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Nanjing Panda Electronics Company Limited

2012 Annual Report

(A Share Stock Code: 0553)

(H Share Stock Code: 600775)



Contents

| | | |
|---------------------|--|-----|
| SECTION I | DEFINITIONS AND NOTICE OF SIGNIFICANT RISKS | 2 |
| SECTION II | COMPANY PROFILE | 4 |
| SECTION III | ACCOUNTING DATA AND FINANCIAL INDICATORS HIGHLIGHTS | 7 |
| SECTION IV | REPORT OF THE BOARD | 10 |
| SECTION V | REPORT OF THE SUPERVISORY COMMITTEE | 48 |
| SECTION VI | SIGNIFICANT EVENTS | 51 |
| SECTION VII | CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS | 73 |
| SECTION VIII | PROFILES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF | 84 |
| SECTION IX | CORPORATE GOVERNANCE REPORT | 95 |
| SECTION X | INTERNAL CONTROL | 111 |
| SECTION XI | FINANCIAL REPORT | 113 |
| SECTION XII | DOCUMENTS AVAILABLE FOR INSPECTION | 324 |

Important Notice

1. The board of directors (the "Board"), the supervisory committee and the directors (the "Directors"), supervisors ("Supervisors") and senior management staff of the Company confirm that the information contained in this annual report is true, accurate, and complete without any misrepresentation, misleading statements, or material omissions, and severally and jointly accept legal responsibility for the above.
2. Directors Mr. Zhu Lifeng and Mr. Jason Hsuan, and independent Director Mr. Chu Wai Tsun, Vincent were unable to attend the Board meeting held on 27 March 2013 due to other business engagements, and had appointed Mr. Xu Guofei, the Vice Chairman, Director Mr. Deng Weiming and independent Director Ms. Zhang Xiuhua, to attend the meeting and to exercise the voting right on their behalves respectively.
3. Both Baker Tilly Hong Kong Limited and Baker Tilly China (Special General Partnership), based on Hong Kong Financial Reporting Standards and PRC Accounting Standards for Business Enterprises, have issued an unqualified auditors' report for the Company respectively.
4. Mr. Xia Dechuan, the Head of the Company, Mr. Shen Jianlong, the Chief Accountant, and Ms. Liu Xianfang, the Head of the Accounting Department (person in charge of accounting matters), declared that they confirmed the truthfulness, accuracy and completeness of the financial statements in the annual report.
5. Proposal of profit distribution or capitalisation of capital reserves of the Company for the reporting period considered by the Board: to distribute a cash dividend of RMB0.60 (tax inclusive) for every ten shares to all the shareholders on the basis of a total share capital of 655,015,000 shares as at 31 December 2012, with the total cash dividend to be distributed amounting to RMB39,300,900, and the remaining part to be carried forward to next year. The Company would not make any capitalization of capital reserve.
6. Forward looking statements, including future plans and development strategies, contained in this report do not constitute a substantive commitment to investors by the Company. Investors should be reminded of such investment risks.
7. None of the controlling shareholders of the Company or its connected parties has misappropriated the Company's funds.
8. The Company did not provide external guarantees in violation of any specified decision-making procedures.

Definitions And Notice Of Significant Risks

I. Definitions

Unless otherwise stated in context, the following terms should have the following meanings in this report:

| | |
|-----------------------------------|---|
| Company | Nanjing Panda Electronics Company Limited (南京熊猫電子股份有限公司) |
| Group | Nanjing Panda Electronics Company Limited and its subsidiaries |
| PEGL | Panda Electronics Group Limited (熊猫電子集團有限公司) |
| PEGL Group | Panda Electronics Group Limited and its subsidiaries |
| NEIC | Nanjing Electronics Information Industrial Corporation (南京中電熊猫信息業集團有限公司) |
| NEIC Group | Nanjing Electronics Information Industrial Corporation and its subsidiaries |
| CEC | China Electronics Corporation (中國電子信息產業集團有限公司) |
| CEC Group | China Electronics Corporation and its subsidiaries |
| Financial Company | China Electronics Financial Co., Ltd. (中國電子財務有限責任公司) |
| CEC LCD | CEC Panda LCD Technology Co., Ltd. (南京中電熊猫液晶顯示科技有限公司) |
| ENC | Nanjing Ericsson Panda Communication Co., Ltd. (南京愛立信熊猫通信有限公司) |
| BMC | Beijing SE Putian Mobile Communication Co., Ltd. (北京索愛普天移動通信有限公司) |
| Electronics Equipment Company | Nanjing Panda Electronics Equipment Co., Ltd. (南京熊猫電子裝備有限公司) |
| Information Industry Company | Nanjing Panda Information Industry Co., Ltd. (南京熊猫信息產業有限公司) |
| Electronic Manufacture Company | Nanjing Panda Electronic Manufacture Co., Ltd. (南京熊猫電子製造有限公司) |
| Communications Technology Company | Nanjing Panda Communications Technology Co., Ltd. (南京熊猫通信科技有限公司) |
| Huage Appliance Company | Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司) |

Definitions And Notice Of Significant Risks (Continued)

I. Definitions (Continued)

| | |
|---|--|
| Mechanical Manufacturing Company | Nanjing Panda Mechanical Manufacturing Co., Ltd. (南京熊猫机电製造有限公司) |
| Technology Development Company | Nanjing Panda Electronic Technology Development Company Limited (南京熊猫电子科技发展有限公司) |
| Appliance & Apparatus Company | Nanjing Panda Appliance & Apparatus Co., Ltd. (南京熊猫仪器仪表有限公司) |
| Zhongdian Home Appliances Company | Nanjing Zhongdian Panda Home Appliances Co., Ltd. (南京中电熊猫家电有限公司) |
| CSRC | China Securities Regulatory Commission |
| SFC | Securities and Futures Commission of Hong Kong (香港證券及期貨事務監察委員會) |
| Shanghai Stock Exchange | Shanghai Stock Exchange |
| Hong Kong Stock Exchange | The Stock Exchange of Hong Kong Limited |
| Listing Rules | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| CSRC Jiangsu Bureau | Jiangsu Securities Regulatory Bureau of China Securities Regulatory Commission |
| "Company Law" | "Company Law of the People's Republic of China" |
| "Securities Law" | "Securities Law of the People's Republic of China" |
| "Articles of Association" | "Articles of Association of Nanjing Panda Electronics Company Limited" |
| "Rules of Procedure of General Meetings" | "Rules of Procedure of General Meetings of Nanjing Panda Electronics Company Limited" |
| "Rules of Procedure of the Remuneration and Evaluation Committee" | "Rules of Procedure of the Remuneration and Evaluation Committee of Nanjing Panda Electronics Company Limited" |

II. Notice of Significant Risks

The risk factors of the Company include risks associated with markets, and technology development. For details of relevant risk factors and the corresponding countermeasures, please refer to the section headed "Discussion and Analysis of the Board on Future Development of the Company" under Section IV "Report of the Board" in this report.

Company Profile

I. Corporate Information

| | |
|-------------------------------------|---|
| Legal Chinese Name of the Company | 南京熊猫电子股份有限公司 |
| Abbreviation of the Chinese Name | 南京熊猫 |
| Legal English Name of the Company | Nanjing Panda Electronics Company Limited |
| Abbreviation of the English Name | NPEC |
| Legal Representative of the Company | Xia Dechuan (General Manager) |

II. Contact Persons and Contact Methods

| | Secretary of the Board | Securities Affairs Representative |
|------------------------|---|---|
| Name | Shen Jianlong | Wang Dongdong |
| Correspondence Address | 301 Zhongshan Road East, Nanjing, the People's Republic of China | 301 Zhongshan Road East, Nanjing, the People's Republic of China |
| Telephone | (86 25) 84801144 | (86 25) 84801144 |
| Facsimile | (86 25) 84820729 | (86 25) 84820729 |
| Email | dms@panda.cn | dms@panda.cn |

III. Basic Information

| | |
|---------------------------------------|---|
| Registered Address | Level 1-2, Block 5, North Wing, Nanjing High and New Technology Development Zone, Nanjing, the People's Republic of China (the "PRC") |
| Postal code of the registered address | 210032 |
| Office Address | 301 Zhongshan Road East, Nanjing, the PRC |
| Postal Code of the Office Address | 210002 |
| Web Site | http://www.panda.cn |
| Email | dms@panda.cn |

IV. Place for Information Disclosure and Inspection

| | |
|--|--|
| Designated Newspaper for Information Disclosure | Shanghai Securities News, China Securities Journal |
| International Websites for the publication of the Company's Annual Report and information disclosure | Shanghai Stock Exchange: http://www.sse.com.cn The Stock Exchange of Hong Kong Limited: http://www.hkex.com.hk |
| Place for Inspection of the Company's Annual Report | Office of Secretary of the Board of Directors 301 Zhongshan Road East, Nanjing, the PRC |

Company Profile (Continued)

V. Basic Information of the Company's Shares

Basic Information

| Type of shares | Place of listing of the Company's shares | Stock abbreviation | Stock code | Stock abbreviation before changes |
|----------------|--|--------------------|------------|-----------------------------------|
| A shares | Shanghai Stock Exchange | Nanjing Panda | 600775 | N/A |
| H shares | Hong Kong Stock Exchange | Nanjing Panda | 00553 | N/A |

VI. Changes in Registration of the Company during the Reporting Period

(1) Basic information

| | |
|---|------------------|
| First Registration Date | 29 April 1992 |
| Date of Change in Registration | 24 April 2012 |
| Place of Registration | Nanjing, the PRC |
| Legal Person Business License Registration Number | 320100400008823 |
| Taxation Registration Number | 320134134974572 |
| Organization Code | 13497457-2 |

(2) Related information of the first business registration of the Company

Please refer to the section headed "Basic Information" in the 2011 annual report for details about the first business registration of the Company.

(3) Change in principal operations of the Company since its listing

Since its listing, the Company has always been in the electronics industry, and successively engaged in the development and research, production and sales of home appliance products, communication products, and electromechanical products, and electronic manufacture services. At present, the Company's principal products and services include the development and research, production and sales of electronic equipment and consumer electronics, and electronic manufacture services.

(4) Change in controlling shareholder of the Company since its listing

PEGL has been the controlling shareholder of the Company since its listing. As at 31 December 2012, PEGL held 334,715,000 shares of the Company, accounting for 51.10% of the Company's total share capital.

Company Profile (Continued)

VII. Other Related Information

| | | |
|--|--|---|
| Domestic auditors of the Company | Name | Baker Tilly China (Special General Partnership) |
| | Office address | 2/F, Tower B, Huatong Building, No. 19 Chegongzhuang Road West Yi, Haidian District, Beijing, the PRC |
| | Names of signing accountants | Wang Chuanbang, Xu Xinyi |
| Overseas auditors of the Company | Name | Baker Tilly Hong Kong Limited |
| | Office address | 2nd Floor, 625 King's Road, North Point, Hong Kong |
| | Names of signing accountants | Edmond Chan |
| Financial advisers performing the duty of continuous supervision during the reporting period | Name | Southwest Securities Co., Ltd. |
| | Office address | 4/F, Tower A, International Enterprise Building, No. 35 Financial Street, Xicheng District, Beijing |
| | Name of the chief signing financial advisers | Tian Lei, Liu Guanxun |
| | Term of continuous supervision | From 21 September 2012 to 31 December 2012 |
| Long-term domestic legal advisers | Name | Yongheng Partners |
| | Office address | 13/F, Changfa Science & Technology Building, 222 Zhujiang Road, Nanjing, the PRC |
| Long-term overseas legal advisers | Name | Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors |
| | Office address | 23rd Floor, Admiralty Centre Tower II, 18 Harcourt Road, Queensway, Hong Kong |
| Name of Custodian in respect of the Non-circulating Shares of the Company | Name | China Securities Depository and Clearing Corporation Limited Shanghai Branch |
| | Office address | 36/F, China Insurance Building, 166 East Lu Jia Zui Road, Xin Qu, Pudong, Shanghai, the PRC |
| Share Registrars and Transfer Office (A shares) | Name | China Securities Depository and Clearing Corporation Limited Shanghai Branch |
| | Office address | 36/F, China Insurance Building, 166 East Lu Jia Zui Road, Xin Qu, Pudong, Shanghai, the PRC |
| Share Registrars and Transfer Office (H shares) | Name | Hong Kong Registrars Limited |
| | Office address | 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |
| Principal Bankers | | Bank of Communications, Shanghai Pudong Development Bank, China Merchants Bank, Bank of Nanjing |

Accounting Data And Financial Indicators Highlights

I. Major accounting data and financial indicators for the three years ended 31 December 2012 (prepared in accordance with the PRC Accounting Standards for Business Enterprises)

(I) Principal accounting data

Unit: RMB'000

| | 2012 | 2011 | Increase/ decrease from last year (%) | 2010 After the adjustment | 2010 Before the adjustment |
|--|---------------------|--------------|--|---------------------------------|----------------------------------|
| Operating income | 2,430,042.28 | 2,142,395.29 | 13.43 | 1,694,020.60 | 1,674,972.07 |
| Net profit attributable to shareholders of the Company | 131,554.10 | 110,070.23 | 19.52 | 9,359.54 | 9,192.40 |
| Net profit attributable to shareholders of the Company after extraordinary items | 59,446.94 | 104,142.13 | -42.92 | -11,282.47 | -11,282.47 |
| Net cash flow from operating activities | -82,211.03 | -189,911.76 | N/A | -164,739.89 | -163,351.41 |

| | As of the end of 2012 | As of the end of 2011 | Increase/ decrease from last year (%) | As of the end of 2010 After the adjustment | As of the end of 2010 Before the adjustment |
|---|--------------------------|--------------------------|--|--|---|
| Net assets attributable to shareholders of the Company | 1,684,756.01 | 1,587,039.95 | 6.16 | 1,479,742.18 | 1,476,137.18 |
| Total assets | 3,116,256.11 | 2,713,131.16 | 14.86 | 2,574,845.81 | 2,561,842.57 |

Accounting Data And Financial Indicators Highlights (Continued)

I. Major accounting data and financial indicators for the three years ended 31 December 2012 (prepared in accordance with the PRC Accounting Standards for Business Enterprises) (Continued)

(II) Key financial indicators

Unit: RMB'000

| | 2012 | 2011 | Increase/ decrease from last year (%) | 2010 After the adjustment | Before the adjustment |
|---|------|------|--|---------------------------------|--------------------------|
| Basic earnings per share | 0.20 | 0.17 | 19.52 | 0.01 | 0.01 |
| Diluted earnings per share | 0.20 | 0.17 | 19.52 | 0.01 | 0.01 |
| Basic earnings per share after extraordinary items | 0.09 | 0.16 | -42.92 | -0.02 | -0.02 |
| Weighted average return on net assets (%) | 8.06 | 7.17 | Increased by 0.89 percentage point | 0.63 | 0.62 |
| Weighted average return on net assets after extraordinary items (%) | 3.64 | 6.77 | Decreased by 3.13 percentage points | -0.76 | -0.77 |

II. Prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs")

- (I) The following is a summary of the consolidated results of the Group for each of the five years ended 31 December 2012 and the combined pro forma results of the Group for the year ended 31 December 2010 prepared on the basis that the Group's current structure had been in existence from the year ended 31 December 2007.

Unit: RMB'000

| | 2012 | 2011 | 2010 (restated) | 2009 | 2008 |
|---|-----------|-----------|--------------------|-----------|-----------|
| Turnover | 2,396,126 | 2,115,641 | 1,664,885 | 1,267,295 | 1,264,233 |
| Operating profit (loss) | -10,530 | -33,649 | -47,864 | -82,618 | -107,415 |
| Share of results of associated companies | 190,806 | 188,191 | 91,047 | 147,273 | 201,284 |
| Profit (loss) before taxation | 155,320 | 132,930 | 24,343 | 31,398 | 49,789 |
| Taxation | -19,297 | -16,835 | -16,599 | -12,374 | -6,568 |
| Profit (loss) after taxation | 136,023 | 116,095 | 7,744 | 19,024 | 43,221 |
| Minority interests | 4,469 | 6,025 | -1,615 | -3,498 | -2,657 |
| Profit (loss) attributable to shareholders | 131,554 | 110,070 | 9,359 | 15,526 | 40,564 |
| Proposed final dividends | 39,301 | 32,751 | — | — | — |

Accounting Data And Financial Indicators Highlights (Continued)

II. Prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

(II) Summary of the total assets and liabilities for each of the five years ended 31 December 2012

Unit: RMB'000

| | 2012 | 2011 (Restated) | 2010 (Restated) | 2009 | 2008 |
|-------------------|------------------|--------------------|--------------------|-----------|-----------|
| Total assets | 3,116,256 | 2,713,131 | 2,574,847 | 2,467,572 | 2,686,015 |
| Total liabilities | 1,423,964 | 1,117,689 | 1,087,789 | 985,091 | 1,098,031 |
| Total net assets | 1,692,292 | 1,595,442 | 1,487,058 | 1,482,481 | 1,587,984 |

III. Difference between accounting data prepared under Hong Kong and domestic accounting standards

No differences of net profit and net assets between the financial statements prepared in accordance with HKFRSs and the PRC Accounting Standards for Business Enterprises as applicable to the Group.

IV. Extraordinary items

Unit: RMB'000

| Items | 2012 | 2011 | 2010 |
|--|------------------|-----------|------------|
| Gains and losses from disposal of non-current assets | 282.41 | 937.08 | -11,520.51 |
| Government grants (except for the grants which are closely related to the Company's business and have the standard amount and quantities in accordance with the national standard) included in gains and losses for the period | 45,977.41 | 4,513.61 | 27,784.40 |
| Profit or loss from debt restructuring | 5,722.71 | 0 | 0 |
| Net profits and losses of subsidiaries as a result of merge of enterprises under common control from the beginning of the period to the date of merger | 0 | -2,441.88 | 208.93 |
| Other non-operating net income and expenses other than the aforesaid items | 25,349.98 | 3,478.32 | 5,101.41 |
| Impact on enterprise income tax | -5,004.70 | -801.90 | 252.68 |
| Net extraordinary profit and loss attributable to minority shareholders | -220.65 | 242.87 | -1,184.90 |
| Total | 72,107.16 | 5,928.10 | 20,642.01 |

Report Of The Board

I. Discussion and Analysis by the Board on the Operations of the Company during the Reporting Period

In 2012, the Company centered around industry development, specified the tasks and objectives for electronic equipment, consumer electronics and electronic manufacturing segments, strengthened monitoring of and communication with joint ventures in a bid to make breakthroughs in global economic downturn and cut-throat market competition. The Company successfully accomplished the annual operating goals by more aggressively promoting independent innovation, improving operation management, seizing market opportunities and continuously enhancing development quality and efficiency.

During the reporting period, the Company endeavoured to promote technological innovation, launched the establishment of technological innovation platforms involving various fields and at different levels to accelerate the application and translation of research results and effectively improve strengths in technological innovation. The Company's efforts to scale up cutting edge fundamental research through collaboration among producers, schools and institutions promoted the leap development of technology, brought about a number of results in key technological innovation, and took the Company's technological strengths and core competitiveness to a new level.

During the reporting period, the Company stepped up efforts for technological and management innovation for further market expansion. The market prospects for the Company's industrial automation equipment appeared promising, laying a solid foundation for the further development of the Company; the Company had another banner year in terms of orders for railway transit equipment with the government increasing investment in rail transportation; the electronics manufacturing segment continued to maintained good growth momentum; markets for the injection molding business were further expanded by virtue of high polymer materials for communications developed by the Company; in addition, the "Huhutong" (giving each household free access to satellite radio and television services) project, the government's "benefiting the people" program also had good performance.

During the reporting period, the Company made active efforts to map out plans for new industries with strategic significance. In light of the Company's professional advantages and with focus on the electronic equipment sector, the Company launched the construction of and financing for the electronic equipment industry park, actively planned the construction of industry bases and R&D centers for industrial automation equipment, electronic transport equipment, energy-efficient environmental equipment and communications equipment to further promote the adjustment and optimization of the Company's industrial structure.

During the reporting period, in order to push forward the implementation of the electronic equipment industrialization project and ensure the Company's sustainable and healthy development, the Company intended to raise up to RMB1.32 billion through a private A share placement for the construction of the industrial automation equipment industrialization, electronic transport equipment industrialization and communications equipment industrialization and R&D center projects. As at the date of this report, application materials submitted by the Company were being examined by CSRC.

During the reporting period, the Company adjusted top talents management approaches by constantly perfecting performance-based appraisal system, stepping up efforts for and improving ways of introducing high caliber talents. In 2012, the Company recruited over 70 talents with various expertise and holding a bachelor's degree or above including more than 18 master's degree holders and recruited 2 national experts. The Company more actively recommended its employees for various selection campaigns, with one funded by the provincial "six major top talent" program (六大人才高峰), one named "Chief Technician of Jiangsu Enterprises", one named one of the "Top 10 Leaders of the Nanjing Software Industry". In a move to scale up employee development and enhance their business capability, the Company provided 54 training programs of various types and 4 training programs for key operation, management and R&D personnel during the year, with attendance of more than 1,200 person-times and training 11 senior technicians.

Report Of The Board (Continued)

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

During the reporting period, as a result of the efforts of the management and all employees, the Company's principal business recorded good performance and joint ventures maintained stable growth momentum. According to the PRC Accounting Standards for Business Enterprises, revenue from operations of the Company for the year amounted to RMB2,430,042,300, representing an increase of 13.43% as compared with that of last year; profit of operations for the year amounted to RMB155,320,300, representing an increase of 16.84% as compared with that of last year; net profit amounted to RMB131,554,100, representing an increase of 19.52% as compared with that of last year. Under the HKFRSs, revenue from principal operations of the Company for the year amounted to RMB2,396,130,000, representing an increase of 13.26% as compared with that of last year; profit of principal operations amounted to RMB155,320,000, representing an increase of 16.84% as compared with that of last year; net profit attributable to shareholders amounted to RMB131,550,000, representing an increase of 19.52% as compared with that of last year.

During the reporting period, despite a growth in all operational indicators, the impact of the domestic and international economic volatility on the Company was not completely eliminated, the notable upward trend in prices of all kinds of raw materials and labor costs remained and the unfavorable situation of rising costs and declining unit prices persisted. The existence of all these variables is likely to adversely affect the sustained growth in business performance in the coming period.

(I) Analysis of principal operations of the Company

The Company is mainly engaged in research, development and sales of electronic equipment and consumer electronics as well as electronics manufacturing services. Electronic equipment include industrial automation equipment, electronic transport equipment and communications equipment; consumer electronics include digital home electronics and related products; electronics manufacturing include EMS and other services.

1. Analysis of changes in related items in the income statement and cash flow statement:

Unit: RMB0'000

| | Amount for the period | Amount for the same period last year | Change (%) |
|--|--------------------------|---|---------------|
| Operating income | 243,004.23 | 214,239.53 | 13.43 |
| Operating cost | 215,832.27 | 185,296.88 | 16.48 |
| Selling expenses | 3,545.15 | 4,068.97 | -12.87 |
| Administrative expenses | 26,940.06 | 25,555.93 | 5.42 |
| Financial expenses | 2,941.02 | 2,480.64 | 18.56 |
| Income tax | 1,929.71 | 1,683.48 | 14.63 |
| Net cash flow from operating activities | -8,221.10 | -18,991.18 | N/A |
| Net cash flows from investment activities | 15,389.64 | 29,336.64 | -47.54 |
| Net cash flows from financing activities | -3,603.98 | -15,159.09 | N/A |
| R&D expenditure | 10,157.15 | 8,606.58 | 18.02 |

Report Of The Board (Continued)

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

(I) Analysis of principal operations of the Company (Continued)

2. Income

(1) Analysis of factors leading to change in operating income

Unit: RMB0'000

| Name of product or service | Amount for the period | | Amount for the previous period | | Increase over the last year (%) |
|----------------------------------|-----------------------|---|--------------------------------|---|---------------------------------|
| | Income | As a percentage of the income from principal operations (%) | Income | As a percentage of the income from principal operations (%) | |
| Electronic equipment | 119,841.73 | 50.49 | 100,633.39 | 48.36 | 19.09 |
| Consumer electronics | 46,926.57 | 19.77 | 38,483.63 | 18.49 | 21.94 |
| Electronic manufacturing service | 64,950.94 | 27.36 | 62,950.80 | 30.25 | 3.18 |
| Others | 5,642.29 | 2.38 | 6,025.80 | 2.90 | -6.36 |

During the reporting period, the electronic equipment segment recorded sales income of RMB1,198,417,300, up 19.09% over the same period last year, contributing 50.49% to the principal operations; consumer electronics registered sales income of RMB469,265,700, up 21.94% from the same period last year, contributing 19.77% to the principal operations; electronic manufacturing service posted sales income of RMB649,509,400, roughly on par with the same period last year, contributing 27.36% to the principal operations.

(2) Analysis of factors affecting income from products which were mainly sold in kind

During the reporting period, electronic equipment and consumer electronics, as major components of the Company's principal operations, recorded aggregate sales income of RMB1,667,683,000, representing 70.26% of the income from principal operations.

(3) Analysis of orders

The amount of orders of the Company as at the end of 2011 was RMB619,036,500 and the amount of such completed orders in 2012 was RMB254,236,500, with a completion ratio of 41.07%. The amount of new orders placed in 2012 was RMB2,452,034,800 and the amount of such completed orders in 2012 was RMB1,876,830,400, with a completion ratio of 76.54%.

Report Of The Board (Continued)

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

(1) Analysis of principal operations of the Company (Continued)

2. Income (Continued)

(4) Sales from major customers

During the reporting period, sales from the top five customers amounted to RMB928,217,700, representing 38.20% of the total sales in 2012, of which 14.72% was attributable to the sales from the largest customer for the year.

(5) Turnover and contribution by business segment

An analysis of consolidated turnover by business segments and their contribution to profit (loss) of the Group under HKFRSs is as follows:

Unit: RMB'000

| Type of products | Turnover | Contribution to the Group's profit (loss) |
|----------------------------------|-----------|---|
| Electronic equipment | 1,206,185 | 53,095 |
| Consumer electronics | 478,541 | -14,220 |
| Electronic manufacturing service | 665,489 | 20,242 |
| Other operations | 45,911 | 2,621 |
| Operating profit | | 61,738 |
| Unallocated corporate expense | | -72,268 |
| Interest income | | 6,060 |
| Interest expenses | | -31,016 |
| Share of profit of associates | | 190,806 |
| Profit before taxation | | 155,320 |

Report Of The Board (Continued)

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

(I) Analysis of principal operations of the Company (Continued)

3. Cost

(1) Cost analysis

Unit: RMB0'000

| Component of cost | Amount for the period | As a percentage of the total cost for the period (%) | Amount for the same period last year | As a percentage of the total cost for the same period last year (%) | Change between the period and the same period last year (%) |
|---------------------|-----------------------|--|--------------------------------------|---|---|
| Cost of materials | 166,594.02 | 79.00 | 135,391.96 | 74.67 | 23.05 |
| Cost of labor | 22,069.39 | 10.47 | 27,570.55 | 15.21 | -19.95 |
| Cost of manufacture | 22,212.08 | 10.53 | 18,356.24 | 10.12 | 21.01 |

(2) Major suppliers

During the reporting period, the aggregate amount of purchase from the top five suppliers of the Company amounted to RMB440,539,400, accounting for 22.46% of the total amount of purchase for 2012, of which 9.97% was attributable to the purchase from the largest supplier in the year.

4. Expenses

Unit: RMB0'000

| | Amount for the period | Amount for the same period last year | Change (%) |
|-------------------------|-----------------------|--------------------------------------|------------|
| Selling expenses | 3,545.15 | 4,068.97 | -12.87 |
| Administrative expenses | 26,940.06 | 25,555.93 | 5.42 |
| Financial expenses | 2,941.02 | 2,480.64 | 18.56 |
| Income tax | 1,929.71 | 1,683.48 | 14.63 |

Report Of The Board (Continued)

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

(I) Analysis of principal operations of the Company (Continued)

5. R&D expenses

(1) Particulars of R&D expenses

Unit: RMB0'000

| | Amount for the period | Amount for the previous period | Change (%) |
|--|--------------------------|-----------------------------------|---------------------------------------|
| R&D expenses for the period | 10,157.15 | 8,606.58 | 18.02 |
| Capitalized R&D expenses for the period | | | |
| Total R&D expenses | 10,157.15 | 8,606.58 | 18.02 |
| The percentage of total R&D expenses over net assets (%) | 6.03 | 5.42 | Increased by 0.61 percentage point |
| The percentage of total R&D expenses over operating income (%) | 4.18 | 4.02 | Increased by 0.16 percentage point |

(2) Explanations

In 2012, the Company had 28 planned R&D programs including the Company's 4 key R&D programs and 2 key project programs, and 7 key R&D programs of Industrial companies. R&D Investment was planned to be RMB100,080,000.

In 2012, the R&D programs were crowned with success, with breakthroughs made in electronic equipment, a key product of the Company, as well as welding robots and system development, making domestically producing the products possible and laying the technological foundation for the manufacture of welding robots which are leading in China and reach international standards. With respect to railway transit equipment, the Company completed the R&D and customization for systems and equipment according to the client's requirements, and won bids of RMB400,000,000 to supply automatic fare collection systems for several domestic lines. In relation to communication equipment, R&D progressed smoothly, products were gradually accepted by special and public networks and multiple tests were finished, all boding well for market prospect.

In 2012, the Company completed 25 R&D projects with an investment of RMB101,570,000, representing 6.03% of the audited net assets at the end of 2012 and 4.18% of the audited operating income of 2012.

Report Of The Board (*Continued*)

I. Discussion and Analysis by the Board on the Operations of the Company during the Reporting Period (*Continued*)

(I) Analysis of principal operations of the Company (*Continued*)

5. R&D expenses (*Continued*)

(2) Explanations (*Continued*)

In 2013, the Company expects to invest RMB106,070,000 on 34 R&D projects. R&D and investment efforts for automatic transmission equipment, robot and system, railway transit equipment, communication equipment will be further increased. With the construction and development of the Company's electronic equipment industry park, development in the electronic equipment industry will see more robust growth. In 2013, the Company expects technological breakthroughs in robot system serialization, rail transit communication system, etc.. The Company will base its growth on research and production of automation equipment, with high-tech industry as the long-term development goal, committed to ancillary equipment of new products and process driven by new technology of the electronic industry, to develop the Company into a major R&D and industrialization base for high-end electronic equipment in China.

6. Cash flows

Unit: RMB0'000

| | Amount for the period | Amount for the previous period | Change (%) |
|---|-----------------------|--------------------------------|------------|
| Net cash flows from operating activities | -8,221.10 | -18,991.18 | N/A |
| Net cash flows from investment activities | 15,389.64 | 29,336.64 | -47.54 |
| Net cash flows from financing activities | -3,603.98 | -15,159.09 | N/A |

- (1) Net cash flows from operating activities increased mainly because more payment were received during the period;
- (2) Net cash flows from investment activities decreased mainly because Nanjing Panda Electronic Science Development Company Limited (南京熊猫电子科技发展有限公司) was incorporated after its registration during the previous period;
- (3) Net cash flows from financing activities increased mainly because financing was scaled back during the previous period.

During the reporting period, the Company's net profit was generated from operating and investment activities. Due to a relatively large gain from investment activities, there is a difference between cash flows from operating activities and net profit for the year.

Report Of The Board (Continued)

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

(I) Analysis of principal operations of the Company (Continued)

7. Others

- (1) Explanation about material changes in the Company's profit structure or sources:

N/A

- (2) Explanation about progress of the Company's financing and material asset reorganization in the previous period

The Proposal in relation to the Plan for the Proposed Placing of A Shares by the Company was considered and approved at the 6th meeting of the seventh session of the Board, the 2012 Third Extraordinary General Meeting ("EGM"), 2012 First A Shareholders Class Meeting and 2012 First H Shareholders Class Meeting. Currently, CSRC has accepted the relevant reporting materials submitted by the Company.

- (3) Explanation about progress in implementation of development strategy and business plan

During the reporting period, the Company optimized the shareholding structure and industrial structure to focus on electronic equipment while coordinating the development of industrial automation equipment, electronic transport equipment and communications equipment. By scaling up technological innovation and R&D efforts, the Company accomplished a host of achievements in key technological innovation, attaining the position as a technological leader.

The target operating revenue of the Company in 2012 was RMB2,009,720,000. The operating expenses during the period was limited to RMB386,440,000 or below, out of which selling expenses was at RMB54,140,000, administrative costs was at RMB287,570,000 and finance costs was at RMB44,730,000. For details, please refer to the 2011 annual report of the Company.

According to the audited financial report, operating revenue of the Company in 2012 was RMB2,430,042,300. The operating expenses during the period was RMB334,262,300, out of which selling expenses was RMB35,451,500, administrative costs was RMB269,400,600 and finance costs was RMB29,410,200.

Report Of The Board (Continued)

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

(II) Analysis of business operations by business, product or geographical region

1. Principal operations by product

Unit: RMB0'000

| Product | Operating income | Operating costs | Gross profit margin (%) | Increase/ decrease in operating income from the same period last year (%) | Increase/ decrease in operating costs from the same period last year (%) | Increase/ decrease in gross profit margin from the same period last year (%) |
|-----------------------------------|-------------------|-------------------|-------------------------|---|--|--|
| Electronic equipment products | 119,841.73 | 104,978.81 | 12.40 | 19.09 | 16.95 | Increased by 1.60 percentage points |
| Consumer electronics products | 46,926.57 | 43,025.77 | 8.31 | 21.94 | 17.96 | Increased by 3.09 percentage points |
| Electronic manufacturing products | 64,950.94 | 58,695.51 | 9.63 | 3.18 | 17.38 | Decreased by 10.94 percentage points |
| Others | 5,642.29 | 4,175.39 | 26.00 | -6.36 | -17.74 | Increased by 10.24 percentage points |
| | | | | | | Decreased by 1.71 percentage points |
| Subtotal | <u>237,361.53</u> | <u>210,875.48</u> | <u>11.16</u> | <u>14.06</u> | <u>16.30</u> | <u>points</u> |

2. Principal operations by geographical regions

The Company carried out its principal operations mainly within mainland China.

Report Of The Board (Continued)

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

(III) Analysis of assets and liabilities

Unit: RMB0'000

| Item | Amount at the end of the period | Amount at the end of the period as a percentage of the total assets (%) | Amount at the end of the previous period | Amount at the end of the previous period as a percentage of the total assets (%) | Change in the amount at the end of the period as compared to the amount at the end of the previous period (%) |
|---|---------------------------------|---|--|--|---|
| Cash and bank deposits | 59,079.97 | 18.96 | 44,688.86 | 16.47 | 32.20 |
| Bills receivable | 3,767.38 | 1.21 | 1,572.04 | 0.58 | 139.65 |
| Accounts receivable | 74,494.92 | 23.91 | 54,892.54 | 20.23 | 35.71 |
| Other receivables | 4,901.40 | 1.57 | 2,326.71 | 0.86 | 110.66 |
| Construction in progress | 5,862.21 | 1.88 | 30.64 | 0.01 | 19,034.87 |
| Intangible assets | 8,630.99 | 2.77 | 2,457.80 | 0.91 | 251.17 |
| Bills payable | 28,833.55 | 9.25 | 6,906.04 | 2.55 | 317.51 |
| Advances from customers | 11,045.09 | 3.54 | 7,368.77 | 2.72 | 49.89 |
| Taxes payable | 2,892.52 | 0.93 | -1,237.10 | N/A | N/A |
| Interest payable | 52.18 | 0.02 | 96.91 | 0.04 | -46.16 |
| Dividends payable | 136.47 | 0.04 | 14.33 | 0.01 | 852.34 |
| Non-current liabilities due within one year | 0.00 | | 400.00 | 0.15 | -100.00 |

- (1) The increase in cash and bank deposits is mainly due to dividend received from associates and cash balance from operations of the Company;
- (2) The increase in bills receivable is mainly because more customers used bills for settlement during the period;
- (3) The increase in accounts receivable is mainly due to more amounts payable (within the credit period) by the Radio, Film and Television Bureau of Gansu Province, which made purchases under the "Huhutong" government procurement project;
- (4) The increase in other receivables is mainly due to a rise in relocation compensation receivable under the Relocation Agreement with the demolition of the Automobile Parts City in the Haifuxiang Plant during the period;
- (5) The increase in construction in progress is mainly because the Company had two new projects under construction during the period, namely, phase 1 of the electronic equipment industrial park and Xingang Training Center;

Report Of The Board (*Continued*)

I. Discussion and Analysis by the Board on the Operations of the Company during the Reporting Period (*Continued*)

(III) Analysis of assets and liabilities (*Continued*)

- (6) The increase in intangible assets is mainly due to the acquisition of the land use right for the electronic equipment industrial park during the period;
- (7) The increase in bills payable is mainly because more purchases were paid using bills;
- (8) The increase in advances from customers is mainly due to a rise in construction payments received in advance;
- (9) The increase in taxes payable is mainly due to a significant increase in added-value tax and enterprise income tax;
- (10) The decrease in interest payable is mainly due to repayment of borrowings extended by banks as a trade service;
- (11) The increase in dividends payable is mainly because Nanjing Panda Electronic Manufacture Co., Ltd. (南京熊猫电子製造有限公司), a subsidiary of the Company has not yet paid dividends payable to minority shareholders during the period;
- (12) The decrease in non-current liabilities due within one year is mainly due to repayment of borrowings during the period.

The details of the net assets per share as at the balance sheet date for each of the three years ended 31 December 2012 are as follows.

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

Unit: RMB

| | 2012 | 2011 | 2010 (Restated) |
|----------------------|--------------|-------|--------------------|
| Net assets per share | 2.57 | 2.42 | 2.26 |
| Increase/(decrease) | 6.16% | 7.25% | 0.68% |

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

Unit: RMB

| | 2012 | 2011 | 2010 (Restated) |
|----------------------|--------------|-------|--------------------|
| Net assets per share | 2.57 | 2.42 | 2.26 |
| Increase/(decrease) | 6.16% | 7.25% | 0.68% |

Report Of The Board (Continued)

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

(IV) Analysis of core competitiveness

1. Advantages in technology R&D

- (1) In respect of R&D talents, the Company put in place an incentive mechanism by following the principle of respecting talents and encouraging innovation. The Company brings together plenty of innovative technological talents in light of key industries and through platforms building. As at 31 December 2012, the Company had 1,101 technicians, representing 32.59% of its total workforce.
- (2) In respect of R&D achievements, after years of commitment to R&D, the Company now has series of electronic equipment products with industrial automation equipment, electronic transport equipment, communications equipment at the core. Meanwhile, the Company has accumulated extensive experience in electronic manufacturing services. Presently, the Company holds a total of 55 invention patents. Since 2008, the Company and its subsidiaries have undertaken a number of projects commissioned by the National Development and Reform Committee (“NDRC”), the Ministry of Industry and Information Technology, the Ministry of Science and Technology and Jiangsu Province. The Company has won nine awards including the National Science and Technology Progress Award granted by the State Council, the Science and Technology Award of Jiangsu Province granted by the Jiangsu provincial government, the Science and Technology Progress Award granted by China Electronics Corporation, the Science and Technology Progress Award of Nanjing City, Electronic Information Science and Technology Award granted by Chinese Institute of Electronics.

2. Advantages in products

- (1) With respect to industrial automation equipment, the Company has successfully developed the automatic transmission system for factory cleaning, industrial robots, new-type environment-friendly bag making machine, automatic bottle filling equipment, equipment for electric vehicle charging stations, etc. The Company is one of the few manufacturers in China which are able to provide the automatic transmission system for factory cleaning and our technology in this regard is leading and pioneering domestically. The automatic bottle filling equipment helped break up the monopoly of foreign companies and filled a gap in the domestic field.
- (2) With respect to electronic transport equipment, the Company has become a major supplier of dedicated equipment for domestic urban rail transit automatic fare collection system. The special equipment including automatic ticket vending machine, semi-automatic ticket vending machine, automatic fare collection machine, portable ticket checking machine, automatic recharging machine, built-in standard card reader in the ticketing process for metros developed and manufactured by the Company have been successfully used at metros in Nanjing, Shenzhen, Beijing and Wuhan. The Company’s automatic ticket vending and automatic fare collection products are also exported to Taiwan, Hong Kong, India, Thailand, Venezuela and United Arab Emirates as supporting equipment of metro systems.

Report Of The Board (*Continued*)

I. Discussion and Analysis by the Board on the Operations of the Company during the Reporting Period (*Continued*)

(IV) Analysis of core competitiveness (*Continued*)

2. Advantages in products (*Continued*)

- (3) With respect to communications equipment, the Company's emergency communication system is focused on guaranteeing emergency communications, providing satellite, short wave, cluster, mobile, wired and other means of communications through integration, and offering flexible, portable, stable and reliable user-friendly emergency communications equipment which can play a key role in various missions including disaster relief. The satellite mobile communication system with planar antenna is a system which enables communications under fast moving state; the new generation of mobile communication system is mainly used by the government, army, police, railways, mines, water conservancy, electricity, civil aviation, shipping, iron & steel, logistics and other professional mobile communication fields.

3. Advantages in quality management

The Company has laid down the principle of "quality, customers, services and credibility come first". The Company passed the quality management system certification in as early as 1995. This system has been functioning effectively thanks to continuous improvement for years. The Company strictly implements the mechanism of "process controlling the procedure", requiring operators to receive training in order to be qualified for their jobs; strictly implements the requirement in respect of technological document and takes corrective and preventive measures on a timely basis to eradicate defective products. The quality assurance division implements a stringent inspection system to prevent defective products from being delivered; laboratories carry out product tests in strict compliance with criteria, examine product quality by regular tests and reliability experiments to protect users' interests and the Company's reputation. Some of the Company's products have undergone the "CCC", "CE", "UL" certification, energy efficient product certification, networked product certification of the State Administration of Radio, Film and Television and "NDS" safety certification according to regulations and standards and upon clients' demand.

4. Advantages in brand and marketing

The brand "Panda", created in 1956 and recognized as a "China Famous Brand" by the State Administration for Industry & Commerce in 1995, enjoys high reputation and influence in China's electronic information industry. With sales networks spreading across the country, the Company has established a strong sales team and a full-blown marketing system. The Company constructed and improved, based on different sales targets and features of channels, different types of marketing platforms, such as government and industry centralized procurement market platform, consumer electronics market platform directly targeting consumers and e-commerce platform, to gain strong marketing advantages.

Report Of The Board (Continued)

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

(IV) Analysis of core competitiveness (Continued)

5. Primary operating results in enhancing the Company's core competitiveness

- (1) Technological innovation system gradually improved with fruitful achievements accomplished in innovation.

In 2012, the Company further sped up the construction of its technological innovation system. Four new province- and city-level engineering research centers and enterprise technology centers were built, serving as platforms for expanding the industrial technology fields. In 2012, the Company made breakthroughs in a series of key technology including robot position changing machine and electric welding machine integrating technology, miniaturized and low-consumption special LTE communication technology and miniaturized satellite terminal system technology, successfully developed new products and commercial prototypes including new welding robot, new engineering system dedicated for LTE communications and S wave-band portable satellite terminal, expanded into new technological and business fields such as intelligent manufacturing equipment, 4G mobile communications and a new generation of satellite communications, and extended new market application fields, further reinforcing the Company's development goal of grasping the core technology commanding heights, and cementing the Company's technologically leading position in the domestic professional fields. In 2012, the Company applied national patents for 34 products including 14 invention patents, with 33 granted including 4 invention patents.

- (2) Industry development capability and guarantee conditions further improved

In 2012, the Company continued to enhance industry development capacity and commenced the construction of the electronic equipment industrial park and R&D center. The electronic equipment industrial park mainly serves as a vehicle for the implementation of the Company's projects including industrial automation equipment industrialization, electronic transport equipment industrialization, communications equipment industrialization and R&D center. Currently, the upfront R&D has basically finished and five plants in the electronic equipment industrial park have been topped out. It is expected that some industries and units will move in in 2013. After the park is completely built and the projects attain designed production capacity, the Company will possess abilities for large-scale equipment development and production.

