personal	2,546	0.00039
Zhu Lifeng	Non-executive Director	Beneficial owner	Personal	4,378	0.00067
Zhang Zhengping	Chairman of Supervisory Committee	Beneficial owner	Personal	4,648	0.00071

**(B) Interests of Substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors, Supervisors and chief executive of the Company, the interests or short positions of the persons (not being a Director or Supervisor or chief executive of the Company) in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

**(i) Interests in the shares of the Company**

<b>Name of Shareholder</b>	<b>Capacity/ nature of interests</b>	<b>Class/ no. of shares interested (long position)</b>	<b>Approximate percentage in the relevant class of shares in issue</b>	<b>Approximate percentage in the total shares in issue</b>
PEGL	Corporate interests held in the capacity of beneficial owner	334,715,000 domestic shares	81.04%	51.10%
Lewis Joseph	Personal interests held in the capacity of beneficial owner	20,260,000 H shares	8.37%	3.10%
Tuesday Thirteen Inc.	Corporate interests held in the capacity of beneficial owner	16,920,000 H shares	7.00%	2.59%

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in CEC, the ultimate controller of the Company as shown above:

<b>Name of Director/ Supervisor</b>	<b>Position held in CEC</b>
Lai Weide	Deputy General Manager

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in NEIIC, the controlling shareholder of PEGL as shown above:

<b>Name of Director/ Supervisor</b>	<b>Position held in NEIIC</b>
Xu Guofei	General Manager

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in PEGL, the controlling Shareholder of the Company as shown above:

<b>Name of Director/ Supervisor</b>	<b>Position held in PEGL</b>
Lai Weide	Chairman
Xu Guofei	General Manager
Zhu Lifeng	Deputy General Manager
Deng Weiming	Deputy General Manager
Lu Qing	Deputy General Manager

As at the Latest Practicable Date, so far as is known to the Directors, none of the Directors and supervisors hold offices as Directors or employees in CEC Finance, non-banking financial institute of CEC.

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in TPV Technology, whose ultimate controlling shareholder is CEC, the ultimate controller of the Company as shown above and therefore an associate of the Company:

<b>Name of Director/ Supervisor</b>	<b>Position held in TPV Technology</b>
Jason Hsuan	Chairman

(ii) *Interests in non-wholly owned subsidiaries of the Company*

<b>Name of non-wholly owned subsidiaries of the Company</b>	<b>Name of shareholders interested in 10% or more of the subsidiaries of the Company</b>	<b>Approximate percentage of interest held by that shareholder (long position)</b>
Nanjing Panda Information Industry Co., Ltd	GALANT LIMITED	25%
Nanjing Panda International Telecommunication System Co., Ltd	Hong Kong Shun Sing Development Co., Ltd	28%
Nanjing Panda Electronics Manufacturing Co., Ltd	GALANT LIMITED	25%
Nanjing Panda System Integration Co., Ltd	Liu Changhua	10.90%
Nanjing Panda Power Supply Technology Manufacture Co., Ltd	Shi Qingrong	11.46%

Save as disclosed above, the Directors, supervisors and chief executive of the Company are not aware that there is any person (other than a Director, supervisor or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of the Group or any options in respect of such capital.

**3. LITIGATION**

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had entered, or proposed to enter, into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**5. COMPETING INTERESTS**

As at the Latest Practicable Date, so far was known to the Directors, none of the Directors or their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group (other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group) or have any other conflicts of interest with the Group pursuant to the Listing Rules.

**6. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

As disclosed above, Mr. Lai holds offices in CEC and PEGL, Mr. Xu holds an office in PEGL and holds approximately 0.00039% of the total issued share capital of the Company, Mr. Zhu holds offices in NEIC and PEGL and holds approximately 0.00071% of the total issued share capital of the Company, and Mr. Deng and Mr. Lu hold offices in PEGL, and are all therefore considered to be interested in the transactions contemplated under the Existing Continuing Connected Transactions and the New Continuing Connected Transactions and had abstained from voting on the relevant resolutions of the Board approving the Existing Continuing Connected Transactions and/or the New Continuing Connected Transaction.

Save as aforesaid, the Board confirms that as at the Latest Practicable Date, none of the other Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, any member of the Group or were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2011 (being the date to which the latest published audited accounts of the Group were made up), none of the other Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

Mr. Hsuan, by virtue of his office held TPV Technology as disclosed above, is also a connected person of the Company and had abstained from voting on the relevant resolutions of the Board approving the Existing Continuing Connected Transactions and/or the New Continuing Connected Transaction.

Save as aforesaid, the Board confirms that none of the other Directors abstained from voting on the relevant resolutions of the Board approving the Existing Continuing Connected Transactions and the New Continuing Connected Transaction.

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011 (being the date to which the latest published audited accounts of the Group were made up).

**8. EXPERTS AND CONSENTS**

The followings are the qualification of the experts who have been named in this circular or have given opinions or advice in this circular:

<b>Name</b>	<b>Qualifications</b>
Guangdong Securities Limited	A licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
Yongheng Partners	Legal advisor on the PRC law

As at the Latest Practicable Date, each of the Guangdong Securities and the PRC Lawyer did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for securities in any member of the Group nor did it have any direct or indirect interests in any assets which had been, since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, each of the Guangdong Securities and the PRC Lawyer has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear herein.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of the Company at 301 Zhongshan Road East, Nanjing, Jiangsu Province, the PRC and the Company's solicitors at 23rd Floor, Admiralty Centre, Tower II, 18 Harcourt Road, Hong Kong, during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 20 December 2012:

- (a) the Sub-contracting Agreement;
- (b) the CEC Sub-contracting Agreement;
- (c) the Sale Agreement;
- (d) the Purchase Agreement;
- (e) the Lease Agreement;
- (f) the NEIIC Group Lease Agreement;
- (g) the Trademark Licence Agreement;
- (h) the PEGL Import & Export Agency Agreement;
- (i) the Financial Services Agreement;
- (j) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (k) the letter from Guangdong Securities, the text of which is set out in this circular;
- (l) the PRC legal opinion on the amendments to the Articles of Association issued by the PRC Lawyer;
- (m) the written consents referred to in the section headed "Experts and Consents" in this Appendix; and
- (n) the Memorandum and Articles of Association of the Company.



**10. GENERAL**

- (a) The registered office of the Company is situated at Level 1-2, Block 5, North Wing, Nanjing High and New Technology Development Zone, Nanjing, Jiangsu Province, the PRC.
- (b) The principal place of business of the Company is at 301 Zhongshan Road East, Nanjing, Jiangsu Province, the PRC.
- (c) The company secretary of the Company is Mr. Shen Jianlong, who is the Chief Accountant and Secretary to the Board.

Details of the Shareholders' Return Plan are set out below:

Article 1 Factors taken into account by the Company in formulation of the Shareholders' Return Plan

In order to achieve long-term and sustainable development, the Company, after taking into account of its actual circumstances, development goals, the desires of shareholders and external financing costs and conditions, shall establish a continuous, stable and scientific plan and mechanism for rewarding shareholders and make specific institutional arrangements for profit distribution to ensure the continuity and stability of profit distribution policies.

Article 2 Principles for formulation of the Company's Shareholders' Return Plan

The Company adopts continuous and stable profit distribution policies, aiming to bring reasonable returns to investors while ensuring the Company's actual operation and sustainable development. The board of directors and the Company in general meeting shall, in the decision-making and discussion process in respect of profit distribution policies, communicate and exchange ideas with shareholders (minority shareholders in particular) and independent directors, listen to the opinions and demands of independent directors and minority shareholders and give timely replies to issues that concern minority shareholders.