- (3) Achievements accomplished in talents team development, with talents' leading role increasingly prominent

In 2012, the Company continued its efforts to build talent teams, implemented a talent project to actively elect and introduce various types of talents. During the year, the Company recruited over 70 talents with various expertise and holding a bachelor's degree or above, including 18 master's degree holders. The Company more actively recommended its employees for various selection campaigns, with one funded by the provincial "six major top talent" program (六大人才高峰), one named "Chief Technician of Jiangsu Enterprises", one named as one of the "Top 10 Leaders of the Nanjing Software Industry".

Report Of The Board (*Continued*)

I. Discussion and Analysis by the Board on the Operations of the Company during the Reporting Period (*Continued*)

(V) Analysis of investment

1. Overall analysis of equity investment

During the reporting period, the Company did not make investment in equity or securities, or hold stakes in other listed companies or non-listed financial enterprises, or purchase or sell shares of other listed companies.

2. Entrusted wealth management products with non-financial companies and derivatives investment

During the reporting period, the Company did not have entrusted wealth management products, entrusted loans, other investment products or derivatives investment.

3. Use of raised proceeds

During the reporting period, the Company did not raise any funds or utilize previously raised proceeds during the period.

4. Analysis of major subsidiaries and invested companies

(1) Analysis of major subsidiaries

During the reporting period, according to the requirements of industrial restructuring and enterprise restructuring, the Company adjusted its equity interests in Mechanical Manufacturing Company and Appliance & Apparatus Company, both being the Company's wholly-owned subsidiaries, to optimize equity structure and industrial structure and enhance the coordinated development of its industrial automation equipment business. The Company transferred its 70% equity interests in Mechanical Manufacturing Company to Electronics Equipment Company, a wholly-owned subsidiary of the Company, for a consideration of RMB9,476,100, which was determined based on appraisal results. The Company transferred its 85.10% equity interests in Appliance & Apparatus Company to Electronics Equipment Company for a consideration of RMB1,785,900, which was determined based on appraisal results. An overview of major subsidiaries is as follows:

Report Of The Board (Continued)

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

(V) Analysis of investment (Continued)

4. Analysis of major subsidiaries and invested companies (Continued)

(1) Analysis of major subsidiaries (Continued)

Unit: RMB0'000

| Subsidiary | Principal products or services | Registered capital | Total assets | Net assets | Operating income | Operating profit | Net profit |
|--|---|--------------------|--------------|------------|------------------|------------------|------------|
| Electronic Equipment Company | Manufacture of automatic industrial equipment, environmental protection equipment, and logistic accessories | 8,000 | 24,991.63 | 10,923.78 | 33,941.70 | 1,535.55 | 1,153.82 |
| Information Industry Company | Development, production and sale of electronic information products | USD2,300 | 74,823.61 | 17,110.13 | 70,597.00 | -653.08 | 489.94 |
| Electronic Manufacture Company | Development and production of new models of electronic products | USD2,000 | 31,727.37 | 23,277.29 | 33,362.64 | 886.17 | 731.61 |
| Communications Technology Company | Development and manufacture of mobile communication, digital communication and network communication systems and products | 5,000 | 6,555.26 | 4,840.33 | 10,445.88 | -5.23 | 120.84 |
| Nanjing Panda Xinxing Industrial Co., Ltd. | Property management and sales of mechanical, electronic products, construction materials and office supplies | 2,000 | 4,075.88 | 2,249.13 | 5,797.27 | 116.35 | 136.95 |
| Huage Appliance Company | Plastic product & accessories | 6,000 | 23,168.92 | 10,698.14 | 34,949.38 | 449.58 | 884.13 |
| Mechanical Manufacturing Company | Metal components and stamping parts | 1,000 | 8,302.27 | 2,546.49 | 17,666.20 | 1,258.61 | 1,102.56 |
| Nanjing Panda Electromechanical Instruments Technology Co., Ltd. | Research, development, manufacturing and sales of logistic supporting equipment and automatic fare collection equipment | 1,000 | 4,019.69 | 1,790.57 | 6,232.87 | 630.44 | 538.35 |
| Technology Development Company | Manufacturing of general purpose equipment, software development, and property management | 25,000 | 31,638.62 | 25,024.97 | | 43.91 | 31.12 |
| Galant Limited | R&D of communication products | HKD0.0001 | 7,619.82 | 1,631.77 | | 457.86 | 457.86 |

Report Of The Board (*Continued*)

I. Discussion and Analysis by the Board on the Operations of the Company during the Reporting Period (*Continued*)

(V) Analysis of investment (*Continued*)

4. Analysis of major subsidiaries and invested companies (*Continued*)

(1) Analysis of major subsidiaries (*Continued*)

Changes in net profit of major subsidiaries are as follows:

Unit: RMB0'000

| Subsidiary | Net profit | | Change (%) |
|--|-----------------|----------|------------|
| | 2012 | 2011 | |
| Electronic Equipment Company | 1,153.82 | 998.92 | 15.51 |
| Information Industry Company | 489.94 | 176.52 | 177.55 |
| Electronic Manufacture Company | 731.61 | 3,131.02 | -76.63 |
| Communications Technology Company | 120.84 | — | N/A |
| Nanjing Panda Xinxing Industrial Co., Ltd. | 136.95 | 127.27 | 7.61 |
| Huage Appliance Company | 884.13 | 1,631.70 | -45.82 |
| Mechanical Manufacturing Company | 1,102.56 | 1,010.89 | 9.07 |
| Nanjing Panda Electromechanical Instruments Technology Co., Ltd. | 538.35 | 866.39 | -37.86 |
| Technology Development Company | 31.12 | -6.14 | N/A |
| Galant Limited | 457.86 | 526.25 | -13.00 |

Report Of The Board (Continued)

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

(V) Analysis of investment (Continued)

4. Analysis of major subsidiaries and invested companies (Continued)

(2) Analysis of invested companies

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

ENC was set up on 15 September 1992 with a total investment of US\$40.88 million and a registered capital of US\$20.9 million. ENC is held as to 27% by the Company, 51% by Ericsson (China) Company Limited, 20% by China Potevio Co., Ltd., and 2% by Hong Kong Yung Shing Enterprise Company. ENC is mainly engaged in R&D and production of mobile telecommunication system products and network communication systems, etc. It is one of Ericsson's three major supply and manufacturing pivots in the world. Operating revenue of ENC for 2012 amounted to RMB12,591,390,000, representing a decrease of 40.29% year-on-year; net profit amounted to RMB345,260,000, representing a decrease of 46.44% year-on-year. Reasons for changes of main indicators are that ENC's orders decreased leading to less income and profit.

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

BMC was set up on 8 August 1995 with a total investment of US\$90 million and a registered capital of US\$30 million. BMC is held as to 20% by the Company, 27% by China Potevio Co., Ltd., 26% by Sony Ericsson Mobile Communications (China) Limited (索尼移動通信產品(中國)有限公司), 25% by Sony Mobile Communications Limited (索尼移動通信有限公司) and 2% by Hong Kong Yung Shing Enterprise Company. BMC is mainly engaged in mobile terminals (mobile phones) and is the principal production base and supply centre of Sony mobile phones. Operating revenue of BMC for 2012 amounted to RMB26,742,810,000, representing an increase of 32.30% year-on-year; net profit was RMB418,710,000, representing a decrease of 6.45% year-on-year. Reasons for changes of main indicators are exchange rate losses and the effect of long term contracts, leading to a decline in profits.

Report Of The Board (*Continued*)

I. Discussion and Analysis by the Board on the Operations of the Company during the Reporting Period (*Continued*)

(V) Analysis of investment (*Continued*)

4. Analysis of major subsidiaries and invested companies (*Continued*)

(2) Analysis of invested companies (*Continued*)

(iii) Shenzhen Jingwah Electronics Co., Ltd. ("Shenzhen Jingwah Company")

Shenzhen Jingwah Company was set up on 8 May 1984 with a registered capital of RMB115,070,000. Shenzhen Jingwah Company is held as to 38.03% by the Company, 5.07% by PEG, 38.03% by China Electronics Shenzhen Company, 5.07% by Shenzhen CEIEC Property Management Co., Ltd. and 13.8% by employees. Shenzhen Jingwah Company is mainly engaged in the manufacture of communications equipment and digital products. Operating revenue of Shenzhen Jingwah Company for 2012 amounted to RMB1,301,060,000, representing an increase of 54.86% year-on-year; net profit was RMB39,170,000, representing an increase of 32.51% year-on-year. Reasons for changes of main indicators are that export orders for Shenzhen Jingwah Company's digital products soared, leading to growth in revenue and profit.

During the reporting period, the Company's investment income amounted to RMB190,810,000. The composition of investment income is as follows:

Unit: RMB'000

| Invested company | Operating income | Net profit | Shareholding of the Company | Investment income received by the Company |
|--------------------------|------------------|------------|-----------------------------|---|
| ENC | 1,259,139 | 34,526 | 27% | 9,322 |
| BMC | 2,674,281 | 41,871 | 20% | 8,374 |
| Shenzhen Jingwah Company | 130,106 | 3,917 | 38.03% | 1,490 |

5. Projects which are not funded by raised proceeds: N/A

(VI) Special purpose entities controlled by the Company

During the reporting period, the Company did not control any special purpose entities.

Report Of The Board (Continued)

II. Discussion and Analysis of the Board over the Company's Future Development

(I) Competition pattern and development trend of the industry

1. Industry competition

(1) Overall competition status

The electronic information industry is the strategic centerpiece of global competition, as it features the concentration of innovative resources and elements, and is the most active and catalytic field with the widest penetration in the world. The new-generation information technology has rapidly entered into its adolescence and brought profound changes to the industrial pattern. Ever since the financial crisis, not only major developed economies and regions such as the United States, Japan and the European Union have deemed the electronic information industry as of national strategic importance and fought for the commanding height amid technological and industrial competition in the future. Brazil, Russia, India and some other countries have also been vigorously developing their electronic information industry, and achieved rapid growth. All this has led to increasingly fierce competition worldwide.

(2) Major competitors

The electronic information manufacturing industry which the Company has been engaged in features intense market competition, high concentration and strong relativity, and is currently at a stage of strategic adjustment with industrial consolidation and structural upgrade. The Company's competitors are widely distributed in the electronic information industry and its related sectors.

2. Industry access barriers

(1) Technological barriers

Electronic equipment products have a relatively high technological content and involve multiple disciplines including mechanical manufacturing, electronic technology, optical technology and computer technology. Due to their complex structure, high technological content and high percentage of design and development, such products have strong technological barriers. Among them, the industrial automation equipment sector is a multi-disciplinary and technology-intensive emerging industry which has developed along with the intelligent technology, optical technology and computer technology in the last three decades. As the products have a high technological content, enterprises need to have enough technological strength and reserves to realize sustained development. Traffic electronic equipment products relate to a number of sectors including rail transit communication, signalling, electric power, and electrification systems, and have a high technological content, and high technological barriers as a result. Communication equipment products are updated at a fast speed, which requires that enterprises have large amounts of technological strength to be able to launch new products rapidly that satisfy customer demands.

Report Of The Board *(Continued)*

II. Discussion and Analysis of the Board over the Company's Future Development *(Continued)*

(I) Competition pattern and development trend of the industry *(Continued)*

2. Industry access barriers *(Continued)*

(2) Capital barriers

Due to their high technological content and relatively long cycles of project development and manufacture, electronic equipment products require plenty of R&D capital inputs. Furthermore, being of an investment nature, the amount of a single contract and the project delivery cycle of electronic equipment products are relatively high and long, which leads to relatively long payback cycle and occupation of enterprises' vast amounts of capital for a long time. Mostly custom made, electronic equipment products require relatively high environmental and manufacturing conditions for production. In addition to a long debugging time for complete sets of equipment, technical debugging also takes a long time, which needs the backup of large amounts of working capital.

(3) Talent barriers

In recent years, China has achieved remarkable progress in the electronic information industry, but still lags far behind the advanced levels worldwide, due to a shortage of talents grasping world-leading technologies. Characterized with concentration of innovative resources and elements, the electronic information industry still remains the most active and catalytic field with the widest penetration in the world. Major countries worldwide have deemed the electronic information industry as of national strategic importance, fought for the commanding height amid technological and industrial competition in the future, and stepped up competition for talents, which leads to high talent barriers.

3. The Company's position in the industry

The brand of "PANDA" was founded in 1956, later certified as a "well known trademark in the PRC" by the State Administration for Industry & Commerce in 1995, and enjoys a high popularity and influence in the domestic electronic information industry.

As an electronic equipment enterprise with great research and development strength in the PRC, the Company enjoys a leading position for its technological level in respect of industrial automation equipment, traffic electronic equipment and communication equipment. As for industrial automation equipment, the Company is one of the few solution providers to the automatic transmission system for purifying plants in the PRC.

Report Of The Board (Continued)

II. Discussion and Analysis of the Board over the Company's Future Development (Continued)

(I) Competition pattern and development trend of the industry (Continued)

4. Favourable and adverse factors for industry development

(1) Favourable factors

- Positive support from industry policies

The electronic information industry features the concentration of innovative resources and elements, and the new-generation information technology has rapidly entered into its adolescence and brought profound changes to the industrial pattern. Major countries and regions around the world have deemed the electronic information industry as of national strategic importance and fought for the commanding height amid technological and industrial competition in the future. In a bid to support the development of the domestic electronic information industry, the Chinese government and relevant ministries have issued a series of development plans, including the "Twelfth Five-Year" Plan for the Development of National Strategic Emerging Industries (《「十二五」國家戰略性新興產業發展規劃》), the "Twelfth Five-Year" Plan for the Development of the Electronic Information Manufacturing Industry (《電子信息製造業「十二五」發展規劃》), the "Twelfth Five-Year" Plan for the Development of the High-end Equipment Manufacturing Industry (《高端裝備製造業「十二五」發展規劃》), and the "Twelfth Five-Year" Plan for the Development of the Communication Industry (《通信業「十二五」發展規劃》).

- Development opportunities brought by globalized industrial consolidation and redistribution

The financial crisis has forced enterprises to speed up capital merger and acquisition, industrial consolidation and redistribution. The global economic downturn has imposed great impact on overseas multinational enterprises, and the competition pattern both at home and abroad is close to new adjustments, which facilitates industrial transfer, and provides opportunities for domestic electronic information enterprises to consolidate international resources, strengthen global cooperation and fulfil rapid development.

- Opportunities brought by industrial structural upgrade and strategic adjustment in the PRC

The transformation and upgrade of key industries in the national economy, the cultivation and development of strategic emerging sectors as well as the construction of major national projects have put forth new and higher requirements on the green, intelligent and service-based development of the equipment manufacturing industry, provided huge market demand potentials, and brought favourable market opportunities for the Chinese electronic equipment manufacturing industry, which will embrace a significant and strategic period for future development.

Report Of The Board *(Continued)*

II. Discussion and Analysis of the Board over the Company's Future Development *(Continued)*

(I) Competition pattern and development trend of the industry *(Continued)*

4. Favourable and adverse factors for industry development *(Continued)*

(2) Adverse factors

Through years of development, China has further consolidated its position as an electronic information manufacturing power, with overall strength lifted to new levels. But deep-rooted problems and structural conflicts with industrial development still stand out, mainly represented as no possession of key and core technologies, taking the mid- and low-end position in the value chain of the industry, high percentage of OEM and processing trade, lagging behind developed countries in terms of R&D input intensity, scattered resources allocation, industry policy environment yet to be improved, and premature domestic demand-driven mechanism, all of which has hindered the development of the domestic electronic information manufacturing industry.

5. Basic industrial situation and development trend

The domestic electronic information manufacturing industry which the Company falls into is a strategic, fundamental and guiding industry of the national economy, the technological support and material foundation for accelerated industrial transformation and upgrade and informatization construction of the national economy and the society, as well as a key cornerstone for ensuring national defence construction and national information security. By seizing major opportunities brought by development of the national economy and international industrial transfer, actively pressing ahead with structural adjustment and strengthening independent innovation, the Chinese electronic information manufacturing industry has achieved steady growth, and played an increasingly supporting and guiding role in economic and social development. In the future, the government will still firmly support the development of the electronic information industry, which has favourable market prospects.

(II) Development strategy of the Company

1. Development strategy

By fully practicing the scientific outlook on development, enhancing its capability for sustained development and fully leveraging existing resources, the Company will fulfill rapid and robust growth, properly adjust the industrial structure, commit itself to technological innovation, management innovation and service innovation, striving to build itself into a renowned domestic enterprise in the field of electronic equipment, consumer electronics and electronic manufacturing, and a global player in step with world-leading peers abroad.

Report Of The Board (Continued)

II. Discussion and Analysis of the Board over the Company's Future Development (Continued)

(II) Development strategy of the Company (Continued)

2. Business development targets

(1) Adjustment plan for specialized subsidiaries

According to the adjustment plan for business consolidation, and the requirements of the adjustment to business structure, corporate structure, assets structure and personnel structure, the Company will proceed with the reorganization and integration of the specialized subsidiaries of the Company, further enhance the competitiveness and profitability of its principal business based on the professional management model, and expand and strengthen both itself and its specialized subsidiaries.

(2) Research and development plan

The Company intends to boost its independent innovation capability by continuously increasing investment in scientific research, strengthen management of intellectual property rights and enhance industrialized application of technological achievements by carefully organizing the preparation for the implementation of scientific research projects, consolidate internal and external technological resources and step up cooperation between production, learning and research by innovating the scientific research management system, so as to promote the development of the Company's scientific research projects, and ensure the smooth progress of key projects as scheduled.

(3) Talent management plan

The Company will further implement its talent strategy to build a high-end talent team by focusing on introducing and cultivating leading talents in respect of technology, management, market, etc., proactively foster an echelon of talents, a stable force of mainstay staff, and a stable team of grass-root technicians, further improve the assessment and incentive system to mobilize the initiative of employees so that talents at all levels can have more room to prove their worth and exert their abilities, and build strong staff teams for the whole production and operation process from scientific research, production, management, marketing to logistics.

(4) Financing plan in the capital market

By revitalizing unproductive assets and reducing its debt burden, the Company will optimize the assets structure, improve asset management, further strengthen capital management, adjust the financing structure by leveraging the capital market as a platform, lower capital costs and prevent financial risks.

(5) Operation and management plan

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

Report Of The Board (*Continued*)

II. Discussion and Analysis of the Board over the Company's Future Development (*Continued*)

(III) Operational Plan

In 2013, the Company will further deepen development of its internal control system and scientific research system, expand marketing channels, improve the assessment and incentive mechanism, accelerate cultivation of talents and construction of corporate culture, and proactively build a harmonious enterprise, striving to boost employees' degree of satisfaction, and promote steady and sustainable development of the enterprise. Focus will be placed on the following tasks:

1. Endeavour to achieve all operating targets: The target operating revenue and total profit of the Company in 2013 are RMB2,400,000,000 and RMB200,000,000, respectively. The attainment of the above targets in 2013 is still subject to many uncertain factors, however, the Company, closely centered on its operation and development targets, will make sure these targets are achieved, by way of innovation, tapping internal potential and expanding external markets.
2. Further boost independent innovation capability: The Company will further improve its research and development system, vigorously step up technological innovation, focus on making new breakthroughs in key technologies in respect of electronic equipment (industrial automation equipment, traffic electronic equipment, communication equipment) and EMS service, and strive to own more patents and intellectual property rights, so as to provide technological support to the sustained, stable and coordinated development of the Company's principal business. The Company will also well organize the preparation and implementation of the 2013 plan for scientific research projects, consolidate scientific and technological resources to build an "electronic equipment R&D center", raise the importance of patents for invention in intellectual property rights management, raise industrialized application of technological achievements, explore new ways of international cooperation, and make new breakthroughs in technology introduction and related cooperation.
3. Continue to advance the electronic equipment industrialization project: To fit into the development trend of the high-end equipment manufacturing industry, the Company will steadily push forward the non-public issue of A shares, with the total proceeds thereof not exceeding RMB1,320 million, which will be used for the industrial automation equipment industrialization project, communication equipment industrialization project, traffic electronic equipment industrialization project and R&D center project. The above investment projects, upon completion and commencement of production, will help boost the Company's comprehensive strength and economic benefits, further shorten the gap with the world's leading enterprises, and raise the Company's competitiveness in global markets. Meanwhile, through this non-public issue, the Company intended to supplement its working capital, improve its assets structure and financial position, and alleviate the pressure of working capital demands during the process of business expansion.

Report Of The Board (Continued)

II. Discussion and Analysis of the Board over the Company's Future Development (Continued)

(III) Operational Plan (Continued)

4. Further optimize the internal control system: The Company will organize self-check, inspection and rectification in respect of work methods, conduct all-round guidance and supervision over risk management as to the problems identified in financial and operational risks control during 2012, and strengthen horizontal exchange and cooperation with companies of the same industry. As for work contents, the Company will further improve the design of the internal control system: firstly, further improve the Company's organizational system and functional orientation, specify duties and limits of authority at all levels, and further adapt to new management patterns and requirements; secondly, strictly implement the budget and final account system, further step up construction of the Company's financial management system in terms of management of financial supervision and supervision over financial management; thirdly, further enhance the quality of introduced talents, optimize the talent mix of the Company, establish a sound internal talent flow mechanism, and rationally optimize allocation of talent resources; fourthly, accelerate the advancement of informatization construction, further establish an information resources sharing platform, utilize the Company's intranet, and set up a new operation mechanism for fundamental work by interconnecting all managerial functions, management methods and technological means; fifthly, step up basic management of quality, safety, finance, audit and contract, further intensify accountability assessment of various work targets, and fully put into practice risk management and control.
5. Further improve the construction of a harmonious enterprise: The Company will pay more attention to the demands of employees, carry out mass activities to enrich employees' cultural life, ensure increase in the income of most on-the-job employees, and, with the focus of corporate culture on promoting development, building solidarity and boosting harmony, jointly carry forward corporate reform and development, maximally enable employees to benefit from the result of enterprise development.

(IV) Capital Demands for Maintaining the Existing Business and Completing Construction of the Investment Projects

In 2013, the Company will continue to deepen the adjustment to the business structure, highlight and enhance its principal business of electronic equipment as a key measure to fulfill business structure adjustment and transformation and upgrade, and continue to push forward the electronic equipment industrialization project. Furthermore, the Company will further enhance its capability in electronic manufacturing services and actively expand the line of consumer electronic products. For details of the total investment amount in relevant electronic equipment industrialization projects, please refer to the related announcement and circular of the Company on non-public issue of A shares published on the website of the Hong Kong Stock Exchange on 8 November 2012 and 17 December 2012 respectively. The Company will make investments in matters relating to enhancement of electronic manufacturing capability and expansion of the product line of consumer electronics based on the actual conditions.

As for fund sources, in addition to its accumulated profit, the Company will steadily press ahead with the matter relating to non-public issue of A shares, and timely raise funds by diverse financing means including bank loans, and maintain a reasonable and healthy financial position while achieving business development at the same time.

Report Of The Board (*Continued*)

II. Discussion and Analysis of the Board over the Company's Future Development (*Continued*)

(V) Potential Risks

1. Market risk

Spurred by industry policies, and with market demands rising continuously, more and more capital may enter the electronic information industry in the future, especially the niche market where the Company belongs, as a result the Company will face much fiercer market competition. Were the Company unable to maintain its edge in respect of technological R&D, product, quality control and marketing, its position in the industry would be shaken.

2. Risk associated with development of technology

As the replacement speed of technologies relating to the electronic information industry is fast, together with intense market competition, were the Company unable to maintain technological innovation, constantly keep track of the newest technologies in this sector both at home and abroad, obtain updates on customers' latest demands, accelerate the R&D speed for new products, or maintain its leading position in the PRC, the Company would run the risk of seeing its market share drop and its products replaced by the new products of competitors.

III. Explanation of the Board on the "Non-standard Opinions" Given by the Auditors

- (1) Explanation of the Board and the Supervisory Committee on "non-standard opinions" given by the auditors: N/A
- (2) Analysis and explanation of the Board on the reasons and impact of the change in accounting policy, accounting estimation and verification method: N/A
- (3) Analysis and explanation of the Board on the reasons and impact of the correction to material errors for last period: N/A
- (4) Detailed explanation of companies applicable to both the domestic and overseas accounting standards on the differences incurred: N/A

Report Of The Board (Continued)

IV. Plan for Profit Distribution or Capitalization of Capital Reserve

(I) Formulation, implementation or adjustment of cash dividend distribution policy

Pursuant to the requirements of the “Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies” by the CSRC, the Company further improved its dividend distribution policy and formulated the cash dividend distribution policy that is in compliance with the Articles of Association and the resolutions of the shareholders in general meeting. The definite and clear distribution standards and qualifications, all-round decision-making process and mechanism and the due diligence of independent directors provide minority shareholders with opportunities to fully express opinions and appeals, thus fully safeguarding minority shareholders’ legitimate rights and interests. The extraordinary meeting of the seven session of the Board held on 24 August 2012, and the 2012 second extraordinary general meeting held on 21 December 2012 respectively considered and approved the proposed amendments to the Articles of Association and the proposed Shareholders’ Return Plan of Nanjing Panda Electronics Company Limited.

After the amendments to the Articles of Association took effect, the profit distribution policies and decision-making procedures for the Company’s profit distribution are as follows:

1. 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.

Report Of The Board (*Continued*)

IV. Plan for Profit Distribution or Capitalization of Capital Reserve (*Continued*)

(I) Formulation, implementation or adjustment of cash dividend distribution policy (*Continued*)

1. Profit distribution policy of the Company (*Continued*)
 - (4) 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).
 - (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.
2. 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.

Report Of The Board (Continued)

IV. Plan for Profit Distribution or Capitalization of Capital Reserve (Continued)

(I) Formulation, implementation or adjustment of cash dividend distribution policy (Continued)

2. Decision-making procedures for the Company's profit distribution (Continued)
 - (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.

Report Of The Board (Continued)

IV. Plan for Profit Distribution or Capitalization of Capital Reserve (Continued)

(I) Formulation, implementation or adjustment of cash dividend distribution policy (Continued)

3. Profit distribution plan for 2012

The 2012 financial report of the Company has been audited by Baker Tilly Hong Kong Limited and Baker Tilly China (Special General Partnership). The Company realized a net profit attributable to owners of the Company of RMB131,554,100 in 2012. In accordance with the Articles of Association of the Company, surplus reserves of RMB12,521,400 shall be appropriated. Given the distributed profit to shareholders in 2012 of RMB32,750,800, and the undistributed profit for 2011 of RMB256,333,000, hence the actual distributable profit to shareholders this year amounted to RMB342,614,900.

In accordance with the Articles of Association of the Company, it was proposed to distribute a cash dividend of RMB0.60 (tax inclusive) for every ten shares to all the shareholders on the basis of a total share capital of 655,015,000 shares as at 31 December 2012, with the total cash dividend to be distributed amounting to RMB39,300,900, and the remaining part to be carried forward to next year. The Company would not make any capitalization of capital reserve. This plan was considered and passed at the seventh meeting of the seventh session of the Board of the Company, subject to further consideration by the shareholders in general meeting.

(II) If the Company records profits and records a positive undistributed profit during the reporting period but there is no proposal for cash dividend, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in detail: N/A

(III) Plan or proposal for profit distribution or transfer of capital reserves into share capital of the Company in the previous three years (including the reporting period)

Unit: RMB

| Year of distribution | Number of bonus shares for every 10 shares (share) | Amount of dividend for every 10 shares (tax included) (RMB) | Number of shares transferred for every 10 shares (share) | Amount of cash dividends (tax included) | Net profit attributable to the shareholders of the Company in the consolidated financial statement during the year of distribution | Percentage of the net profit attributable to the shareholders of the Company in the consolidated financial statement (%) |
|----------------------|--|---|--|---|--|--|
| 2012 | — | 0.60 | — | 39,300,900.00 | 131,554,099.89 | 29.87 |
| 2011 | — | 0.50 | — | 32,750,750.00 | 110,070,234.90 | 29.75 |
| 2010 | — | — | — | — | 9,359,536.50 | — |

Report Of The Board (Continued)

V. Report on Performance of Social Responsibility by the Company

- (I) Overview of social responsibility: The Company prepared and disclosed the 2012 Social Responsibility Report of Nanjing Panda Electronics Company Limited, the full text of which was published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.
- (II) Statement on the environmental protection practice of listed companies and their subsidiaries in severely polluting industries specified in the regulations made by national environmental protection authorities: N/A.

VI. Other Disclosures

Information on Board meetings

| Session of the meeting | Date of the meeting | Newspaper for disclosure | Subject matter of the resolution | Date of disclosure |
|---------------------------------------|---------------------|--|---|--------------------|
| 22nd session of the sixth Board | 16 January 2012 | China Securities Journal, Shanghai Securities News | Nomination of Mr. Lai Weide and Mr. Xu Guofei as candidates for executive Directors of the Seventh Session of the Board; nomination of Mr. Zhu Lifeng, Mr. Deng Weiming, Mr. Lu Qing and Mr. Jason Hsuan as candidates for non-executive Directors of the Seventh Session of the Board; nomination of Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent as candidates for independent non-executive Directors of the Seventh Session of the Board | 18 January 2012 |
| Written resolution of the sixth Board | 18 January 2012 | China Securities Journal, Shanghai Securities News | Amendment to the Rules of Procedure of General Meetings of the Company and appointment of the Securities Affairs Representative of the Company | 19 January 2012 |
| 1st session of the seventh Board | 6 March 2012 | China Securities Journal, Shanghai Securities News | Election of Mr. Lai Weide and Mr. Xu Guofei as the Chairman of the Board and the Vice-chairman of the Board of the Company respectively; election of Mr. Lai Weide, Mr. Xu Guofei, Mr. Zhu Lifeng, Mr. Deng Weiming and Mr. Chu Wai Tsun, Vincent as members of the Strategy Committee, with Mr. Lai Weide as the chairman of the Strategy Committee; election of Mr. Deng Weiming, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent as the members of the Audit Committee, with Ms. Zhang Xiuhua as the chairman of the Audit Committee; election of Mr. Lai Weide, Mr. Xu Guofei, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent as members of the Nomination Committee, with Ms. Liu Danping as the chairman of the Nomination Committee; election of Mr. Zhu Lifeng, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent as members of the Remuneration and Evaluation Committee, with Mr. Chu Wai Tsun, Vincent as the chairman of the Remuneration and Evaluation Committee; appointment of Mr. Xia Dechuan as the General Manager of the Company; appointment of Mr. Liu Kun and Mr. Zhou Guixiang as the deputy general managers of the Company; and appointment of Mr. Shen Jianlong as the chief accountant and secretary to the Board of the Company | 7 March 2012 |

Report Of The Board (Continued)

VI. Other Disclosures (Continued)

Information on Board meetings (Continued)

| Session of the meeting | Date of the meeting | Newspaper for disclosure | Subject matter of the resolution | Date of disclosure |
|---|---------------------|--|---|--------------------|
| 2nd session of the seventh Board | 29 March 2012 | China Securities Journal, Shanghai Securities News | 2011 Annual Report and its Summary; the Report of Directors for 2011; the Work Report of Independent Directors for 2011; the Work Report of the General Manager for 2011; the audited financial report of 2011; the profit distribution plan for 2011; re-appointment of Baker Tilly Hong Kong Limited and Baker Tilly China Certified Public Accountants (Special General Partnership) as the international and domestic auditors, and internal auditors of the Company for 2012; the Social Responsibility Report and Internal Control Evaluation Report of the Company for 2011; the remuneration plan for Directors and senior management for 2011; amendments to the Rules of Procedure for the Nomination Committee, the Rules of Procedure for the Audit Committee, Internal Reporting System on Significant Information, Major Decision-making Methods, the Rules of Procedure for Work Meetings of the Company, and the Accounting System; purchase of liability insurance for Directors and senior management; authorization to the General Manager to deal with, at his full discretion, the provision of guarantee to subsidiaries within the amount of RMB315 million, for a period expiring on 30 June 2013; authorization to the General Manager to deal with, at his full discretion, financing with financial institutions within the amount of RMB600 million; scheduling of the 2011 annual general meeting to be held before 30 June 2012 | 30 March 2012 |
| 3rd session of the seventh Board | 24 April 2012 | | 2012 First Quarterly Report | |
| Written resolution of the seventh Board | 26 June 2012 | China Securities Journal, Shanghai Securities News | Authorization to the General Manager to deal with, at his full discretion, matters relating to the provision of guarantee for RMB180 million letter of guarantee financing of Information Industry Company. | 27 June 2012 |
| Written resolution of the seventh Board | 24 August 2012 | China Securities Journal, Shanghai Securities News | Amendments to the Articles of Association; consideration of the Shareholders' Return Plan of the Company | 25 August 2012 |
| 4th session of the seventh Board | 30 August 2012 | | 2012 Interim Report | / |
| Written resolution of the seventh Board | 25 October 2012 | China Securities Journal, Shanghai Securities News | Continuing Connected Transactions from 2013 to 2015 | 27 October 2012 |
| Written resolution of the seventh Board | 26 October 2012 | China Securities Journal, Shanghai Securities News | Financial Services Agreement entered into with Financial Company. | |
| 5th session of the seventh Board | 30 October 2012 | | 2012 Third Quarterly Report | / |

Report Of The Board (Continued)

VI. Other Disclosures (Continued)

Information on Board meetings (Continued)

| Session of the meeting | Date of the meeting | Newspaper for disclosure | Subject matter of the resolution | Date of disclosure |
|----------------------------------|---------------------|--|---|--------------------|
| 6th session of the seventh Board | 7 November 2012 | China Securities Journal, Shanghai Securities News | The proposal in relation to satisfaction of conditions for the Proposed Placing of A Shares by the Company; the proposal in relation to the Plan for the Proposed Placing of A Shares by the Company; the Detailed Plan for the Proposed Placing of A Shares by the Company; the Feasibility Analysis Report on the Use of Proceeds to be Raised by the Proposed Placing of A Shares of the Company; the Report of Use of Proceeds from the Last Fund Raising Exercise; the proposal relating to the conditional NEIC Subscription Agreement and the Connected Transactions; the proposal relating to authorization of the Board to deal with, at its full discretion, specific matters relating to the Proposed Placing of A Shares; the proposal relating to the convening of the third extraordinary general meeting in 2012, the first A shareholders class meeting in 2012, and the first H shareholders class meeting in 2012 | 8 November 2012 |

Non-public Issue of A Shares

During the reporting period, the Company intended to raise proceeds of not more than RMB1,320,000,000 through non-public issue of A Shares, which will be used in the industrial automation equipment industrialization project, traffic electronic equipment industrialization project, communication equipment industrialization project and R&D center project. At present, the CSRC has accepted the application materials regarding this issue. For details, please refer to the announcements of the Company in relation to the non-public issue of A shares published by the Company on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 26 December 2012 and 8 January 2013.

Liquidity of Capital

In accordance with the HKFRSs, the gearing ratio of the Company (the ratio between total liabilities and total assets), current liabilities, liquidity ratio and quick ratio were 45.69%, RMB1,423,650,000, 1.24 and 1.12 respectively as at 31 December 2012 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB590,800,000 as at 31 December 2012 as shown in the consolidated financial statements of the Company.

Loans: short-term bank loans amounted to RMB360,000,000 as at 31 December 2012 as shown in the consolidated financial statements of the Company.

During the reporting period, the 1-year renminbi benchmark interest rate with financial institutions from the beginning of the period to 7 June 2012 was 6.56%; benchmark interest rate from 8 June 2012 to 5 July 2012 was 6.31%; benchmark interest rate from 6 July 2012 to 31 December 2012 was 6.00%.

Report Of The Board (*Continued*)

VI. Other Disclosures (*Continued*)

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

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

Pre-emptive Rights

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

Highest Paid Individuals

The five highest paid individuals of the Company during the year were technology and sales employees of the Company.

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

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

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

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

Service Agreements for Directors and Supervisors

Service agreements have been signed between the Company and all Directors and Supervisors. The term of such service agreements is three years. None of the Directors or Supervisors has entered into any contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Privileges of Directors, Supervisors and Senior Management Staff

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

Interested Relations with Suppliers and Customers

During the year, neither the Directors, Supervisors, nor other related persons or shareholders had any interest in the suppliers or customers of the Company.

Report Of The Board (Continued)

VI. Other Disclosures (Continued)

Contracts of Significance

Particulars of the contracts of significance under paragraph 16 of Appendix 16 of the Listing Rules between the Company or one of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries, or for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries, are set out in the section headed "Material Connected Transactions" under Section VI "Significant Events" of this report.

Material Contracts

The Group entered into the following agreements under the Continuing Connected Transactions conducted from 2013 to 2015 with CEC Group and NEIC Group.

1. An agreement on provision of sub-contracting services and composite services by the Group to the CEC Group signed on 26 October 2012;
2. An agreement on provision of sub-contracting services and composite services by the CEC Group to the Group signed on 26 October 2012;
3. An agreement on sale of materials, components and parts by the Group to the CEC Group signed on 26 October 2012;
4. An agreement on purchase of materials, components and parts by the Group from the CEC Group signed on 26 October 2012;
5. An agreement on lease of premises and relevant equipment by the Group to the NEIC Group signed on 26 October 2012;
6. An agreement on lease of premises and relevant equipment by the NEIC Group to the Group signed on 26 October 2012;
7. An agreement on licensing of trademark by the Group to CEC Home Appliances signed on 26 October 2012;
8. An agreement on import and export agency services provided by the PEGE Group to the Group signed on 26 October 2012;
9. Financial Services Agreement entered into between the Group and Financial Company on 26 October 2012.

For details of the aforesaid agreements, please refer to relevant announcements published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 27 October 2012 and on the website of the Hong Kong Stock Exchange on 26 October 2012, and in the circular despatched on 6 December 2012. The aforesaid agreements in respect of continuing connected transactions were approved by the independent shareholders at the second extraordinary general meeting for 2012 held on 21 December 2012 and came into effect.

Report Of The Board (*Continued*)

VI. Other Disclosures (*Continued*)

Convertible Securities, Options, Warrants or Similar Rights

The Company had not issued or granted any convertible securities, options, warrants or similar rights as at 31 December 2012.

Pension Scheme

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

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

Management Contracts

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

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group, as of 31 December 2012, are set out in the notes to the financial statements prepared under Hong Kong Financial Reporting Standards.

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

Reserves

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

Fixed Assets

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

Report Of The Board (Continued)

VI. Other Disclosures (Continued)

Subsidiaries

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

Corporate Governance Code and Model Code

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

Confirmation by Independent Non-executive Directors on Connected Transactions

The Independent Non-executive Directors of the Company, within their scope of duties, have reviewed the connected transactions in Note 36 to the accounts prepared under the Hong Kong Financial Reporting Standards and in Note 8 to the accounting statements prepared under the PRC Accounting Standards, as well as the relevant letter of the auditors, and confirmed that:

1. Such transactions were entered into by the Company in the ordinary and usual course of business;
2. Such transactions were (i) on normal commercial terms or (2) on terms no less favourable than those offered by or to independent third parties as far as the Company was concerned, if there were no applicable comparables;
3. Such transactions were carried out in accordance with the agreements governing such transactions, and the terms of such transactions were fair and reasonable and in the interests of the Company's shareholders as a whole; and
4. Such transactions did not exceed the relevant caps disclosed previously.

For details of the connected transactions and continuing connected transactions of the Company, please refer to the section headed "VI. Material connected transactions" under Section VI "Significant Events" of this report.

Annual General Meeting

The Board proposes to convene the annual general meeting before 30 June 2013. Announcement will be made separately for relevant matters.

By Order of the Board

Lai Weide

Chairman

Nanjing, the PRC, 27 March 2013

Report of the Supervisory Committee

To all shareholders,

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

I. Meetings of the Supervisory Committee

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

| Session of the meeting | Date of the meeting | Media for disclosure | Subject matter of the resolution | Date of disclosure |
|--------------------------------------|---------------------|--|---|--------------------|
| 18th session of the sixth Committee | 16 January 2012 | China Securities Journal, Shanghai Securities News | Amendment to the Rules of Procedures of the Supervisory Committee; nomination of supervisor candidates for the seventh Supervisory Committee | 18 January 2012 |
| 1st session of the seventh Committee | 6 March 2012 | China Securities Journal, Shanghai Securities News | Election of Ms. Zhang Zhengping as the Chairman of the Supervisory Committee | 7 March 2012 |
| 2nd session of the seventh Committee | 29 March 2012 | China Securities Journal, Shanghai Securities News | 2011 Annual Report of the Company and its summary; the 2011 Report of the Supervisory Committee; the 2011 remuneration proposal for supervisors of the Company; the audit opinion of the Supervisory Committee on the 2011 Annual Report prepared by the Board; the 2011 Social Responsibility Report and 2011 Self-assessment Report on the Internal Control of the Company. | 30 March 2012 |
| 3rd session of the seventh Committee | 24 April 2012 | / | 2012 First Quarterly Report of the Company | / |
| 4th session of the seventh Committee | 30 August 2012 | / | 2012 Interim Report of the Company | / |
| 5th session of the seventh Committee | 30 October 2012 | / | 2012 Third Quarterly Report of the Company | / |
| 6th session of the seventh Committee | 7 November 2012 | China Securities Journal, Shanghai Securities News | Proposal in relation to satisfaction of conditions for the Proposed Placing of A Shares by the Company; proposal in relation to the Plan for the Proposed Placing of A Shares by the Company; Detailed Plan for the Proposed Placing of A Shares by the Company; Feasibility Analysis Report on the Use of Proceeds to be Raised by the Proposed Placing of A Shares of the Company; Report of Use of Proceeds from the Last Fund Raising Exercise; Proposal relating to the conditional NEIC Subscription Agreement and the Connected Transactions; proposal in relation to the authorization of the Board to deal with, at its full discretion, specific matters relating to the Proposed Placing of A Shares, and approval of submitting the above to the third extraordinary general meeting, the first A Shareholders Class Meeting, and the first H Shareholders Class Meeting in 2012 for consideration. | 8 November 2012 |

Report of the Supervisory Committee (Continued)

II. The Company's Operations in Compliance with Laws

During the reporting period, all Supervisors attended general meetings and Board meetings and provided supervision over the convening procedures and resolutions of general meetings and Board meetings as well as the implementation by the Board of resolutions of general meetings. The Supervisors also alerted the Board and the management of the Company of any potential risks in a timely manner. The Supervisory Committee holds no objection to any of the reports or proposals submitted by the Board for considering of the general meetings, and is of the opinion that during the reporting period, the Company followed standard operating procedures in strict compliance with laws and regulations including the Company Law and the Securities Law, listing rules of the places of listing and the Articles of Association, faithfully carried out resolutions passed at the general meetings, continued to improve internal management and put in place a good internal management system. In the opinion of the Supervisory Committee, the Directors and the senior management staff of the Company had performed their duties in accordance with the Articles of Association and as required by the relevant laws and regulations. None of the Directors, or senior management staff violated any PRC laws and regulations or the Articles of Association. They had neither abused their office nor acted illegally to harm the interests of the Company or its shareholders and staff.

III. Financial Conditions of the Company

The Supervisory Committee has duly examined the financial statements, the profit distribution scheme and other accounting information etc. for the year 2012 and is of the view that the financial income and expenditure accounts are clear; and that the accounting, auditing and financial management have complied with the relevant requirements without any problems identified. The domestic and international auditors of the Company have audited the 2012 financial statements of the Company in accordance with the PRC Accounting Standards for Business Enterprises and the HKFRSs, respectively, and have issued auditors' reports with standard unqualified audit opinions accordingly. The Supervisory Committee is of the view that the financial income and expenditure and the operating results of the Company are fairly and correctly reflected by the auditors' reports. The operating results achieved are truthful.

IV. Use of Raised Proceeds

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

V. Acquisition and Disposal of Assets

During the reporting period, the Company did not acquire or dispose of any asset.