Article 3 Decision-making procedure for formulating the Shareholders' Return Plan

In formulating the Shareholders' Return Plan, the board of directors of the Company shall take into account the Company's profits, cash flow status, capital demand in the current operating period, etc., take heed of the opinions of shareholders (minority shareholders in particular) and independent directors, and implement the plan after approval is obtained at the general meeting of the Company. The Company shall hear extensively shareholders' opinions and recommendations on the Company's dividend distribution and shall be subject to the supervision of Shareholders.

Article 4 Time intervals for formulation of the Shareholders' Return Plan

The Company shall review its Shareholders' Return Plan at least once every three years to determine its Shareholders' Return Plan for such period based on the projected operational conditions and opinions of shareholders (minority shareholders in particular), independent directors and supervisors.

Article 5            Specific of the Shareholders' Return Plan for the next three years (2012-2014)

1.     Form of profit distribution

The Company may distribute dividends in the form of cash, shares or the combination of cash and shares.

2.     Time intervals for profit distribution

When the conditions for dividend distribution are satisfied, the Company shall pay dividends at least once every year. The Company may also distribute interim dividends.

3.     Decision-making procedure for profit distribution

The board of directors of the Company shall, based on the Company's profit, capital needs and the Shareholders' Return Plan, formulate its annual profit distribution proposal and submit the same to the general meeting of the Company for consideration. When making decisions on and formulating its profit distribution proposal, the board of directors shall record in detail the recommendations of the management, key points of the speeches of directors present at the meeting, opinions of independent directors, voting results of the board of directors, etc. and form written minutes to be properly kept as the Company's records.

When considering the cash dividend distribution plan, the board of directors of the Company shall carefully consider and deliberate the timing, conditions and minimum percentage of distribution of dividends, and independent directors shall express their opinions thereon.

When the profit distribution plan is considered at the general meeting of the Company, the Company shall communicate and exchange ideas through multiple channels with shareholders (minority shareholders in particular), fully listen to the opinions and demands of minority shareholders, and give timely replies to issues that concern minority shareholders.

On the condition that profit is recorded and there is sufficient cash to support the ongoing operation and long-term development of the Company, the Company shall actively distribute dividends in the form of cash. If profit is recorded in the reporting period but the board of directors of the Company does not put forth a cash dividend distribution proposal, reasons therefor and the use of capital that may otherwise be used as dividends but has been retained by the Company shall be disclosed in its periodic report, and independent directors shall express independent opinions thereon.

4. Conditions for and minimum percentage of cash dividend distribution

All the following conditions shall be satisfied for cash dividend distribution: the distributable profit (i.e. after-tax profit net of the profit used for making up for losses and the profit transferred to the statutory reserve fund) for the year is positive; the auditing firm has issued a standard audit report with unqualified opinions on the financial report for the financial year; the Company has no significant investment plan or material cash outlay event (other than fundraising project).

The total profit to be distributed in cash in the last three years shall not be less than 30% of the average annual distributable profit realized in the last three years. If the Company has not distributed a cash dividend in the last three years, it must not issue to the public new shares, shares convertible into corporate bonds or place shares with existing shareholders.

Article 6 The Shareholders' Return Plan shall take effect from the date when it is passed by the Company in general meeting.

*Note:* The Shareholders' Return Plan is written in Chinese and there is no official English translation in respect thereof. The English translation is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

The proposed Shareholders' Return Plan does not form part of the Articles of Association.

The distribution of dividends according to the proposed Shareholders' Return Plan will follow the provisions in the Articles of Association and the requirements of the Listing Rules.

1. Amendment to Article 106 of the Articles of Association:

The original Article 106:

“Article 106 The following matters shall be resolved by special resolution at a general meeting:

- (1) increase or reduction of the share capital and issue of shares of any class, warrants or other similar securities;
- (2) issue of corporate bonds;
- (3) division, merger, dissolution and liquidation of the Company;
- (4) amendment to the Articles of Association;
- (5) purchase or disposal of material assets or provision of guarantee within one year, the amount of which exceeds 30% of the latest audited total assets of the Company;
- (6) share incentive scheme;
- (7) any other matters required by the laws, administrative regulations and the Articles of Association and considered by a general meeting, by way of ordinary resolution, to have a substantial impact on the Company and require approval by special resolution.”

shall be amended as:

“Article 106 The following matters shall be resolved by special resolution at a general meeting:

- (1) increase or reduction of the share capital and issue of shares of any class, warrants or other similar securities;
- (2) issue of corporate bonds;
- (3) division, merger, dissolution and liquidation of the Company;
- (4) amendment to the Articles of Association;
- (5) purchase or disposal of material assets or provision of guarantee within one year, the amount of which exceeds 30% of the latest audited total assets of the Company;

- (6) share incentive scheme;
- (7) adjustment to the profit distribution policy;
- (8) any other matters required by the laws, administrative regulations and the Articles of Association and considered by a general meeting, by way of ordinary resolution, to have a substantial impact on the Company and require approval by special resolution.”

2. Amendment to Article 202 of the Articles of Association:

The original Article 202:

“Article 202 The Company may distribute dividends in the form of:

- (1) cash;
- (2) shares.”

shall be amended as:

“Article 202 Decision-making procedures for the Company’s profit distribution:

- (1) The board of directors of the Company shall, based on the Company’s profit, capital needs and the Shareholders’ Return Plan, formulate its annual profit distribution proposal and submit the same to the general meeting for consideration. When making decisions on and formulating its profit distribution proposal, the board of directors shall record in detail the advice of the management, key points of the speeches of directors present at the meeting, opinions of independent directors, voting results of the board of directors, etc. and form written minutes to be properly kept as the Company’s records.
- (2) When considering the cash dividend distribution plan, the board of directors of the Company shall carefully consider and deliberate the timing, conditions and minimum percentage, etc., and independent directors shall express their opinions thereon.
- (3) When the profit distribution plan is considered at the general meeting, the Company shall communicate and exchange ideas through multiple channels with shareholders (minority shareholders in particular), listen fully to the opinions and demands of minority shareholders, and give timely replies to issues that concern minority shareholders.

- (4) On the condition that profit is recorded and there is sufficient cash to support the ongoing operation and long-term development of the Company, the Company shall actively distribute dividends in the form of cash. If profit is recorded in the reporting period but the board of directors of the Company does not put forth a cash dividend distribution proposal, reasons therefor and the use of capital that may otherwise be used as dividends but has been retained by the Company shall be disclosed in its periodic report, and independent directors shall express independent opinions thereon.
- (5) The Company's profit distribution policy shall be formulated by the board of directors of the Company and be implemented upon consideration and approval by shareholders at the general meeting. The profit distribution proposal proposed by the board of directors of the Company shall be passed by majority votes of the board of directors of the Company. Independent directors shall provide their independent opinions on the formulation of or amendment to the profit distribution policy. If the Company needs to adjust its profit distribution policy and Shareholders' Return Plan due to significant changes in the external operating environment or its own operation, with the protection of shareholders' interests as the starting point and after discussing the relevant matters in detail, the board of directors of the Company shall put forward a proposal for adjusting the profit distribution policy and Shareholders' Return Plan to the general meeting for consideration and approval.
- (6) The Company shall strictly implement the cash dividend policy as determined in the Articles of Association and the specific plan for distribution of cash dividends as considered and approved at the general meeting. If the Company needs to adjust or change the cash dividend policy as determined in the Articles of Association, it is required to satisfy the conditions under the Articles of Association and execute appropriate decision-making procedures after discussion. The adjustment or changes shall be passed by shareholders present in the meeting representing not less than two-thirds of voting rights. The Company shall disclose the formulation and implementation of cash dividend policy in detail in its periodic reports."

3. Amendment to Article 203 of the Articles of Association:

The original Article 203:

“Article 203 If there is any surplus following appropriation of after-tax profits according to items (1) to (4) of Article 197, the Company shall distribute dividends. The dividends of the Company shall be distributed at least once a year. The dividends for the relevant year shall be paid in the second quarter of the following year.