VI. Connected Transactions of the Company

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

During the reporting period, the continuing connected transactions conducted between the Group and PEGL Group were approved by the independent shareholders at the 2009 first EGM and the 2011 second EGM respectively, with the procedures in compliance with relevant requirements.

Report of the Supervisory Committee (Continued)

VII. Self-assessment Report on the Internal Control

The Supervisory Committee reviewed the Self-assessment Report on the Internal Control of the Company prepared by the Board and relevant materials, and held no objection to such report so prepared by the Board. The Supervisory Committee was of the view that the Company's internal control system was basically sound with effective implementation during the reporting period, fulfilled the requirements of various aspects including corporate governance and operation and effectively controlled various operation management risks of the Company; as at 31 December 2012, the internal control system in relation to financial reporting was sound and effectively implemented. The Supervisory Committee agreed with the Board in its assessment of the internal control.

The Supervisory Committee wishes the Company can gain further achievements in special corporate governance campaigns, standardize operation of the Company, continue to strengthen supervision and management on its controlled subsidiaries, further improve the internal control system, continuously carry forward internal control as a routine task, and recommend combination of internal control assessment with daily and special supervision so as to practically boost the internal control level of the Company.

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

By Order of the Supervisory Committee
Zhang Zhengping
Chairman

Nanjing, the PRC, 27 March 2013

Significant Events

- I. During the reporting period, the Company did not have any material litigation, arbitration or matters commonly questioned by the media.
- II. Appropriation of funds and repayment of debt during the reporting period: N/A.
- III. The Company did not have bankruptcy and restructuring related matter during the reporting period.
- IV. Assets transaction and merger of companies: N/A.
- V. Company share incentive and its effect: N/A.
- VI. Material connected transactions
 - (I) Connected transactions relating to day-to-day operation

- 1. Matters disclosed in interim announcements without progress or change in the follow-up implementation

As the ultimate controller of the Company changed to CEC on 21 September 2012, CEC and its subsidiaries became connected persons of the Company. Please refer to the section headed "Controlling shareholders and the ultimate controllers of the Company" under Section VII "Changes in share capital and information of Shareholders" in this report for details. Transactions between the Company and CEC and its subsidiaries constitute connected transactions of the Company. PEGL is the controlling shareholder of the Company. PEGL and its subsidiaries are connected persons of the Company and transactions between the Company and PEGL and its subsidiaries constitute connected transactions of the Company.

On 26 October 2012, the Board of the Company held an extraordinary meeting by way of adopted written proposal, where it approved the continuing connected transactions from 2013 to 2015 and the annual caps thereof entered into between the Company, and CEC, PEGL and their respective associates, and authorized the Board to take all necessary steps to ensure the agreements or contracts governing the above continuing connected transactions take effect. Independent non-executive Directors approved such continuing connected transactions and considered that they were in the interest of the Company and all the shareholders. On 21 December 2012, the above continuing connected transactions were approved by the independent shareholders at the 2012 second EGM of the Company. Please refer to relevant announcements published in Shanghai Securities News, China Securities Journal, and on the website of the Shanghai Stock Exchange on 27 October 2012 and 22 December 2012, and on the website of the Hong Kong Stock Exchange on 26 October 2012 and 21 December 2012.

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

1. Matters disclosed in interim announcements without progress or change in the follow-up implementation (Continued)

Set forth below is a summary of the continuing connected transactions between the Group and CEC Group between 2013 and 2015:

| Categories of the Continuing Connected Transactions | Pricing principle | Annual caps (RMB'000) |
|--|-------------------|--------------------------|
| (A) Provision of sub-contracting services and composite services by the Group to the CEC Group | Market price | 90,500 |
| (B) Provision of sub-contracting services and composite services by the CEC Group to the Group | Market price | 12,500 |
| (C) Sale of materials, components and parts by the Group to the CEC Group | Market price | 612,600 |
| (D) Purchase of materials, components and parts by the Group from the CEC Group | Market price | 292,900 |
| (E) Lease of premises and relevant equipment by the Group to the NEIC Group | Market price | 11,000 |
| (F) Lease of premises and relevant equipment by the NEIC Group to the Group | Market price | 2,000 |
| (G) Licensing of Trademark by the Group to CEC Home Appliances | | 3,000 |
| (H) Import and export agency services provided by the PEGL Group to the Group | Market price | 1,000 |

2. Matters disclosed in interim announcements with progress or change in the follow-up implementation

The Financial Company is a non-banking financial institution of CEC owned as to 50.932% by CEC. Pursuant to the Listing Rules, the Financial Company is a connected person of the Company and transactions between the Company and the Financial Company constitute connected transactions of the Company.

On 26 October 2012, the Board of the Company held an extraordinary meeting by way of adopted written proposal, where it approved the Financial Services Agreement entered into between the Company and Financial Company for the term of 3 years starting from the date when the approval of the independent shareholders is obtained at the EGM, pursuant to which it was agreed that the cap for the integrated credit balance to be provided by Financial Company to the Company was RMB300 million and the cap for the fund settlement balance with Financial Company was RMB200 million, and the Board or senior management of the Company was authorized to execute such agreement. This connected transaction was conducted on the principle of openness, fairness and justice and in compliance with relevant state and industry regulations, without prejudice to the interest of the Company and non-related shareholders of the Company. Independent non-executive Directors approved the connected transaction between the Company and Financial Company, and considered that it was in the interest of the Company and all the shareholders. On 21 December 2012, the above connected transaction was approved by the independent shareholders at the 2012 second EGM of the Company. Please refer to relevant announcements published in Shanghai Securities News, China Securities Journal, and on the website of the Shanghai Stock Exchange on 27 October 2012 and 22 December 2012, and on the website of the Hong Kong Stock Exchange on 26 October 2012 and 21 December 2012.

As at 31 December 2012, the balance of the Company's loans from Financial Company was RMB0 and the balance of its deposits with Financial Company was RMB173,901,300.

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

3. Matters not disclosed in interim announcements

During the reporting period, the continuing connected transactions (i.e. those in the usual course of business and on normal commercial terms) conducted between the Group and PEGL Group for 2010-2012 were approved by the independent shareholders at the 2009 first EGM and the 2011 second EGM respectively, with the procedures in compliance with relevant requirements. As confirmed by the Independent Non-executive Directors, none of these connected transactions exceeded their respective annual caps.

The Group has developed business relations with PEGL Group since the listing of the Company in 1996, which brings plenty of convenience to the Group in respect of overall business operation, given the ideal effect of mutual provision of services. These continuing connected transactions provide a stable source of income, reliable and high-quality provision of services, materials and components for the Group, which is helpful to the stable production and operation of the Group, and they are conducted on normal commercial terms, fair and reasonable, fairly priced, in compliance with the approval procedures as required, and in the interest of the Company and shareholders as a whole.

During the reporting period, the summary of the continuing connected transactions between the Group and PEGL Group is set out as follows:

| Categories of the Continuing Connected Transactions | Pricing Principle | Total Amount (RMB) |
|---|-------------------|-----------------------|
| (A) Provision of sub-contracting services and composite services by the Group to the PEGL Group | Market price | 27,635,874.15 |
| (B) Provision of sub-contracting services and composite services by the PEGL Group to the Group | Cost plus | 7,404,853.02 |
| (C) Sale of materials and components and parts by the Group to the PEGL Group | Market price | 146,646,451.31 |
| (D) Sale of materials and components and parts by the PEGL Group to the Group | Market price | 49,863,422.45 |
| (E) Licensing of PANDA Trademarks by the Group to the PEGL Group | | 634,352.83 |
| (F) Lease of factory premises by the Group to the PEGL Group | Market price | 8,075,797.64 |
| (G) Lease of factory premises and land use rights by PEGL Group to the Group | Market price | 1,655,599.00 |
| (H) Import and export agency services provided by the PEGL Group to the Group | | Nil |

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

3. Matters not disclosed in interim announcements (Continued)

Details of the continuing connected transactions between the Group and PEGL Group are as follows:

Unit: RMB

| Connected parties | Relationship with the Company | Type of transactions | Contents of connected transactions | Pricing principle of connected transactions | Amount of connected transactions | Percentage in similar transactions (%) |
|---|---|-----------------------|------------------------------------|---|----------------------------------|--|
| (A) Provision of sub-contracting services and composite services by the Group to the PEGL Group | | | | | | |
| Nanjing Panda Handa Technology Co., Ltd. | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 23,734,811.71 | 4.41 |
| Panda Electronics Group Limited | Controlling shareholder | Provision of services | Provision of services | Market price | 1,165,573.04 | 0.22 |
| Nanjing Panda Electronics Import & Export Co., Ltd. | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 902,008.68 | 0.17 |
| Nanjing Panda Science Park Development Co., Ltd. (南京熊猫科技园開發有限公司) | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 849,570.19 | 0.16 |
| Panda Electronics Material Usage Co., Ltd. | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 384,615.38 | 0.07 |
| Nanjing 21st Century Electronic and Technology Square Company Limited | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 330,000.00 | 0.06 |
| Nanjing Zhongdian Panda Home Appliances Co., Ltd. | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 142,595.15 | 0.03 |
| Nanjing Zhen Hua Packing Material Plant | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 94,000.00 | 0.02 |
| Nanjing Panda Electronics Transportation Company | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | 32,700.00 | 0.01 |
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | Subsidiary of the controlling shareholder | Provision of services | Provision of services | Market price | — | — |
| Subtotal | | | | | 27,635,874.15 | 5.15 |

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

3. Matters not disclosed in interim announcements (Continued)

| Connected parties | Relationship with the Company | Type of transactions | Contents of connected transactions | Pricing principle of connected transactions | Amount of connected transactions | Percentage in similar transactions (%) |
|---|---|----------------------|------------------------------------|---|----------------------------------|--|
| (B) Provision of sub-contracting services and composite services by the PEGL Group to the Group | | | | | | |
| Nanjing Panda Electronic Technology Development Company Limited | Subsidiary of the controlling shareholder | Receipt of services | Receipt of services | Cost plus | 3,620,750.00 | 0.61 |
| Nanjing Panda Electronics Transportation Company | Subsidiary of the controlling shareholder | Receipt of services | Receipt of services | Cost plus | 1,653,901.26 | 0.28 |
| Nanjing Zhongdian Panda Home Appliances Co., Ltd. | Subsidiary of the controlling shareholder | Receipt of services | Receipt of services | Cost plus | 967,435.90 | 0.16 |
| Panda Electronics Group Limited | Controlling shareholder | Receipt of services | Receipt of services | Cost plus | 921,421.51 | 0.16 |
| Nanjing Electronics Calibration Co., Ltd. | Subsidiary of the controlling shareholder | Receipt of services | Receipt of services | Cost plus | 241,344.35 | 0.04 |
| Subtotal | | | | | 7,404,853.02 | 1.25 |
| (C) Sale of materials, components and parts by the Group to the PEGL Group | | | | | | |
| Nanjing Panda Handa Technology Co., Ltd. | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 57,406,020.77 | 3.18 |
| Nanjing Panda Electronics Import & Export (HK) Co., Ltd. | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 48,683,054.77 | 2.7 |
| Nanjing Zhongdian Panda Home Appliances Co., Ltd. | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 22,659,535.08 | 1.26 |
| Nanjing Panda Electronics Import & Export Co., Ltd. | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 17,721,944.14 | 0.98 |
| Nanjing Panda Piezoelectric Technology Co., Ltd. | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 93,230.71 | 0.01 |
| Nanjing Zhen Hua Packing Material Plant | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 55,555.56 | |
| Nanjing Panda Electronics Transportation Company | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 20,426.52 | |
| Panda Electronics Group Limited | Controlling shareholder | Sale of products | Electronic products | Market price | 3,846.15 | |
| Nanjing Panda Electronic Technology Development Company Limited | Subsidiary of the controlling shareholder | Sale of products | Electronic products | Market price | 2,837.61 | |
| Subtotal | | | | | 146,646,451.31 | 8.13 |

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

3. Matters not disclosed in interim announcements (Continued)

| Connected parties | Relationship with the Company | Type of transactions | Contents of connected transactions | Pricing principle of connected transactions | Amount of connected transactions | Percentage in similar transactions (%) |
|---|---|----------------------|------------------------------------|---|----------------------------------|--|
| (D) Sale of materials and components and parts by the PEGE Group to the Group | | | | | | |
| Nanjing Panda Electronics Imp. & Exp. Co., Ltd. | Subsidiary of the controlling shareholder | Purchase of goods | Electronic products | Market price | 23,951,458.08 | 1.49 |
| Nanjing Zhongdian Panda Home Appliances Co., Ltd. | Subsidiary of the controlling shareholder | Purchase of goods | Electronic products | Market price | 14,621,799.00 | 0.91 |
| Nanjing Panda Electronic Technology Development Company Limited | Subsidiary of the controlling shareholder | Purchase of goods | Electronic products | Market price | 6,388,001.03 | 0.4 |
| Nanjing Zhen Hua Packing Material Plant | Subsidiary of the controlling shareholder | Purchase of goods | Packing material | Market price | 3,257,955.71 | 0.2 |
| Nanjing Panda Electronics Transportation Company | Subsidiary of the controlling shareholder | Purchase of goods | Electronic products | Market price | 932,567.18 | 0.06 |
| Panda Electronics Group Limited | Controlling shareholder | Purchase of goods | Electronic products | Market price | 627,508.97 | 0.04 |
| Nanjing Panda Handa Technology Co., Ltd. | Subsidiary of the controlling shareholder | Purchase of goods | Electronic products | Market price | 78,632.48 | |
| Nanjing Electronics Calibration Co., Ltd. | Subsidiary of the controlling shareholder | Purchase of goods | Electronic products | Market price | 5,500.00 | |
| Subtotal | | | | | <u>49,863,422.45</u> | <u>3.10</u> |

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

3. Matters not disclosed in interim announcements (Continued)

| Connected parties | Relationship with the Company | Type of transactions | Contents of connected transactions | Pricing principle of connected transactions | Amount of connected transactions | Percentage in similar transactions (%) |
|--|---|----------------------|------------------------------------|---|----------------------------------|--|
| (E) Licensing of PANDA Trademarks by the Group to the PEGL Group | | | | | | |
| Nanjing Zhongdian Panda Home Appliances Co., Ltd. | Subsidiary of the controlling shareholder | Trademark licensing | Trademark licensing | | 634,352.83 | |
| Subtotal | | | | | <u>634,352.83</u> | |
| (F) Lease of factory premises by the Group to the PEGL Group | | | | | | |
| Nanjing Panda Handa Technology Co., Ltd. | Subsidiary of the controlling shareholder | Assets leased out | Lease of premises | Market price | 6,072,880.00 | |
| Nanjing Panda Electronics Transportation Company | Subsidiary of the controlling shareholder | Assets leased out | Lease of premises | Market price | 1,663,113.64 | |
| Nanjing Zhongdian Panda Home Appliances Co., Ltd. | Subsidiary of the controlling shareholder | Assets leased out | Lease of premises | Market price | 229,404.00 | |
| Nanjing Panda Electronics Import & Export Co., Ltd. | Subsidiary of the controlling shareholder | Assets leased out | Lease of premises | Market price | 110,400.00 | |
| Subtotal | | | | | <u>8,075,797.64</u> | |
| (G) Lease of factory premises and land use rights by PEGL Group to the Group | | | | | | |
| Panda Electronics Group Limited | Controlling shareholder | Assets leased in | Lease of premises | Market price | 1,655,599.00 | |
| Subtotal | | | | | <u>1,655,599.00</u> | |

Continuing connected transactions between the Group and CEC Group (excluding PEGL Group):

Reference is made to the announcement on the change in ultimate controller of the Company and compliance with the relevant rules governing continuing connected transactions published by the Company on 25 September 2012 on the website of the Hong Kong Stock Exchange. Certain day-to-day operation-related contracts entered into between the Company and the subsidiaries of CEC prior to the date of change in ultimate controller became continuing connected transactions. The Company disclosed the details of the contracts being implemented on the date of change in ultimate controller pursuant to relevant requirements. During the reporting period, the amount of connected transactions conducted between the Group and CEC Group (excluding PEGL Group) fell into the expected scope as disclosed, the details of which are as follows:

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

3. Matters not disclosed in interim announcements (Continued)

| Type of connected transactions | Pricing principle of connected transactions | Actual amount of transactions (RMB'000) |
|--|---|--|
| Sale of materials, components and parts by the Group to the CEC Group | Market price | 65,255 |
| Provision of property management and catering services by the Group to CEC Group | Cost plus | 1,731 |
| Provision of installation and sub-contracting services by the Group to CEC Group | Cost plus | 1,823 |

As for such continuing connected transactions, the Company entered into agreements with PEGL in compliance with the requirements of relevant laws, regulations, regulatory documents and the Articles of Association, and performed relevant reporting procedures for approval and the information disclosure obligation according to law. PEGL abstained from voting at the Board meetings and general meetings of the Company to procure such continuing connected transactions comply with the principle of "fairness, justice and openness" and normal business transaction rules, and ensure the legitimate rights and interests of the Company and other shareholders are not prejudiced. Therefore, such continuing connected transactions will not have any impact on the independence of the Company.

Related Party Transactions:

During the reporting year, the Group entered into certain transactions with parties regarded as "related parties" under applicable accounting principles.

Significant Events (Continued)

VI. Material connected transactions (Continued)

(I) Connected transactions relating to day-to-day operation (Continued)

3. Matters not disclosed in interim announcements (Continued)

Related Party Transactions: (Continued)

Except for the following related party transactions disclosed under the heading “(b) Transactions with other related parties” in Note 36 to the accounts prepared under the Hong Kong Financial Reporting Standards which fall under the definition of “continuing connected transaction” in Chapter 14A of the Listing Rules, no other related party transactions fall under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules:

- the material related party transactions entered into between the Group and the immediate holding company (PEGL) and between the Group and fellow subsidiaries; and
- the Group’s deposits of RMB173,901,000 as at 31 December 2012 with a fellow subsidiary of the Company, being a financial institution in the PRC.

The auditors of the Company were engaged to report on the Group’s continuing connected transactions 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. The auditors of the Company have issued the letter containing the work result in respect of the aforesaid continuing connected transactions in accordance with Main Board Listing Rule 14A.38, a copy of which has been provided to the Hong Kong Stock Exchange by the Company.

Significant Events (Continued)

VI. Material connected transactions (Continued)

- (II) During the reporting period, the Company had no connected transactions in respect of asset acquisition or disposal.
- (III) During the reporting period, the Company had no material connected transactions in respect of joint external investment.
- (IV) Transactions relating to creditor's rights and debts

Unit: RMB0'000

| Connected parties | Provision of funds to connected parties | | | Provision of funds to the Company by connected parties | | |
|---|---|-----------------------|-----------------|--|-----------------------|-----------------|
| | Opening balance | Amount of transaction | Closing balance | Opening balance | Amount of transaction | Closing balance |
| Nanjing Electronics (Kunshan) Co. Ltd. | 279.94 | 0.00 | 279.94 | | | |
| CEC | | | | 0.00 | 3,400.00 | 3,400.00 |
| Panda Electronics Group Limited | | | | 741.60 | 439.80 | 1,181.40 |
| Nanjing Thales Panda Transportation System Company Limited | | | | 0.00 | 86.03 | 86.03 |
| Nanjing Zhongdian Panda Property Management Co., Ltd. (南京中電熊貓物業管理有限公司) | | | | 0.00 | 49.31 | 49.31 |
| Nanjing Electronics (Kunshan) Co. Ltd. | | | | 30.00 | 0.00 | 30.00 |
| Nanjing Panda Electronic Technology Development Company Limited | | | | 13.40 | -5.00 | 8.40 |
| Panda (Beijing) International Information Technology Co., Ltd. | | | | 4.56 | 0.00 | 4.56 |
| Nanjing Panda Electronics Transportation Company | | | | 1.46 | 0.77 | 2.23 |
| Nanjing Panda Piezoelectric Technology Co., Ltd. | | | | 0.02 | 0.00 | 0.02 |
| Intenna (Nanjing) Company Limited | | | | 217.51 | -217.51 | 0.00 |
| Nanjing Panda Garden Property Management Centre | | | | 5.18 | -5.18 | 0.00 |
| Total | <u>279.94</u> | <u>0.00</u> | <u>279.94</u> | <u>1,013.73</u> | <u>3,748.22</u> | <u>4,761.95</u> |
| The amount of funds provided by the Company to the controlling shareholder and its subsidiaries during the reporting period (RMB) | | | | | | 0 |
| Balance of funds provided by the Company to the controlling shareholders and its subsidiaries (RMB) | | | | | | 0 |

Significant Events (Continued)

VI. Material connected transactions (Continued)

(V) Connected transaction with NEIIC

NEIIC is a controlled subsidiary of CEC. NEIIC is a connected person of the Company and transactions between the Company and NEIIC constitute connected transactions of the Company.

On 7 November 2012, the Company and NEIIC entered into the conditional NEIIC Subscription Agreement, pursuant to which, NEIIC agreed to subscribe for new A Shares under the non-public issue of A Shares, at a total subscription price of RMB200 million, at a price of not less than RMB5.07 per share. For details of the non-public issue of A shares, please refer to the section headed "Non-public Issue of A Shares" of "VI. Other Disclosures" under Section IV "Report of the Board" of this report.

The maximum number of new A Shares to be subscribed under the NEIIC Subscription Agreement is 39,447,732 A Shares. The subscription price for NEIIC will be the same as the subscription price for other investors under the non-public issue of A Shares. On 24 December 2012, the above connected transaction was approved by the independent shareholders at the 2012 third EGM of the Company, the 2012 first A Shareholders class meeting of the Company and the 2012 first H Shareholders class meeting of the Company. For details of the NEIIC Subscription Agreement, please refer to the related announcements and circular of the Company published on the website of the Hong Kong Stock Exchange on 8 November 2012 and 26 December 2012, and on 17 December 2012 respectively.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable in respect of the aforesaid connected transactions and continuing connected transactions.

Significant Events (Continued)

VII. Material contracts and their execution

(I) Matters relating to trust, contract and lease: N/A

(II) Guarantees

Unit: RMB0'000

| | |
|---|---|
| Total amount of guarantees during the reporting period (excluding those in favour of subsidiaries) | 0 |
| Total balance of the amount of guarantees at the end of the reporting period (A) (excluding those provided to subsidiaries) | 0 |

Guarantees in favour of subsidiaries provided by the Company

| | |
|---|--------|
| Total amount of guarantees provided to subsidiaries during the reporting period | 44,000 |
| Total balance of the amount of guarantees provided to subsidiaries at the end of the reporting period (B) | 24,989 |

Total amount of guarantees made by the Company (including those in favour of subsidiaries)

| | |
|--|--------|
| Total amount of guarantees (A+B) | 24,989 |
| Percentage of total guarantee amount in net assets of the Company (%) | 14.83 |
| Including: | |
| Amount of guarantees provided to shareholders, ultimate controller and other related parties (C) | 0 |
| Amount of guarantees provided directly or indirectly to parties with a gearing ratio of over 70% (D) | 17,076 |
| Amount of total guarantees in excess of 50% of net assets value (E) | 0 |
| Total amount of the above three items (C+D+E) | 17,076 |

As of 31 December 2012, the Company provided guarantee for bank loan of RMB30,000,000, bank acceptance of RMB50,060,000 and performance guarantee of RMB90,700,000 of its controlled subsidiary, Nanjing Panda Information Industry Co., Ltd.; bank loan of RMB30,000,000 of Nanjing Huage Appliance and Plastic Industrial Company Limited; bank loan of RMB5,000,000 of Nanjing Panda Mechanical Manufacturing Co., Ltd.; bank loan of RMB10,000,000 and bank acceptance of RMB4,130,000 of Nanjing Panda Electronic Manufacture Co., Ltd.; and bank loan of RMB30,000,000 of Nanjing Panda Electronic Equipment Co., Ltd. The said guarantees totaling RMB249,890,000, representing 14.83% of the Company's net assets, are provided to the controlled subsidiaries of the Company. The gearing ratio of the above subsidiaries receiving guarantees was below 70% (except for Nanjing Panda Information Industry Co., Ltd., with a gearing ratio of 77%). The Company did not provide any guarantee to any independent third parties other than its controlled subsidiaries, nor to its controlling shareholder, ultimate controller or their connected parties.

Significant Events (Continued)

VII. Material contracts and their execution (Continued)

(II) Guarantees (Continued)

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

(III) There was no other material contract of the Company during the reporting period.

VIII. Commitments

(I) Commitments of the Company, shareholder with over 5% shareholding in the Company, controlling shareholder and ultimate controller during the reporting period or continued to the reporting period

| Background of commitment | Type of commitment | Undertaker | Contents of commitment | Time and term of commitment | With a performance term or not | Whether performed timely and strictly |
|--|-------------------------------------|------------|---|---|--------------------------------|---------------------------------------|
| Commitments made in acquisition reports or equity change reports | Avoidance of horizontal competition | CEC | Prior to this acquisition, CEC and its controlled enterprises had no projects or assets which constituted horizontal competition with the principal operations of the Company. Upon completion of this acquisition, CEC and its controlled enterprises would not be directly or indirectly engaged in business which constitutes horizontal competition with the principal operations of the Company, nor invest in enterprises or projects which have direct or indirect competition with the principal operations of the Company. | Time: 25 April 2012; Term: effective for as long as CEC is the ultimate controller of the Company. | Yes | Yes |

Significant Events (Continued)

VIII. Commitments (Continued)

- (I) Commitments of the Company, shareholder with over 5% shareholding in the Company, controlling shareholder and ultimate controller during the reporting period or continued to the reporting period (Continued)

| Background of commitment | Type of commitment | Undertaker | Contents of commitment | Time and term of commitment | With a performance term or not | Whether performed timely and strictly |
|--------------------------|---|------------|--|--|--------------------------------|---------------------------------------|
| | Standardization and avoidance of connected transactions | CEC | <p>Upon completion of this acquisition, CEC undertook to take the following measures to standardize potential connected transactions:</p> <p>(1) maximally avoid or reduce connected transactions with the Company and its subsidiaries;</p> <p>(2) as for those that cannot be avoided or exist for reasonable reasons, standard connected transaction agreements shall be entered into with the Company according to law, and approval procedures shall be performed in accordance with relevant laws, rules, regulations, other regulatory documents and the Articles of Association. The price of such connected transactions shall be determined on the pricing principle of "reference to the market price and no less than the price of non-connected transactions then", so as to ensure the fairness of connected transaction prices; undertake to perform information disclosure obligation in compliance with relevant requirements of laws, regulations and the Articles of Association;</p> <p>(3) undertake not to illegally transfer the capital or profit of the Company, or harm the interest of the Company and its non-connected shareholders through connected transactions.</p> | <p>Time: 26 April 2012;</p> <p>Term: effective for as long as CEC is the ultimate controller of the Company.</p> | Yes | Yes |
| | Ensurance of the Company's independence | CEC | <p>Upon completion of the acquisition, CEC and the Company would maintain the independence of their respective staff, integrity of assets and financial independence; ensure the independent operation capability of the Company, the independence in respect of procurement, production, sales, and intellectual property rights, and protection of the interest of minority shareholders.</p> | <p>Time: 27 April 2012;</p> <p>Term: effective for as long as CEC is the ultimate controller of the Company.</p> | Yes | Yes |

Significant Events (Continued)

VIII. Commitments (Continued)

(I) Commitments of the Company, shareholder with over 5% shareholding in the Company, controlling shareholder and ultimate controller during the reporting period or continued to the reporting period (Continued)

| Background of commitment | Type of commitment | Undertaker | Contents of commitment | Time and term of commitment | With a performance term or not | Whether performed timely and strictly |
|-------------------------------------|-------------------------------------|------------|--|--|--------------------------------|---------------------------------------|
| Commitments relating to refinancing | Avoidance of horizontal competition | PEGL | <p>(1) PEGL and its subsidiaries have no projects or assets which constitute horizontal competition with the principal operations of the Company.</p> <p>(2) PEGL and its subsidiaries would not engage in the same or similar business as/to that of the Company and its subsidiaries in any form (including such forms as investment, acquisition, operation, merger and entrusted operation inside or outside the PRC).</p> <p>(3) In the event of business competition with the Company and its subsidiaries, PEGL and its subsidiaries would terminate production and operation, or integrate such competing business into the Company, or transfer such competing business to non-related third parties to avoid horizontal competition.</p> <p>(4) If any business opportunity is provided to PEGL and its subsidiaries by third parties or by PEGL and its subsidiaries to third parties, and such business directly or indirectly constitutes competition with the Company, or the Company is able to and intentional to undertake such business, PEGL and its subsidiaries shall immediately inform the Company of such opportunity and facilitate the undertaking of such business by the Company on reasonable terms and conditions.</p> <p>(5) If the Company or the relevant regulatory authorities believe(s) there exists horizontal competition between the business PEGL and its subsidiaries is engaging in or will engage in and the Company, PEGL and its subsidiaries will timely transfer or terminate such business upon objection by the Company. If the Company further requests to acquire such business, PEGL and its subsidiaries will, unconditionally, transfer the aforesaid business and assets to the Company with priority based on the fair price as audited or appraised by agencies qualified to deal in securities and futures related business.</p> <p>(6) If this letter of commitment proves to be untrue or not observed, PEGL will indemnify the Company and its subsidiaries for all direct and indirect losses.</p> <p>(7) PEGL confirms that each commitment contained in this letter of commitment is independently executable, and any one commitment, if deemed invalid or terminated, shall not affect the validity of other commitments.</p> <p>(8) This letter of commitment is effective from the date of signing.</p> | Time: 30 November 2012; Term: effective from the date of signing. | Yes | Yes |

Significant Events (Continued)

VIII. Commitments (Continued)

- (I) Commitments of the Company, shareholder with over 5% shareholding in the Company, controlling shareholder and ultimate controller during the reporting period or continued to the reporting period (Continued)

| Background of commitment | Type of commitment | Undertaker | Contents of commitment | Time and term of commitment | With a performance term or not | Whether performed timely and strictly |
|--------------------------|---|------------|---|--|--------------------------------|---------------------------------------|
| | Avoidance of horizontal competition | NEIC | The same contents as that of PEGL for "avoidance of horizontal competition" | Time: 30 November 2012; Term: effective from the date of signing. | Yes | Yes |
| | Standardization and avoidance of connected transactions | PEGL | (1) As long as PEGL is a shareholder of the Company, PEGL and its subsidiaries shall maximally reduce and standardize connected transactions with the Company. (2) As for the connected transactions that cannot be avoided, PEGL shall enter into agreements with the Company in compliance and in accordance with relevant laws, regulations, regulatory documents and the Articles of Association of the Company, perform relevant approval procedures and the information disclosure obligation in accordance with statutory procedures, and refrain or abstain from voting at board meetings and/or general meetings, so as to procure such connected transaction can be conducted in compliance with the principle of "fairness, justice and openness" and non normal commercial terms and conditions, and ensure such connected transactions will not harm the legitimate interests and rights of the Company and other shareholders. | Time: 30 November 2012; Term: effective from the date of signing. | Yes | Yes |
| | Standardization and avoidance of connected transactions | NEIC | The same contents as that of PEGL for "standardization and avoidance of connected transactions" | Time: 30 November 2012; Term: effective from the date of signing. | Yes | Yes |
| | Commitment to lock-up of shares | NEIC | 1. NEIC shall not transfer or entrust others to manage the shares subscribed by NEIC in this issue, or let the Company repurchase such shares within 36 months after closing of this issue. 2. The source of capital used by NEIC for subscription for the shares in the issue shall be legitimate. 3. NEIC currently has no pending or foreseeable material litigation, arbitration or administrative sanctions. If the above commitments are inconsistent with the facts or NEIC fails to follow such commitments, NEIC is willing to assume relevant legal liability. | Time: 30 November 2012; Term: effective from the date of signing. | Yes | Yes |

- (II) The Company has profit forecasts on assets or projects, and the reporting period was within the term of profit forecasts. The Company has to state whether such profit forecasts on assets or projects are fulfilled and the reasons therefor: N/A.

Significant Events (Continued)

IX. Appointment and dismissal of accounting firms

Unit: RMB0'000

| | |
|---|--|
| Reappointment of accounting firm or not: | No |
| Name of the domestic accounting firm | Currently appointed Baker Tilly China (Special General Partnership) |
| Remuneration for the domestic accounting firm | 57 |
| Audit years of the domestic accounting firm | 5 years |
| Name of the overseas accounting firm | Baker Tilly Hong Kong Limited |
| Remuneration for the overseas accounting firm | 65 |
| Audit years of the overseas accounting firm | 3 years |

Unit: RMB0'000

| | Name | Remuneration |
|---|--|--------------|
| Accounting firm for audit of internal control | Baker Tilly China (Special General Partnership) | 48 |
| Sponsor | China Securities Co., Ltd. | N/A |

During the reporting period, the Company appointed China Securities Co., Ltd. as the sponsor for its non-public issue of A shares, which is still under approval procedures. The Company has not paid the related remuneration.

Remarks: Baker Tilly China (Special General Partnership) has fully completed the change in business nature as a special general partnership accounting firm and thereby its name has been changed from the original "Baker Tilly China" to "Baker Tilly China (Special General Partnership)".

X. Punishment and rectification of the Company and its Directors, Supervisors, senior management, shareholders holding more than 5% of shares, ultimate controller and acquiring party

During the reporting period, the Company and its Directors, Supervisors, senior management, shareholders holding more than 5% of shares and ultimate controller have not been punished by the competent authorities or subject to any rectification.

XI. Statements on other significant matters

(I) Tax policies

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

Significant Events (Continued)

XI. Statements on other significant matters (Continued)

(II) Basic medical insurance for employees

The Company acted pursuant to the Provisional Regulations on Basic Medical Insurance for Employees in Nanjing Municipality (the "Regulations") and implemented a medical insurance scheme for its employees since 1 January 2001. The Company pays the premiums for such basic medical insurance scheme and the premiums are equivalent to 8.5% of the verified fee of all of the existing employees of the Company and provides subsidy to employees who have serious illness and whose medical expenses are covered under the medical scheme. The total allowance given in 2012 was not more than RMB2,664,200. Save for the aforesaid premiums, the Company is not responsible for other medical expenses.

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

During the reporting period, pursuant to the Property Management and Liquidation Plan upon Winding Up of Hua Fei Color Display Systems Company Limited as ruled and accepted by the Intermediate People's Court of Nanjing, the manager appointed Jiangsu Province Auction Co., Ltd. (江蘇省拍賣總行有限公司) to publicly auction the property of Hua Fei Company according to law, with proceeds from such auction amounting to RMB712,350,000.

According to the Property Distribution Plan upon Winding Up of Hua Fei Colour Display Systems Company Limited approved by the Intermediate People's Court of Nanjing, the compensation rate for general creditor's rights is 15.838%.

According to the civil adjudication order ((2011) Ning Shang Po Zi No. 4-7) of the Nanjing Intermediate Court of Jiangsu, implementation of the above Property Distribution Plan of Hua Fei Company was completed, and the procedures of liquidation and winding up of Hua Fei Company came to an end.

(IV) Reference is made to the relevant announcements of the Company published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 19 January 2012 and on the website of the Hong Kong Stock Exchange on 18 January 2012, the municipal government of Baixia District, Nanjing entered into a relocation agreement with the Company on the relocation of Nanjing Panda Mechanical and Electrical Equipment Factory. Pursuant to relevant valuation, the municipal government of Baixia District shall pay the Company a relocation compensation of RMB125 million by instalments based on the relocation progress. During the reporting period, the said relocation resulted in an increase of RMB17,382,400 in the non-recurring profit and loss of the Company.

(V) Reference is made to the relevant announcement of the Company published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 30 March 2012 and on the website of the Hong Kong Stock Exchange on 29 March 2012, the Board considered and approved the purchase of liability insurance for the Directors and senior management. The Company purchased liability insurance for its Directors and senior management in compliance with the amendments to the Rules Governing the Listing of Securities on the Main Board issued by the Hong Kong Stock Exchange.

Significant Events (Continued)

XII. Index to information disclosure

| Subject matter | Newspapers and pages for publication | Date of publication | Websites for publication and search paths |
|---|--|---------------------|---|
| Announcement of resolutions passed at the 22nd meeting of the sixth Board Announcement of resolutions passed at the 18th meeting of the sixth supervisory committee | China Securities Journal A26 Shanghai Securities News B70 | 2012-1-18 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement of Resolutions Passed at the Extraordinary Board Meeting Notice of the First Extraordinary General Meeting in 2012 Announcement of Estimated Annual Results for 2011 Announcement in relation to Entering into a Relocation Agreement | China Securities Journal B079 Shanghai Securities News A7 | 2012-1-19 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement in relation to the provision of guarantees to the controlled subsidiaries of the Company | China Securities Journal A37 Shanghai Securities News B1 | 2012-2-10 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement of Resolutions Passed at the First Extraordinary General Meeting in 2012 Announcement of resolutions passed at the 1st meeting of the seventh Board Announcement of resolutions passed at the 1st meeting of the seventh supervisory committee | China Securities Journal B021 Shanghai Securities News B35 | 2012-3-7 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Interim announcement | China Securities Journal B003 Shanghai Securities News B35 | 2012-3-8 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement of resolutions passed at the 2nd meeting of the seventh Board Announcement of resolutions passed at the 2nd meeting of the seventh supervisory committee | China Securities Journal B235 Shanghai Securities News B46 | 2012-3-30 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Interim announcement | China Securities Journal B002 Shanghai Securities News B050 | 2012-4-11 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |

Significant Events (Continued)

XII. Index to information disclosure (Continued)

| Subject matter | Newspapers and pages for publication | Date of publication | Websites for publication and search paths |
|---|---|---------------------|---|
| Announcement in relation to the provision of guarantees to the controlled subsidiaries of the Company | China Securities Journal A39 Shanghai Securities News B55 | 2012-4-13 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Notice of 2011 Annual General Meeting | China Securities Journal B026 Shanghai Securities News 35 | 2012-4-14 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Interim announcement | China Securities Journal B014 Shanghai Securities News B35 | 2012-5-10 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Acquisition Report of Nanjing Panda (Summary) | China Securities Journal A07 Shanghai Securities News 31 | 2012-5-12 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement of resolutions passed at the 2011 annual general meeting | China Securities Journal B003 Shanghai Securities News B32 | 2012-6-1 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement of payment of final dividend for 2011 Interim announcement | China Securities Journal A03 Shanghai Securities News B6 | 2012-6-12 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Interim announcement | China Securities Journal A47 Shanghai Securities News B41 | 2012-6-27 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement in relation to the provision of guarantees to the controlled subsidiaries of the Company | China Securities Journal B029 Shanghai Securities News B36 | 2012-6-28 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Interim announcement | China Securities Journal B006 Shanghai Securities News 15 | 2012-7-21 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement of resolutions passed at the Extraordinary Board Meeting | China Securities Journal B175 Shanghai Securities News 397 | 2012-8-25 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement in relation to the provision of guarantees to the controlled subsidiaries of the Company | China Securities Journal B014 Shanghai Securities News A32 | 2012-9-13 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement in relation to the provision of guarantees to the controlled subsidiaries of the Company | China Securities Journal A32 Shanghai Securities News A28 | 2012-9-21 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |

Significant Events (Continued)

XII. Index to information disclosure (Continued)

| Subject matter | Newspapers and pages for publication | Date of publication | Websites for publication and search paths |
|--|---|---------------------|---|
| Announcement on the change in ultimate controller of the Company and compliance with the relevant rules governing continuing connected transactions | China Securities Journal B026 Shanghai Securities News A34 | 2012-9-26 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on continuing connected transactions of the Company | China Securities Journal B110 Shanghai Securities News 68 | 2012-10-27 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on financial service agreement entered into the Company and China Electronics Financial Co., Ltd. Notice of the Second Extraordinary General Meeting in 2012 | | | |
| Announcement on performance of commitments by the Company, shareholders and related parties | China Securities Journal B023 Shanghai Securities News A18 | 2012-11-1 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Notice on postponement of the Second Extraordinary General Meeting in 2012 | China Securities Journal B003 Shanghai Securities News 11 | 2012-11-3 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on suspension of trading for significant event | China Securities Journal B003 Shanghai Securities News 24 | 2012-11-5 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on resumption of trading | China Securities Journal A38 Shanghai Securities News A29 | 2012-11-8 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on resolutions passed at the 6th meeting of the seventh Board | | | |
| Announcement on resolutions passed at the 6th meeting of the seventh supervisory committee | | | |
| Detailed plan for the non-public issue of A shares | | | |
| Report of use of proceeds from the last fund raising exercise | | | |
| Announcement on connected transactions relating to the non-public issue of A shares | | | |
| Notice of the Third Extraordinary General Meeting, the First A Shareholders Class Meeting and the First H Shareholders Class Meeting in 2012 | | | |

Significant Events (Continued)

XII. Index to information disclosure (Continued)

| Subject matter | Newspapers and pages for publication | Date of publication | Websites for publication and search paths |
|---|---|---------------------|---|
| Announcement on change of venue of the Third Extraordinary General Meeting, the First A Shareholders Class Meeting and the First H Shareholders Class Meeting in 2012 | China Securities Journal B015 Shanghai Securities News A31 | 2012-11-20 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Second notice of the Third Extraordinary General Meeting, the First A Shareholders Class Meeting and the First H Shareholders Class Meeting in 2012 | China Securities Journal B003 Shanghai Securities News A15 | 2012-11-29 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement in relation to the provision of guarantees to the controlled subsidiaries of the Company | China Securities Journal B030 Shanghai Securities News 23 | 2012-12-8 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on obtaining approval from SASAC for non-public issue of shares | China Securities Journal B017 Shanghai Securities News A35 | 2012-12-19 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on resolutions passed at the Second Extraordinary General Meeting in 2012 | China Securities Journal B025 Shanghai Securities News 18 | 2012-12-22 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on resolutions passed at the Third Extraordinary General Meeting in 2012 | China Securities Journal B018 Shanghai Securities News A23 | 2012-12-26 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |
| Announcement on resolutions passed at the First A Shareholders Class Meeting in 2012 | | | |
| Announcement on resolutions passed at the First H Shareholders Class Meeting in 2012 | | | |
| Announcement in relation to the provision of guarantees to the controlled subsidiaries of the Company | China Securities Journal B003 Shanghai Securities News A34 | 2012-12-28 | Shanghai Stock Exchange: www.sse.com.cn Hong Kong Stock Exchange: www.hkex.com.hk |

Changes in Share Capital and Information of Shareholders

I. Changes in shareholdings

Unit: shares

| | Before the change | | Increase/decrease from the change (+,-) | | | | | After the change | |
|--|-------------------|----------------|---|--------------|-----------------------------|--------|----------|------------------|----------------|
| | Amount | Percentage (%) | Newly Issued shares | Bonus shares | Transfer of capital reserve | Others | Subtotal | Amount | Percentage (%) |
| I. Shares subject to trading moratorium | | | | | | | | | |
| 1. State-owned shares | | | | | | | | | |
| 2. State-owned legal person shares | | | | | | | | | |
| 3. Other domestically owned shares | | | | | | | | | |
| Including: | | | | | | | | | |
| Domestic non-state-owned legal person shares | | | | | | | | | |
| Domestic natural person shares | | | | | | | | | |
| 4. Overseas owned shares | | | | | | | | | |
| Including: | | | | | | | | | |
| Overseas legal person shares | | | | | | | | | |
| Overseas natural person shares | | | | | | | | | |
| II. Shares not subject to trading moratorium | 655,015,000 | 100% | | | | | | 655,015,000 | 100% |
| 1. Renminbi ordinary shares | 413,015,000 | 63.05% | | | | | | 413,015,000 | 63.05% |
| 2. Domestically listed foreign shares | | | | | | | | | |
| 3. Overseas listed foreign shares | 242,000,000 | 36.95% | | | | | | 242,000,000 | 36.95% |
| 4. Others | | | | | | | | | |
| III. Total number of shares | 655,015,000 | 100% | | | | | | 655,015,000 | 100% |

Notes:

- (1) During the reporting period, there was no change in the total number of the Company's shares and the shareholding structure. The Company did not repurchase, sell or redeem its listed securities.
- (2) As at 27 March 2013, the most practicable and recent date for the announcement of the annual report, based on information that is publicly available to the Company and so far as the Directors are aware, the Company has complied with the requirements of The Stock Exchange of Hong Kong Limited in relation to sufficient public float.

Changes in Share Capital and Information of Shareholders (Continued)

II. Securities in issue and listings

(I) Shares in issue and listings

| | H Shares | A Shares |
|---|---------------------|--------------------|
| Date of issue | 24 April-2 May 1996 | 7-18 November 1996 |
| Par value | RMB1.00 per share | RMB1.00 per share |
| Issue price | HK\$2.13 per share | RMB5.10 per share |
| Number of shares issued (<i>share</i>) | 242,000,000 | 23,000,000 |
| Date of listing | 2 May 1996 | 18 November 1996 |
| Place of listing | Hong Kong | Shanghai |
| Aggregate number of shares permitted to be traded (<i>shares</i>) | 242,000,000 | 413,015,000 |
| Opening price on the first trading day of listing | HK\$2.05 | RMB11.00 |
| Opening price on the first trading day of the year | HK\$1.36 | RMB5.38 |
| Closing price on the last trading day of the year | HK\$2.10 | RMB5.37 |
| The highest price during the year | HK\$2.10 | RMB7.39 |
| The lowest price during the year | HK\$1.29 | RMB4.65 |
| Total transaction volume during the year (<i>0'000 Shares</i>) | 8,979.12 | 26,160.30 |

(II) Issue of securities during the last three years as at the end of the reporting period

During the past three years ended 31 December 2012, the Company did not issue new shares or place new shares for listing, etc.

(III) Existing internal employee's share

There were no internal employee's shares at the end of the reporting period.

Changes in Share Capital and Information of Shareholders (Continued)

III. Shareholders and ultimate controller

(I) Total number of shareholders

| | |
|---|---|
| Total number of shareholders as at the end of the reporting period | 18,893, including 18,841 A Share holders and 52 H Share holders |
| Total number of shareholders on the 5th trading day prior to the disclosure of this annual report | 18,257, including 18,205 A Share holders and 52 H Share holders |

(II) Details of the top ten shareholders

Details of the top ten shareholders

Unit: shares

| Name of shareholders | Increase/ decrease during the reporting period | Number of shares held as at the end of the reporting period | Percentage of Shareholding (%) | Number of shares held subject to trading moratorium | Pledge or freeze | | |
|--|--|---|--------------------------------------|---|---------------------|---------------------|---|
| | | | | | Status of shares | Number of shares | Type of shareholders |
| PEGL | 0 | 334,715,000 | 51.10 | 0 | Pledged | 167,350,000 | State-owned legal person |
| HKSCC (Nominees) Limited | -20,000 | 240,709,599 | 36.75 | 0 | | Unknown | Overseas legal person |
| Huang Jitang | 0 | 2,170,081 | 0.331 | 0 | | Unknown | Domestic natural person |
| Peng Hongwan | 0 | 1,161,026 | 0.177 | 0 | | Unknown | Domestic natural person |
| Zheng Xinhua | 0 | 640,000 | 0.098 | 0 | | Unknown | Domestic natural person |
| Shangdong International Trust Co., Ltd. Dexin No.1 Collective Trust (山東省國際信託有限公司 —德信1號集合信託) | 515,000 | 515,000 | 0.079 | 0 | | Unknown | State-owned legal person |
| Beijing Xinheng Insurance Brokers Limited (北京鑫恆保險經紀有限公司) | 507,326 | 507,326 | 0.077 | 0 | | Unknown | Domestic non-state- owned legal person |
| Yang Chunyan | -43,860 | 466,854 | 0.071 | 0 | | Unknown | Domestic natural person |
| Wang Caihong | 0 | 415,626 | 0.063 | 0 | | Unknown | Domestic natural person |
| Rong Tao | 0 | 397,600 | 0.061 | 0 | | Unknown | Domestic natural person |

Changes in Share Capital and Information of Shareholders (Continued)

III. Shareholders and ultimate controller (Continued)

(II) Details of the top ten shareholders (Continued)

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

| Name of shareholders | Number of shares held not subject to trading moratorium | Class and number of shares | |
|--|---|--|-------------|
| | | Class | Number |
| PEGL | 334,715,000 | RMB ordinary shares Overseas listed | 334,715,000 |
| HKSCC (Nominees) Limited | 240,709,599 | foreign shares | 240,709,599 |
| Huang Jitang | 2,170,081 | RMB ordinary shares | 2,170,081 |
| Peng Hongwan | 1,161,026 | RMB ordinary shares | 1,161,026 |
| Zheng Xinhua | 640,000 | RMB ordinary shares | 640,000 |
| Shangdong International Trust Co., Ltd.- Dexin No.1 Collective Trust (山東省國際信託有限公司 — 德信1號集合信託) | 515,000 | RMB ordinary shares | 515,000 |
| Beijing Xinheng Insurance Brokers Limited (北京鑫恆保險經紀有限公司) | 507,326 | RMB ordinary shares | 507,326 |
| Yang Chunyan | 466,854 | RMB ordinary shares | 466,854 |
| Wang Caihong | 415,626 | RMB ordinary shares | 415,626 |
| Rong Tao | 397,600 | RMB ordinary shares | 397,600 |

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

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

Notes:

- (1) Among the shareholders named above, PEGL held 334,715,000 shares of the Company on behalf of the State, representing 51.10% of the issued share capital of the Company, which were circulating shares not subject to trading moratorium. Among the shares held by PEGL, 167,350,000 shares were pledged on 28 November 2011. For details, please refer to the relevant announcements published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 1 December 2011, and on the websites of the Hong Kong Stock Exchange and the Company on 30 November 2011.
- (2) HKSCC (Nominees) Limited held 240,729,599 H Shares, representing 36.75% of the issued share capital of the Company, on behalf of a number of clients. The Company is not aware of any individual client holding more than 5% of the total share capital issued by the Company.

Changes in Share Capital and Information of Shareholders (Continued)

IV. Controlling shareholders and the ultimate controllers of the Company

(I) Controlling shareholder

| | |
|--|---|
| Name | PEGL |
| The person in charge of the entity or legal representative | Xu Guofei |
| Date of establishment | 5 December 1990 |
| Organization code | 13488315-2 |
| Registered capital | RMB1,266,060,000 |
| Principal business | Development, manufacture, sales and maintenance of various kinds of communication equipment, home appliance products, electronic equipment, electronic intelligent equipment, computer and other electronic equipment, radio and television equipment, video and audio equipment, electronic devices and components, environment protection equipment, social public service and other special equipment, electronics and electricals machinery equipment, instruments and meters, office machinery, general finance/tax control equipment; development of computers and IT software, system integration equipment and services; property management. |
| Operating results | Audited consolidated data for 2011: operating revenue of RMB6,892,351,900; total profit of RMB270,864,800. |
| Financial position | Audited consolidated data as at 31 December 2011: total assets of RMB8,134,496,200; total liabilities of RMB6,310,603,100. |
| Cash flow and future development strategy | Cash flow: audited consolidated data as at 31 December 2011: net cash flow of RMB-631,015,800. Development strategy: industrial transformation to the high end of the value chain; business model transformation to provision of solutions and all round services to customers; product transformation to high value-added products. Two core principal businesses are defined, i.e. the electronic equipment industry mainly comprising modern national defence communication, new military information electronic system equipment, and civil intelligent system equipment, and the consumer electronics industry mainly comprising flat panel display LCD TV and three network integrated intelligent terminals. The aim is to build the company into a top-rate large electronic information enterprise in the PRC with more prominent leading businesses, many core technologies and proprietary intellectual property rights in key sectors, the capabilities in providing all-round services and package solutions, in marketing in both domestic and overseas markets, in undertaking major electronic information equipment projects, and in manufacturing EMS electronic products, favourable assets benefits, and sustainable and coordinated development; and develop the brand of Panda into an influential leading brand in the PRC and a famous one overseas. |
| Equities of other domestic and overseas listed companies in which the company holds controlling shares or shares during the reporting period | During the reporting period, the controlling shareholder did not hold controlling shares or shares in other domestic and overseas listed companies. |

Changes in Share Capital and Information of Shareholders (Continued)

IV. Controlling shareholders and the ultimate controllers of the Company (Continued)

(II) Ultimate controllers

1. Legal person

| | |
|--|---|
| Name | CEC |
| The person in charge of the entity or legal representative | Rui Xiaowu |
| Date of establishment | 26 May 1989 |
| Organization code | 10001024-9 |
| Registered capital | RMB8,603,000,000 |
| Principal business | Research, development, design, and manufacture of electronic raw materials, electronic devices and components, electronic instruments and meters, complete sets of electronic products, electronic application products and systems, special electronic equipment, auxiliary products and software as well as sales of complete sets of relevant products; general contracting, organization and management of electronic application system projects, communication projects, and water treatment projects; development, promotion and application of environment protection and energy saving technologies; development and operation of real estate; sales of automobiles, auto parts, hardware and electrical equipment, photographic apparatus, construction materials, decorative materials and apparel; exhibition management; house repairing business; consulting services, technical services and transfer; maintenance and sales of home appliances. |
| Operating results | Audited consolidated data for 2011: operating revenue of RMB168.236 billion; total profit of RMB3.736 billion. |
| Financial position | Audited consolidated data as at 31 December 2011: total assets of RMB144.783 billion; total liabilities of RMB102.138 billion. |
| Cash flow and future development strategy | Cash flow: audited consolidated data as at 31 December 2011: net cash flow of RMB637,391,600. |

Development strategy: under the guidance of the scientific development outlook, by following the main task of "structural adjustment, transformation, enhancement of comprehensive levels, promotion of development" and seizing the opportunity for development of national strategic emerging industries, the company will divert more resources to key industries and sectors relating to national security and national economic lifeline, promote of transformation from mid- and low-end industrial value chain into mid- and high-end value chain, from product production into provision of core technologies and overall solutions and services for innovation-driven and endogenous growth, stress on quality and strength, enhance its vigour, controlling force and influence, and strive to become an energetic, trustworthy and respectable world-leading enterprise in the electronic information industry with international influence and competitiveness. Specifically, with three system engineerings (display technology, information security, electronic information product trading platform) as the engine, the company will focus on five industrial sectors (new type of display, information security, integrated circuit, high-tech electronics and information service), implement twenty key projects, grow into an industry leader, develop core technologies, products and services, push forward industrial transformation and upgrade, fulfill innovative, coordinated and internationalized development and fully boost the core competitiveness of the group.

Changes in Share Capital and Information of Shareholders (Continued)

IV. Controlling shareholders and the ultimate controllers of the Company (Continued)

(II) Ultimate controllers (Continued)

1. Legal person (Continued)

Equities of other domestic and overseas listed companies (other than the Company) in which the ultimate controller holds controlling shares or shares during the reporting period were as follows:

| No. | Abbreviation of listed company | Securities code | Registered capital (RMB0'000) | Percentage of CEC's shareholding <small>Note</small> |
|-----|--------------------------------|-----------------|----------------------------------|---|
| 1 | Shanghai Beiling | 600171 | RMB67,380.78 | 27.81% |
| 2 | Shenzhen SED A | 000032 | RMB23,286.43 | 42.02% |
| 3 | CEC Corecast | 600764 | RMB32,972.70 | 53.47% |
| 4 | Kaifa Technology | 000021 | RMB131,927.78 | 49.64% |
| 5 | Greatwall Computer | 000066 | RMB132,359.39 | 56.62% |
| 6 | China Software | 600536 | RMB22,569.39 | 54.26% |
| 7 | Greatwall Information | 000748 | RMB37,556.22 | 21.70% |
| 8 | Huadong Technology | 000727 | RMB35,915.74 | 23.47% |
| 9 | Zhenhua Science & Technology | 000733 | RMB35,812.00 | 36.13% |
| 10 | Nationz Technologies | 300077 | RMB27,200.00 | 27.50% |
| 11 | Irico Display | 600707 | RMB73,675.77 | 34.42% |
| 12 | Great Wall Tech | 00074HK | RMB119,774.20 | 62.11% |
| 13 | China Electron | 00085HK | HKD88,917.10 | 71.30% |
| 14 | TPV Technology | 00903HK | USD2,345.60 | 35.06% |
| 15 | IRICO | 00438HK | RMB223,234.94 | 71.74% |
| 16 | Solomon Systech | 02878HK | HKD50,000.00 | 27.04% |

Note: Percentage of CEC's shareholding represents the aggregate of the shareholdings held through relevant connected parties or party acting in concert among the shareholders of listed companies.

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

IV. Controlling shareholders and the ultimate controllers of the Company *(Continued)*

(II) Ultimate controllers *(Continued)*

2. Index and date of change in the ultimate controller during the reporting period

During the reporting period, the ultimate controller of the Company changed from China Huarong Assets Management Company to CEC, with relevant announcements published on the website of the Shanghai Stock Exchange (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkex.com.hk), the details of which are as follows:

| Name of announcement | No. of announcement | Date of publication |
|--|---------------------|---------------------|
| Interim announcement of Nanjing Panda Electronics Company Limited | Lin 2012-011 | 8 March 2012 |
| Interim announcement of Nanjing Panda Electronics Company Limited | Lin 2012-014 | 11 April 2012 |
| Interim announcement of Nanjing Panda Electronics Company Limited | Lin 2012-017 | 10 May 2012 |
| Acquisition Report of Nanjing Panda Electronics Company Limited (Summary) | | 12 May 2012 |
| Interim announcement of Nanjing Panda Electronics Company Limited | Lin 2012-020 | 12 June 2012 |
| Acquisition Report of Nanjing Panda Electronics Company Limited | | 12 June 2012 |
| Interim announcement of Nanjing Panda Electronics Company Limited | Lin 2012-023 | 21 July 2012 |
| Announcement on change in ultimate controller and compliance with rules governing connected transactions | Lin 2012-027 | 26 September 2012 |

3. The controlling relationship between the Company and the ultimate controller is as follows:

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

Changes in Share Capital and Information of Shareholders (Continued)

IV. Controlling shareholders and the ultimate controllers of the Company (Continued)

(II) Ultimate controllers (Continued)

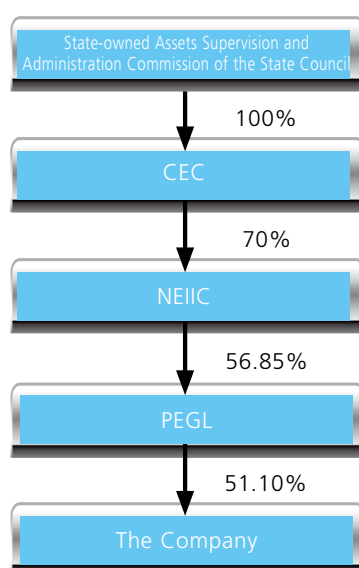
3. The controlling relationship between the Company and the ultimate controller is as follows:
(Continued)
 - (2) The State-owned Assets Supervision and Administration Commission of the State Council issued an approval letter in respect of the change of ultimate controller of the Company as a result of the transfer of equity interest of PEGL at nil consideration (Guo Zi Chan Quan No. [2012]158). Pursuant to the approval, the ultimate controller of the Company would be changed to CEC upon completion of the transfer of equity interest of PEGL at nil consideration.
 - (3) The completion of the agreement was still subject to satisfaction of the requirements of the CSRC and other relevant regulatory authorities. CEC and its party acting in concert, NEIIC, reported to the CSRC the change of ultimate controller of the Company pursuant to the "Administrative Measures for the Takeover of Listed Companies", and submitted an application for a waiver from general offer obligations by way of summary procedures. CSRC accepted the filing by CEC of the report of acquisition of the Company and the administrative permission application materials for the approval of a waiver from general offer obligations (summary procedures), and issued an approval in respect thereof, raising no objection to the report of acquisition of the Company and granting the waiver from general offer obligations arising from obtaining control of the Company due to transfer of state-owned assets. As the proposed transaction resulted in change of ultimate controller of the Company, CEC and its party acting in concert, NEIIC, applied to the SFC pursuant to the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), for a waiver from mandatory offer obligation under Note 8 to Rule 26.1(a) of the Takeovers Code in respect of the change of ultimate controller of the Company as a result of the proposed transaction. The SFC gave its reply to the said application for a waiver from the mandatory offer obligation under Rule 26.1(a) of the Takeovers Code, that the chain principle under Note 8 applies, and in the opinion of the SFC, no general offer obligation will be triggered on the part of the applicants and Rule 26.1(a) of the Takeovers Code does not apply to the said acquisition. The Company published the acquisition report (summary) when the CSRC accepted the application for a waiver from general offer obligations and published the acquisition report, the advice from the independent financial adviser and relevant legal opinion on the website of the Shanghai Stock Exchange and Hong Kong Stock Exchange when the CSRC issued its approval in respect of the application for a waiver from general offer obligations.

Changes in Share Capital and Information of Shareholders (Continued)

IV. Controlling shareholders and the ultimate controllers of the Company (Continued)

(II) Ultimate controllers (Continued)

3. The controlling relationship between the Company and the ultimate controller is as follows: (Continued)
- (4) PEGL, the controlling shareholder of the Company completed relevant procedures for change of registration with relevant industry and commerce authorities on 21 September 2012. As such, the diagram of shareholding and controlling relationship between the Company and its ultimate controller was changed to:



V. Other legal person shareholders holding 10% or more of shares of the Company

During the reporting period, the Company did not have any legal person shareholder holding 10% or more of its shares.

Changes in Share Capital and Information of Shareholders (Continued)

VI. Substantial shareholders' interests and short positions in the shares or underlying shares of the Company

As at 31 December 2012, so far as the Directors, Supervisors and senior management staff of the Company were aware of, long positions in shares or underlying shares of the Company held by substantial shareholders (exclusive of Directors, Supervisors and senior management staff of the Company) which were required to be filed with the register as pursuant to section 336 of the Securities and Futures Ordinance ("SFO") of the Hong Kong Stock Exchange were as follows: (1) PEGL held 334,715,000 domestic shares (A Shares), accounting for approximately 81.04% of domestic shares (A Shares) in issue and approximately 51.10% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of beneficial owner. (2) Lewis Joseph held 20,260,000 H Shares, accounting for approximately 8.37% of H Shares in issue and approximately 3.10% of the total shares in issue. The nature of interests in such shares is personal interest which was held in the capacity of beneficial owner. (3) Tuesday Thirteen Inc., held 16,920,000 H Shares, accounting for approximately 7.00% of H Shares in issue and approximately 2.59% of the total shares in issue. The nature of interests in such shares was corporate interest which was held in the capacity of controlled corporation. No short positions were found in any shares held by the above substantial shareholders.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2012.

Profiles of Directors, Supervisors, Senior Management and Staff

I. Change in Shareholdings and Remuneration

(I) Current and the resigned Directors, supervisors and senior management during the reporting period

As of 31 December 2012, interests of the Directors, Supervisors and senior management staff of the Company in the domestic shares (A Shares) of the Company which were recorded in the register require to be kept by the Company under Section 352 of the Securities and Futures Ordinance (“SFO”) (Chapter 571) are as follows (the nature of such interests is personal interest):

| Name | Position | Gender | Age | Commencement date of the term | Expiry date of the term | Number of shares held at the beginning of the year | Number of shares held at the end of the year | Change in the number of shares held in the year | Reason for the change | Total remuneration received from the Company during the reporting period (RMB'000) (before tax) | Total remuneration payable received from shareholders during the reporting period (RMB'000) |
|------------------------|---|--------|-----|-------------------------------|-------------------------|--|--|---|-----------------------|---|---|
| | | | | | | | | | | (RMB'000) | (RMB'000) |
| Lai Weide | Executive Director, Chairman | M | 55 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | | |
| Xu Guofei | Executive Director, Vice Chairman | M | 51 | 2012.03.06 | 2015.03.05 | 2,546 | 2,546 | 0 | — | | |
| Zhu Lifeng | Non-executive Director | M | 49 | 2012.03.06 | 2015.03.05 | 4,378 | 4,378 | 0 | — | | |
| Deng Weiming | Non-executive Director | M | 49 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | | |
| Lu Qing | Non-executive Director | M | 48 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | | |
| Hsuan Jason | Non-executive Director | M | 69 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | | |
| Zhang Xiuhua | Independent Non-executive Director | F | 68 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | | |
| Liu Danping | Independent Non-executive Director | F | 56 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | | |
| Chu Wai Tsun, Vincent | Independent Non-executive Director | M | 39 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | | |
| Zhang Zhengping | Chairman of the Supervisory Committee | F | 57 | 2012.03.06 | 2015.03.05 | 4,648 | 4,648 | 0 | — | 12 | |
| Fu Yuan Yuan | Supervisor representing employees | F | 41 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | 16 | |
| Zhou Yuxin | Supervisor representing employees | M | 49 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | 16 | |
| Xia Dechuan | General Manager | M | 43 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | 48 | |
| Liu Kun | Deputy General Manager | M | 47 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | 42 | |
| Zhou Guixiang | Deputy General Manager | M | 42 | 2012.03.06 | 2015.03.05 | 1,639 | 1,639 | 0 | — | 42 | |
| Shen Jianlong | Chief Accountant, Secretary to the Board, Company Secretary | M | 50 | 2012.03.06 | 2015.03.05 | 0 | 0 | 0 | — | 42 | |
| Tang Yousong | Former Independent Non-executive Director | M | 62 | 2007.06.12 | 2010.06.11 | 0 | 0 | 0 | — | | |
| Ma Chung Lai, Lawrence | Former Independent Non-executive Director | M | 59 | 2007.06.12 | 2010.06.11 | 0 | 0 | 0 | — | | |
| Sun Suhua | Former Independent Supervisor | F | 71 | 2007.06.12 | 2010.06.11 | 0 | 0 | 0 | — | | |
| Wang Fei | Former Independent Supervisor | M | 54 | 2008.12.31 | 2010.06.11 | 0 | 0 | 0 | — | | |
| Tang Min | Former Supervisor representing employees | F | 56 | 2007.06.12 | 2010.06.11 | 0 | 0 | 0 | — | 6.8 | |
| Total | | | | | | 13,211 | 13,211 | | | 224.8 | |

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

I. Change in Shareholdings and Remuneration (Continued)

(I) Current and the resigned Directors, supervisors and senior management during the reporting period (Continued)

Notes:

1. The Seventh Session of the Board and the Supervisory Committee were elected at the 2012 first extraordinary general meeting on 6 March 2012. During the reporting period, the total remunerations of Directors, supervisors and senior management members were RMB2.248 million, which was within the range approved by the general meeting. Of such total remunerations, RMB1.74 million was for the Directors and senior management, and RMB0.508 million was for the supervisors. The above remunerations did not include contributions to the pension scheme for the Directors and supervisors. Save as above, the Company did not pay any other remuneration, allowance or bonus to the Directors and supervisors, and each of the Directors and supervisors was remunerated within RMB0.5 million for the year. The pension scheme for the executive Directors and supervisors has been included in the scope of the pension scheme for employees of the Company, with no other special arrangements.
2. During the reporting period, Independent Non-executive Directors Ms. Liu Danping, Ms. Zhang Xiuhua, and Mr. Chu Wai Tsun, Vincent did not receive remuneration from the Company, nor from shareholders or other related parties.

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

Save as disclosed above, none of the Directors, Supervisors and senior management staff of the Company or their associates had any interest in the share of the Company or any of its associated corporations (as defined in Part XV of the SFO of Hong Kong Stock Exchange) as of 31 December 2012, and none of the Directors or Supervisors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

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

I. Change in Shareholdings and Remuneration (Continued)

(II) Profiles of the current Directors, supervisors and senior management during the last five years

1. Executive Directors

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

Mr. XU Guofei: born in 1962, is a senior post-graduate engineer and holds a bachelor degree. Mr. Xu has served as standing Deputy Manager of the Communication Equipment Department and General Manager of the Military Communications Department of PEGE, Deputy General Manager and General Manager of PEGE and Deputy General Manager of NEIC etc. Mr. Xu has been the General Manager of PEGE and Vice Chairman of Nanjing Panda Electronics Company Limited since January 2007 up to now, the General Manager of NEIC since July 2010 up to now, the General Manager of CEC Panda LCD Technology Co., Ltd. since July 2011 up to now. Mr. Xu has engaged in the work of development and management of communication technology for a long period and has extensive knowledge of electronics technology and experience in management.

2. Non-executive Directors

Mr. ZHU Lifeng: born in 1964, is a senior post-graduate engineer and holds a doctoral degree in management. Mr. Zhu has served as Deputy Manager of the Instruments and Meters Department and Manager of the Science and Technology Department of PEGE and the deputy general manager of PEGE. Mr. Zhu was a Deputy General Manager of PEGE from January 2007 to June 2012, a Deputy General Manager of CEC Panda LCD Technology Co., Ltd. from December 2009 to June 2012, and has been the Director of the Planning Department of CEC since July 2012 up to now. Mr. Zhu has engaged in the work of technological development and management for a long period and possesses extensive knowledge of electronics and experience in operation and management.

Mr. DENG Weiming: born in 1964, is a senior engineer and holds a master's degree. Mr. Deng has served in PEGE as Office Head, Deputy Head and Head of the First Design Institute, General Manager of Communications Department and Deputy General Manager of PEGE. He has been a Deputy General Manager of PEGE since January 2007 up to now, and the General Manager of Nanjing Zhongdian Panda Home Appliances Co., Ltd. since June 2009 up to now. Mr. Deng has engaged in the work of communication technology development and management for a long period and has extensive experience in electronic technology and management.

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

I. Change in Shareholdings and Remuneration (Continued)

(II) Profiles of the current Directors, supervisors and senior management during the last five years (Continued)

2. Non-executive Directors (Continued)

Mr. LU Qing: born in 1965, is a senior engineer and holds a master's degree. Mr. Lu has served in PEGL as Deputy Head and Head of the Quality Inspection Department of the NFC Production Department, Head of the Quality Inspection Department and the Quality Inspection Department (Second Division) of the Communications Equipment Department, Deputy General Manager, standing Deputy General Manager and General Manager of the Military Communications Department, and General Manager Assistant and Deputy General Manager of PEGL etc. He was the assistant to the General Manager of PEGL from January 2007 to December 2008, and has been is a Deputy General Manager of PEGL since January 2009 up to now, and the General Manager of Nanjing Panda Handa Technology Co., Ltd. since January 2007 up to now. Mr. Lu has engaged in the development and management of communication technology for a long period and has extensive experience in the electronics profession and in operation management.

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

3. Independent Non-executive Directors

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

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

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

I. Change in Shareholdings and Remuneration (Continued)

(II) Profiles of the current Directors, supervisors and senior management during the last five years (Continued)

3. Independent Non-executive Directors (Continued)

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

4. Supervisors

Ms. ZHANG Zhengping: born in 1956, is an engineer for political work and an economist, and is a college graduate. Ms. Zhang has served in PEGL as Head of the Inspection and Supervision Office, Deputy Secretary of the Discipline Committee and Head of the Organization Department, Communist Party Committee Deputy Secretary and Secretary of the Discipline Committee etc. She was the Communist Party Committee Deputy Secretary and Secretary of the Discipline Committee of PEGL from January 2007 to December 2008, and the Communist Party Committee Secretary and Secretary of the Discipline Committee of PEGL from January 2009 to April 2011. She has been the Dedicated Manager of PEGL since May 2011 up to now, and the Chairman of the Supervisory Committee of the Company since January 2007 up to now. Ms. Zhang has engaged in corporate management and the Chinese Communist Party for a long period and has extensive knowledge of electronics technology and substantial experience in operation and management.

Ms. FU Yuanyuan: born in 1972, is a PRC Certified Public Accountant, an International Certified Internal Auditor and holds a bachelor's degree. Ms. Fu has been the Deputy Head of the Audit Department, Chief Auditor and Deputy Head of the Supervision and Audit Department of Nanjing Panda Electronics Company Limited and Finance Manager of Nanjing Panda Electronics Manufacturing Co., Ltd. since January 2007 up to now. She is now the director of the Supervision and Audit Department of Nanjing Panda Electronics Company Limited. Having worked in the field of corporate internal auditing and financial management for a long period, Ms. Fu has extensive experience in internal control and financial management.

Mr. ZHOU Yuxin, born in 1964, is an engineer and holds a bachelor degree. Mr. Zhou has served as Deputy Manager, Manager and Office Head of the labour union of Nanjing Zhenhua Audio Equipment Factory. He has been the vice chairman of the labour union of the Nanjing Panda Electronics Company Limited since May 2008 up to now. Mr. Zhou has engaged in the work of corporate management for a long period and has extensive knowledge of and experience in corporate management.

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

I. Change in Shareholdings and Remuneration (Continued)

(II) Profiles of the current Directors, supervisors and senior management during the last five years (Continued)

5. Senior management staff

Mr. XIA Dechuan, born in 1970, is a senior engineer and holds a master's degree in business administration from the Southeast University. Mr. Xia has served as Deputy Head of the Second NFC Design Institute, Deputy Head and Head of Communications Equipment Company Division I (通信裝備公司一部), and Deputy General Manager of Nanjing Panda Information Industry Co., Ltd. He was a standing Deputy General Manager of Nanjing Panda Information Industry Co., Ltd. from January 2007 to June 2008, and a Deputy General Manager of Nanjing Panda Electronics Company Limited from July 2008 to September 2011. He has been the General Manager of Nanjing Panda Information Industry Co., Ltd. since July 2008 up to now, and the General Manager of Nanjing Panda Electronics Company Limited since October 2011 up to now. Mr. Xia has long been engaged in the management of information technology industries, and has extensive professional knowledge and experience in operation and management.

Mr. LIU Kun: born in 1966, is a senior engineer and holds a bachelor's degree. Mr. Liu has served as Deputy Head of the Precision Machinery Department, General Manager of Nanjing Panda Accurate Machinery Co., Ltd., Deputy General Manager and General Manager of Electromechanical Instruments Industrial Corporation (機電儀產業集團), and Deputy General Manager of Nanjing Panda Electronics Company Limited etc. He has been a Deputy General Manager of Nanjing Panda Electronics Company Limited since January 2007 up to now, and the General Manager of Nanjing Panda Electronic Equipment Co., Ltd. since June 2009 up to now. Mr. Liu has long been engaged in the development and management of electronic and industrial automation equipment, as well as environmental protection equipment, and has extensive professional knowledge and experience in operation and management.

Mr. ZHOU Guixiang: born in 1971, is a senior engineer and holds a bachelor's degree. Mr. Zhou has served as Manager of Electronic Substrate Plant (電子基板廠), Manager of the Surface Mounting Center (表面裝聯中心), General Manager of Electronics Manufacturing Industrial Group (電子製造產業集團), and Assistant to the General Manager of Panda Electronics Group Limited etc. He was the assistant to the General Manager of Nanjing Panda Electronics Company Limited from January 2007 to May 2009, and has been the General Manager of Nanjing Panda Electronics Manufacturing Co., Ltd. since June 2009 up to now, and a Deputy General Manager of Nanjing Panda Electronics Company Limited since November 2011 up to now. Mr. Zhou has long been engaged in the management of electronics manufacturing and has extensive experience in operation and management.

Mr. SHEN Jianlong: born in 1963, is a senior accountant and holds a bachelor's degree. Mr. Shen has served as Director General of the Finance Department, Deputy Head of the Assets and Finance Department, and deputy chief accountant of Nanjing Panda Electronics Company Limited etc. He has been the Chief Accountant, Secretary to the Board of the Company, and Company Secretary of Nanjing Panda Electronics Company Limited since January 2007 up to now. Mr. Shen has long been engaged in the management of corporate finance, and has extensive professional knowledge in finance and experience in operation and management.

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

II. Positions of Current and the Resigned Directors, Supervisors and Senior Management during the Reporting Period

(I) Positions in shareholder entities

| Name | Name of shareholder entity | Position(s) | Date of appointment | End of appointment |
|-----------------|----------------------------|------------------------|---------------------|--------------------|
| Lai Weide | PEGL | Chairman | January 2009 | |
| Xu Guofei | PEGL | General Manager | September 2004 | |
| Zhu Lifeng | PEGL | Deputy General Manager | July 1999 | June 2012 |
| Deng Weiming | PEGL | Deputy General Manager | July 1999 | |
| Lu Qing | PEGL | Deputy General Manager | January 2009 | |
| Zhang Zhengping | PEGL | Dedicated Manager | May 2011 | |

(II) Positions in other entities

| Name | Name of entity | Position(s) | Date of appointment | End of appointment |
|-----------------------|---|--|---------------------|--------------------|
| Lai Weide | CEC | Deputy General Manager | July 2010 | |
| | NEIIC | Chairman | July 2010 | |
| Xu Guofei | NEIIC | General Manager | July 2010 | |
| | CEC Panda LCD Technology Co., Ltd | General Manager | July 2011 | |
| Zhu Lifeng | CEC | Director of the Planning Department | July 2012 | |
| Deng Weiming | Nanjing Zhongdian Panda Home Appliances Co., Ltd. | General Manager | June 2009 | |
| Lu Qing | Nanjing Panda Handa Technology Co., Ltd. | General Manager | January 2007 | |
| Hsuan Jason | TPV Technology Limited | Chairman of the Board of Directors and the Chief Executive Officer | November 1990 | |
| Liu Danping | Capital University of Economics and Business | Professor | August 1984 | |
| Chu Wai Tsun, Vincent | Eternal Optical & Perfumery (Far East) Limited | Financial Controller | July 2010 | |

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

III. Remunerations of the Directors, Supervisors and Senior Management Staff of the Company

| | |
|--|---|
| Decision making process of remuneration of Directors, supervisors and senior management | According to relevant requirements of the Articles of Association and the Rules of Procedure of the Remuneration and Appraisal Committee, and based on the operating results, scope of work, main duties and other information, the Remuneration and Appraisal Committee shall appraise the actual performance of the Directors and senior management and submit the appraisal result to the Board for consideration. The remuneration of Directors and supervisors shall be determined by general meetings while that of senior management by the Board. |
| Basis for determination of remuneration of Directors, supervisors and senior management | Basis for determination of remuneration includes: achievement status of major financial indicators and operational targets of the Company, scope of work and main duties of senior management, completion of indicators contained in the position-based performance appraisal system for Directors and senior management, operational performance in respect of business innovation capability and profit-making capability of Directors and senior management, and proposed remuneration distribution plan and distribution method based on the Company's performance. |
| Remuneration payable to Directors, supervisors and senior management | During the reporting period, the remuneration payable to Directors, supervisors and senior management totalled RMB2,248,000 (before tax). |
| Total actual remuneration of all Directors, supervisors and senior management at the end of the reporting period | During the reporting period, the total actual remuneration of all Directors, supervisors and senior management was RMB2,248,000 (before tax). |

IV. Changes in Directors, Supervisors and Senior Management Staff

During the reporting period, at the 22th meeting of the Sixth Session of the Board of the Company held on 16 January 2012, Mr. Lai Weide, Mr. Xu Guofei, Mr. Zhu Lifeng, Mr. Deng Weiming, Mr. Lu Qing, Mr. Hsuan Jason, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent were nominated as candidates for members of the Seventh Session of the Board and were successfully elected to the Board at the 2012 first extraordinary general meeting of the Company held on 6 March 2012. Their term of offices is three years. At the 18th meeting of the Sixth Session of the Supervisory Committee of the Company held on 16 January 2012, Ms. Zhang Zhengping was nominated as a candidate for members of the Seventh Session of the Supervisory Committee and Ms. Fu Yuanyuan and Mr. Zhou Yuxin were recognized as Supervisors representing employees of the Seventh Session of the Supervisory Committee. Ms. Zhang Zhengping was elected Supervisor at the 2012 first extraordinary general meeting of the Company held on 6 March 2012. Her term of offices is three years.

At the First meeting of the Seventh Session of the Board of the Company held on 6 March 2012, Mr. Lai Weide and Mr. Xu Guofei were elected the Chairman and Vice-chairman of the Board respectively, Mr. Xia Dechuan as the General Manager of the Company, Mr. Liu Kun and Mr. Zhou Guixiang as Deputy General Managers of the Company and Mr. Shen Jianlong as the Chief Accountant and Secretary to the Board of the Company, all for a term of three years. The members and chairmen of all committees under the Board were elected (Please refer to relevant paragraphs under Section IX "Corporate Governance Report" in this report for details). At the First meeting of the Seventh Session of the Supervisory Committee of the Company held on 6 March 2012, Ms. Zhang Zhengping was elected the Chairman of the Supervisory Committee with a term of three years.

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

IV. Changes in Directors, Supervisors and Senior Management Staff (Continued)

Changes in Directors, supervisors and senior management are as follows:

| Name | Position(s) | Change | Reason for the change |
|---------------------------|---|-----------|---|
| Lai Weide | Executive Director, Chairman | Appointed | Reelection of the Board |
| Xu Guofei | Executive Director, Vice Chairman | Appointed | Reelection of the Board |
| Zhu Lifeng | Non-executive Director | Appointed | Reelection of the Board |
| Deng Weiming | Non-executive Director | Appointed | Reelection of the Board |
| Lu Qing | Non-executive Director | Appointed | Reelection of the Board |
| Hsuan Jason | Non-executive Director | Appointed | Reelection of the Board |
| Zhang Xiuhua | Independent Non-executive Director | Appointed | Reelection of the Board |
| Liu Danping | Independent Non-executive Director | Appointed | Reelection of the Board |
| Chu Wai Tsun, Vincent | Independent Non-executive Director | Appointed | Reelection of the Board |
| Zhang Zhengping | Chairman of the Supervisory Committee | Appointed | Reelection of the Supervisory Committee |
| Fu Yuanyuan | Supervisor representing employees | Appointed | Reelection of the Supervisory Committee |
| Zhou Yuxin | Supervisor representing employees | Appointed | Reelection of the Supervisory Committee |
| Xia Dechuan | General Manager | Appointed | Job requirements |
| Liu Kun | Deputy General Manager | Appointed | Job requirements |
| Zhou Guixiang | Deputy General Manager | Appointed | Job requirements |
| Shen Jianlong | Chief Accountant, Secretary to the Board, Company Secretary | Appointed | Job requirements |
| Tang Yousong | Former Independent Non-executive Director | Resigned | Expiry of office term |
| Ma Chung Lai, Lawrence | Former Independent Non-executive Director | Resigned | Expiry of office term |
| Sun Suhua | Former Independent Supervisor | Resigned | Expiry of office term |
| Wang Fei | Former Independent Supervisor | Resigned | Expiry of office term |
| Tang Min | Former Supervisor representing employees | Resigned | Expiry of office term |

V. Core Technical Team or Key Technical Staff of the Company

During the reporting period, there were no changes in the core technical team or key technical staff (other than the Directors, supervisors and senior management) of the Company which have great impact on the core competitiveness of the Company.

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

VI. Details of Staff of the Company and Major Subsidiaries

(I) Details of staff

| | |
|---|-------|
| Number of on-the-job employees of the Company | 902 |
| Number of on-the-job employees of major subsidiaries | 2,476 |
| Total number of on-the-job employees | 3,378 |
| Number of retired staff whose expenses the Company and major subsidiaries shall be responsible for | 346 |

Composition of professions

| Type of profession | Number of persons |
|----------------------|-------------------|
| Production staff | 1,548 |
| Sales staff | 302 |
| Technical staff | 1,101 |
| Financial staff | 148 |
| Administrative staff | 279 |
| Total | 3,378 |

Educational Background

| Education level | Number of persons |
|------------------|-------------------|
| Masters or above | 88 |
| Bachelors | 514 |
| Associate degree | 816 |
| Other | 1,960 |
| Total | 3,378 |

(II) Remuneration policies

The Company implements a position-based remuneration determination policy and enforces varied remuneration systems based on position-based performance salary and the nature of different positions. In particular, an annual salary system is implemented for persons in charge of operating units; position-based performance salary system for administrative and managerial staff; a combination of position-based performance salary and project-based salary system (distribution of allowances or royalties by project) for scientific research staff; base salary plus commission or position-based performance salary system for sales staff; and piece-rate salary or position-based performance salary system for production staff.

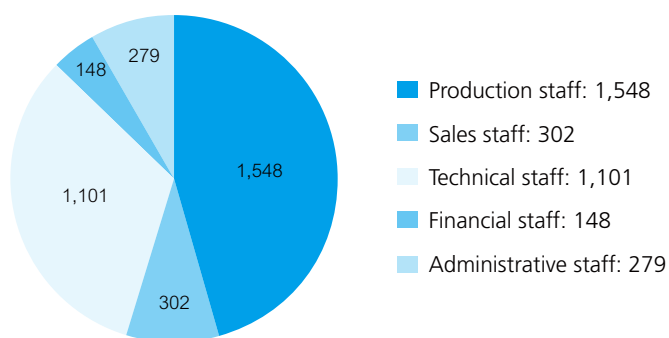
Profiles of Directors, Supervisors, Senior Management and Staff (Continued)

VI. Details of Staff of the Company and Major Subsidiaries (Continued)

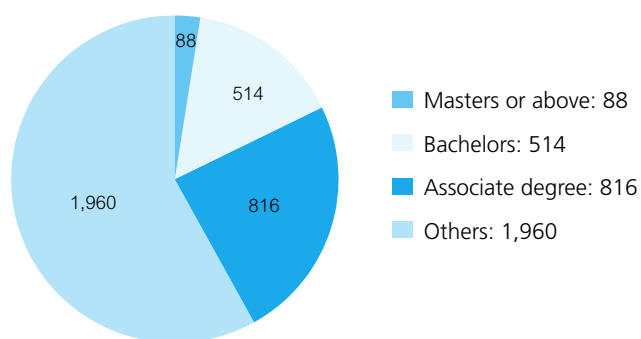
(III) Training plan

The Company organizes surveys on the training demand on a yearly basis, and, based on the survey result, formulates the training plan, which is oriented with purpose to all the staff with focus on the scientific research staff, key personnel in respect of operation, management and production.

(IV) Chart of profession composition



(V) Chart of education level



Corporate Governance Report

I. Corporate Governance and Insiders Registration and Management System

(I) Basis information on corporate governance

During the reporting period, the Company complied with the relevant laws and regulations including the Company Law and the Securities Law. In accordance with the requirements relating to corporate governance and proper operation issued by the CSRC and the SFC and the requirements of the listing rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange, in view of its own actual situation, the Company continued to improve its corporate governance structure and internal rules and systems, further proceeded with the implementation of internal control standards, reinforced management of internal control, and boosted the standard operation level of the Company. During the reporting period, the Company adopted and strived to comply with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

1. During the reporting period, the Company steadily pressed ahead with the self-assessment and audit on internal control. Please refer to relevant paragraphs in Section X “Internal Control” of this report for details.
2. During the reporting period, in order to further improve and perfect the dividend distribution decision-making and supervisory mechanism of the Company, maintain the continuity and stability of profit distribution policy, proactively reward investors, and guide investors to set up the philosophy of long-term investment and reasonable investment, pursuant to the requirements of the “Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies” by the CSRC, the Company considered and approved amendments to relevant articles on profit distribution in the Articles of Association and formulated the cash dividend distribution policy that is in compliance with the Articles of Association and the resolutions of the general meeting. The definite and clear distribution standards and qualification, all-round decision-making process and mechanism and the due diligence of independent Directors provide minority shareholders with opportunities to fully express opinions and appeals, thus fully safeguarding minority shareholders’ legitimate rights and interests. Please refer to the announcement on resolutions passed at the 2012 second extraordinary general meeting of the Company published on Shanghai Securities News and China Securities Journal on 22 December 2012 and on the website of the Hong Kong Stock Exchange on 21 December 2012 for details.
3. During the reporting period, in accordance with the amendments to relevant trading rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange and the actual operation needs of the Company, the Company considered and approved the revised Rules of Procedures of the Nomination Committee, Rules of Procedures of the Audit Committee, Internal Reporting System of Material Information, Rules of Procedures of the Company’s Working Meetings, Material Decision-making Methods and Accounting System at the 2nd meeting of the seventh Board of the Company. Please refer to the announcement on resolutions passed at the 2nd meeting of the seventh Board of the Company published on Shanghai Securities News and China Securities Journal on 30 March 2012 and on the website of the Hong Kong Stock Exchange on 29 March 2012 for details.
4. As a company listed both in the PRC and Hong Kong, the Company disclosed the 2012 Report on Performance of Social Responsibilities (which was considered and approved at the 7th meeting of the seventh Board of the Company) along with the 2012 annual report. Please refer to the relevant announcement of the Company published on Shanghai Securities News and China Securities Journal on 28 March 2013 and on the Website of the Hong Kong Stock Exchange on 27 March 2013 for details.