The Company may distribute interim cash dividends. The profits which the Company has accumulatively distributed in cash over the last three years shall not be less than 30% of the average annual distributable profits realized in such three years. If the board of directors does not recommend a profit distribution in cash, it shall disclose in periodic reports the reasons thereof and how the undistributed profit would be used by the Company. If the Company does not distribute profits in cash in the last three years, the Company shall not issue new shares to the public, issue convertible bonds or place shares to the existing shareholders.

Whenever the Company distributes dividends, an announcement in respect thereof shall be made to shareholders.

No profit shall be distributed in respect of the shares held by the Company.

Dividends payable to the holders of the overseas-listed foreign-invested shares of the Company shall be denominated and declared in Renminbi and paid in foreign currencies. Dividends payable on foreign-invested shares listed in Hong Kong shall be paid in Hong Kong dollars.

The Company shall maintain a consistent and stable profit distribution policy.”

shall be amended as:



“Article 203 Profit distribution policy of the Company:

- (1) The Company shall adopt a continuous and steady profit distribution policy. The Company’s profit distribution shall focus on providing investors with reasonable investment return as well as maintaining the sustainable development of the Company. The Company’s profit distribution shall not exceed the range of the accumulated distributable profits or damage the Company’s ability to continue operations.

If there is any surplus following appropriation of after-tax profits according to items (1) to (4) of Article 197, the Company shall distribute dividends. The dividends of the Company shall be distributed at least once a year. After the profit distribution plan is approved at the general meeting of the Company, the board of directors of the Company shall complete the distribution of the dividends (or shares) within two months after convening the shareholders’ general meeting.

- (2) The Company may distribute dividends in cash, in shares or in a combination of both cash and shares.
- (3) The Company may distribute interim cash dividends. The profits which the Company has accumulatively distributed in cash over the last three years shall not be less than 30% of the average annual distributable profits realized in such three years. If the Company does not distribute profits in cash in the last three years, the Company shall not issue new shares to the public, issue convertible bonds or place shares to the existing shareholders.
- (4) The following conditions shall be satisfied for cash dividend distribution:
  1. the distributable profit (i.e. after-tax profit net of the profit used for making up for losses and the profit transferred to the statutory reserve fund) for the year is positive;
  2. the auditing firm has issued a standard audit report with unqualified opinions on the financial report for the financial year;
  3. the Company has no significant investment plan or material cash outlay event (other than fundraising project).

- (5) Depending on the profitability and cash flows for the year, the Company may distribute profits by way of shares provided that the minimum cash dividend payout ratio and an optimal share capital base and shareholding structure are maintained.
  - (6) Whenever the Company distributes dividends, an announcement in respect thereof shall be made to shareholders. No profit shall be distributed in respect of the shares held by the Company.
  - (7) Dividends payable to the holders of the overseas-listed foreign-invested shares of the Company shall be denominated and declared in Renminbi and paid in foreign currencies. Dividends payable on foreign-invested shares listed in Hong Kong shall be paid in Hong Kong dollars.”
4. Amendment to the Article 205 of the Articles of Association:

The original Article 205:

“Article 205 Unless otherwise provided for in relevant laws and administrative regulations, where cash dividends are to be paid in foreign currencies, the applicable exchange rate shall be the average closing rate for the relevant foreign currency announced by the Shenzhen Foreign Exchange Swap Center during the calendar week prior to the announcement of payment of dividend.”

shall be amended as:

“Article 205 Unless otherwise provided for in relevant laws and administrative regulations, where cash dividends are to be paid in foreign currencies, the relevant exchange rate shall be the average exchange rate of RMB against foreign currency as quoted by the People’s Bank of China for the calendar week preceding the date on which the dividend was declared.”

*Note:* The proposed amendments to the Articles of Association are written in Chinese and there is no official English translation in respect thereof. The translation into English language above is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.