Corporate Governance Report (Continued)

I. Corporate Governance and Insiders Registration and Management System (Continued)

(II) Performance of specific activities regarding corporate governance

In accordance with the requirements of the “Notice on Performance of Specific Activities regarding the Enhancement of Corporate Governance of Listed Companies” (Zheng Jian Gong Si Zi [2007] No.28) issued by the CSRC and the “Notice on Performance of Specific Activities regarding Corporate Governance of Listed Companies” (Su Zheng Jian Gong Si Zi [2007] No.104) issued by the CSRC Jiangsu Bureau, the Company carried out a series of specific corporate governance activities. Please refer to the relevant announcements of the Company published on the website of the Shanghai Stock Exchange on 17 September 2007, 15 November 2007 and 30 July 2008 and on the website of the Hong Kong Stock Exchange on 14 September 2007, 14 November 2007 and 29 July 2008.

(III) Insiders Registration and Management

According to the requirements of the Regulations on the Establishment of An Insiders Registration and Management System by Listed Companies (《關於上市公司建立內部信息知情人登記管理制度的規定》) promulgated by the CSRC (CSRC announcement [2011] No. 30), in order to further implement insider information management and prevent insider trading, the Board of the Company considered and passed the “Insiders Management System of Nanjing Panda Electronics Company Limited”, and delivered to the controlling shareholder and the ultimate controller the “Opinions on the Implementation of Strengthened Insider Information Management of State-owned and controlled Listed Companies” (《關於加強國有控股上市公司內幕信息管理工作的實施意見》) (Su Guo Zi [2012] No.54) jointly issued by Jiangsu SASAC and the CSRC Jiangsu Bureau. Moreover, the Company strictly followed the regulations on insiders registration and management in respect of the preparation of regular reports, change in ultimate controller, non-public issue of A shares, and other significant events.

II. Overview of General Meetings

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

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

Corporate Governance Report (Continued)

II. Overview of General Meetings (Continued)

During the reporting period, the Company convened six general meetings, including the annual general meeting, three extraordinary general meetings, and two class meetings, details of which are as follows:

| Session of the meeting | Date of the meeting | Name of proposals at the meeting | Polling result of resolutions | Query index at designated website for publication of such resolutions | Date of disclosure for publication of such resolutions |
|---|---------------------|---|--|--|--|
| The first extraordinary general meeting in 2012 | 6 March 2012 | <ol style="list-style-type: none"> 1.1 To consider and approve the election of Mr. Lai Weide as an executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.2 To consider and approve the election of Mr. Xu Guofe as an executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.3 To consider and approve the election of Mr. Zhu Lifeng as a non-executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.4 To consider and approve the election of Mr. Deng Weiming as a non-executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.5 To consider and approve the election of Mr. Lu Qing as a non-executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.6 To consider and approve the election of Mr. Hsuan Jason as a non-executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.7 To consider and approve the election of Ms. Zhang Xiuhua as an independent non-executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.8 To consider and approve the election of Ms. Liu Daping as an independent non-executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years; 1.9 To consider and approve the election of Mr. Chu Wai Tsun, Vincent as an independent non-executive director of the Seventh Session of the Board of Directors of the Company for a term of 3 years. 2. To consider and approve the remuneration of the Seventh Session of the Board of Directors within the limit of RMB3,500,000.00, being the total sum of annual remuneration payable to the Board, Supervisory Committee and senior management of the Company. 3. To consider and approve the election of Ms. Zhang Zhengping as a non-employee representative supervisor of the Seventh Supervisory Committee of the Company for a term of 3 years. 4. To consider and approve the remuneration of the Seventh Supervisory Committee within the limit of RMB3,500,000.00, being the total sum of annual remuneration payable to the Board, Supervisory Committee and senior management of the Company. | The affirmative votes and the negative votes on Proposals 5.1 and 5.2 represented 99.86% and 0.14% of the total number of shares with valid voting rights, respectively; The affirmative votes on the rest proposals represented 100% of the total number of shares with valid voting rights. | http://www.sse.com.cn http://www.hkex.com.hk | 7 March 2012 |

Corporate Governance Report (Continued)

II. Overview of General Meetings (Continued)

| Session of the meeting | Date of the meeting | Name of proposals at the meeting | Polling result of resolutions | Query index at designated website for publication of such resolutions | Date of disclosure for publication of such resolutions |
|--|---------------------|--|--|---|--|
| The 2011 annual general meeting | 31 May 2012 | 5.1 To consider and approve the amendment to Rule 3 of the Rules of Procedure for the Supervisory Committee of the Company; | The affirmative votes on all proposals represented 100% of the total number of shares with valid voting rights. | http://www.sse.com.cn http://www.hkex.com.hk | 1 June 2012 |
| | | 5.2 To consider and approve the amendment to Rule 5 of the Rules of Procedure for the Supervisory Committee of the Company; | | | |
| | | 5.3 To consider and approve the amendment to Rule 14 of the Rules of Procedure for the Supervisory Committee of the Company. | | | |
| | | 6.1 To consider and approve the amendment to Rule 3 of the Rules of Procedure for Shareholders' General Meeting of the Company; | | | |
| | | 6.2 To consider and approve the amendment to Rule 7 of the Rules of Procedure for Shareholders' General Meeting of the Company; | | | |
| | | 6.3 To consider and approve the amendment to Rule 30 of the Rules of Procedure for Shareholders' General Meeting of the Company; | | | |
| | | 6.4 To consider and approve the amendment to Rule 31 of the Rules of Procedure for Shareholders' General Meeting of the Company. | | | |
| The second extraordinary general meeting in 2012 | 21 December 2012 | 1-1 To consider and approve the report of the Board of the Company for the year 2011. | The affirmative votes and the negative votes on Proposals 9.1, 9.2 and 9.3 represented 52.15% and 47.85% of the total number of shares with valid voting rights, respectively; The affirmative votes on the rest proposals represented 100% of the total number of shares with valid voting rights. | http://www.sse.com.cn http://www.hkex.com.hk | 22 December 2012 |
| | | 2-1 To consider and approve the report of the supervisory committee of the Company for the year 2011. | | | |
| | | 3-1 To consider and approve the audited financial reports of the Company for the year 2011. | | | |
| | | 4-1 To consider and approve the profit appropriation plan for the year of 2011. | | | |
| | | 5-1 To consider and approve the reappointment of Baker Tilly Hong Kong Limited as the Company's international auditors and Baker Tilly China (Special General Partnership) as the Company's PRC and internal control auditors for the year 2012, and to determine their remunerations within the limit of RMB1,700,000.00. | | | |
| | | 6-1 To consider and approve the provision of a guarantee in favour of Nanjing Panda Information Industry Co., Ltd., a controlled subsidiary of the Company, in respect of financing guarantee(s) for the sum of RMB180,000,000.00 until 30 June 2013. | | | |
| | | 1-2 To consider and approve the Sub-contracting Agreement by way of ordinary resolution; | | | |
| 1-3 To authorise the Board to take all steps necessary to give effect to the Sub-contracting Agreement by way of ordinary resolution; | | | | | |
| 2-1 To consider and approve the Annual Cap under the Sub-contracting Agreement by way of ordinary resolution; | | | | | |
| 2-2 To consider and approve the CEC Subcontracting Agreement by way of ordinary resolution; | | | | | |
| 2-3 To authorise the Board to take all steps necessary to give effect to the CEC Subcontracting Agreement by way of ordinary resolution; | | | | | |

Corporate Governance Report (Continued)

II. Overview of General Meetings (Continued)

| Session of the meeting | Date of the meeting | Name of proposals at the meeting | Polling result of resolutions | Query index at designated website for publication of such resolutions | Date of disclosure for publication of such resolutions |
|------------------------|---------------------|---|-------------------------------|---|--|
| | 3-1 | To consider and approve the Sale Agreement by way of ordinary resolution; | | | |
| | 3-2 | To consider and approve the Annual Cap under the Sale Agreement by way of ordinary resolution; | | | |
| | 3-3 | To authorise the Board to take all steps necessary to give effect to the Sale Agreement by way of ordinary resolution; | | | |
| | 4-1 | To consider and approve the Purchase Agreement by way of ordinary resolution; | | | |
| | 4-2 | To consider and approve the Annual Cap under the Purchase Agreement by way of ordinary resolution; | | | |
| | 4-3 | To authorise the Board to take all steps necessary to give effect to the Purchase Agreement by way of ordinary resolution; | | | |
| | 5-1 | To consider and approve the Lease Agreement by way of ordinary resolution; | | | |
| | 5-2 | To consider and approve the Annual Cap under the Lease Agreement by way of ordinary resolution; | | | |
| | 5-3 | To authorise the Board to take all steps necessary to give effect to the Lease Agreement by way of ordinary resolution; | | | |
| | 6-1 | To consider and approve the NEIC Group Lease Agreement by way of ordinary resolution; | | | |
| | 6-2 | To consider and approve the Annual Cap under the NEIC Group Lease Agreement by way of ordinary resolution; | | | |
| | 6-3 | To authorise the Board to take all steps necessary to give effect to the NEIC Group Lease Agreement by way of ordinary resolution; | | | |
| | 7-1 | To consider and approve the Trademark Licence Agreement by way of ordinary resolution; | | | |
| | 7-2 | To consider and approve the Annual Cap under the Trademark Licence Agreement by way of ordinary resolution; | | | |
| | 7-3 | To authorise the Board to take all steps necessary to give effect to the Trademark Licence Agreement by way of ordinary resolution; | | | |
| | 8-1 | To consider and approve the PEGL Import & Export Agency Agreement by way of ordinary resolution; | | | |
| | 8-2 | To consider and approve the Annual Cap under the PEGL Import & Export Agency Agreement by way of ordinary resolution; | | | |
| | 8-3 | To authorise the Board to take all steps necessary to give effect to the PEGL Import & Export Agency Agreement by way of ordinary resolution; | | | |
| | 9-1 | To consider and approve the Financial Services Agreement by way of ordinary resolution; | | | |
| | 9-2 | To consider and approve the proposed caps under the Financial Services Agreement by way of ordinary resolution; | | | |
| | 9-3 | To authorise the Board to take all steps necessary to give effect to the Financial Services Agreement by way of ordinary resolution; | | | |

Corporate Governance Report (Continued)

II. Overview of General Meetings (Continued)

| Session of the meeting | Date of the meeting | Name of proposals at the meeting | Polling result of resolutions | Query index at designated website for publication of such resolutions | Date of disclosure for publication of such resolutions |
|--|--|---|---|---|--|
| The third extraordinary general meeting in 2012 | 24 December 2012 | 10 To consider and approve the Shareholders' Return Plan of the Company by way of ordinary resolution; | | | |
| | | 11-1 To consider and approve the amendments to Article 106 of the Articles of Association by way of special resolution; | | | |
| | | 11-2 To consider and approve the amendments to Article 202 of the Articles of Association by way of special resolution; | | | |
| | | 11-3 To consider and approve the amendments to Article 203 of the Articles of Association by way of special resolution; | | | |
| | | 11-4 To consider and approve the amendments to Article 205 of the Articles of Association by way of special resolution. | | | |
| | | 1. To consider and approve the 'Proposal in relation to satisfaction of conditions for the Proposed Placing of A Shares by the Company (《關於公司符合非公開發行A股股票條件的議案》) by way of special resolution; | The affirmative votes and the negative votes on Proposal 1 represented 99.94% and 0.06% of the total number of shares with valid voting rights, respectively; | http://www.sse.com.cn | 26 December 2012 |
| | | 2.1 To consider and approve the type of shares and nominal value by way of special resolution; | The affirmative votes and the negative votes on Proposals 2.1-2.10 represented 98.87% and 1.13% of the total number of shares with valid voting rights, respectively. | http://www.hkex.com.hk | |
| | | 2.2 To consider and approve the method of issue by way of special resolution; | | | |
| | | 2.3 To consider and approve the target subscribers and subscription method by way of special resolution; | | | |
| | | 2.4 To consider and approve the pricing base date, price of the issue and pricing principle by way of special resolution; | The affirmative votes and the negative votes on Proposal 3 represented 98.85% and 1.15% of the total number of shares with valid voting rights, respectively. | | |
| | | 2.5 To consider and approve the number of shares to be issued by way of special resolution; | | | |
| | | 2.6 To consider and approve the lock-up period by way of special resolution; | | | |
| | | 2.7 To consider and approve the place of listing by way of special resolution; | The affirmative votes and the negative votes on Proposals 4 and 5 represented 99.94% and 0.06% of the total number of shares with valid voting rights, respectively. | | |
| | | 2.8 To consider and approve the use of proceeds by way of special resolution; | | | |
| 2.9 To consider and approve the arrangements with regard to the undistributed cumulated profits prior to the Proposed Placing of A Shares by way of special resolution; | The affirmative votes and the negative votes on Proposals 6 and 7 represented 98.88% and 1.12% of the total number of shares with valid voting rights, respectively. | | | | |
| 2.10 To consider and approve the period of validity of the resolutions in relation to the Proposed Placing of A Shares by way of special resolution; | | | | | |
| 3. To consider and approve the 'Detailed Plan for the Proposed Placing of A Shares by the Company (《關於公司非公開發行A股股票預案的議案》)' by way of special resolution; | | | | | |
| 4. To consider and approve the 'Feasibility Analysis Report on the Use of Proceeds to be Raised by the Proposed Placing of A Shares of the Company (《關於公司非公開發行股票募集中資金使用可行性分析的議案》)' by way of special resolution; | | | | | |

Corporate Governance Report (Continued)

II. Overview of General Meetings (Continued)

| Session of the meeting | Date of the meeting | Name of proposals at the meeting | Polling result of resolutions | Query index at designated website for publication of such resolutions | Date of disclosure for publication of such resolutions |
|---|---------------------|---|---|--|--|
| The first A Shareholders class meeting in 2012 | 24 December 2012 | 5. To consider and approve the 'Report of Use of Proceeds from the Last Fund Raising Exercise (《關於公司前次募集資金使用情況報告的議案》)' by way of special resolution; | The affirmative votes and the negative votes on Proposals 1.1-1.10, 3 and 4 represented 96.17% and 3.83% of the total number of shares with valid voting rights, respectively; The affirmative votes and the negative votes on Proposal 2 represented 96.09% and 3.91% of the total number of shares with valid voting rights, respectively. | http://www.sse.com.cn http://www.hkex.com.hk | 26 December 2012 |
| | | 6. To consider and approve the 'Proposal relating to the conditional NEIC Subscription Agreement and the Connected Transactions (《關於公司與南京中電熊猫信息產業集團有限公司簽署關於非公開發行人股票之附條件生效的股份認購協定暨關聯交易的議案》)' by way of special resolution; | | | |
| | | 7. To consider and approve the authorization to the Board to deal with, at its full discretion, specific matters relating to the Proposed Placing of A Shares by way of special resolution. | | | |
| | | 1.1 To consider and approve the type of shares and nominal value by way of special resolution; | | | |
| | | 1.2 To consider and approve the method of issue by way of special resolution; | | | |
| | | 1.3 To consider and approve the target subscribers and subscription method by way of special resolution; | | | |
| | | 1.4 To consider and approve the pricing base date, price of the issue and pricing principle by way of special resolution; | | | |
| | | 1.5 To consider and approve the number of shares to be issued by way of special resolution; | | | |
| | | 1.6 To consider and approve the lock-up period by way of special resolution; | | | |
| | | 1.7 To consider and approve the place of listing by way of special resolution; | | | |
| 1.8 To consider and approve the use of proceeds by way of special resolution; | | | | | |
| 1.9 To consider and approve the arrangements with regard to the undistributed cumulated profits prior to the Proposed Placing of A Shares by way of special resolution; | | | | | |
| 1.10 To consider and approve the period of validity of the resolutions in relation to the Proposed Placing of A Shares by way of special resolution; | | | | | |
| 2. To consider and approve the 'Detailed Plan for the Proposed Placing of A Shares by the Company (《關於公司非公開發行A股股票預案的議案》)' by way of special resolution; | | | | | |
| 3. To consider and approve the 'Proposal relating to the conditional NEIC Subscription Agreement and the Connected Transactions (《關於公司與南京中電熊猫信息產業集團有限公司簽署關於非公開發行人股票之附條件生效的股份認購協定暨關聯交易的議案》)' by way of special resolution; | | | | | |
| 4. To consider and approve the authorization to the Board to deal with, at its full discretion, specific matters relating to the Proposed Placing of A Shares by way of special resolution. | | | | | |

Corporate Governance Report (Continued)

II. Overview of General Meetings (Continued)

| Session of the meeting | Date of the meeting | Name of proposals at the meeting | Polling result of resolutions | Query index at designated website for publication of such resolutions | Date of disclosure for publication of such resolutions |
|--|---------------------|--|---|--|--|
| The first H Shareholders class meeting in 2012 | 24 December 2012 | <ol style="list-style-type: none"> 1.1 To consider and approve the type of shares and nominal value by way of special resolution; 1.2 To consider and approve the method of issue by way of special resolution; 1.3 To consider and approve the target subscribers and subscription method by way of special resolution; 1.4 To consider and approve the pricing base date, price of the issue and pricing principle by way of special resolution; 1.5 To consider and approve the number of shares to be issued by way of special resolution; 1.6 To consider and approve the lock-up period by way of special resolution; 1.7 To consider and approve the place of listing by way of special resolution; 1.8 To consider and approve the use of proceeds by way of special resolution; 1.9 To consider and approve the arrangements with regard to the undistributed cumulated profits prior to the Proposed Placing of A Shares by way of special resolution; 1.10 To consider and approve the period of validity of the resolutions in relation to the Proposed Placing of A Shares by way of special resolution; 2. To consider and approve the 'Detailed Plan for the Proposed Placing of A Shares by the Company (《關於公司非公開發行A股股票預案的議案》)' by way of special resolution; 3. To consider and approve the 'Proposal relating to the conditional NEIC Subscription Agreement and the Connected Transactions (《關於公司與南京中電熊?業集團有限公司簽署關於非公開發行股票之附條件生效的股份認購協定暨關聯交易的議案》)' by way of special resolution; 4. To consider and approve the authorization to the Board to deal with, at its full discretion, specific matters relating to the Proposed Placing of A Shares by way of special resolution. | The affirmative votes on all proposals represented 100% of the total number of shares with valid voting rights. | http://www.sse.com.cn http://www.hkex.com.hk | 26 December 2012 |

Corporate Governance Report (Continued)

II. Overview of General Meetings (Continued)

Notes on the General Meetings

1. The first extraordinary general meeting in 2012: Altogether 26 Shareholders and proxies authorized by the Shareholders attended the EGM, representing 575,464,248 shares in total or 87.86% in the Company's total issued share capital. Mr. Sun Xianchao and Mr. Zhou Hao, the PRC lawyers from Yongheng Partners (江蘇永衡昭輝律師事務所), attended and witnessed the EGM, and issued a PRC legal opinion.
2. The 2011 annual general meeting: Altogether 27 Shareholders and proxies authorized by the Shareholders attended the AGM, representing 575,473,188 shares in total or 87.86% in the Company's total issued share capital. Mr. Sun Xianchao and Mr. Wu Jia, the PRC lawyers from Yongheng Partners, attended and witnessed the AGM, and issued a PRC legal opinion.
3. The second extraordinary general meeting in 2012: Altogether 50 Shareholders and proxies authorized by the Shareholders attended the EGM, representing 576,325,175 shares in total or 87.99% in the Company's total issued share capital. Mr. Sun Xianchao and Mr. Wang Zhuo, the PRC lawyers from Yongheng Partners, attended and witnessed the EGM, and issued a PRC legal opinion.
4. The third extraordinary general meeting in 2012: Altogether 631 Shareholders and proxies authorized by the Shareholders attended the EGM, representing 580,815,411 shares in total or 88.67% in the Company's total issued share capital. Mr. Jing Zhong and Mr. Zhou Hao, the PRC lawyers from Yongheng Partners, attended and witnessed the EGM, and issued a PRC legal opinion.
5. The first A Shareholders class meeting in 2012: Altogether 629 A Shareholders and proxies authorized by the A Shareholders attended the A Shareholders Class Meeting, representing 340,139,812 A shares in total or 82.36% in the Company's total issued A share capital. Mr. Jing Zhong and Mr. Zhou Hao, the PRC lawyers from Yongheng Partners, attended and witnessed the A Shareholders Class Meeting, and issued a PRC legal opinion.
6. The first H Shareholders class meeting in 2012: Altogether 2 H Shareholders and proxies authorized by the H Shareholders attended the H Shareholders Class Meeting, representing 240,675,599 H shares in total or 99.45% in the Company's total issued H share capital. Mr. Jing Zhong and Mr. Zhou Hao, the PRC lawyers from Yongheng Partners, attended and witnessed the H Shareholders Class Meeting, and issued a PRC legal opinion.

III. Performance of Duties by Directors

The seventh Board, which was elected at the 2012 first extraordinary general meeting held on 6 March 2012, comprises nine Directors, three of whom are Independent Non-executive Directors (including a certified public accountant). Please refer to the biographies of serving Directors set out in Section VIII headed "Profiles of Directors, Supervisors, Senior Management and Staff" of this report for details.

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

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

Corporate Governance Report (Continued)

III. Performance of Duties by Directors (Continued)

During the reporting period, the Company adopted and applied the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in the Appendix 10 of the Listing Rules in respect of securities transactions by the Directors. Having made specific enquiry to all Directors of the Company, all Directors have expressed that they have complied with the required standard set out in the Model Code as stipulated by the Hong Kong Stock Exchange and the relevant requirements in the Management Regulations on the Shareholding of Directors, Supervisors and Management and Relevant Shareholding Changes (董事、監事和高級管理人員所持本公司股份及其變動管理規定) as stipulated by the Shanghai Stock Exchange and all Directors have confirmed that during the reporting period, they participated in continuous professional development to develop and refresh their knowledge and skills in relation to their contribution to the Board.

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

(I) Attendance of Board meetings and general meetings by Directors

| Name of Director | Whether an Independent Non-executive Director or not | Required attendances at Board meetings | Attendance of Board meetings | | | | | Attendance of general meetings | |
|-----------------------|--|--|------------------------------|-------------------------------------|----------------------|----------|--|---------------------------------|--|
| | | | Attendances in person | Attendances by way of communication | Attendances by proxy | Absences | Absence from two consecutive meetings in person or not | Attendances at general meetings | |
| Lai Weide | No | 12 | 11 | 9 | 1 | 0 | No | 0 | |
| Xu Guofei | No | 12 | 12 | 9 | 0 | 0 | No | 3 | |
| Zhu Lifeng | No | 12 | 12 | 9 | 0 | 0 | No | 4 | |
| Deng Weiming | No | 12 | 12 | 9 | 0 | 0 | No | 2 | |
| Lu Qing | No | 12 | 11 | 9 | 1 | 0 | No | 5 | |
| Hsuan Jason | No | 12 | 10 | 9 | 2 | 0 | No | 0 | |
| Zhang Xiuhua | Yes | 10 | 10 | 8 | 0 | 0 | No | 6 | |
| Liu Danping | Yes | 10 | 9 | 7 | 1 | 0 | No | 6 | |
| Chu Wai Tsun, Vincent | Yes | 10 | 10 | 8 | 0 | 0 | No | 1 | |

| | |
|--|----|
| Number of Board meetings held in the year | 12 |
| Of which: Number of on-site meetings | 3 |
| Number of meetings held by way of communication | 9 |
| Number of meetings held both on site and by way of communication | 0 |

Corporate Governance Report (Continued)

III. Performance of Duties by Directors (Continued)

(II) Independent Non-executive Directors' Objection to the Relevant Matters of the Company

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

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

During the reporting period, the Independent Non-executive Directors discussed, reviewed and provided independent opinions on significant matters such as the Company's appointment of accounting firms to audit the annual report and internal control, proposal for profit distribution, provision of guarantee for controlled subsidiaries, nomination of candidates for Directors of the new session of the Board, appointment of senior management members, renewal of continuing connected transactions and the annual caps thereof, the share acquisition agreement entered into with NEIC and whether the the annual continuing connected transactions were fair.

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

Corporate Governance Report (Continued)

IV. Major Opinions and Suggestions of the Special Committees of the Board in Performing Their Duties during the Reporting Period

(I) Audit Committee

The Audit Committee under the Seventh Session of the Board consists of Mr. Deng Weiming, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent and is chaired by Ms. Zhang Xiuhua. During the reporting period, the Audit Committee convened four meetings:

1. The first meeting of 2012 was convened on 28 March 2012. All members of the Audit Committee attended the meeting to review the 2011 financial report and agreed to submit such report to the Board for consideration. In addition, the re-appointment of Baker Tilly Hong Kong Limited and Baker Tilly China (Special General Partnership) as the Company's international and PRC auditors and internal control auditors for 2012 was approved at the meeting and was submitted to the Board for consideration.
2. The second meeting of 2012 was convened by way of written resolutions on 25 April 2012. All members of the Audit Committee attended the meeting to review the 2012 first quarterly report of the Company, and agreed to submit the same to the Board for consideration.
3. The third meeting of 2012 was convened by way of written resolutions on 30 August 2012. All members of the Audit Committee attended the meeting to review the 2012 interim financial report of the Company, and agreed to submit the same to the Board for consideration.
4. The fourth meeting of 2012 was convened by way of written resolutions on 30 October 2012. All members of the Audit Committee attended the meeting to review the 2012 third quarterly report of the Company, and agreed to submit the same to the Board for consideration.

During the preparation and disclosure of the 2012 financial report, the Audit Committee had conducted various communications with the Company's management, head of the finance department and certified public accountants for annual audit in accordance with the "Work Scopes and Procedures of the Audit Committee for Preparation of the Annual Report", reviewed and agreed on the audit plan for 2012, required the finance department to fully cooperate with the accounting firms in the audit of the annual report, required the accounting firms to get fully prepared to complete the annual audit with high quality and on the schedule and give an objective and fair view of the Company's financial position and operating results for 2012, required the management to continuously focus on independent development of products, increase investment in science and technology, actively expand markets, ensure product quality, further improve the governance structure, strengthen standardized operation and enhance the corporate governance level of the Company. It is the hope of the Audit Committee that the principal operations of the Company will grow and strengthen fully leveraging the capital market, further boost the image and achieve rapid and healthy development of the Company.

Corporate Governance Report (Continued)

IV. Major Opinions and Suggestions of the Special Committees of the Board in Performing Their Duties during the Reporting Period (Continued)

(II) Nomination Committee

The Nomination Committee of the seventh Board consists of Mr. Lai Weide, Mr. Xu Guofei, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent and is chaired by Ms. Liu Danping.

On 16 January 2012, the sixth Nomination Committee of the Board held a meeting at which it was resolved to propose the nomination of Mr. Lai Weide and Mr. Xu Guofei as candidates for Executive Directors of the seventh Board of the Company, the nomination of Mr. Zhu Lifeng, Mr. Deng Weiming, Mr. Lu Qing and Mr. Hsuan Jason as candidates for Non-executive Directors of the Seventh Session of the Board of the Company and the nomination of Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent as candidates for Independent Non-executive Directors of the Seventh Session of the Board of the Company. The proposal was submitted to the Board for discussion.

On 6 March 2012, the seventh Nomination Committee of the Board held a meeting. All members of the committee attended the meeting at which it was resolved to propose the nomination of Mr. Xia Dechuan as the candidate for the General Manager of the Company, the nomination of Mr. Liu Kun and Mr. Zhou Guixiang as candidates for Deputy General Managers of the Company and the nomination of Mr. Shen Jianlong as the candidate for the chief accountant and secretary to the Board. The proposal was submitted to the Board for discussion.

(III) Strategy Committee

The Strategy Committee of the Seventh Session of the Board consists of Mr. Lai Weide, Mr. Xu Guofei, Mr. Zhu Lifeng, Mr. Deng Weiming and Mr. Chu Wai Tsun, Vincent and is chaired by Mr. Lai Weide.

On 28 March 2012, the seventh Strategy Committee held a meeting with the full attendance of all its members. At the meeting, members of the committee discussed the development direction and principal operations of the Company, suggested increasing investment in the electronic equipment business sector, expanding the consumer electronics business, accelerating adjustments to the industrial structure, corporate structure, assets structure and talents structure so as to realize industrial transformation and upgrade, increasing investment in research and development, and further promoting industrialization of technological achievements. The Strategy Committee also proposed further stepping up international cooperation, paying continuous and keen attention to the development of joint ventures, strengthening management of and services to joint ventures, and promoting the sustained and stable development of joint ventures.

Corporate Governance Report (Continued)

IV. Major Opinions and Suggestions of the Special Committees of the Board in Performing Their Duties during the Reporting Period (Continued)

(IV) Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee of the Seventh Session of the Board consists of Mr. Zhu Lifeng, Mr. Lu Qing, Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent and is chaired by Mr. Chu Wai Tsun, Vincent.

On 29 March 2012, the seventh Remuneration and Evaluation Committee held a meeting at which an evaluation was made of the Directors, supervisors and senior management of the Company, with their remuneration discussed. According to the evaluation result, the remuneration of the Directors, supervisors and senior management during the reporting period was preliminarily determined. Please refer to Section VIII "Profiles of Directors, Supervisors, Senior Management and Staff" of this report for details.

V. Supervisory Committee's Description on Risks about the Company

During the reporting period, the supervisory committee had no disagreement on any supervisory matters.

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

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

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

Corporate Governance Report (Continued)

VII. Appraisal and Motivation Mechanism for Senior Management during the Reporting Period

The Company formulated a series of incentive systems, including the Administrative Measures for Salary Distribution (《工資分配管理辦法》) and the Series of Regulations on Managerial Positions (《管理職位系列規定》). The Company conducted a comprehensive appraisal of the senior management based on their duties, positions and performance. Incentive rewards were granted according to the results of the appraisal.

VIII. Chairman and Chief Executive Officer

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

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

IX. Auditors' remuneration

Baker Tilly China (Special General Partnership) was engaged as the Company's PRC auditor and internal control auditor for 2012. Baker Tilly Hong Kong Limited was engaged as the Company's international auditor for 2012. Remuneration paid by the Company to the abovementioned two certified public accountants for their audit services for the annual report was aggregately RMB1,700,000, of which RMB1,050,000 was paid to Baker Tilly China (Special General Partnership) while RMB650,000 was paid to Baker Tilly Hong Kong Limited.

X. Communications with Shareholders and Investor Relations

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

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

Corporate Governance Report (Continued)

X. Communications with Shareholders and Investor Relations (Continued)

Shareholders' Rights

Pursuant to Article 75 of the Articles of Association, shareholders individually or collectively holding 10% or more of the Company's shares shall be entitled to propose to the Board the convening of an extraordinary general meeting, provided that such proposal shall be made in writing. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, furnish a written reply stating its agreement or disagreement to the convening of the extraordinary general meeting within ten (10) days upon receipt of such proposal.

In the event the Board agrees to convene an extraordinary general meeting, the notice of the general meeting shall be issued within five (5) days after the passing of the relevant resolution of the Board. Any change to the original proposal made in the notice requires prior approval of the shareholders concerned.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any reply within ten (10) days upon receipt of the said proposal, shareholders individually or collectively holding 10% or more of the Company's shares shall be entitled to propose to the supervisory committee the convening of the extraordinary general meeting, provided that such proposal shall be made in writing.

In the event that the supervisory committee agrees to convene an extraordinary general meeting, the notice of the general meeting shall be issued within five (5) days after the said proposal. Any changes to the original proposal made in the notice shall require prior approval of the shareholders concerned.

Failure of the supervisory committee to issue the notice of the general meeting shall be deemed as failure of the supervisory committee to convene and preside over a general meeting, and shareholders individually or collectively holding 10% or more of the Company's shares for ninety (90) consecutive days or more may convene and preside over the meeting on their own.

Shareholders may send their enquiries to the Board by addressing them to the Secretary of the Board. Contact details of the Secretary of the Board are set out on page 4 of this report.

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

Internal Control

I. Responsibility Statement on Internal Control and Establishment of Internal Control System

(I) Responsibility statement of the Board on internal control

The Board of the Company and all its members confirm that the information in this report does not contain any misrepresentation, misleading statements, or material omissions, and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents.

The Board of the Company is accountable for the establishment and effective implementation of a sound internal control system. The supervisory committee exercises supervision over the establishment and implementation of internal control by the Board. The management is responsible for organizing and guiding the day-to-day operation of the Company's internal control.

The internal control of the Company aims to provide reasonable assurance of the lawfulness and legal compliance of the Company's operation and management, safety of assets, truthfulness and completeness of financial reports and relevant information as well as effectiveness and efficiency of its operation so as to promote the achievement of the Company's development strategies and maximize shareholders' interests.

Due to its innate limitation, internal control can only provide reasonable assurance of the fulfillment of the above target. The effectiveness of internal control may also vary with the changes to the internal and external environments and the operational condition of the Company. An examination and supervision mechanism is set up in the internal control of the Company; once defects in respect of internal control are identified, the Company will take corresponding rectification measures immediately.

(II) Basis of establishment of internal controls for financial reporting

According to the Accounting Standards for Business Enterprises, the Basic Standards for Enterprise Internal Control (《企業內部控制基本規範》), Application Guideline on Enterprise Internal Control (《企業內部控制應用指引》) and the internal control management system of the Company, and in compliance with the principle of all-roundness, significance and objectivity, the Company formulated the Accounting System, Financial Management System and Basic Standards for Internal Accounting Control (《內部會計控制基本規範》) which established the system foundation and control basis for internal control of financial reporting, and strictly followed and implemented them. The Company set up a separate accounting division with its own position establishment and staff members to separate incompatible functions. In respect of accounting treatment, the finance officers faithfully implemented the financial policies, laws and regulation promulgated by the State and dealt with relevant accounting matters in strict compliance with relevant requirements such as the Accounting Law and the Accounting Standards for Business Enterprises.

(III) Development of the internal control system

During 2012, the Company made the seventh amendment to its management documents, comprehensively sorted through the existing 59 systems, added seven new systems including the Material Decision-making Methods, Administrative Measures for Major Construction and Engineering Projects (《重大建設工程項目管理辦法》), Administrative Measures for Hazardous Operations (《危險作業管理辦法》) and the Regulations on the Reporting, Investigation and Settlement of Production Safety Accidents (《生產安全事故報告和調查處理規定》), and focused on the revision of the System Management Measures, Rules of Procedures of the Company's Working Meetings, Authority Management Measures (《限權管理辦法》), Bidding Management Measures (《招標工作管理辦法》), Administrative Measures for Scientific Research Expenditures (《科研經費管理辦法》), etc., so as to make relevant control policies and procedures better aligned with the demand of enterprise management.

Internal Control (Continued)

I. Responsibility Statement on Internal Control and Establishment of Internal Control System (Continued)

(III) Development of the internal control system (Continued)

Upon completion of amendments to relevant systems, the management systems of the Company increased to 66, realizing a comprehensive control over the principal businesses and matters of the Company. Among which, 29 are fundamental management systems involving organizational framework, decision-making, authorization (power restriction), contracts, investment and financing, human resources, quality, safety, etc.; 25 are operation monitoring systems involving operational analysis, operational planning, tendering, fixed assets, accounting, financial control, sales, procurement, inventories, scientific research, etc.; 2 are investment and appraisal systems involving full budget and final accounts, and investment management; 6 are incentive systems, involving linkage of salary with performance, salary distribution, talent introduction, etc. In terms of fundamental management systems at the corporate level, the Company guided and urged its affiliated entities to establish and implement relevant business control processes so as to realize full coverage of internal control over all operations and ensure operational risk control and enhancement of operational efficiency.

II. Explanations about Auditors' Report on Internal Control

According to the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 - Content and Format of Annual Reports (Revision 2012) of the CSRC and the Notice on the Preparation of 2012 Annual Reports by Listed Companies (《關於做好上市公司2012年年度報告工作的通知》) issued by the Shanghai Stock Exchange, the Board of the Company prepared the Self-assessment Report on the Internal Control of the Company, which was disclosed along with the 2012 annual report. Please refer to the relevant announcement published on the website of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 27 March 2013 for details.

The Company appointed Baker Tilly China (Special General Partnership) to audit the effectiveness of the internal controls relating to the financial report of the Company, which issued the auditors' report with standard unqualified audit opinions. The auditor's report was disclosed along with the 2012 annual report. Please refer to the relevant announcement published on the website of the Shanghai Stock Exchange for details.

III. Establishment and Implementation of the Accountability System for Major Disclosure Errors in Annual Report

In order to enhance the quality of information disclosure and ensure the truthfulness, accuracy and completeness of the information disclosed in the annual report, the Company established the Accountability System for Major Disclosure Errors in Annual Report. The Board of the Company would impose administrative or financial penalties on relevant responsible persons according to the seriousness of the matter, e.g. correction of major accounting errors and supplementation of omitted major information and correction of results prediction, which take place in the information disclosure in the annual report. There was no major error found in information disclosure in the 2012 annual report. During the reporting period, there was no correction of major accounting errors and supplementation of omitted major information and correction of results prediction.

Independent auditor's report



BAKER TILLY
HONG KONG | 天職香港

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

We have audited the consolidated financial statements of Nanjing Panda Electronics Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 115 to 176, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

Independent auditor's report (*Continued*)

Auditor's responsibility (*Continued*)

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 27 March 2013

Chan Kwan Ho, Edmond

Practising Certificate Number P02092

Consolidated statement of comprehensive income

for the year ended 31 December 2012 (Expressed in Renminbi)

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|---|------|--------------------|-----------------|
| Turnover | 7 | 2,396,126 | 2,115,641 |
| Cost of sales | | (2,174,222) | (1,872,519) |
| Gross profit | | 221,904 | 243,122 |
| Other income and net (losses)/gains | 8 | 95,011 | 19,573 |
| Distribution costs | | (35,452) | (40,690) |
| Administrative expenses | | (291,993) | (255,654) |
| Operating loss | | (10,530) | (33,649) |
| Finance costs, net | 9 | (24,956) | (21,612) |
| Share of profits of associates | | 190,806 | 188,191 |
| Profit before taxation | 10 | 155,320 | 132,930 |
| Income tax expense | 12 | (19,297) | (16,835) |
| Profit and total comprehensive income for the year | | 136,023 | 116,095 |
| Attributable to: | | | |
| Equity holders of the Company | | 131,554 | 110,070 |
| Non-controlling interests | | 4,469 | 6,025 |
| | | 136,023 | 116,095 |
| Earnings per share (RMB cents) | | | |
| — Basic and diluted | 13 | 20.08 | 16.80 |

The notes on pages 122 to 176 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 December 2012 (Expressed in Renminbi)

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|---|------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | 15 | 83,835 | 22,696 |
| Property, plant and equipment | 16 | 663,889 | 621,042 |
| Associates | 18 | 588,617 | 683,793 |
| Available-for-sale equity securities | 19 | 3,650 | 3,650 |
| Deferred tax assets | 20 | 6,127 | 5,991 |
| | | <u>1,346,118</u> | <u>1,337,172</u> |
| Current assets | | | |
| Inventories | 21 | 180,260 | 196,693 |
| Trade and bills receivables | 22 | 782,623 | 564,646 |
| Amounts due from customers for contract work | 23 | 86,975 | 56,900 |
| Deposits, prepayments and other receivables | 24 | 129,481 | 110,832 |
| Restricted bank deposits | 25 | 212,759 | 103,105 |
| Cash and cash equivalents | 26 | 378,040 | 343,783 |
| | | <u>1,770,138</u> | <u>1,375,959</u> |
| Total assets | | <u><u>3,116,256</u></u> | <u><u>2,713,131</u></u> |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 27 | 655,015 | 655,015 |
| Share premium and reserves | | 1,029,741 | 932,025 |
| | | <u>1,684,756</u> | <u>1,587,040</u> |
| Non-controlling interests | | <u>7,536</u> | <u>8,402</u> |
| Total equity | | <u><u>1,692,292</u></u> | <u><u>1,595,442</u></u> |

Consolidated balance sheet (Continued)

at 31 December 2012 (Expressed in Renminbi)

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|--|------|------------------|------------------|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | 20 | 312 | 390 |
| Current liabilities | | | |
| Bank borrowings | 29 | 648,335 | 427,368 |
| Other borrowing | 30 | — | 4,000 |
| Trade payables | 31 | 473,874 | 466,874 |
| Accruals and other payables | 32 | 293,347 | 218,590 |
| Tax payable | | 8,096 | 467 |
| | | 1,423,652 | 1,117,299 |
| Total liabilities | | 1,423,964 | 1,117,689 |
| Total equity and liabilities | | 3,116,256 | 2,713,131 |
| Net current assets | | 346,486 | 258,660 |
| Total assets less current liabilities | | 1,692,604 | 1,595,832 |

Approved and authorised for issue by the board of directors on 27 March 2013.

XU Guofei
Director

LU Qing
Director

The notes on pages 122 to 176 form part of the consolidated financial statements.

Balance sheet

at 31 December 2012 (Expressed in Renminbi)

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|---|------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | 15 | 22,012 | 22,696 |
| Property, plant and equipment | 16 | 420,475 | 402,377 |
| Subsidiaries | 17 | 677,000 | 493,097 |
| Associates | 18 | 180,911 | 180,911 |
| Available-for-sale equity securities | 19 | 3,650 | 3,650 |
| | | <u>1,304,048</u> | <u>1,102,731</u> |
| Current assets | | | |
| Inventories | 21 | 16,266 | 8,363 |
| Trade and bills receivables | 22 | 233,266 | 64,777 |
| Deposits, prepayments and other receivables | 24 | 187,637 | 160,411 |
| Dividend receivable | | 11,081 | 1,118 |
| Restricted bank deposits | 25 | 115,115 | 30,559 |
| Cash and cash equivalents | 26 | 79,349 | 58,996 |
| | | <u>642,714</u> | <u>324,224</u> |
| Total assets | | <u><u>1,946,762</u></u> | <u><u>1,426,955</u></u> |
| EQUITY | | | |
| Share capital | 27 | 655,015 | 655,015 |
| Share premium and reserves | 28 | 465,057 | 281,754 |
| Total equity | | <u><u>1,120,072</u></u> | <u><u>936,769</u></u> |

Balance sheet (Continued)

at 31 December 2012 (Expressed in Renminbi)

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|--|------|------------------|------------------|
| LIABILITIES | | | |
| Current liabilities | | | |
| Bank borrowings | 29 | 445,230 | 251,119 |
| Other borrowing | 30 | — | 4,000 |
| Trade payables | 31 | 82,447 | 32,636 |
| Accruals and other payables | 32 | 299,013 | 202,431 |
| | | <u>826,690</u> | <u>490,186</u> |
| Total liabilities | | <u>826,690</u> | <u>490,186</u> |
| Total equity and liabilities | | <u>1,946,762</u> | <u>1,426,955</u> |
| Net current liabilities | | <u>(183,976)</u> | <u>(165,962)</u> |
| Total assets less current liabilities | | <u>1,120,072</u> | <u>936,769</u> |

Approved and authorised for issue by the board of directors on 27 March 2013.

XU Guofei
Director

LU Qing
Director

The notes on pages 122 to 176 form part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2012 (Expressed in Renminbi)

| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Statutory common funds RMB'000 | Asset revaluation reserve RMB'000 | Accumulated profits RMB'000 | Attributable to equity holders of the Company RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|--|--------------------------|--------------------------|----------------------------|-----------------------------------|--------------------------------------|--------------------------------|--|--------------------------------------|-------------------------|
| As at 1 January 2012 | 655,015 | 389,338 | (7,472) | 209,930 | 35,688 | 304,541 | 1,587,040 | 8,402 | 1,595,442 |
| Profit and total comprehensive income for the year | — | — | — | — | — | 131,554 | 131,554 | 4,469 | 136,023 |
| Dividend approved in respect of the previous year | — | — | — | — | — | (32,751) | (32,751) | — | (32,751) |
| Acquisition of additional interests in a subsidiary | — | — | (220) | — | — | — | (220) | (266) | (486) |
| Share of capital reserve of an associate | — | — | (867) | — | — | — | (867) | — | (867) |
| Profit appropriations | — | — | — | 12,521 | — | (12,521) | — | — | — |
| Dividends paid to non-controlling shareholders of subsidiaries | — | — | — | — | — | — | — | (5,069) | (5,069) |
| As at 31 December 2012 | <u>655,015</u> | <u>389,338</u> | <u>(8,559)</u> | <u>222,451</u> | <u>35,688</u> | <u>390,823</u> | <u>1,684,756</u> | <u>7,536</u> | <u>1,692,292</u> |

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

The notes on pages 122 to 176 form part of the consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2012 (Expressed in Renminbi)

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|---|------|-----------------|-----------------|
| Operating activities | | | |
| Cash used in operations | 33 | (193,625) | (156,090) |
| Interest paid | | (30,912) | (25,609) |
| Income tax paid | | (11,882) | (25,094) |
| Net cash used in operating activities | | (236,419) | (206,793) |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (102,681) | (42,250) |
| Purchase of land use right | | (30,174) | — |
| Purchase of available-for-sale equity securities | | — | (3,650) |
| Acquisition of additional interests in a subsidiary | | (486) | — |
| Decrease in net amounts due with fellow subsidiaries and associates | | 3,220 | 10,516 |
| Proceeds from disposals of property, plant and equipment | | 2,122 | 1,417 |
| Cash paid for business combination under common control | | — | (3,018) |
| Decrease in restricted bank deposit designated for capital contribution to a new subsidiary | | — | 175,000 |
| Interest received | | 6,060 | 4,966 |
| Dividends received from associates | | 285,115 | 165,882 |
| Net cash generated from investing activities | | 163,176 | 308,863 |
| Financing activities | | | |
| Proceeds from borrowings | | 712,973 | 476,919 |
| Repayments of borrowings | | (496,228) | (570,125) |
| Advances from ultimate holding company | | 34,000 | — |
| Advances from/(repayments to) immediate holding company | | 4,397 | (1,296) |
| Repayments of obligations under finance leases | | — | (1,279) |
| Dividends paid to equity holders of the Company | | (32,751) | — |
| Dividends paid to non-controlling shareholders of subsidiaries | | (3,848) | (4,693) |
| Dividends paid to former shareholders of a subsidiary relating to business combination under common control | | — | (1,561) |
| Increase in restricted bank deposits | | (109,654) | (48,172) |
| Net cash generated from/(used in) financing activities | | 108,889 | (150,207) |
| Net increase/(decrease) in cash and cash equivalents | | 35,646 | (48,137) |
| Cash and cash equivalents at beginning of the year | | 343,783 | 392,370 |
| Effect of foreign exchange rate changes | | (1,389) | (450) |
| Cash and cash equivalents at end of the year | 26 | 378,040 | 343,783 |

The notes on pages 122 to 176 form part of the consolidated financial statements.

Notes to the consolidated financial statements

(Expressed in Renminbi)

1 General information

Nanjing Panda Electronics Company Limited (the “Company”) was established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 29 April 1992. The Company’s H shares have been listed on The Stock Exchange of Hong Kong Limited (“HKSE”) since 2 May 1996 and its A shares have been listed on the Shanghai Stock Exchange since 18 November 1996. The registered office of the Company is located at Level 1-2, Block 5, North Wing, Nanjing High and New Technology Development Zone, Nanjing, Jiangsu Province, the PRC. The principal place of business of the Company is located at 301, Zhongshan Road East, Nanjing, Jiangsu Province, the PRC.

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

The directors consider the immediate parent of the Company to be Panda Electronics Group Limited (“PEGL”). Upon completion of the corporate restructuring on 21 September 2012, PEGL has become an indirect subsidiary of China Electronic Corporation (“CEC”) and, accordingly, CEC has become the ultimate holding company of the Company. Both PEGL and CEC are PRC state-owned enterprises.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

In November 2011, the Company completed the acquisition of a total of 100% equity interest in Nanjing Panda Communications Technology Co., Ltd (“NPCT”), formerly named as Nanjing Longwill Communications Technology Co., Ltd, from the immediate holding company (PEGL) and five individual vendors for a total cash consideration of RMB3,018,000. This acquisition was regarded as business combination under common control as the Company and NPCT are controlled by PEGL both before and after the aforesaid transaction, and has been accounted for in accordance with the Accounting Guideline 5 “Merger accounting for common control combinations” issued by the HKICPA. Accordingly, the acquired assets and liabilities are stated as the predecessor’s values, and were included in the consolidated financial statements from the beginning of the earliest period presented as if NPCT had always been part of the Group.

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

2 Summary of significant accounting policies (*Continued*)

2.2 Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

2 Summary of significant accounting policies (*Continued*)

2.3 Associates

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

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

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

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

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.4 Goodwill

Goodwill represents the excess of

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

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

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

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

2.5 Other investments in equity securities

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

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

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

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

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

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

Notes to the consolidated financial statements *(Continued)*

(Expressed in Renminbi)

2 Summary of significant accounting policies *(Continued)*

2.6 Land use rights

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

2.7 Property, plant and equipment

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

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

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

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

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

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.8 Leases

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

(a) Where the Group is the lessee

(i) Operating leases

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

(ii) Finance leases

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

(b) Where the Group is the lessor

(i) Operating leases

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

2 Summary of significant accounting policies (*Continued*)

2.9 Impairment loss

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

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

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

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

- For investments in subsidiaries and associates, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2.9(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2.9(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.9 Impairment loss (Continued)

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

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

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

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

(ii) Impairment of other assets

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

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

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

- Calculation of recoverable amount

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

2 Summary of significant accounting policies (*Continued*)

2.9 Impairment loss (*Continued*)

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

2.10 Inventories

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

2.11 Project contract

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.11 Project contract (Continued)

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

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

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

2.12 Trade and other receivables

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

2.13 Cash and cash equivalents

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

2.14 Trade and other payables

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

2.15 Borrowings

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

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

2 Summary of significant accounting policies (*Continued*)

2.16 Income tax

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

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

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

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

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

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

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

Notes to the consolidated financial statements *(Continued)*

(Expressed in Renminbi)

2 Summary of significant accounting policies *(Continued)*

2.16 Income tax *(Continued)*

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

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

2.17 Financial guarantees

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

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

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

Notes to the consolidated financial statements *(Continued)*

(Expressed in Renminbi)

2 Summary of significant accounting policies *(Continued)*

2.18 Provisions

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

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

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

2.19 Recognition of income

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

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

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

Notes to the consolidated financial statements *(Continued)*

(Expressed in Renminbi)

2 Summary of significant accounting policies *(Continued)*

2.20 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

2 Summary of significant accounting policies (*Continued*)

2.21 Borrowing costs

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

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

2.22 Retirement benefit scheme

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

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

2.23 Research and development costs

Research costs are expensed when incurred.

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

2.24 Government grants

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

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

2 Summary of significant accounting policies (Continued)

2.25 Related parties

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

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

3 Application of new and revised HKFRSs

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

- Amendments to HKFRS 7, Financial instruments: Disclosures - Transfers of financial assets
- Amendments to HKAS 12, Income taxes - Deferred tax: Recovery of underlying assets

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

3 Application of new and revised HKFRSs (*Continued*)

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

| | Effective for accounting periods beginning on or after |
|--|---|
| Amendments to HKAS 1, Presentation of financial statements - Presentation of items of other comprehensive income | 1 July 2012 |
| Annual Improvements to HKFRSs 2009-2011 Cycle | 1 January 2013 |
| Amendments to HKFRS 7, Financial instruments: Disclosure - Offsetting financial assets and financial liabilities | 1 January 2013 |
| HKFRS 10, Consolidated financial statements | 1 January 2013 |
| HKFRS 11, Joint arrangements | 1 January 2013 |
| HKFRS 12, Disclosure of interests in other entities | 1 January 2013 |
| HKFRS 13, Fair value measurement | 1 January 2013 |
| HKAS 27 (2011), Separate financial statements | 1 January 2013 |
| HKAS 28 (2011), Investments in associates and joint ventures | 1 January 2013 |
| Amendments to HKAS 32, Financial instruments: Presentation - Offsetting financial assets and financial liabilities | 1 January 2014 |
| HKFRS 9, Financial instruments | 1 January 2015 |

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

4 Financial Risk Management

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

Notes to the consolidated financial statements *(Continued)*

(Expressed in Renminbi)

4 Financial Risk Management *(Continued)*

(a) Market risk

(i) Foreign currency risk

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

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

As at 31 December 2012, if RMB had weakened/strengthened by 5% against USD with all the variables held constant, post-tax profit for the year would have been RMB3,612,000 (2011: RMB7,271,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated monetary assets and liabilities.

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

(ii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from bank borrowings. As at 31 December 2012, a portion of borrowings were at floating rates.

As at 31 December 2012, if interest rates on such borrowings have been 100 basis points higher/lower with all other variables held constant, profit for the year would have been RMB2,700,000 (2011: RMB2,687,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(b) Credit risk

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

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

The Group has concentration of credit risk as 54% (2011: 52%) of the total trade and bills receivables was due from the Group's five largest customers.

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

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

(c) Liquidity risk

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

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

| The Group | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year RMB'000 |
|-----------------------------|----------------------------|---|--------------------------|
| 2012 | | | |
| Borrowings | 648,335 | 656,861 | 656,861 |
| Trade payables | 473,874 | 473,874 | 473,874 |
| Accruals and other payables | 293,347 | 293,347 | 293,347 |
| | <u>1,415,556</u> | <u>1,424,082</u> | <u>1,424,082</u> |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(c) Liquidity risk (Continued)

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

| The Company | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year RMB'000 |
|-----------------------------|----------------------------|---|--------------------------|
| 2012 | | | |
| Borrowings | 445,230 | 449,614 | 449,614 |
| Trade payables | 82,447 | 82,447 | 82,447 |
| Accruals and other payables | 299,013 | 299,013 | 299,013 |
| | <u>826,690</u> | <u>831,074</u> | <u>831,074</u> |

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

4 Financial Risk Management (Continued)

(d) Categories of financial instruments

| The Group | 2012 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Financial assets | | |
| Loan and receivables (including cash and cash equivalents) | 1,422,436 | 1,034,801 |
| Available-for-sale equity securities | 3,650 | 3,650 |
| | <u>1,426,086</u> | <u>1,038,451</u> |
| Financial liabilities | | |
| Financial liabilities at amortised cost | <u>1,415,556</u> | <u>1,116,832</u> |
| The Company | 2012 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Financial assets | | |
| Loan and receivables (including cash and cash equivalents) | 622,063 | 305,419 |
| Available-for-sale equity securities | 3,650 | 3,650 |
| | <u>625,713</u> | <u>309,069</u> |
| Financial liabilities | | |
| Financial liabilities at amortised cost | <u>826,690</u> | <u>490,186</u> |

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011.

5 Capital risk management

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

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

5 Capital risk management (Continued)

The gearing ratios as at 31 December 2012 and 2011 were as follows:

| | 2012 RMB'000 | 2011 RMB'000 |
|--|-----------------|-----------------|
| Total borrowings | 648,335 | 431,368 |
| Less: Cash and cash equivalents | (378,040) | (343,783) |
| Net debt | 270,295 | 87,585 |
| Total equity (excluding non-controlling interests) | 1,684,756 | 1,587,040 |
| Total capital | 1,955,051 | 1,674,625 |
| Gearing ratio | 14% | 5% |

6 Critical accounting estimates and judgements

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

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

(a) Useful lives of property, plant and equipment

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

(b) Impairment of trade and other receivables

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

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

6 Critical accounting estimates and judgements (*Continued*)

(c) Provision for obsolete inventories

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

7 Revenue and segmental information

The Group determines its operating segments based on the internal financial information reviewed by the board of directors of the Company that are used to make strategic decisions. For the year ended 31 December 2012, the Group has changed the composition of its reportable segments to the following three reportable segments:

- (i) Electronic manufacturing products: Development, production and sale of electronic manufacturing products
- (ii) Electronic equipment products: Development, production and sale of electronic equipment products
- (iii) Consumer electronic products: Development, manufacture and sale of consumer electronic products

Following the change in the composition of the reportable segments, the corresponding segmental information for the year ended 31 December 2011 has been restated to conform with the current year's presentation.

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

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

The following tables provide an analysis of the Group's revenue, results and certain assets, liabilities and expenditure information by reportable segments for the years ended 31 December 2012 and 2011:

Year ended 31 December 2012

| | Electronic manufacturing products RMB'000 | Electronic equipment products RMB'000 | Consumer electronic products RMB'000 | Other operations RMB'000 | Elimination RMB'000 | Consolidated RMB'000 |
|-----------------------------------|--|--|---|--------------------------------|------------------------|-------------------------|
| Revenue | | | | | | |
| External sales | 665,489 | 1,206,185 | 478,541 | 45,911 | — | 2,396,126 |
| Internal sales | 13,188 | 102,669 | 277,652 | 35,321 | (428,830) | — |
| Total | <u>678,677</u> | <u>1,308,854</u> | <u>756,193</u> | <u>81,232</u> | <u>(428,830)</u> | <u>2,396,126</u> |
| Results | | | | | | |
| Segment results | <u>20,242</u> | <u>53,095</u> | <u>(14,220)</u> | <u>2,621</u> | <u>—</u> | 61,738 |
| Unallocated corporate expenses | | | | | | (72,268) |
| Interest income | | | | | | 6,060 |
| Interest expense | | | | | | (31,016) |
| Share of profits of associates | | | | | | 190,806 |
| Income tax expense | | | | | | <u>(19,297)</u> |
| Profit for the year | | | | | | <u>136,023</u> |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

At 31 December 2012

| | Electronic manufacturing products RMB'000 | Electronic equipment products RMB'000 | Consumer electronic products RMB'000 | Other operations RMB'000 | Elimination RMB'000 | Consolidated RMB'000 |
|---|--|--|---|--------------------------------|------------------------|-------------------------|
| Assets | | | | | | |
| Segment assets | 548,963 | 1,147,570 | 752,890 | 154,569 | (641,593) | 1,962,399 |
| Associates | | | | | | 588,617 |
| Available-for-sale equity securities | | | | | | 3,650 |
| Unallocated corporate assets | | | | | | 561,590 |
| Consolidated total assets | | | | | | 3,116,256 |
| Liabilities | | | | | | |
| Segment liabilities | 209,209 | 591,355 | 630,358 | 106,535 | (458,826) | 1,078,631 |
| Unallocated corporate liabilities | | | | | | 345,333 |
| Consolidated total liabilities | | | | | | 1,423,964 |
| | Electronic manufacturing products RMB'000 | Electronic equipment products RMB'000 | Consumer electronic products RMB'000 | Other operations RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
| Other information | | | | | | |
| Capital expenditure | 6,334 | 125,907 | 55 | 461 | 37,282 | 170,039 |
| Depreciation and amortisation | 30,089 | 5,302 | 519 | 613 | 18,996 | 55,519 |
| Write-down of inventories | 8,372 | 1,479 | 5,889 | 159 | — | 15,899 |
| (Gain)/loss on disposal of property, plant and equipment | (447) | 10 | — | 4 | 151 | (282) |
| Impairment loss recognised/ (reversed) on trade receivables | 488 | (2,034) | 22,763 | (23) | — | 21,194 |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

Year ended 31 December 2011

| | Electronic manufacturing products RMB'000 | Electronic equipment products RMB'000 | Consumer electronic products RMB'000 | Other operations RMB'000 | Elimination RMB'000 | Consolidated RMB'000 |
|--------------------------------|--|--|---|--------------------------------|------------------------|-------------------------|
| Revenue | | | | | | |
| External sales | 649,877 | 1,022,570 | 385,559 | 57,635 | — | 2,115,641 |
| Internal sales | 2,056 | 73,068 | 3,596 | 33,551 | (112,271) | — |
| Total | <u>651,933</u> | <u>1,095,638</u> | <u>389,155</u> | <u>91,186</u> | <u>(112,271)</u> | <u>2,115,641</u> |
| Results | | | | | | |
| Segment results | <u>57,963</u> | <u>54,569</u> | <u>(12,419)</u> | <u>3,954</u> | <u>—</u> | 104,067 |
| Unallocated corporate expenses | | | | | | (137,716) |
| Interest income | | | | | | 4,966 |
| Interest expense | | | | | | (26,578) |
| Share of profits of associates | | | | | | 188,191 |
| Income tax expense | | | | | | <u>(16,835)</u> |
| Profit for the year | | | | | | <u>116,095</u> |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

At 31 December 2011

| | Electronic manufacturing products RMB'000 | Electronic equipment products RMB'000 | Consumer electronic products RMB'000 | Other operations RMB'000 | Elimination RMB'000 | Consolidated RMB'000 |
|--|--|--|---|--------------------------------|------------------------|-------------------------|
| Assets | | | | | | |
| Segment assets | 510,067 | 837,989 | 353,765 | 143,321 | (333,215) | 1,511,927 |
| Associates | | | | | | 683,793 |
| Available-for-sale equity securities | | | | | | 3,650 |
| Unallocated corporate assets | | | | | | 513,761 |
| Consolidated total assets | | | | | | 2,713,131 |
| Liabilities | | | | | | |
| Segment liabilities | 161,470 | 455,650 | 277,669 | 103,125 | (165,883) | 832,031 |
| Unallocated corporate liabilities | | | | | | 285,658 |
| Consolidated total liabilities | | | | | | 1,117,689 |
| Other information | | | | | | |
| Capital expenditure | 23,718 | 5,001 | 586 | 1,408 | 32,215 | 62,928 |
| Depreciation and amortisation | 28,684 | 4,730 | 603 | 601 | 18,648 | 53,266 |
| Write-down of inventories | 11,630 | 3,934 | 3,914 | 73 | — | 19,551 |
| (Gain)/loss on disposal of property, plant and equipment | — | 13 | (34) | (1,124) | 208 | (937) |
| Impairment loss recognised/(reversed) on trade receivables | (102) | 815 | 710 | 116 | — | 1,539 |

(a) Geographical information

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

7 Revenue and segmental information (Continued)

(b) Major customers

Revenue from major customers, each of whom amounted to 10% or more of the Group's total revenue, is set out as below:

| | 2012 RMB'000 | 2011 RMB'000 |
|-------------------------|------------------|------------------|
| Customer A ¹ | 357,778 | N/A ² |
| Customer B ¹ | N/A ² | 288,807 |

¹ Revenue from the consumer electronic products segment.

² The corresponding revenue did not contribute 10% or more of the Group's total revenue.

8 Other income and net (losses)/gains

| | 2012 RMB'000 | 2011 RMB'000 |
|---|-----------------|-----------------|
| Other income | | |
| Rental income | 13,266 | 4,494 |
| Property management fee income | 5,397 | 6,541 |
| Compensation received on relocation of factory plant [#] | 17,382 | — |
| Government grants ^{##} | 46,697 | 5,531 |
| Sundry income | 14,495 | 4,086 |
| | <u>97,237</u> | <u>20,652</u> |
| Other net (losses)/gains | | |
| Gain on disposal of property, plant and equipment | 282 | 937 |
| Exchange losses | (2,508) | (2,016) |
| | <u>(2,226)</u> | <u>(1,079)</u> |
| | <u>95,011</u> | <u>19,573</u> |

[#] Compensation received is net of the loss on disposal of property, plant and equipment of RMB8,694,000 incidental to the relocation of the factory plant recognised in the year.

^{##} Government grants include mainly funds and subsidies from local government authorities for the development of the Group and the research and development activities undertaken by the Group.

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

9 Finance costs, net

| | 2012 RMB'000 | 2011 RMB'000 |
|--|-----------------|-----------------|
| Interest expense | | |
| — Bank and other borrowings wholly repayable within five years | 30,465 | 25,672 |
| — Finance lease interest | — | 35 |
| — Others | 551 | 871 |
| | <u>31,016</u> | <u>26,578</u> |
| Finance costs | | |
| Finance income | | |
| — Interest income on short-term deposits | (6,060) | (4,966) |
| | <u>24,956</u> | <u>21,612</u> |

10 Profit before taxation

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

| | 2012 RMB'000 | 2011 RMB'000 |
|--|-----------------|-----------------|
| Cost of inventories recognised as an expense | 1,614,866 | 1,109,407 |
| Amortisation of land use rights | 786 | 683 |
| Depreciation of property, plant and equipment | 54,733 | 52,583 |
| Impairment loss recognised/(reversed) on | | |
| — Trade receivables | 21,194 | 1,539 |
| — Other receivables | (2,242) | (2,662) |
| — Amounts due from fellow subsidiaries and associates | 890 | (568) |
| Write-down of inventories | 15,899 | 19,551 |
| Research and development expenses [#] | 101,572 | 86,066 |
| Staff costs (including directors' and supervisors' emoluments) | | |
| — Salaries and other allowances | 221,200 | 224,415 |
| — Retirement benefit scheme contributions | 43,072 | 38,352 |
| Auditor's remuneration | 1,700 | 2,020 |
| Operating lease rentals in respect of | | |
| — Land and buildings | 4,207 | 4,909 |
| — Plant and equipment | 2,404 | 1,363 |
| — Motor vehicles | 400 | 937 |
| | <u>400</u> | <u>937</u> |

[#] Research and development expenses include RMB36,854,000 (2011: RMB28,451,000) relating to staff costs which is also included in the respective amount disclosed separately above.

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

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

(a) Directors' and Supervisors' emoluments

The emoluments paid or payable to each of the seventeen (2011: fourteen) Directors and Supervisors were as follows:

Year ended 31 December 2012

| Name | Fees RMB'000 | Salaries and other allowances RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|---|-----------------|--|---|------------------|
| Executive Directors: | | | | |
| Lai Weide | — | — | — | — |
| Xu Guofei | — | — | — | — |
| | — | — | — | — |
| Non-executive Directors: | | | | |
| Zhu Lifeng | — | — | — | — |
| Lu Qing | — | — | — | — |
| Jason Hsuan | — | — | — | — |
| Deng Weiming | — | — | — | — |
| | — | — | — | — |
| Independent Non-executive Directors: | | | | |
| Zhang Xiuhua (Note ii) | — | — | — | — |
| Liu Danping (Note ii) | — | — | — | — |
| Chu Wai Tsun, Vincent (Note ii) | — | — | — | — |
| Tang Yousong (Note iii) | — | — | — | — |
| Ma Chung Lai, Lawrence (Note iii) | — | — | — | — |
| | — | — | — | — |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

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

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

Year ended 31 December 2012 (Continued)

| Name | Fees RMB'000 | Salaries and other allowances RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|---------------------------------|-----------------|--|---|------------------|
| Supervisors: | | | | |
| Zhang Zhengping | — | 120 | — | 120 |
| Zhou Yuxin | — | 160 | 31 | 191 |
| Fu Yuanyuan (Note i) | — | 160 | 31 | 191 |
| Tang Min (Note iii) | — | 68 | 18 | 86 |
| | — | 508 | 80 | 588 |
| Independent Supervisors: | | | | |
| Sun Suhua (Note iii) | — | — | — | — |
| Wang Fei (Note iii) | — | — | — | — |
| | — | — | — | — |
| Total | — | 508 | 80 | 588 |

Notes:

(i) Appointed on 17 January 2012.

(ii) Appointed on 6 March 2012.

(iii) Retired on 6 March 2012.

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

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

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

Year ended 31 December 2011

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

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

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

Year ended 31 December 2011 (Continued)

| Name | Fees RMB'000 | Salaries and other allowances RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|---------------------------------|-----------------|--|---|------------------|
| Independent Supervisors: | | | | |
| Sun Suhua (Note ii) | — | — | — | — |
| Wang Fei (Note ii) | — | — | — | — |
| | — | — | — | — |
| Total | 785 | 400 | 140 | 1,325 |

Notes:

- (i) Deceased on 11 December 2011.
- (ii) Retired on 6 March 2012.

(b) The five highest paid individuals

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

| | 2012 RMB'000 | 2011 RMB'000 |
|--|-----------------|-----------------|
| Salaries and other allowances | 2,900 | 2,570 |
| Retirement benefits scheme contributions | 155 | 138 |
| | 3,055 | 2,708 |

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

| | Number of employees | |
|---------------------|---------------------|------|
| | 2012 | 2011 |
| Nil to HKD1,000,000 | 5 | 5 |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

12 Income tax expense

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

| | 2012 RMB'000 | 2011 RMB'000 |
|---|-----------------|-----------------|
| Current tax | | |
| — PRC enterprise income tax | 14,577 | 17,749 |
| — Under/(over)-provision in prior year | 4,934 | (1,753) |
| | <u>19,511</u> | <u>15,996</u> |
| Deferred tax (Note 20) | | |
| — attributable to the origination and reversal of temporary differences | (143) | 487 |
| — resulting from a change in tax rate | (71) | 352 |
| | <u>(214)</u> | <u>839</u> |
| | <u>19,297</u> | <u>16,835</u> |

PRC enterprise income tax is charged at the statutory rate of 25% (2011: 25%) of the assessable income as determined with the relevant tax rules and regulations of the PRC, except that the Company and certain subsidiaries in the PRC are subject to a preferential tax rate of 12.5% or 15% (2011: 12.5% or 15%).

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

| | 2012 RMB'000 | 2011 RMB'000 |
|---|-----------------|-----------------|
| Profit before taxation | <u>155,320</u> | <u>132,930</u> |
| Tax calculated at the statutory PRC tax rate of 25% (2011: 25%) | 38,830 | 33,233 |
| Exemption/reduction of income tax under preferential tax treatment | (13,043) | (11,671) |
| Tax effect of: | | |
| Share of results of associates | (28,517) | (28,227) |
| Income not subject to tax | (25) | (595) |
| Expenses not deductible for tax purposes | 2,527 | 2,142 |
| Effect of change in tax rate | (71) | 352 |
| Unrecognised tax losses and other deferred tax assets | 15,154 | 24,254 |
| Utilisation of previously unrecognised tax losses and other deferred tax assets | (492) | (900) |
| Under/(over)-provision in prior year | 4,934 | (1,753) |
| Tax charge for the year | <u>19,297</u> | <u>16,835</u> |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

13 Earnings per share

The calculation of the basic earnings per share is based on profit attributable to equity holders of the Company of RMB131,554,000 (2011: RMB110,070,000) and 655,015,000 shares in issue throughout the years 2012 and 2011.

The diluted earnings per share for the years ended 31 December 2012 and 2011 are the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during both years.

14 Dividends

(a) Dividends payable to equity shareholders of Company attributable to the year:

| | 2012 RMB'000 | 2011 RMB'000 |
|---|-----------------|-----------------|
| Final dividend proposed after the balance sheet date of RMB60 cents per ten shares (2011: RMB50 cents per ten shares) | <u>39,301</u> | <u>32,751</u> |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. This proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting on a date to be fixed.

(b) Dividends payable to equity shareholders of Company attributable to the previous financial year, approved and paid during the year:

| | 2012 RMB'000 | 2011 RMB'000 |
|---|-----------------|-----------------|
| Final dividend in respect of the financial year ended 31 December 2011, approved and paid during the year, of RMB50 cents per ten shares (2010: RMBnil) | <u>32,751</u> | <u>—</u> |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

15 Land use rights

| | The Group RMB'000 | The Company RMB'000 |
|----------------------------------|----------------------|------------------------|
| Cost: | | |
| At 1 January 2011 | 27,219 | 13,423 |
| Additions | — | 11,771 |
| At 31 December 2011 | 27,219 | 25,194 |
| Additions | 61,925 | — |
| At 31 December 2012 | 89,144 | 25,194 |
| Accumulated amortisation: | | |
| At 1 January 2011 | 3,840 | 2,041 |
| Charge for the year | 683 | 457 |
| At 31 December 2011 | 4,523 | 2,498 |
| Charge for the year | 786 | 684 |
| At 31 December 2012 | 5,309 | 3,182 |
| Carrying value: | | |
| At 31 December 2012 | 83,835 | 22,012 |
| At 31 December 2011 | 22,696 | 22,696 |

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

16 Property, plant and equipment

| The Group | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Transportation equipment and motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|--|----------------------|---|--|--|------------------|
| Cost or valuation: | | | | | |
| As at 1 January 2011 | 530,729 | 300,990 | 14,082 | 3,884 | 849,685 |
| Additions | 4,116 | 17,993 | 4,537 | 36,282 | 62,928 |
| Transfers | 27,901 | 11,959 | — | (39,860) | — |
| Disposals | (23,304) | (7,797) | (683) | — | (31,784) |
| As at 31 December 2011 and 1 January 2012 | 539,442 | 323,145 | 17,936 | 306 | 880,829 |
| Additions | 47 | 10,751 | 3,307 | 94,009 | 108,114 |
| Transfers | 32,264 | 3,429 | — | (35,693) | — |
| Disposals | (15,851) | (7,472) | (1,648) | — | (24,971) |
| As at 31 December 2012 | 555,902 | 329,853 | 19,595 | 58,622 | 963,972 |
| Accumulated depreciation and impairment losses: | | | | | |
| As at 1 January 2011 | 136,325 | 97,419 | 4,764 | — | 238,508 |
| Charge for the year | 16,799 | 34,206 | 1,578 | — | 52,583 |
| Written back on disposals | (23,304) | (7,418) | (582) | — | (31,304) |
| As at 31 December 2011 and 1 January 2012 | 129,820 | 124,207 | 5,760 | — | 259,787 |
| Charge for the year | 17,217 | 35,714 | 1,802 | — | 54,733 |
| Written back on disposals | (7,157) | (6,202) | (1,078) | — | (14,437) |
| As at 31 December 2012 | 139,880 | 153,719 | 6,484 | — | 300,083 |
| Carrying value: | | | | | |
| As at 31 December 2012 | 416,022 | 176,134 | 13,111 | 58,622 | 663,889 |
| As at 31 December 2011 | 409,622 | 198,938 | 12,176 | 306 | 621,042 |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

16 Property, plant and equipment (Continued)

| The Company | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Transportation equipment and motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|--|----------------------|---|--|--|------------------|
| Cost or valuation: | | | | | |
| As at 1 January 2011 | 472,884 | 33,496 | 3,450 | 1,191 | 511,021 |
| Additions | 4,116 | 255 | 1,198 | 26,710 | 32,279 |
| Transfers | 27,901 | — | — | (27,901) | — |
| Disposals | — | (5,827) | (211) | — | (6,038) |
| As at 31 December 2011 and 1 January 2012 | 504,901 | 27,924 | 4,437 | — | 537,262 |
| Additions | 46 | 1,104 | — | 36,155 | 37,305 |
| Transfers | 32,264 | — | — | (32,264) | — |
| Disposals | — | (4,070) | (526) | — | (4,596) |
| As at 31 December 2012 | 537,211 | 24,958 | 3,911 | 3,891 | 569,971 |
| Accumulated depreciation and impairment losses: | | | | | |
| As at 1 January 2011 | 96,229 | 24,935 | 1,190 | — | 122,354 |
| Charge for the year | 15,769 | 2,152 | 319 | — | 18,240 |
| Written back on disposals | — | (5,540) | (169) | — | (5,709) |
| As at 31 December 2011 and 1 January 2012 | 111,998 | 21,547 | 1,340 | — | 134,885 |
| Charge for the year | 16,187 | 1,974 | 385 | — | 18,546 |
| Written back on disposals | — | (3,489) | (446) | — | (3,935) |
| As at 31 December 2012 | 128,185 | 20,032 | 1,279 | — | 149,496 |
| Carrying value: | | | | | |
| As at 31 December 2012 | 409,026 | 4,926 | 2,632 | 3,891 | 420,475 |
| As at 31 December 2011 | 392,903 | 6,377 | 3,097 | — | 402,377 |

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

At the date of approval of these consolidated financial statements, the Group and the Company are still in the process of applying title certificates in respect of certain buildings with carrying value of RMB22,438,000 (2011: RMB216,720,000) and RMB22,438,000 (2011: RMB199,999,000) respectively.

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

17 Subsidiaries

| | 2012 RMB'000 | 2011 RMB'000 |
|-------------------------------|-----------------------|-----------------------|
| Unlisted investments, at cost | 698,437 | 514,534 |
| Less: Impairment loss | <u>(21,437)</u> | <u>(21,437)</u> |
| | <u>677,000</u> | <u>493,097</u> |

Except for Galant Limited which is incorporated and operates in Hong Kong, all subsidiaries are incorporated and operate in the PRC. Particulars of the subsidiaries as at 31 December 2012 are as follows:

| Name | Registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|--------------------|--|------------|---|
| | | directly | indirectly | |
| Nanjing Panda Technology Equipment Co., Ltd. | RMB5,000,000 | 100% | — | Manufacture and sale of equipment for production of television sets |
| Nanjing Panda Information Industry Co., Ltd. | USD23,000,000 | 75% | 25% | Development, production and sale of electronics information products |
| Nanjing Panda International Communication Systems Company Limited | USD1,240,000 | 71.77% | — | Sale and distribution of cellular mobile telephones and pagers |
| Nanjing Guanghua Electronics Plastic Casings Factory | RMB11,497,600 | 100% | — | Manufacture and sale of plastic and spare parts |
| Nanjing Panda Mechanical Engineering Plant | RMB45,000,000 | 99.11% | — | Manufacture and sale of communication and electronic equipment |
| Nanjing Panda Accurate Machinery Co., Ltd. | RMB5,000,000 | 100% | — | Manufacture and sale of specialised electronic equipment |
| Nanjing Panda Appliance & Apparatus Co., Ltd. | RMB1,000,000 | — | 100% | Development and production of electromechanical products and installation of electronic communication systems |
| Nanjing Panda Mechanical Manufacturing Co., Ltd. | RMB10,000,000 | — | 70% | Manufacture of raw materials, components and parts for production |
| Nanjing Huage Appliance and Plastic Industrial Co., Ltd. | RMB60,000,000 | — | 100% | Manufacture and sale of plastic products and spare parts |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

17 Subsidiaries (Continued)

| Name | Registered capital | Percentage of equity attributable to the Company | | Principal activities |
|--|--------------------|--|------------|--|
| | | directly | indirectly | |
| Nanjing Panda Mechanical Co., Ltd. | RMB3,000,000 | 85.82% | — | Manufacture and subcontracting of mechanical parts |
| Nanjing Panda System Integration Co., Ltd. | RMB3,000,000 | — | 54.37% | Development and sale of computer software |
| Nanjing Panda Power Supply Technology Co., Ltd. | RMB11,000,000 | 79.55% | — | Design, manufacture and sale of UPS and special power supply systems and converters |
| Nanjing Panda Electronic Manufacture Co., Ltd. | USD20,000,000 | 75% | 25% | Development and production of electronic components |
| Nanjing Panda Industrial Enterprise Co., Ltd. | RMB20,000,000 | 100% | — | Property management, sales of mechanical and electronic products, building and office supplies |
| Nanjing Panda Electromechanical Instruments Technology Co., Ltd. | RMB10,000,000 | — | 70% | Development, manufacture and sale of logistics equipment |
| Nanjing Panda Electronic Equipment Co., Ltd. | RMB80,000,000 | 100% | — | Manufacture of industrial, environmental conservation and logistics equipment |
| Nanjing Panda Electronic Technology Development Company Limited | RMB250,000,000 | 99% | 1% | General purpose equipment, technology service, software development, system integration, property management |
| Nanjing Panda Communications Technology Co., Ltd. | RMB50,000,000 | 100% | — | Research and development, production and marketing of professional mobile communication products |
| Galant Limited | HKD1 | 100% | — | Trading and investment holding |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

18 Associates

| | The Group | | The Company | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unlisted investments, at cost | — | — | 689,237 | 690,987 |
| Less: Impairment loss | — | — | (508,326) | (510,076) |
| Share of net assets | 585,174 | 680,350 | — | — |
| Goodwill | 3,443 | 3,443 | — | — |
| | <u>588,617</u> | <u>683,793</u> | <u>180,911</u> | <u>180,911</u> |

Intenna (Nanjing) Company Limited, an associate in which the Company held 35% equity interest, was deregistered during the year.

Particulars of the principal associates, which are all incorporated and operate in the PRC, as at 31 December 2012 are as follows:

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

18 Associates (Continued)

ENC, BMC and Jinghua are the most significant associates of the Group. The financial information set out below was extracted from the audited financial statements for the year ended 31 December 2012 of respective associates.

| | 2012 | | | 2011 | | |
|---|--------------------|--------------------|--------------------|----------------|----------------|--------------------|
| | ENC RMB'000 | BMC RMB'000 | Jinghua RMB'000 | ENC RMB'000 | BMC RMB'000 | Jinghua RMB'000 |
| Turnover | <u>12,591,394</u> | <u>26,742,812</u> | <u>1,301,063</u> | 21,087,760 | 20,214,318 | 840,173 |
| Profit before income tax | <u>409,845</u> | <u>555,385</u> | <u>63,425</u> | 763,176 | 600,240 | 46,805 |
| Income tax | <u>(64,584)</u> | <u>(136,674)</u> | <u>(14,969)</u> | (118,561) | (152,638) | (11,671) |
| Profit for the year | <u>345,261</u> | <u>418,711</u> | <u>48,456</u> | 644,615 | 447,602 | 35,134 |
| Profit for the year attributable to the Group | <u>93,220</u> | <u>83,742</u> | <u>14,896</u> | 174,046 | 89,520 | 10,921 |
| Financial position | | | | | | |
| Non-current assets | <u>837,550</u> | <u>407,612</u> | <u>75,376</u> | 1,330,482 | 305,392 | 94,713 |
| Current assets | <u>6,654,107</u> | <u>5,855,136</u> | <u>374,277</u> | 8,727,188 | 4,236,412 | 292,381 |
| Non-current liabilities | <u>(6,606)</u> | — | — | (13,852) | — | — |
| Current liabilities | <u>(6,490,575)</u> | <u>(5,216,062)</u> | <u>(150,424)</u> | (8,717,697) | (3,479,830) | (98,001) |
| Net assets | <u>994,476</u> | <u>1,046,686</u> | <u>299,229</u> | 1,326,121 | 1,061,974 | 289,093 |
| Net assets attributable to the Group | <u>268,509</u> | <u>209,337</u> | <u>98,054</u> | 358,053 | 212,395 | 97,154 |

19 Available-for-sale equity securities

| | The Group | | The Company | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Unlisted equity securities, at cost | <u>3,650</u> | 3,650 | <u>3,650</u> | 3,650 |

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

20 Deferred taxation

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

| | Impairment loss on receivables <i>RMB'000</i> | Write-down of inventories <i>RMB'000</i> | Impairment loss on property, plant and equipment <i>RMB'000</i> | Trade and other payables <i>RMB'000</i> | Other temporary differences <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|--|--|--|---|-------------------------|
| As at 1 January 2011 | 3,156 | 2,589 | 196 | 488 | 11 | 6,440 |
| (Charged)/credited to profit or loss (Note 12(a)) | (2,940) | 3,060 | (37) | (162) | (408) | (487) |
| Effect of change in tax rate (Note 12(a)) | (216) | (33) | — | (111) | 8 | (352) |
| As at 31 December 2011 and 1 January 2012 | — | 5,616 | 159 | 215 | (389) | 5,601 |
| (Charged)/credited to profit or loss (Note 12(a)) | — | (280) | (55) | (53) | 531 | 143 |
| Effect of change in tax rate (Note 12(a)) | — | 71 | — | — | — | 71 |
| As at 31 December 2012 | — | 5,407 | 104 | 162 | 142 | 5,815 |

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

| | 2012 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
|--------------------------|------------------------|------------------------|
| Deferred tax assets | 6,127 | 5,991 |
| Deferred tax liabilities | (312) | (390) |
| | <u>5,815</u> | <u>5,601</u> |

At 31 December 2012, the Group has unused tax losses of RMB259,508,000 (2011: RMB242,013,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams (2011: RMBnil). These tax losses will expire within five years.

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

21 Inventories

| | The Group | | The Company | |
|-----------------------------|----------------|----------------|---------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 65,189 | 56,603 | 4,400 | 4,008 |
| Work in progress | 43,683 | 67,322 | 5,338 | 2,432 |
| Finished goods | 70,976 | 72,283 | 6,528 | 1,923 |
| Spare parts and consumables | 412 | 485 | — | — |
| | 180,260 | 196,693 | 16,266 | 8,363 |

22 Trade and bills receivables

| | The Group | | The Company | |
|---|----------------|----------------|----------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables | 669,987 | 558,352 | 86,896 | 52,313 |
| Less: Provision for impairment | (74,010) | (52,816) | (7,753) | (6,608) |
| | 595,977 | 505,536 | 79,143 | 45,705 |
| Bills receivable | 37,674 | 15,720 | 1,850 | 2,706 |
| Due from immediate holding company (PEGL) | 1,439 | 950 | — | — |
| Due from fellow subsidiaries | 142,475 | 29,141 | 4,225 | 16,366 |
| Due from subsidiaries | — | — | 148,048 | — |
| Due from associates | 5,058 | 13,299 | — | — |
| Total trade and bills receivables | 782,623 | 564,646 | 233,266 | 64,777 |

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

| | The Group | | The Company | |
|---------------|----------------|----------------|----------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within 1 year | 683,845 | 554,235 | 208,321 | 62,386 |
| 1 to 2 years | 98,429 | 10,238 | 24,945 | 2,391 |
| 2 to 3 years | 277 | 74 | — | — |
| Over 3 years | 72 | 99 | — | — |
| | 782,623 | 564,646 | 233,266 | 64,777 |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

22 Trade and bills receivables (Continued)

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

| | The Group | | The Company | |
|----------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Up to 3 months | 27,906 | 61,530 | 259 | 5,367 |
| Over 3 months | 96,290 | 2,476 | 25,906 | 26 |
| | <u>124,196</u> | <u>64,006</u> | <u>26,165</u> | <u>5,393</u> |

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

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

| | The Group | | The Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| At 1 January | 52,816 | 50,159 | 6,608 | 7,045 |
| Impairment loss recognised | 21,194 | 1,539 | 1,145 | 545 |
| Uncollectible amounts written back/(written off) | — | 1,118 | — | (982) |
| At 31 December | <u>74,010</u> | <u>52,816</u> | <u>7,753</u> | <u>6,608</u> |

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

| | The Group | | The Company | |
|---------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| USD | 99,274 | 217,780 | — | 4 |
| Euro dollar ("EUR") | 1,959 | 829 | — | — |
| HKD | — | 75 | — | 1 |
| | <u>101,233</u> | <u>218,684</u> | <u>—</u> | <u>5</u> |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

23 Amounts due from customers for contract work

| | The Group | 2011 |
|--|------------------|----------|
| | 2012 | RMB'000 |
| | RMB'000 | RMB'000 |
| Contract costs incurred plus recognised profits less recognised losses | 107,535 | 91,062 |
| Less: Progress billings | (20,560) | (34,162) |
| | 86,975 | 56,900 |

At 31 December 2012, advances received from customers for contract work amounted to RMB96,701,000 (2011: RMB48,324,000).

The project contract revenue recognised for the year ended 31 December 2012 is RMB260,865,000 (2011: RMB220,892,000).

24 Deposits, prepayments and other receivables

| | The Group | | The Company | |
|--------------------------------|------------------|----------|--------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Other receivables | 57,619 | 34,704 | 28,128 | 8,375 |
| Deposits and prepayments | 87,743 | 88,834 | 6,315 | 8,167 |
| Less: Provision for impairment | (15,900) | (18,357) | (4,198) | (5,883) |
| | 129,462 | 105,181 | 30,245 | 10,659 |
| Due from fellow subsidiaries | 19 | 5,651 | — | 4,209 |
| Due from subsidiaries | — | — | 157,392 | 145,543 |
| | 129,481 | 110,832 | 187,637 | 160,411 |

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

25 Restricted bank deposits

The restricted bank deposits are pledged as security for:

| | The Group | | The Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Bills payable | 141,267 | 44,683 | 95,115 | 5,559 |
| Performance bonds given by banks to customers in respect of projects undertaken | 71,492 | 58,422 | 20,000 | 25,000 |
| | <u>212,759</u> | <u>103,105</u> | <u>115,115</u> | <u>30,559</u> |

These restricted bank deposits carry interest at market rates ranging from 0.35% to 2.8% (2011: 0.5% to 1.49%) per annum and will mature in 3 to 6 months from the balance sheet date.

26 Cash and cash equivalents

| | The Group | | The Company | |
|---------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Bank deposits | 377,264 | 342,692 | 79,087 | 58,718 |
| Cash on hand | 776 | 1,091 | 262 | 278 |
| | <u>378,040</u> | <u>343,783</u> | <u>79,349</u> | <u>58,996</u> |

Bank deposits carry interest at market rates ranging from 0.35% to 1.35% (2011: 0.5% to 1.49%) per annum.

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

| | The Group | | The Company | |
|-----|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| USD | 11,697 | 19,368 | 4 | 4 |
| EUR | 177 | 951 | — | — |
| HKD | 16 | 76 | 1 | 1 |
| | <u>11,890</u> | <u>20,395</u> | <u>5</u> | <u>5</u> |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

27 Share capital

| | The Company 2012 and 2011 | |
|---|------------------------------|--------------------------|
| | Number of shares '000 | Nominal value RMB'000 |
| Registered, issued and fully paid: | | |
| — State-owned legal person shares of RMB1.00 each | 334,715 | 334,715 |
| — A Shares of RMB1.00 each | 78,300 | 78,300 |
| — H Shares of RMB1.00 each | 242,000 | 242,000 |
| | 655,015 | 655,015 |

The Company has applied to the China Securities Regulatory Commission for the non-public issuance of not more than 260,500,000 new A shares to not more than 10 specific qualified investors, including Nanjing Electronics Information Industrial Corporation ("NEIIC"), at a subscription price of not less than RMB5.07 (the "Proposed Placing of A Shares"). The Proposed Placing of A Shares, approved by the shareholders on 24 December 2012, represents approximately 39.77% of the Company's total issued share capital as at 31 December 2012 or approximately 28.45% of the Company's total issued share capital as enlarged by the Proposed Placing of A Shares.

As part of the Proposed Placing of A Shares, the Company and NEIIC, an intermediate holding company of the Company, entered into a conditional subscription agreement on 7 November 2012, pursuant to which NEIIC has agreed to subscribe for the new A shares in the Company at a subscription price of not less than RMB5.07 per share with the total subscription price of RMB200 million. The maximum number of new A shares to be subscribed by NEIIC is 39,447,732. Immediately after completion of this share subscription and assuming full subscription and issuance of the maximum 260,500,000 new A shares under the Proposed Placing of A Shares, CEC's interest in the Company's total issued share capital, through NEIIC and PEG, will be reduced from approximately 51.10% to approximately 40.87%.

So far no new A shares have been issued under the Proposed Placing of A shares. Further details of the Proposed Placing of A shares and the share subscription by NEIIC are set out in the Company's circular to the shareholders dated 7 December 2012.

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

28 Share premium and reserves

| The Company | Share premium RMB'000 | Capital reserve RMB'000 | Statutory common funds RMB'000 | Asset revaluation reserve RMB'000 | Accumulated (losses)/ profits RMB'000 | Total RMB'000 |
|--|--------------------------|----------------------------|-----------------------------------|--------------------------------------|--|------------------|
| As at 1 January 2011 | 389,338 | 18,399 | 183,989 | 26,381 | 73,295 | 691,402 |
| Loss and total comprehensive loss for the year | — | — | — | — | (409,648) | (409,648) |
| Profit appropriations | — | — | 5,187 | — | (5,187) | — |
| As at 31 December 2011 and 1 January 2012 | 389,338 | 18,399 | 189,176 | 26,381 | (341,540) | 281,754 |
| Profit and total comprehensive income for the year | — | — | — | — | 216,054 | 216,054 |
| Dividend approved in respect of the previous year | — | — | — | — | (32,751) | (32,751) |
| Profit appropriations | — | — | 12,521 | — | (12,521) | — |
| As at 31 December 2012 | 389,338 | 18,399 | 201,697 | 26,381 | (170,758) | 465,057 |

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

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

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

29 Bank borrowings

| | The Group | | The Company | |
|-------------------------|----------------|----------------|----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Short term bank loans | 360,000 | 358,308 | 255,000 | 240,000 |
| Bills payables, secured | 288,335 | 69,060 | 190,230 | 11,119 |
| | 648,335 | 427,368 | 445,230 | 251,119 |

At 31 December 2012, the Company's short term bank loans amounting to RMB50,000,000 (2011: RMB70,000,000) were secured by pledge of certain land use rights and buildings of the Company with carrying values of RMB1,107,000 (2011: RMB1,150,000) and RMB108,318,000 (2011: RMB113,822,000) respectively with banks, and short term bank loans amounting to RMB205,000,000 (2011: RMB170,000,000) were secured by corporate guarantees from the immediate holding company (PEGL).

At 31 December 2012, the Group's and the Company's bills payables were secured by restricted bank deposits (see note 25). In addition, the Company's bills payables were also secured by corporate guarantees from the immediate holding company (PEGL) and an intermediate holding company to the extent of RMB60,595,000 (2011: RMBnil) and RMB34,520,000 (2011: RMBnil) respectively.

At 31 December 2012, the effective interest rate of the short term bank loans was 7% (2011: 6.43%) per annum.

30 Other borrowing

This represented a specific-purpose loan provided by Jiangsu International Trust Co., Ltd. in November 2009 for financing certain software research and development activities of the Group. The loan bore interest at 0.3% (2011: 0.3%) per annum, was matured and repaid in February 2012.

31 Trade payables

| | The Group | | The Company | |
|---|----------------|----------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | 447,449 | 445,447 | 70,539 | 18,999 |
| Due to immediate holding company (PEGL) | 3,997 | 4,087 | 2,114 | 2,114 |
| Due to fellow subsidiaries | 22,348 | 17,260 | 3,408 | 4,858 |
| Due to subsidiaries | — | — | 6,386 | 6,665 |
| Due to associates | 80 | 80 | — | — |
| Total trade payables | 473,874 | 466,874 | 82,447 | 32,636 |

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

31 Trade payables (Continued)

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

| | The Group | | The Company | |
|---------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Within 1 year | 369,204 | 395,206 | 70,034 | 20,421 |
| 1 to 2 years | 44,630 | 28,844 | 2,747 | 2,863 |
| 2 to 3 years | 24,039 | 18,094 | 876 | 650 |
| Over 3 years | 36,001 | 24,730 | 8,790 | 8,702 |
| | <u>473,874</u> | <u>466,874</u> | <u>82,447</u> | <u>32,636</u> |

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

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

| | The Group | | The Company | |
|-----|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| USD | <u>14,649</u> | <u>43,246</u> | <u>—</u> | <u>—</u> |

32 Accruals and other payables

Included in the Group's other payables are amounts due to ultimate holding company, immediate holding company (PEGL), fellow subsidiaries and associates of RMB34,000,000 (2011: RMBnil), RMB11,814,000 (2011: RMB7,416,000), RMB4,182,000 (2011: RMB7,338,000) and RMB3,220,000 (2011: RMB2,475,000) respectively.

Included in the Company's other payables are amounts due to immediate holding company (PEGL), fellow subsidiaries, subsidiaries and associates of RMB364,000 (2011: RMB689,000), RMB503,000 (2011: RMBnil), RMB248,001,000 (2011: RMB108,117,000) and RMBnil (2011: RMB2,175,000) respectively.

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

33 Cash used in operations

| | 2012 RMB'000 | 2011 RMB'000 |
|--|------------------|------------------|
| Profit before taxation | 155,320 | 132,930 |
| Adjustments for: | | |
| Interest income | (6,060) | (4,966) |
| Loss/(gain) on disposal of property, plant and equipment | 8,412 | (937) |
| Exchange losses | 1,611 | 450 |
| Finance costs | 31,016 | 26,578 |
| Depreciation and amortisation | 55,519 | 53,266 |
| Impairment loss recognised/(reversed) on trade and other receivables | 19,842 | (1,691) |
| Write-down of inventories | 15,899 | 19,551 |
| Share of profits of associates | (190,806) | (188,191) |
| Operating cash flows before changes in working capital | 90,753 | 36,990 |
| Decrease/(increase) in inventories | 534 | (28,518) |
| Increase in trade and bills receivables | (237,201) | (247,415) |
| Increase in amounts due from customers for contract work | (30,075) | (25,170) |
| Increase in deposits, prepayments and other receivables | (35,557) | (10,702) |
| (Decrease)/increase in trade payables | (19,143) | 123,074 |
| Increase/(decrease) in accruals and other payables | 37,064 | (4,349) |
| Net cash used in operations | <u>(193,625)</u> | <u>(156,090)</u> |

34 Contingent liabilities

| | The Group | | The Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Performance bonds given by banks to customers in respect of projects undertaken | 71,492 | 58,422 | 20,000 | 25,000 |
| Guarantees given in respect of banking facilities made available to subsidiaries | <u>—</u> | <u>—</u> | <u>440,000</u> | <u>190,000</u> |

The maximum contingent liability of the Company under the guarantees given in respect of banking facilities made available to subsidiaries is the amount of facilities drawn down by the subsidiaries, being RMB249,892,000 (2011: RMB97,926,000).

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

35 Commitments

(a) Capital commitments

At 31 December 2012, outstanding capital commitments not provided for in the financial statements are as follows:

| | The Group | | The Company | |
|---------------------------------|----------------|---------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted for | | | | |
| — Property, plant and equipment | <u>146,376</u> | <u>14,842</u> | <u>17,684</u> | <u>14,842</u> |

(b) Operating lease arrangements

At 31 December 2012, the Group had future minimum lease payments under non-cancellable operating leases which are payable as follows:

| | 2012 | 2011 |
|--------------------------------|--------------|--------------|
| | RMB'000 | RMB'000 |
| Land and buildings | | |
| Within 1 year | <u>5,039</u> | <u>1,467</u> |
| 2-5 years | <u>123</u> | <u>1,100</u> |
| | <u>5,162</u> | <u>2,567</u> |
| Machineries and motor vehicles | | |
| Within 1 year | <u>587</u> | <u>379</u> |
| 2-5 years | <u>366</u> | <u>402</u> |
| | <u>953</u> | <u>781</u> |
| | <u>6,115</u> | <u>3,348</u> |

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

Notes to the consolidated financial statements (Continued)

(Expressed in Renminbi)

35 Commitments (Continued)

(b) Operating lease arrangements (Continued)

At 31 December 2012, the Group had future minimum lease receipts under non-cancellable operating leases which are receivable as follows:

| | 2012 RMB'000 | 2011 RMB'000 |
|--------------------|-----------------|-----------------|
| Land and buildings | | |
| Within 1 year | 1,021 | 1,190 |
| 2-5 years | 662 | 1,275 |
| | <u>1,683</u> | <u>2,465</u> |

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

36 Related party transactions

(a) Transactions with key management personnel

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

| | 2012 RMB'000 | 2011 RMB'000 |
|---|-----------------|-----------------|
| Salaries and other allowances | 2,248 | 1,660 |
| Retirement benefit scheme contributions | 204 | 194 |
| | <u>2,452</u> | <u>1,854</u> |

(b) Transactions with other related parties

In addition to those disclosed in notes 2.1, 27, 29 and 34, the Group entered into the following material related party transactions during the year:

| | The immediate holding company (PEGL) | | Fellow subsidiaries | | Associates | |
|---|--------------------------------------|-----------------|---------------------|-----------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Sales of components and parts (Note i) | 4 | 1,665 | 211,897 | 111,706 | 9,247 | 31,549 |
| Purchase of components and parts (Note i) | 628 | — | 49,235 | 44,119 | 1,089 | — |
| Fees paid for welfare, support and sub-contracting services (Note ii) | 921 | 2,491 | 6,484 | 5,283 | 274 | — |
| Income for welfare, support, and sub-contracting services (Note ii) | 1,166 | 1,000 | 30,024 | 22,521 | 19,111 | 97,686 |
| Rental income (Note i) | — | — | 8,076 | 499 | — | — |
| Rental expenses (Note i) | 1,656 | — | — | — | — | — |
| Trademark income (Note ii) | — | — | 634 | 512 | — | — |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

Notes to the consolidated financial statements (*Continued*)

(Expressed in Renminbi)

36 Related party transactions (*Continued*)

(b) Transactions with other related parties (*Continued*)

Notes:

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

At 31 December 2012, the Group placed deposits of RMB173,901,000 (2011: RMBnil) with a fellow subsidiary of the Company, being a financial institution in the PRC. Other balances with related parties are disclosed in notes 22, 24, 31 and 32.

37 Comparative figures

Prior to 21 September 2012, PEG L was the immediate and ultimate holding company of the Company. As stated in note 1, PEG L has become an indirect subsidiary of CEC since 21 September 2012 upon the completion of the corporate restructuring. The transactions and balances with PEG L in 2012 are disclosed in these consolidated financial statements as transactions and balances with immediate holding company. The corresponding figures for the year ended 31 December 2011, previously disclosed as transactions and balances with ultimate holding company, were reclassified to conform with the current year's presentation.

As stated in note 7, the Group changed the composition of its reportable segments in 2012 and, accordingly, the corresponding segmental information for the year ended 31 December 2011 has been restated to conform with the current year's presentation.

38 Difference between HKFRSs and PRC Accounting Standards for Business Enterprises

For the years ended 31 December 2012 and 2011, there were no material differences between the consolidated statements of comprehensive income and consolidated balance sheets of the Group prepared under HKFRSs and PRC Accounting Standards for Business Enterprises.

39 Subsequent event

After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 14(a).

Report of the Auditors

Baker Tilly China Hu SJ(2013) No. 1241

To All Shareholders of Nanjing Panda Electronics Company Limited:

We have audited the accompanying financial statements of Nanjing Panda Electronics Company Limited (hereinafter referred to as "Nanjing Panda"), which comprise the Balance Sheets and Consolidated Balance Sheet as at 31 December 2012, Income Statement, Consolidated Income Statement, Cash Flow Statement, Consolidated Cash Flow Statement, Statement of Change in Equity, Consolidated Statement of Changes in Equity, for the year ended 31 December 2012, and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Nanjing Panda as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises.

Baker Tilly China

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

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

Beijing, the People's Republic of China
27 March 2013

Consolidated balance sheet

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 31/12/2012 | 31/12/2011 | Notes |
|--|-------------------------|-------------------------|---------|
| Current assets: | | | |
| Cash and bank | 590,799,740.05 | 446,888,631.46 | VIII.1 |
| Settlement provisions | | | |
| Placement | | | |
| Trading financial assets | | | |
| Bills receivable | 37,673,756.21 | 15,720,441.55 | VIII.2 |
| Trade receivable | 744,949,177.06 | 548,925,350.05 | VIII.3 |
| Prepayments | 80,466,610.80 | 91,165,039.41 | VIII.4 |
| Premiums receivable | | | |
| Reinsurance receivable | | | |
| Reinsurance contract reserve | | | |
| Interest receivable | | | |
| Dividends receivable | | | |
| Other receivables | 49,014,039.75 | 23,267,110.10 | VIII.5 |
| Financial assets purchased for resale | | | |
| Inventories | 267,235,161.51 | 249,992,893.28 | VIII.6 |
| Non-current assets due within one year | | | |
| Other current assets | | | |
| Total current assets | 1,770,138,485.38 | 1,375,959,465.85 | |
| Non-current assets: | | | |
| Entrusted loans and advances | | | |
| Available-for sale financial assets | | | |
| Held-to-maturity investments | | | |
| Long-term receivables | | | |
| Long-term equity investment | 592,266,738.55 | 687,442,710.67 | VIII.7 |
| Investment properties | | | |
| Fixed assets | 602,791,624.83 | 618,853,365.45 | VIII.8 |
| Construction in progress | 58,622,146.44 | 306,362.89 | VIII.9 |
| Construction supplies | | | |
| Clearance of fixed assets | | | |
| Biological assets for production | | | |
| Fuel assets | | | |
| Intangible assets | 86,309,861.12 | 24,577,950.24 | VIII.10 |
| Development expenses | | | |
| Goodwill | | | |
| Long term deferred expenses | | | |
| Deferred income tax assets | 6,127,251.58 | 5,991,302.88 | VIII.11 |
| Other non-current assets | | | |
| Total non-current assets | 1,346,117,622.52 | 1,337,171,692.13 | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated balance sheet (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 31/12/2012 | 31/12/2011 | Notes |
|---|--------------------------------|--------------------------------|---------|
| Current liabilities | | | |
| Short term loans | 360,000,000.00 | 358,307,585.20 | VIII.14 |
| Borrowing from PBOC | | | |
| Customer and interbank deposits | | | |
| Borrowing from interbank | | | |
| Trading financial liabilities | | | |
| Bills payable | 288,335,481.41 | 69,060,351.93 | VIII.15 |
| Accounts payable | 473,873,788.33 | 466,874,177.25 | VIII.16 |
| Advances from customers | 110,450,931.40 | 73,687,666.89 | VIII.17 |
| Financial assets sold under repurchase agreements | | | |
| Bank charges and Commissions due | | | |
| Salaries payable | 38,072,801.82 | 44,677,781.13 | VIII.18 |
| Taxes payable | 28,925,190.14 | -12,370,970.32 | VIII.19 |
| Interest payable | 521,752.78 | 969,055.41 | VIII.20 |
| Dividend Payable | 1,364,696.99 | 143,289.96 | VIII.21 |
| Other payables | 122,107,902.54 | 111,950,392.10 | VIII.22 |
| Reinsurers due | | | |
| Insurance contract reserves | | | |
| Security trading of agency | | | |
| Securities underwriting | | | |
| Non-current liabilities due within one year | | 4,000,000.00 | VIII.23 |
| Other current liabilities | | | |
| Total current liabilities | <u>1,423,652,545.41</u> | <u>1,117,299,329.55</u> | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated balance sheet (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 31/12/2012 | 31/12/2011 | Notes |
|---|-------------------------|-------------------------|---------|
| Non-current liabilities: | | | |
| Long term loans | | | |
| Bonds payables | | | |
| Long term payables | | | |
| Specific payables | | | |
| Accrued liabilities | | | |
| Deferred income tax liabilities | 311,720.39 | 390,239.64 | VIII.11 |
| Other non-current liabilities | | | |
| Total non-current liabilities | 311,720.39 | 390,239.64 | |
| Total liabilities | 1,423,964,265.80 | 1,117,689,569.19 | |
| Shareholders' equity: | | | |
| Share capital | 655,015,000.00 | 655,015,000.00 | VIII.24 |
| Capital reserve | 466,386,130.79 | 467,473,413.43 | VIII.25 |
| Less: treasury stock | | | |
| special reserve | | | |
| surplus reserve | 220,739,998.89 | 208,218,564.46 | VIII.26 |
| general risk reserve | | | |
| undistributed profits | 342,614,884.56 | 256,332,969.10 | VIII.27 |
| discounted spread in foreign currency statement | | | |
| shareholders of the parent company | 1,684,756,014.24 | 1,587,039,946.99 | |
| Non-controlling interests | 7,535,827.86 | 8,401,641.80 | VII.2 |
| Total shareholders' equity | 1,692,291,842.10 | 1,595,441,588.79 | |
| Total liabilities and shareholders' equity | 3,116,256,107.90 | 2,713,131,157.98 | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated profit and loss statement

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|---|-------------------------|------------------|---------|
| 1. Total operating income | 2,430,042,276.95 | 2,142,395,293.37 | |
| Include: Operating income | 2,430,042,276.95 | 2,142,395,293.37 | VIII.28 |
| Interest income | | | |
| Premiums earned | | | |
| Income from Bank charges and Commissions | | | |
| 2. Total operating cost | 2,543,579,714.65 | 2,207,603,007.62 | |
| Include: Operating cost | 2,158,322,667.82 | 1,852,968,753.01 | VIII.28 |
| Interest expenses | | | |
| Bank charges and Commissions | | | |
| Insurance withdrawal payment | | | |
| Net payment from indemnity | | | |
| Net provisions for insurance contract | | | |
| Insurance policy dividend paid | | | |
| Reinsurance cost | | | |
| Business taxes and surcharge | 15,253,306.17 | 15,718,925.20 | VIII.29 |
| Selling expenses | 35,451,508.09 | 40,689,653.97 | VIII.30 |
| Administrative expenses | 269,400,570.34 | 255,559,254.05 | VIII.31 |
| Financial expenses | 29,410,228.99 | 24,806,419.77 | VIII.32 |
| Loss in assets impairment | 35,741,433.24 | 17,860,001.62 | VIII.33 |
| Add: Income from change in fair value (losses are represented by “—”) | | | |
| Investment income (losses are represented by “—”) | 190,806,000.78 | 188,191,184.04 | VIII.34 |
| Include: Investment income of associates and joint ventures | 190,806,000.78 | 188,191,184.04 | |
| Exchange gain (losses are represented by “—”) | | | |
| 3. Operating profit (losses are represented by “—”) | 77,268,563.08 | 122,983,469.79 | |
| Add: Non-operating income | 79,135,088.74 | 10,788,630.16 | VIII.35 |
| Less: Non-operating expenses | 1,083,339.19 | 841,942.12 | VIII.36 |
| Include: Loss from the disposal of non-current assets | 278,419.78 | 235,145.39 | |
| 4. Total Profit (losses are represented by “—”) | 155,320,312.63 | 132,930,157.83 | |
| Less: Income tax | 19,297,080.80 | 16,834,775.88 | VIII.37 |
| 5. Net Profit(losses are represented by “—”) | 136,023,231.83 | 116,095,381.95 | |
| Profit attributable to the equity shareholders of the Parent company | 131,554,099.89 | 110,070,234.90 | |
| Non-controlling interests | 4,469,131.94 | 6,025,147.05 | |
| 6. Earnings per share: | | | |
| (1) Basic earnings per share | 0.2008 | 0.1680 | VIII.38 |
| (2) Diluted earnings per share | 0.2008 | 0.1680 | VIII.38 |
| 7. Other comprehensive income: | | | |
| 8. Total comprehensive income: | 136,023,231.83 | 116,095,381.95 | |
| Total comprehensive income attributable to the equity shareholders of the Parent company | 131,554,099.89 | 110,070,234.90 | |
| Total comprehensive income attributable to non-controlling shareholders | 4,469,131.94 | 6,025,147.05 | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated cash flow statement

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|---|-------------------------|------------------|---------|
| 1. Cash flows from operating activities | | | |
| Cash received from the sale of goods and rendering of services | 2,635,820,156.97 | 2,178,283,259.16 | |
| Net increase in Customer and interbank deposits | | | |
| Net increase in borrowing from PBOC | | | |
| Net cash increase in borrowing from other financial institute | | | |
| Cash received from premiums under original insurance contract | | | |
| Net cash received from reinsurance business | | | |
| Net increase in deposits of policy holders and investment | | | |
| Net increase in disposal of financial assets | | | |
| Cash received from interest, bank charges and commissions | | | |
| Net increase in cash borrowed | | | |
| Net increase in cash received form repurchase operation | | | |
| Refunds of taxes | 29,992,872.94 | 2,645,029.74 | |
| Cash received from relating to other operating activities | 21,488,360.34 | 26,342,586.40 | VIII.39 |
| Sub-total of cash inflows from operating activities | 2,687,301,390.25 | 2,207,270,875.30 | |
| Cash paid on purchase of goods and services received | 2,177,667,526.91 | 1,835,112,928.22 | |
| Net increase in loans and advances | | | |
| Net increase in disopits in PBOC and interbank | | | |
| Cash paid for compensation payments under original insurance contract | | | |
| Cash paid for Interest, bank charges and commissions | | | |
| Cash paid for insurance policy dividend | | | |
| Cash paid to and on behalf of employees | 270,876,979.95 | 263,129,195.34 | |
| Cash paid for all types of taxes | 77,095,234.29 | 116,596,117.11 | |
| Cash paid relating to other operating activities | 243,872,674.93 | 182,344,392.73 | VIII.40 |
| Sub-total of cash outflows from operating activities | 2,769,512,416.08 | 2,397,182,633.40 | |
| Net cash flows from operating activities | -82,211,025.83 | -189,911,758.10 | VIII.45 |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated cash flow statement (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|---|------------------------------|-----------------------|---------|
| 2. Cash flows from investing activities: | | | |
| Cash received from disposal of investments | | 165,882,672.76 | |
| Cash received from return on investments | 285,114,888.90 | | |
| Net cash received from the disposal of fixed assets, intangible assets and other long term assets | 2,122,333.03 | 1,402,495.00 | |
| Net cash received from disposal of subsidiaries and other operating entities | | | |
| Cash received relating to other investment activities | | <u>175,000,000.00</u> | VIII.41 |
| Sub-total of cash inflows from investing activities | <u>287,237,221.93</u> | <u>342,285,167.76</u> | |
| Cash paid on purchase of fixed assets, intangible assets and other long term assets | 132,854,362.68 | 42,250,754.63 | |
| Cash paid for acquisition of investments | | 6,668,000.00 | |
| Net increase in secured loans | | | |
| Net cash paid on acquisition of subsidiaries and other operating entities | | | |
| Cash paid on other investment activities | 486,500.00 | | VIII.42 |
| Sub-total of cash outflows from investing activities | <u>133,340,862.68</u> | <u>48,918,754.63</u> | |
| Net cash flows from investing activities | <u>153,896,359.25</u> | <u>293,366,413.13</u> | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated cash flow statement (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|--|-----------------------|------------------------|---------|
| 3. Cash flows from financing activities: | | | |
| Cash received from investment | | | |
| Including: cash received by subsidiaries from non-controlling shareholders' investment | | | |
| Cash received from borrowings | 493,698,456.50 | 450,432,454.10 | |
| Cash received from issuing bonds | | | |
| Cash received from other financing activities | 34,000,000.00 | | VIII.43 |
| Sub-total of cash inflows from financing activities | 527,698,456.50 | 450,432,454.10 | |
| Cash paid on repayment of borrowings | 496,228,221.90 | 568,931,031.74 | |
| Cash paid on distribution of dividends or profits, or interest expenses | 67,510,017.11 | 31,778,865.04 | |
| Including: bonus and profit paid to non-controlling shareholders by subsidiaries | 3,847,237.49 | 6,349,622.36 | |
| Cash paid on other financing activities | | 1,313,481.60 | VIII.44 |
| Sub-total of cash outflows from financing activities | 563,738,239.01 | 602,023,378.38 | |
| Net cash flows from financing activities | -36,039,782.51 | -151,590,924.28 | |
| 4. Effect of fluctuations in exchange rates on cash | -1,388,620.88 | -450,059.84 | |
| 5. Net increase in cash and cash equivalents | 34,256,930.03 | -48,586,329.09 | VIII.45 |
| Add: balance of cash and cash equivalents at the beginning of the year | 343,783,370.28 | 392,369,699.37 | VIII.45 |
| 6. Balance of cash and cash equivalents at the end of the year | 378,040,300.31 | 343,783,370.28 | VIII.45 |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated statement of change of shareholders' equity

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 31 December 2012 | | | | | | | | | |
|---|---|-----------------|----------------------|-----------------|-----------------|----------------------|-----------------------|---------------------------|----------------------------|------------------|
| | Equity attributable to shareholders of the Parent company | | | | | | | Non-controlling interests | Total shareholders' equity | |
| | Share capital | Capital Reserve | Less: treasury stock | Special Reserve | Surplus Reserve | Generic risk reserve | Undistributed Profits | | | Other |
| 1. Balance at the end of last year | 655,015,000.00 | 467,473,413.43 | | | 208,218,564.46 | | 256,332,969.10 | | 8,401,641.80 | 1,595,441,588.79 |
| Add: change in accounting policies | | | | | | | | | | |
| Correction of Previous Errors merger under same control | | | | | | | | | | |
| 2. Balance at the beginning of this year | 655,015,000.00 | 467,473,413.43 | | | 208,218,564.46 | | 256,332,969.10 | | 8,401,641.80 | 1,595,441,588.79 |
| 3. Change of this year (a decrease is represented by "—") | | -1,087,282.64 | | | 12,521,434.43 | | 86,281,915.46 | | -865,813.94 | 96,850,253.31 |
| (1) Net profit | | | | | | | 131,554,099.89 | | 4,469,131.94 | 136,023,231.83 |
| (2) Other comprehensive income | | | | | | | | | | |
| Subtotal of item(1)and(2) above | | | | | | | 131,554,099.89 | | 4,469,131.94 | 136,023,231.83 |
| (3) Contribution and reduction of capital by shareholders | | -1,087,282.64 | | | | | | | -266,301.36 | -1,353,584.00 |
| 1. Capital contribution by shareholders | | | | | | | | | | |
| 2. Amount settled by shares accounted for in shareholders' equity | | | | | | | | | | |
| 3. Others | | -1,087,282.64 | | | | | | | -266,301.36 | -1,353,584.00 |
| (4) Profit distribution | | | | | 12,521,434.43 | | -45,272,184.43 | | -5,068,644.52 | -37,819,394.52 |
| 1. Transfer from surplus reserves | | | | | 12,521,434.43 | | -12,521,434.43 | | | |
| 2. Transfer from generic risk reserves | | | | | | | | | | |
| 3. Distribution to shareholders | | | | | | | -32,750,750.00 | | -5,068,644.52 | -37,819,394.52 |
| 4. Others | | | | | | | | | | |
| (5) Internal transfer of shareholders' equity | | | | | | | | | | |
| 1. Transfer of capital reserve to share capital | | | | | | | | | | |
| 2. Transfer of surplus reserve to share capital | | | | | | | | | | |
| 3. Compensation of loss from surplus reserve | | | | | | | | | | |
| 4. Others | | | | | | | | | | |
| (6) Transfer and use of special reserve | | | | | | | | | | |
| 1. Transfer in current period | | | | | | | | | | |
| 2. Use in current period | | | | | | | | | | |
| (7) Others | | | | | | | | | | |
| 4. Balance at the end of the year | 655,015,000.00 | 466,386,130.79 | | | 220,739,998.89 | | 342,614,884.56 | | 7,535,827.86 | 1,692,291,842.10 |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Consolidated statement of change of shareholders' equity (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

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

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Balance sheet

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 31/12/2012 | 31/12/2011 | Notes |
|--|-------------------------|-------------------------|-------|
| Current assets: | | | |
| Cash and bank | 194,463,677.11 | 89,554,907.28 | |
| Settlement provisions | | | |
| Interbank lending | | | |
| Trading financial assets | | | |
| Bills receivable | 1,850,000.00 | 2,705,695.37 | |
| Trade receivable | 231,416,087.32 | 62,071,745.67 | IX.a |
| Prepayments | 4,385,426.29 | 10,442,132.04 | |
| Premiums receivable | | | |
| Reinsurance receivable | | | |
| Reinsurance contract reserve | | | |
| Interest receivable | | | |
| Dividends receivable | 13,423,299.05 | 3,460,963.25 | |
| Other receivables | 183,251,605.81 | 149,969,007.09 | IX.b |
| Financial assets purchased for resale | | | |
| Inventories | 16,266,554.62 | 8,362,496.01 | |
| Non-current assets due within one year | | | |
| Other current assets | | | |
| Total current assets | 645,056,650.20 | 326,566,946.71 | |
| Non-current assets: | | | |
| Entrusted loans and advances | | | |
| Available-for sale financial assets | | | |
| Held-to-maturity investments | | | |
| Long-term receivables | | | |
| Long-term equity investment | 1,258,560,531.44 | 1,166,364,445.40 | IX.c |
| Investment properties | | | |
| Fixed assets | 415,060,414.27 | 400,611,454.76 | |
| Construction in progress | 3,890,602.01 | | |
| Construction supplies | | | |
| Disposals of fixed assets | | | |
| Biological assets for production | | | |
| Fuel assets | | | |
| Intangible assets | 23,536,609.81 | 24,461,068.82 | |
| Development expenses | | | |
| Goodwill | | | |
| Long term deferred expenses | | | |
| Deferred income tax assets | | | |
| Other non-current assets | | | |
| Total non-current assets | 1,701,048,157.53 | 1,591,436,968.98 | |
| Total assets | 2,346,104,807.73 | 1,918,003,915.69 | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Balance sheet (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 31/12/2012 | 31/12/2011 | Notes |
|---|------------------------------|------------------------------|-------|
| Current liabilities | | | |
| Short term loans | 255,000,000.00 | 240,000,000.00 | |
| Borrowing from PBOC | | | |
| Customer and interbank deposits | | | |
| Borrowing from interbank | | | |
| Trading financial liabilities | | | |
| Bills payable | 190,229,596.96 | 11,118,761.39 | |
| Accounts payable | 82,446,535.37 | 32,635,735.91 | |
| Advances from customers | 42,340.00 | 6,462,138.00 | |
| Financial assets sold under repurchase agreements | | | |
| Bank charges and Commissions due | | | |
| Salaries payable | 15,676,136.45 | 22,562,412.96 | |
| Taxes payable | 7,251,956.13 | 4,361,014.76 | |
| Interest payable | 521,752.78 | 521,752.78 | |
| Dividend Payable | | | |
| Other payables | 275,521,932.44 | 168,524,052.57 | |
| Reinsurers due | | | |
| Insurance contract reserves | | | |
| Security trading of agency | | | |
| Securities underwriting | | | |
| Non-current liabilities due within one year | | 4,000,000.00 | |
| Other current liabilities | | | |
| Total current liabilities | <u>826,690,250.13</u> | <u>490,185,868.37</u> | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Balance sheet (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 31/12/2012 | 31/12/2011 | Notes |
|---|-------------------------|------------------|-------|
| Non-current liabilities: | | | |
| Long term loans | | | |
| Bonds payables | | | |
| Long term payables | | | |
| Specific payables | | | |
| Accrued liabilities | | | |
| Deferred income tax liabilities | | | |
| Other non-current liabilities | | | |
| | | | |
| Total non-current liabilities | | — | |
| Total liabilities | 826,690,250.13 | 490,185,868.37 | |
| Shareholders' equity: | | | |
| Share capital | 655,015,000.00 | 655,015,000.00 | |
| Capital reserve | 435,389,401.59 | 436,256,485.59 | |
| Less: treasury stock | | | |
| special reserve | | | |
| Surplus reserve | 220,739,998.89 | 208,218,564.46 | |
| generic risk reserve | | | |
| Undistributed profits | 208,270,157.12 | 128,327,997.27 | |
| Discounted spread in foreign currency statement | | | |
| | | | |
| Equity to the parent company | 1,519,414,557.60 | 1,427,818,047.32 | |
| Total liabilities and shareholders' equity | 2,346,104,807.73 | 1,918,003,915.69 | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Profit and loss statement

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|--|-----------------------|----------------|-------|
| 1. Total operating income | 358,397,123.81 | 101,095,388.85 | |
| Include: Operating income | 358,397,123.81 | 101,095,388.85 | IX.d |
| Interest income | | | |
| Premiums earned | | | |
| Income from Bank charges and Commissions | | | |
| 2. Total operating cost | 498,808,787.72 | 250,758,257.26 | |
| Include: Operating cost | 321,884,801.10 | 64,465,124.41 | IX.d |
| Interest expenses | | | |
| Bank charges and Commissions | | | |
| Insurance withdrawal payment | | | |
| Net payment from indemnity | | | |
| Net provisions for insurance contract | | | |
| Insurance policy dividend paid | | | |
| Reinsurance cost | | | |
| Business taxes and surcharge | 1,076,170.28 | 1,292,850.50 | |
| Selling expenses | 8,602,736.23 | 9,333,631.77 | |
| Administrative expenses | 152,614,924.80 | 153,666,390.55 | |
| Financial expenses | 18,025,225.86 | 20,123,790.56 | |
| Impairment loss | -3,395,070.55 | 1,876,469.47 | |
| Add: Income from change in fair value (losses are represented by “—”) | | | |
| Investment income (losses are represented by “—”) | 219,116,488.25 | 199,991,455.54 | IX.e |
| Include: Investment income of associates and joint ventures | 191,854,511.74 | 188,117,695.48 | |
| Exchange gain (losses are represented by “—”) | | | |
| 3. Operating profit(losses are represented by “—”) | 78,704,824.34 | 50,328,587.13 | |
| Add: Non-operating income | 46,775,685.93 | 1,921,049.19 | |
| Less: Non-operating expenses | 266,165.99 | 380,228.42 | |
| Include: Loss from the disposal of non-current assets | 155,070.60 | 207,566.22 | |
| 4. Total Profit(losses are represented by “—”) | 125,214,344.28 | 51,869,407.90 | |
| Less: Income tax | | | |
| 5. Net Profit(losses are represented by “—”) | 125,214,344.28 | 51,869,407.90 | |
| 6. Other comprehensive income: | | | |
| 7. Total comprehensive income: | 125,214,344.28 | 51,869,407.90 | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Cash flow statement

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|---|-----------------------|----------------|-------|
| 1 Cash flows from operating activities | | | |
| Cash received from the sale of goods and rendering of services | 238,706,088.32 | 85,212,799.92 | |
| Net increase in Customer and interbank deposits | | | |
| Net increase in borrowing from PBOC | | | |
| Net cash increase in borrowing from other financial institute | | | |
| Cash received from premiums under original insurance contract | | | |
| Net cash received from reinsurance business | | | |
| Net increase in deposits of policy holders and investment | | | |
| Net increase in disposal of financial assets | | | |
| Cash received from interest, bank charges and commissions | | | |
| Net increase in cash borrowed | | | |
| Net increase in cash received form repurchase operation | | | |
| Refunds of taxes | | | |
| Cash received from relating to other operating activities | 141,368,483.21 | 107,099,565.90 | |
| Sub-total of cash inflows from operating activities | 380,074,571.53 | 192,312,365.82 | |
| Cash paid on purchase of goods and services received | 140,014,135.41 | 61,519,633.74 | |
| Net increase in loans and advances | | | |
| Net increase in disposits in PBOC and interbank | | | |
| Cash paid for compensation payments under original insurance contract | | | |
| Cash paid for Interest, bank charges and commissions | | | |
| Cash paid for insurance policy dividend | | | |
| Cash paid to and on behalf of employees | 62,457,665.01 | 70,428,111.43 | |
| Cash paid for all types of taxes | 5,996,617.62 | 5,467,660.42 | |
| Cash paid relating to other operating activities | 189,644,051.19 | 93,937,624.58 | |
| Sub-total of cash outflows from operating activities | 398,112,469.23 | 231,353,030.17 | |
| Net cash flows from operating activities | -18,037,897.70 | -39,040,664.35 | IX.f |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Cash flow statement (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|---|-----------------------|----------------|-------|
| 2. Cash flows from investing activities: | | | |
| Cash received from disposal of investments | | 30,000,000.00 | |
| Cash received from return on investments | 295,100,204.97 | 179,196,592.67 | |
| Net cash received from the disposal of fixed assets, intangible assets and other long term assets | 506,128.39 | 122,105.00 | |
| Net cash received from disposal of subsidiaries and other operating entities | 12,886,097.44 | | |
| Cash received relating to other investment activities | | | |
| Sub-total of cash inflows from investing activities | 308,492,430.80 | 209,318,697.67 | |
| Cash paid on purchase of fixed assets, intangible assets and other long term assets | 31,925,298.06 | 23,196,666.40 | |
| Cash paid for acquisition of investments | 191,895,320.00 | 36,668,000.00 | |
| Net increase in secured loans | | | |
| Net cash paid on acquisition of subsidiaries and other operating entities | | | |
| Cash paid on other investment activities | | | |
| Sub-total of cash outflows from investing activities | 223,820,618.06 | 59,864,666.40 | |
| Net cash flows from investing activities | 84,671,812.74 | 149,454,031.27 | |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Cash flow statement (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

| Items | 2012 | 2011 | Notes |
|--|-----------------------|-----------------|-------|
| 3. Cash flows from financing activities: | | | |
| Cash received from investment | | | |
| Including: cash received by subsidiaries from non-controlling shareholders' investment | | | |
| Cash received from borrowings | 360,000,000.00 | 240,000,000.00 | |
| Cash received from issuing bonds | | | |
| Cash received from other financing activities | | | |
| Sub-total of cash inflows from financing activities | 360,000,000.00 | 240,000,000.00 | |
| Cash paid on repayment of borrowings | 349,000,000.00 | 425,000,000.00 | |
| Cash paid on distribution of dividends or profits, or interest expenses | 57,280,563.00 | 18,009,295.32 | |
| Including: bonus and profit paid to non-controlling shareholders by subsidiaries | | | |
| Cash paid on other financing activities | | | |
| Sub-total of cash outflows from financing activities | 406,280,563.00 | 443,009,295.32 | |
| Net cash flows from financing activities | -46,280,563.00 | -203,009,295.32 | |
| 4. Effect of fluctuations in exchange rates on cash | | | |
| 5. Net increase in cash and cash equivalents | 20,353,352.04 | -92,595,928.40 | IX.f |
| Add: balance of cash and cash equivalents at the beginning of the year | 58,995,526.58 | 151,591,454.98 | IX.f |
| 6. Balance of cash and cash equivalents at the end of the year | 79,348,878.62 | 58,995,526.58 | IX.f |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Statement of change of shareholders' equity

Prepared by: Nanjing Panda Electronics Company Limited

| Items | 31 December 2012 | | | | | | | | |
|---|------------------|-----------------|----------------------------|-----------------|-----------------|-------------------------|--------------------------|-------|-------------------------|
| | Share capital | Capital Reserve | Less: treasury stock | Special Reserve | Surplus Reserve | Generic risk reserve | Undistributed Profits | Other | Shareholders' equity |
| 1. Balance at the end of last year | 655,015,000.00 | 436,256,485.59 | | | 208,218,564.46 | | 128,327,997.27 | | 1,427,818,047.32 |
| Add: change in accounting policies | | | | | | | | | |
| Correction of Previous Errors | | | | | | | | | |
| 2. Balance at the beginning of this year | 655,015,000.00 | 436,256,485.59 | | | 208,218,564.46 | | 128,327,997.27 | | 1,427,818,047.32 |
| 3. Change of this year | | | | | | | | | |
| (a decrease is represented by "—") | | -867,084.00 | | | 12,521,434.43 | | 79,942,159.85 | | 91,596,510.28 |
| (1) Net profit | | | | | | | 125,214,344.28 | | 125,214,344.28 |
| (2) Other comprehensive income | | | | | | | | | |
| Subtotal of item (1) and (2) above | | | | | | | 125,214,344.28 | | 125,214,344.28 |
| (3) Contribution and reduction of capital by shareholders | | -867,084.00 | | | | | | | -867,084.00 |
| 1. Capital contribution by shareholders | | | | | | | | | |
| 2. Amount settled by shares accounted for in shareholders' equity | | | | | | | | | |
| 3. Others | | -867,084.00 | | | | | | | -867,084.00 |
| (4) Profit distribution | | | | | 12,521,434.43 | | -45,272,184.43 | | -32,750,750.00 |
| 1. Transfer from surplus reserves | | | | | 12,521,434.43 | | -12,521,434.43 | | |
| 2. Transfer from generic risk reserves | | | | | | | | | |
| 3. Distribution to shareholders | | | | | | | -32,750,750.00 | | -32,750,750.00 |
| 4. Others | | | | | | | | | |
| (5) Internal transfer of shareholders' equity | | | | | | | | | |
| 1. Transfer of capital reserve to share capital | | | | | | | | | |
| 2. Transfer of surplus reserve to share capital | | | | | | | | | |
| 3. Compensation of loss from surplus reserve | | | | | | | | | |
| 4. Others | | | | | | | | | |
| (6) Transfer and use of special reserve | | | | | | | | | |
| 1. Transfer in current period | | | | | | | | | |
| 2. Use in current period | | | | | | | | | |
| (7) Others | | | | | | | | | |
| 4. Balance at the end of the year | 655,015,000.00 | 435,389,401.59 | | | 220,739,998.89 | | 208,270,157.12 | | 1,519,414,557.60 |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Statement of change of shareholders' equity (Continued)

Prepared by: Nanjing Panda Electronics Company Limited

| Items | 31 December 2011 | | | | | | | | |
|--|------------------|-----------------|----------------------------|-----------------|-----------------|-------------------------|--------------------------|-------|-------------------------|
| | Share capital | Capital Reserve | Less: treasury stock | Special Reserve | Surplus Reserve | Generic risk reserve | Undistributed Profits | Other | Shareholders' equity |
| 1. Balance at the end of last year | 655,015,000.00 | 437,688,751.31 | | | 203,031,623.67 | | 81,645,530.16 | | 1,377,380,905.14 |
| Add: change in accounting policies | | | | | | | | | |
| Correction of Previous Errors | | | | | | | | | |
| 2. Balance at the beginning of this year | 655,015,000.00 | 437,688,751.31 | | | 203,031,623.67 | | 81,645,530.16 | | 1,377,380,905.14 |
| 3. Change of this year (a decrease is represented by "—") | | -1,432,265.72 | | | 5,186,940.79 | | 46,682,467.11 | | 50,437,142.18 |
| (1) Net profit | | | | | | | 51,869,407.90 | | 51,869,407.90 |
| (2) Other comprehensive income | | | | | | | | | |
| Subtotal of item (1) and (2) above | | | | | | | 51,869,407.90 | | 51,869,407.90 |
| (3) Contribution and reduction of capital by shareholders | | -1,432,265.72 | | | | | | | -1,432,265.72 |
| 1. Capital contribution by shareholders | | | | | | | | | |
| 2. Amount settled by shares accounted for in shareholders' equity | | | | | | | | | |
| 3. Others | | -1,432,265.72 | | | | | | | -1,432,265.72 |
| (4) Profit distribution | | | | | 5,186,940.79 | | -5,186,940.79 | | |
| 1. Transfer from surplus reserves | | | | | 5,186,940.79 | | -5,186,940.79 | | |
| 2. Transfer from generic risk reserves | | | | | | | | | |
| 3. Distribution to shareholders | | | | | | | | | |
| 4. Others | | | | | | | | | |
| (5) Internal transfer of shareholders' equity | | | | | | | | | |
| 1. Transfer of capital reserve to share capital | | | | | | | | | |
| 2. Transfer of surplus reserve to share capital | | | | | | | | | |
| 3. Compensation of loss from surplus reserve | | | | | | | | | |
| 4. Others | | | | | | | | | |
| (6) Transfer and use of special reserve | | | | | | | | | |
| 1. Transfer in current period | | | | | | | | | |
| 2. Use in current period | | | | | | | | | |
| (7) Others | | | | | | | | | |
| 4. Balance at the end of the year | 655,015,000.00 | 436,256,485.59 | | | 208,218,564.46 | | 128,327,997.27 | | 1,427,818,047.32 |

Legal representative of the Company:
Xia Dechuan

Chief Accountant:
Shen Jianlong

Head of the Accounting Department:
Liu Xianfang

Notes To The Financial Statements

(All amounts in RMB thousands unless otherwise stated)

I. Introduction to the Company

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

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

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

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

I. Introduction to the Company (Continued)

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 on 18 April 1997. Its registered capital was RMB655,015,000. The approved scope of business includes research and development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching systems, electronic component parts, apparatus, machinery and equipment, industrial moulds and other equipment, computers and system engineering and as well as after-sale services and technical services for the such business.

The Company received new business license with numbered 320100400008823 on 6 January 2011. The registered capital is RMB 655,015,000. The scope of business approved is made up of certified business items and general business items. Certified business items include research, manufacture and sale of the transmission equipments of radio broadcasting and television, together with the after service, technical service, etc. General business items include development, production and sale of communication equipments, computers and other electronic facilities; meters and instruments, cultural and office-based machinery; electrical machinery and equipments; plastic products; general equipments such as fans, scales and packaging equipments; special equipments for the processing of non-metallic products such as chemical and wood; transmission and distribution equipments; environmental, public safety and related equipments; financial and taxation control devices; electricity source products; moulds; computer services, software and system integration business; property management; as well as after-sale services and technical services for the such business. The registered address is floors 1 and 2 on North side of No.5 Building, Nanjing High Technology Development District. The legal representative is Xia Dechuan and the parent of the Company is Panda Electronics Group Limited.

In December 2011, China Cinda Asset Management Co. Ltd had transferred 8.87% shares of Panda Electronic Group Co.Ltd (hereinafter referred to as "Panda Group" or "Group") to Nanjing Electronics Information Industrial Corporation (hereinafter referred to as "NEIC")

In 2012, according to Jiangsu Provincial government's approval 《The agreement of indirectly transferring quoted shares which is hold by Panda Electronic Group Co.Ltd.--Nanjing Huadong Electronics Group Co., Ltd》(Su Zheng Fu[2009]No.45), Jiangsu provincial State-owned assets supervision and Administration Commission's approval《the reply of amending partial state-owned property right in Panda Electronic Group Co. Ltd. with no obligation》(Su Guo Zi Fu[2012]No.22), State Council state-owned assets supervision and Administration Commission's approval《the reply of amending the actual controller of Nanjing Panda Electronics Company Limited》(Guo Zi Chan Quan [2012]No.158), and under the permission of China's Securities Regulatory Commission's approval《the reply of China Electronics Corporation announce acquisition report of Nanjing Panda Electronics Company Limited》(Zheng Jian Xu Ke [2012]No.770), Jiangsu Guoxin Investment Group Limited, Nanjing Xingang Development Corporation and Nanjing State-owned Assets Investment Management Holdings Co. Ltd. transferrd 21.59% shares , 22.07%shares and 4.32% shares respectively to Nanjing Electronics Information Industrial Corporation (shortened form "NEIC") subsidiary of China Electronics Corporation (shortened form CEC). Panda Group completed the industrial and commercial registration of shareholders amendment on 21 December 2012. After the shares transferred, CEC held 70% shares of NEIC,and NEIC held 56.85% shares of Panda Group, as a result, CEC became the actual controller of Nanjing Panda Electronics Company Limited, with 51.10% shares of the Company.

The Financial Statements of the Company were approved by the Board of the Company on 27 March 2013.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

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

III. Basis of preparation of financial statements

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

IV. Accounting policies and accounting estimates adopted by the Company and prior period

1. Accounting period

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

2. Measurement currency

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

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

3. Principle of book-keeping and accounting measurement attribute

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

4. Recognition standard for cash equivalents

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

5. Foreign Currency businesses

(1) Foreign currency transaction

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

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

(2) Translation of Financial Statements Dominated in Foreign Currency

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

6. Financial Assets and Financial Liabilities

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

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

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

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

(3) Transfer and Calculation of Financial Assets

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

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

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

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

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

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

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

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

(5) Impairment of Financial Assets

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

6. Financial Assets and Financial Liabilities *(Continued)*

(5) Impairment of Financial Assets *(continued)*

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

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

6. Financial Assets and Financial Liabilities (Continued)

(5) Impairment of Financial Assets (continued)

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

7. Receivables

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

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

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

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

8. Inventories

(1) Classification of Inventories

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

(2) Measurement method for inventories received and delivered

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

8. Inventories *(Continued)*

- (4) The Company adopts perpetual inventory record system.
- (5) Recognition scope and provision methods for impairment provision of inventory.

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

9. Long-term equity investment

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

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

A. Joint control is the contractually agreed sharing of control over an economic activity. Basis for confirmation of joint control include: Any party to the joint venture shall not separately control production and operation activities of the joint venture; the decision concerning the elementary operation activities of the joint venture need unanimous consent from all parties to the joint venture.

B. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. Basis for confirmation of significant influence mainly include: when the Company directly or indirectly hold through subsidiaries 20%(inclusive) or above but less than 50% shares with voting rights, it will be recognized as having significant influence on the investees, except that there are clear evidences showing it cannot participate the production and operation decision of the investees thus constituting no significant influence; when the Company hold 20% (exclusive) below shares with voting rights of the investees, it generally will be recognized no significant influence on the investees. It can be recognized as having significant influence on the investees should the following conditions be satisfied:

- A. Having representatives in the board of directors of investees or equivalent governing body;
- B. participating in the policy making process of investees;
- C. Significant transactions occurred with investees;
- D. Dispatching management staff to investees;
- E. Providing key technology information to investees.

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

9. Long-term equity investment *(Continued)*

(2) Measurement of long-term equity investment

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

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

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

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

- A. The cost of a long-term equity investment acquired by payment of cash shall be recognized at the actual purchase cost.
- B. The cost of a long-term equity investment acquired by issue of equity securities shall be recognized at the fair value of the equity securities issued;
- C. The cost of a long-term equity investment invested as an investor shall be recognized at the value stipulated in the investment contract or agreement, other than the unfair value stipulated in the contract or agreement;
- D. The cost of a long-term investment acquired by the exchange of non-monetary assets shall be recognized in accordance with the Accounting Standards for Enterprises No. 7 - Exchange of Non-monetary Assets.
- E. The cost of a long-term equity investment acquired by debt restructuring shall be recognized in accordance with Accounting Standards for Enterprises No. 12 - Debt Restructuring.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

9. Long-term equity investment (Continued)

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

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

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

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

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

9. Long-term equity investment *(Continued)*

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

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

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

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

10. Investment Properties

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

- (1) Recognition of Investment properties

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

10. Investment Properties (Continued)

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

(3) Subsequent measurement of the investment property

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

(4) Conversion of the investment property

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

11. Fixed Assets

(1) Recognition scope of fixed assets

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

11. Fixed Assets *(Continued)*

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

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

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

- B. The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- C. The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.
- D. Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognized based on the amount incurred and charged to the current profit and loss... Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term deferred expenses and amortized on a reasonable basis.
- E. The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, merger of enterprises, and financial leasing shall be respectively ascertained in accordance with the Accounting Standards No. 7 - Exchange of Non-monetary Assets, Accounting Standards for Enterprises No. 12 - Debt Restructuring, Accounting Standards for Enterprises No. 20 - Merger of Enterprises and Accounting Standards for Enterprises No. 21 - Leases.

(3) Categories of fixed assets

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

11. Fixed Assets (Continued)

(4) Depreciation of Fixed assets

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

| Categories of fixed assets | Estimated useful life (year) | Estimated residual value (%) | Depreciation rate (%) |
|----------------------------|------------------------------|------------------------------|-----------------------|
| Buildings | 20-30 | 5 | 3.17-4.75 |
| Machine equipment | 5-11 | 3-5 | 8.636-19.4 |
| Transportation equipment | 5-10 | 3-5 | 9.5-19.4 |
| Electronic equipment | 3-7 | 3-5 | 13.57-32.33 |
| Other equipment | 5 | 3-5 | 19-19.4 |

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

11. Fixed Assets (Continued)

(5) Treatment of subsequent expenses related to fixed assets

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

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

(6) Fixed assets acquired under finance leases

A. Recognition basis for fixed assets acquired under finance leases

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

11. Fixed Assets (Continued)

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

B. Measurement method for fixed assets acquired under finance leases

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

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

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

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

C. Depreciation method for fixed assets acquired under finance leases

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

12. Construction in progress

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

13. Intangible assets

(1) Recognition scope of intangible assets

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

- A. Meet the definition of intangible assets;
- B. The economic benefits pertinent to the assets are likely to flow into the Company;
- C. The cost of the asset can be measured reliably.

(2) Initial measurement of intangible assets

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

13. Intangible assets (Continued)

(2) Initial measurement of intangible assets (Continued)

C. The cost of self-developed intangible assets

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

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

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

13. Intangible assets *(Continued)*

(3) Subsequent measurement of intangible assets

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

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

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

14. Goodwill

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

15. Long-term prepaid expenses

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

16. Impairment of Assets

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

16. Impairment of Assets (Continued)

(2) Recognition of Assets with Potential Impairment

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

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

(3) Measurement of Recoverable Amount of Assets

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

16. Impairment of Assets *(Continued)*

(4) Recognition of Asset Impairment Losses

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

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

(6) Impairment of goodwill

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

17. Borrowing Costs

(1) Recognition Principles for Borrowing Cost Capitalization

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

- A. Capital expenditure has been incurred.
- B. The borrowing costs have been incurred.
- C. It has commenced the acquisition and construction or production activities which enable the assets reach the working condition for its intended use or sale.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

17. Borrowing Costs (Continued)

(2) Period of Capitalization of Borrowing Cost

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

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

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

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

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

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

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

17. Borrowing Costs *(Continued)*

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

(B) *(Continued)*

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

18. Employee benefits

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

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

19. Share-based Payments

(1) The Equity-settled Share-based Payments

- A. The equity-settled share-based payment in return for employee services or similar services provided by other party shall be measured at the fair value of the equity instruments granted to the employees and other party.
- B. As to an equity-settled share-based payment in return for services of employees or similar services provided by other party, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly.
- C. The Company shall, after the exercise date, make no adjustment to the relevant costs or expenses as well as the total amount of the owner's equities which have been recognized.
- D. On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

19. Share-based Payments (Continued)

(2) The Cash-settled Share-based Payments

- A. The cash-settled share-based payments are measured at the fair value of liabilities born by the Company.
- B. As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Company shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly.
- C. As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company.
- D. Subsequent Measurement
 - a. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.
 - b. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits and losses.

20. Provisions

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

21. Revenue

(1) Recognition method for the revenue from selling goods

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

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

(2) Recognition method for the provision of service

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

21. Revenue (Continued)

- (3) Recognition method for the revenue from an alienating use right of assets

Recognition Principles for the revenue from an alienating use right of assets

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

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

Specific recognition method

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

22. Construction Contract

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

22. Construction Contract (Continued)

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

23. Government Subsidies

- (1) Recognition conditions of government subsidies

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

- A. The Company can meet the conditions attached to the government subsidies;
- B. The Company can obtain the government subsidies.

- (2) Measurement of government subsidies

- A. If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount (RMB1.00).
- B. The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized. Those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in the current profits and losses.
- C. If it is necessary to refund any government subsidies which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses. If there is no deferred income concerned to the government subsidies, it shall be directly included in the current profits and losses.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

24. Exchange of Non-monetary Assets

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

25. Debt Restructuring

(1) Definition and scope of debt restructuring

The term “debt restructuring” refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

(2) Accounting treatment of debtors

- A. When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profits and losses. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profits and losses. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profits and losses. When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as stock of capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the stock of capital (or paid-in capital) as capital reserve. The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profits and losses.
- B. Where other terms of a debt are modified, the debtor shall regard the post-modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other terms of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

25. Debt Restructuring (Continued)

(3) Accounting treatments of the creditor

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

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

26. Leases

(1) Classification of Leases

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

26. Leases (Continued)

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

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

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

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

(3) Main accounting treatment of finance lease

A. Accounting treatments of lessees

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

26. Leases (Continued)

(3) Main accounting treatment of finance lease (Continued)

A. Accounting treatments of lessees (Continued)

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

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

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

B. Accounting treatments of lessors

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

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

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

(4) Main accounting treatment of operating lease

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

27. Income Taxes

- (1) Income taxes of the Company shall be accounted for using balance sheet liability method.
- (2) Where the Company obtains assets or liabilities, it shall determine its tax base. Where there is difference between the carrying amount of the assets or liabilities and its tax base, the deferred income tax assets or the deferred income tax liabilities shall be recognized according to the provisions.
- (3) Recognition of deferred income tax assets
 - A. The Company recognizes deferred tax assets arising from deductible temporary difference but the amount is limited to the taxable income that the Company can possibly obtain to deduct the deductible temporary differences. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:
 - a. The transaction is not a merger of enterprise;
 - b. At the time of the transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.
 - B. Where the deductible temporary difference related to the investments of the subsidiaries, associated companies and joint venture companies can meet the following requirements simultaneously, the Company shall recognize the corresponding deferred income tax assets:
 - a. The temporary differences are likely to be reversed in the expected future;
 - b. It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.
 - C. Any deductible loss or tax deduction that can be carried forward to the next year in accordance with the tax law shall be deemed as deductible temporary difference, the corresponding deferred income tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

27. Income Taxes (Continued)

(4) Recognition of deferred income tax liabilities

Except deferred tax liabilities incurred in the following transactions, the Company recognizes all taxable deferred tax liabilities arising from the temporary difference:

- A. Initial recognition of goodwill;
- B. Initial recognition of assets or liabilities created in the transactions with the following characteristics:
 - a. The transaction is not a corporate merger;
 - b. When the transaction occurs, neither of the accounting profit and taxable income (or deductible loss) is not affected.

As for the taxable temporary differences related to the investments of subsidiaries, associated enterprises and joint venture enterprises, the Company shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded:

- a. The investing enterprise can control the time of the reverse of temporary differences;
- b. The temporary differences are unlikely to be reversed in the excepted future.

(5) Measurement of income taxes

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

- A. Merger of enterprises;
- B. The transactions or events directly recognized as the owner's equity.

(6) Impairment of deferred income tax assets

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

Where it is likely to obtain sufficient taxable income taxes, the book value of deferred tax assets reduced can be recovered.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

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

1. Statement of change in accounting policy

There is no change on accounting policy of the Company during this accounting period.

2. Change in Accounting Estimate and Correction to Previous Errors

There is no change in accounting estimate and correction to previous errors of the Company during this accounting period.

VI. Tax

1. Value-added tax

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

The value-added tax paid for purchase of raw materials of imported raw materials etc. can be offset against sales tax. The tax rate is 17%. Of this tax, application can be made for refund of the import duty paid for export of products, and the refund tax rate for export is 13% and 17%.

The assessable amount of value-added tax is the balance after current import duty is deducted by current sales tax.

According to the "Notice of the Pilot Program of Value-added tax Replacing Business Tax" (Cai Shui Zi[2011]No.110) and the "Notice of the Pilot Program of Value-added tax Replacing Business Tax about Transportation Industry and Part of Service Industry in Beijing and Some other Eight Provinces" (Cai Shui Zi[2012]No.71) issued by the Ministry of Finance and the State Administration of Taxation, the Company and some subsidiaries of the Company registered in Jiangsu Province, which provide R&D and technical services and IT services are applied to VAT with applicable rate of 6%.

2. Sales Tax

Sales tax is applicable to the Company's revenue from lease of premises, construction and installation, etc.

Of this tax, the tax rate of revenue from lease of premises is 5% while the tax rate of revenue from construction and installation is 3%.

3. Urban development tax and education surcharge

The Company's urban development tax and education surcharge are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 3%-5% respectively (the National rate is 3%, the local rate is from 0% to 2%).

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VI. Tax (Continued)

4. Enterprise income tax

The Company is recognized by Jiangsu Provincial Science and Technology Commission as a high-tech enterprise on 30 September 2011 with the effective period for 3 years and the Company was issued a high-tech enterprise certificate (Certificate No.GF201132000407) Accordingly, the Company enjoys a preferential tax policy of 15% from 1 January 2011 to 31 December 2013.

The applicable enterprise income rate for subsidiaries of the Company is 12.5%, 15%, 16.5% and 25% respectively.

Nanjing Panda Information Industry Co., Ltd, a subsidiary of the Company, is registered in Jiangning Economic and Technological Development District. As a foreign invested enterprise, it is entitled to a two year exemption from income taxes followed by three years of a 50% tax reduction. Year 2012 is the third year of the three years of a 50% tax reduction and the applicable tax rate is 12.5%.

Nanjing Panda Appliance & Apparatus Co. Ltd, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 9 September 2011 with the effective period for 3 years and the Company was issued a high-tech enterprise certificate (Certificate No.GF201132000336) .Accordingly, it paid income taxes by 15% of taxable income from 1 January 2011 to 31 December 2013.

Nanjing Huage Appliance and Plastic Industrial Co.,Ltd., a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 30 September 2011, with an effective period of 3 years and the Company was issued a high-tech enterprise certificate (Certificate No.GF201132000917) .Accordingly, it paid income taxes by 15% of taxable income from 1 January 2011 to 31 December 2013.

Nanjing Panda Communication Technology Co., Ltd, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 9 September 2011, with an effective period of 3 years and the Company was issued a high-tech enterprise certificate (Certificate No.GF201132000357) .Accordingly, it paid income taxes by 15% of taxable income from 1 January 2011 to 31 December 2013.

Nanjing Panda Mechanical Manufacturing Co., Ltd, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 13 December 2010, with an effective period of 3 years and the Company was issued a high-tech enterprise certificate (Certificate No. GR201032000645) .Accordingly, it paid income taxes by 15% of taxable income from 1 January 2010 to 31 December 2012.

Nanjing Panda Electromechanical Instruments Technology Co.,Ltd, a subsidiary of the Company, is recognized as a high-tech enterprise by Jiangsu Science & Technology Commission on 5 November 2012, with an effective period of 3 years. Accordingly, it paid income taxes by 15% of taxable income from 1 January 2012 to 31 December 2014.

Galant Limited., a subsidiary of the Company, registered in Hong Kong, the applicable rate is 16.5%.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VI. Tax (Continued)

5. Real property tax

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

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

6. Other taxes

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

VII. Merger of enterprises and consolidated financial statements

1 Merger of enterprises

(1) Merger of enterprises under same control

A. Definition of merger of enterprises under same control

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

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

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements (Continued)

1 Merger of enterprises (Continued)

(1) Merger of enterprises under same control (Continued)

B. Basis for determination of the merger date

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

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

C. Recognition of book value of assets and liabilities acquired in the merger as well as treatment of the merger difference

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

D. Treatment method of the merger expenses

All direct relevant expenses incurred to the Company for the merger of enterprises, including auditing fees and assessment fees and legal fees, shall be included in the current profit and loss at occurrence.

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements *(Continued)*

1 Merger of enterprises *(Continued)*

(2) Merger of enterprises not under same control

A. Definition of merger of enterprises not under same control

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

B. Basis for the determination of the acquisition date

The acquisition date refers to the date when the Company actually acquires the control right of the acquiree (acquirees), i.e. the date when the control right of net assets or production and operation decisions of the acquiree (acquirees) is transferred to the Company. Basis for determination of the acquisition date is the same as determination of the merger date.

C. Determination of the merger cost

- a. In a merger of enterprises through one swap transaction, the merger cost shall be assets paid, and liabilities incurred or borne by the Company for acquiring the control right of the acquiree (acquirees) on the acquisition date and fair value of the issued equity securities.
- b. In a merger of enterprises through several swap transactions, the transaction cost of prior acquired shares should be revalued by the fair value of acquisition date. The difference between cost on book and fair value should be booked in investment gain or loss.
- c. Where future events with possible impact on the merger cost are specified in the merger contract or agreement, and future events are likely to occur as estimated on the acquisition date and the amount of the impact on the merger cost can be reliably measured, the Company shall include them in the merger cost.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements (Continued)

1 Merger of enterprises (Continued)

(2) Merger of enterprises not under same control (Continued)

D. Treatment method of the merger expenses

All direct relevant expenses incurred to the Company for the merger of enterprises, including auditing fees and assessment fees and legal fees, shall be included in the current profit and loss at occurrence. Expenses including handling charges and commission paid for issuing corporate bonds or bearing liabilities for the merger of enterprises shall be included in the amount of initial measurement of the issued corporate bonds and other liabilities.

Assets paid, and liabilities incurred and borne for the merger of enterprises by the Company on the acquisition date shall be measured at fair value, with difference between fair value and its book value being recorded into the current profit and loss.

E. Distribution of the merger cost

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

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements *(Continued)*

1 Merger of enterprises

(3) Merger by absorption

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

- A. As for the merger by absorption under same control, assets and liabilities acquired by the Company on the merger date shall be recognized as per the original book value of such assets and liabilities in the acquiree (acquirees). If the accounting policy adopted by the acquiree (acquirees) is inconsistent with the Company, on the principle of materiality, the Company shall adjust the fair value of relevant assets and liabilities of the acquire (acquirees) in accordance with the Company's accounting policy based on which the Company shall recognize the book value of assets and liabilities acquired in the merger.
- B. As for the merger by absorption not under same control, all the assets and liabilities which meet the recognition requirements acquired by the Company on the merger date shall be recognized as assets and liabilities of the Company at its fair value.

2 Consolidated financial statements

(1) Consolidation scope

A. Recognition principle

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements (Continued)

(1) Consolidation scope

B. Major subsidiaries and determination of consolidation scope for 2012

| Company name | Registration address | Nature of business | Registered capital: (RMB'000) | Business scope |
|---|----------------------|--------------------|----------------------------------|--|
| I. Subsidiaries acquired from merger of enterprises under same control | | | | |
| Nanjing Panda Communication Technology Co., Ltd. (note) | Nanjing | Industry | 5,000 | Development and production of mobile communications, digital communications, network communications systems and products |
| Nanjing Panda Mechanical Engineering Plant | Nanjing | Service | 4,500 | Manufacture and sales of electronic products, communication equipment, appliance and apparatus. |
| Nanjing Panda Electromechanical Instruments Technology Co., Ltd. | Nanjing | Industry | 1,000 | Research, Development, Manufacturing and sales of logistic supporting equipment and automatic fare collection equipment |
| II. The subsidiaries acquired otherwise | | | | |
| Nanjing Panda Appliance & Apparatus Co. Ltd. | Nanjing | Industry, Software | 100 | Production, development and sale of testing appliance; design and installation of electronic information system |
| Nanjing Panda Mechanical Manufacturing Co., Ltd. | Nanjing | Industry | 1,000 | Metal components |
| Nanjing Panda Accurate Machinery Co., Ltd. | Nanjing | Industry | 500 | Production of equipment and spare parts for electronic industry; processing of sophisticated machinery |
| Nanjing Panda Technology Equipment Co., Ltd. | Nanjing | Industry | 500 | Production and installation of production line |
| Nanjing Panda Mechanical Co., Ltd. | Nanjing | Industry | 300 | Processing and manufacturing of mechanical parts |
| Nanjing Panda Information Industry Co., Ltd. | Nanjing | Industry | USD2,300 | Development, production and sale of electronic information products |
| Nanjing Panda System Integration Co., Ltd. | Nanjing | Industry | 300 | Development and sales of computer software |
| Nanjing Panda Electronic Manufacture Co., Ltd. | Nanjing | Industry | USD2,000 | Development and production of new models of electronic products |
| Nanjing Huage Appliance and Plastic Industrial Co., Ltd | Nanjing | Industry | 6,000 | Plastic product & accessories |
| Nanjing Panda Power supply Technology Co., Ltd. | Nanjing | Industry | 1,100 | Design, production and sales of Power supply and special type power transformer |
| Nanjing Guanghua Electronics Plastic Casings Factory | Nanjing | Service | 1,149.76 | PVC, ABS products |
| Nanjing Panda International Communication Systems Co.,Ltd | Nanjing | Industry | USD124 | Development, production sale of telephone and telecommunication system |
| Nanjing Panda Electronic Equipment Co., Ltd. | Nanjing | Industry | 8,000 | Manufacture of automatic industrial equipment, environmental protection equipment, and logistic accessories |
| Nanjing Panda Industrial Enterprise Co., Ltd. | Nanjing | industry | 2,000 | Property management and sales of mechanical, electronic products, construction materials and office supplies |
| Nanjing Panda Electronic Technology Development Co., Ltd. | Nanjing | Industry | 25,000 | General equipment manufacturing, software development, property management |
| Galant Limited | Hong Kong | R & D | HKD1 | R&D of communication products |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements (Continued)

(1) Consolidation scope (Continued)

B. Major subsidiaries and determination of consolidation scope for 2012 (Continued)

| Company name | The Company's Actual investment (RMB0'000) | Balance of net investment in other accounts in subsidiaries (RMB0'000) | Shareholding percentage (%) | Percentage of voting rights (%) | Whether to consolidate |
|---|--|--|-----------------------------|---------------------------------|------------------------|
| I. Subsidiaries acquired from merger of enterprises under same control | | | | | |
| Nanjing Panda Communication Technology Co., Ltd. (note) | 5,001.80 | | 100 | 100 | Yes |
| Nanjing Panda Mechanical Engineering Plant | 3,004.20 | | 99.11 | 100 | Yes |
| Nanjing Panda Electromechanical Instruments Technology Co., Ltd.(b) | 894.37 | | 70 | 70 | Yes |
| II. The subsidiaries acquired otherwise | | | | | |
| Nanjing Panda Appliance & Apparatus Co. Ltd. | 99.27 | | 100 | 100 | Yes |
| Nanjing Panda Mechanical Manufacturing Co., Ltd. | 700 | | 70 | 70 | Yes |
| Nanjing Panda Accurate Machinery Co., Ltd. | 562.79 | | 100 | 100 | Yes |
| Nanjing Panda Technology Equipment Co., Ltd. | 503.19 | | 100 | 100 | Yes |
| Nanjing Panda Machinery Co., Ltd. | 258.22 | | 85.82 | 85.82 | Yes |
| Nanjing Panda Information Industry Co., Ltd. | 16,181.42 | | 100 | 100 | Yes |
| Nanjing Panda System Integration Co., Ltd. | 163.02 | | 54.37 | 54.37 | Yes |
| Nanjing Panda Electronic Manufacture Co., Ltd. | 14,825.38 | | 100 | 100 | Yes |
| Nanjing Huage Appliance and Plastic Industrial Co., Ltd | 5,462.28 | | 100 | 100 | Yes |
| Nanjing Panda Power supply Technology Co., Ltd. | 875 | | 79.55 | 79.55 | Yes |
| Nanjing Guanghai Electronics Plastic Casings Factory | 827.11 | | 100 | 100 | Yes |
| Nanjing Panda International Communication Systems Co.,Ltd | 765.50 | | 72 | 72 | Yes |
| Nanjing Panda Electronic Equipment Co., Ltd.(d) | 8,000 | | 100 | 100 | Yes |
| Nanjing Panda Industrial Enterprise Co., Ltd.(c) | 2,000 | | 100 | 100 | Yes |
| Nanjing Panda Electronics Technology Development Co., Ltd. | 25,000 | | 100 | 100 | Yes |
| Galant Limited | HKD1 | | 100 | 100 | Yes |

Note: The company formerly known as Nanjing Longwill Communication Technology and was renamed Nanjing Panda Communication Technology Co., Ltd. since 11 June 2012.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements (Continued)

(2) Preparation method of consolidated financial statements

A. Basic preparation method of consolidated financial statements

Based on the financial statements of the parent and subsidiaries included in the consolidation and in accordance with other relevant information, financial statements are prepared through adjustment in long-term equity investment in subsidiaries after offsetting the parent's equity capital investment and its share in shareholders' equity of the subsidiaries, material transactions within the Company and transactions between home office and branches. Non-controlling interests shall be presented as "Non-controlling interests" under the owner's equity in the consolidated balance sheet. Non-controlling interests shall be presented as "Non-controlling interests" under net profits in the consolidated income statements.

B. Treatment method for acquisition or disposal of subsidiaries in the reporting period

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

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

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

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

VII. Merger of enterprises and consolidated financial statements *(Continued)*

2. Consolidated financial statements *(Continued)*

(2) Preparation method of consolidated financial statements *(Continued)*

C. Treatment of different accounting policies or accounting periods between the Company and its subsidiaries

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

(3) There are not any changes in the scope of consolidation.

(4) Non-controlling interests

A. Non-controlling interests of subsidiaries

| Company name | Closing balance | Opening balance |
|--|----------------------------|---------------------|
| Nanjing Panda Appliance & Apparatus Co. Ltd. | 486,504.84 | |
| Nanjing Panda Mechanical Manufacturing Co. Ltd. | 7,639,458.43 | 7,061,178.63 |
| Nanjing Panda Mechanical Co., Ltd. | 526,962.26 | 500,244.79 |
| Nanjing Panda System Integration Co., Ltd. | 1,425,067.56 | 896,850.54 |
| Nanjing Panda Electromechanical Instruments Technology Co., Ltd. | 5,371,714.85 | 6,095,912.42 |
| Nanjing Panda International Communication Systems Co., Ltd | (4,691,746.73) | (3,917,822.01) |
| Nanjing Panda Power Supply Technology Co., Ltd. | (2,735,628.51) | (2,721,227.41) |
| Total | <u>7,535,827.86</u> | <u>8,401,641.80</u> |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements

Unless specified otherwise in the following notes (including the notes to the financial statements of the Company), the terms “opening balance” and “closing balance” refer to the balances as of 1 January 2012 and 31 December 2012 respectively, and the terms “last year” and “the year” refer to year 2011 and year 2012 respectively.

1. Cash and Bank Balances

| | Closing balance | Opening balance |
|------------------------------|-----------------------|-----------------|
| Cash | 775,785.00 | 1,091,139.29 |
| Bank balances | 377,264,515.31 | 342,692,230.99 |
| Other cash and bank balances | 212,759,439.74 | 103,105,261.18 |
| Total | 590,799,740.05 | 446,888,631.46 |

Cash and bank balances include the following foreign currencies:

| | Closing Balance | | | Opening Balance | | |
|-------|-----------------------------------|----------------|-----------------------------|-----------------------------------|---------------|-----------------------------|
| | Amount in original currency | Exchange rate | Equivalent amount in CNY | Amount in original currency | Exchange rate | Equivalent amount in CNY |
| USD | 1,860,897.66 | 6.2855 | 11,696,672.24 | 3,052,537.57 | 6.3009 | 19,233,733.97 |
| HKD | 20,576.11 | 0.81085 | 16,684.14 | 88,061.59 | 0.8107 | 71,391.53 |
| EUR | 21,331.18 | 8.3176 | 177,424.22 | 116,554.30 | 8.1625 | 951,374.47 |
| Total | | | 11,890,780.60 | | | 20,256,499.97 |

- (1) The closing balance of the restricted other cash and bank balances amounting to RMB212,759,439.74 (the opening balance is RMB103,105,261.18) mainly included bank bill payables' deposits and contract guarantee deposits.
- (2) The Company's bank balances included call deposits totaling RMB25,000,000.00 (the opening balance is RMB110,362,876.73)
- (3) The closing balance of the cash and bank balances increased by 32.20% from the opening balance mainly due to the received dividends from associated companies and retained cash from operating.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

2. Bills Receivable

- (1) Details of bills receivable

| Types of Bills | Closing balance | Opening balance |
|-----------------------|----------------------|----------------------|
| Bank acceptance notes | <u>37,673,756.21</u> | <u>15,720,441.55</u> |
| Total | <u>37,673,756.21</u> | <u>15,720,441.55</u> |

- (2) The closing balance of bills receivable included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (3) The year-end bills receivable had no pledge or security.
- (4) The bills receivable that had been endorsed to the third party but not yet matured is RMB94,998,123.32.
- (5) Details of the five largest debtors of bills receivable that had been endorsed undue at the end of the period listed are as following:

| Bills From | Date of issue | Due date | Amount | Note |
|--|---------------|-----------|----------------------|------|
| Nanjing Yougete Communication equipment Co., Ltd. | 2012.8.29 | 2013.2.28 | 8,000,000.00 | |
| Nanjing Yougete Communication equipment Co., Ltd. | 2012.8.29 | 2013.2.28 | 8,000,000.00 | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 2012.12.14 | 2013.3.14 | 3,000,000.00 | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 2012.12.14 | 2013.3.14 | 3,000,000.00 | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 2012.12.14 | 2013.3.14 | 3,000,000.00 | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 2012.12.14 | 2013.3.14 | 3,000,000.00 | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 2012.12.14 | 2013.3.14 | 3,000,000.00 | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 2012.12.14 | 2013.3.14 | 3,000,000.00 | |
| Total | | | <u>34,000,000.00</u> | |

- (6) The closing balance of the notes receivable increased by 139.65% from that of the opening balance, mainly due to the increased settlement in notes.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable

(1) Break-down of accounts receivable by categories

| Items | Closing Balance | | | Percentage of provision for bad debt % |
|--|-----------------|--------------|------------------------|--|
| | Balance | Percentage % | Provision for bad debt | |
| Substantial amount of single account receivable with specific provision (note 1) | 690,832,902.61 | 84.24 | 52,360,147.99 | 7.58 |
| Other unsubstantial amount of accounts receivable with specific provision (note 2) | 129,221,028.61 | 15.76 | 22,744,606.17 | 17.60 |
| Total | 820,053,931.22 | 100 | 75,104,754.16 | |

| Items | Opening Balance | | | Percentage of provision for bad debt % |
|---|-----------------|--------------|------------------------|--|
| | Balance | Percentage % | Provision for bad debt | |
| Substantial amount of single account receivable with specific provision | 469,841,032.07 | 78.05 | 29,449,607.68 | 6.27 |
| Other unsubstantial amount of accounts receivable with specific provision | 132,130,215.76 | 21.95 | 23,596,290.10 | 17.86 |
| Total | 601,971,247.83 | 100 | 53,045,897.78 | |

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable (Continued)

(1) Break-down of accounts receivable by categories (Continued)

Note 1. Substantial amount of single accounts receivable with specific provision.

| Name of debtor | Amounts | Provision for bad debt | Percentage of provision for bad debt % | Reasons |
|--|-----------------------|------------------------|--|---|
| Film and Television Bureau of Gansu Province | 187,360,167.10 | | | Expected can be recovered |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 81,984,831.45 | | | Expected can be recovered |
| Pandigital,inc | 66,029,415.39 | 16,654,689.35 | 25.22 | Current value of the expected future cash flow is lower than its carrying value |
| Nanjing Lopu Co., Ltd. | 54,111,265.00 | | | Expected can be recovered |
| Nanjing Panda Handa Technology Co., Ltd | 52,346,037.37 | 833,024.15 | 1.59 | Current value of the expected future cash flow is lower than its carrying value |
| Binhai county administration of Radio, Film and Television | 24,958,700.00 | 555,850.00 | 2.23 | Current value of the expected future cash flow is lower than its carrying value |
| Radio frequency system (Shanghai) Company Limited | 23,677,029.19 | | | Expected can be recovered |
| PACIC DIGIT CORP | 21,203,650.91 | 21,203,650.91 | 100.00 | Expected can not be recovered |
| Ningxia radio, film & television bureau | 16,766,623.00 | | | Expected can be recovered |
| Nanjing Sharp Electronics Co., Ltd. | 15,443,532.92 | 201,797.24 | 1.31 | Current value of the expected future cash flow is lower than its carrying value |
| International Far Eastern Leasing Co., Ltd. | 13,860,000.00 | | | Expected can be recovered |
| Nanjing Internet of Things Application Research Institute Co., Ltd. | 12,402,675.00 | | | Expected can be recovered |
| Changzhou Hengcheng Plastic Machinery Co., Ltd. | 11,265,408.90 | | | Expected can be recovered |
| Andrew telecommunications equipment (China) Co., Ltd. | 11,235,497.86 | | | Expected can be recovered |
| NARI Technology Development Co., Ltd. | 10,872,322.50 | | | Expected can be recovered |
| Suzhou Compu International Co., Ltd. | 7,923,684.92 | | | Expected can be recovered |
| Nanjing Panda Electronic Import/Export Co.,Ltd | 7,920,530.45 | 9,009.77 | 0.11 | Current value of the expected future cash flow is lower than its carrying value |
| Wuhan subway limited liability company | 7,878,002.10 | | | Expected can be recovered |
| Nanjing Qixia District Cable management station | 7,348,860.00 | | | Expected can be recovered |
| Fengxian Broadcasting and Television Information Network Co., Ltd. | 7,220,440.00 | 912,400.00 | 12.64 | Current value of the expected future cash flow is lower than its carrying value |
| Nanjing Yougete Communication Equipment Co., Ltd. | 7,171,000.00 | | | Expected can be recovered |
| Sihong County Radio and Television Information Network Co., Ltd. | 6,822,000.00 | | | Expected can be recovered |
| Sheyang County broadcasters | 6,373,400.00 | | | Expected can be recovered |
| Jiu Zhou Group (HK) Holdings LTD | 6,303,226.57 | 6,303,226.57 | 100.00 | Expected can not be recovered |
| Jiangsu DAIFUKU automatic conveyer Co., Ltd. | 6,074,639.48 | | | Expected can be recovered |
| Shenzhen No.1 Environmental Science and Technology Co.Ltd | 5,686,500.00 | 5,686,500.00 | 100.00 | Expected can not be recovered |
| Nanjing Guobo Electronics Co., Ltd | 5,544,342.50 | | | Expected can be recovered |
| Heilongjiang Radio and Television Network Co.Ltd | 5,049,120.00 | | | Expected can be recovered |
| Total | 690,832,902.61 | 52,360,147.99 | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable (Continued)

(1) Break-down of accounts receivable by categories (Continued)

Note 2. Unsubstantial amount of accounts receivable with specific provision

| Name of debtor | Amounts | Provision for bad debt | Percentage of provision for bad debt % | Reasons |
|---|-----------------------|------------------------|--|---|
| Shanghai Amphenol Airwave Communication Electronics Co., Ltd. | 4,826,146.77 | | | Expected can be recovered |
| Peixian Broadcasting and Television Information Network Co., Ltd. | 3,414,040.00 | | | Expected can be recovered |
| Nanjing Ericsson Panda Communication Co., Ltd. | 3,412,867.00 | | | Expected can be recovered |
| Kubota Agricultural Machinery (Suzhou) Co., Ltd. | 3,326,793.44 | | | Expected can be recovered |
| China National Tobacco Corporation of Jiangsu Province | 3,175,192.74 | | | Expected can be recovered |
| Jiangsu Jinling Paper Co., Ltd. | 3,094,500.00 | | | Expected can be recovered |
| Lianyungang Foreign Language School | 2,910,267.00 | | | Expected can be recovered |
| Suzhou Le Xuan Technology Co., Ltd. | 2,476,003.82 | | | Expected can be recovered |
| Changzhou Yuming Electronics Co., Ltd. | 2,428,911.27 | | | Expected can be recovered |
| Nanjing Jia sought air conditioning Electrical Co., Ltd. | 2,412,321.00 | | | Expected can be recovered |
| The Chongqing the Baishi multi Chemical Co., Ltd. | 2,323,587.50 | | | Expected can be recovered |
| Oechsler Plastic Products (Taicang) Co., Ltd. | 2,277,850.70 | 427,850.70 | 18.78 | The expected future cash flow is less than its carrying value |
| BSH Electrical Appliances (Jiangsu) Co., Ltd. | 2,186,410.89 | | | Expected can be recovered |
| Ohters | 90,956,136.48 | 22,316,755.47 | 24.54 | The expected future cash flow is less than its carrying value |
| Total | 129,221,028.61 | 22,744,606.17 | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable (Continued)

(2) Aging analysis of accounts receivable

| Ageing | Closing Balance | | | | Opening Balance | | | |
|-------------------|-----------------|------------|------------------------|---------------------------------------|-----------------|------------|------------------------|---------------------------------------|
| | Amount | Percentage | Provision for Bad debt | Percentage of provision for bad debts | Amount | Percentage | Provision for Bad debt | Percentage of provision for bad debts |
| | | % | | % | | % | | % |
| Within 1 year | 648,215,145.24 | 79.04 | 2,043,540.16 | 0.32 | 539,040,394.90 | 89.55 | 525,810.51 | 0.10 |
| 1-2 years | 122,162,725.76 | 14.90 | 23,733,838.49 | 19.43 | 14,720,103.84 | 2.44 | 4,482,062.24 | 30.45 |
| 2-3 years | 4,885,129.85 | 0.60 | 4,608,213.64 | 94.33 | 10,113,269.22 | 1.68 | 10,039,090.81 | 99.27 |
| 3-5 years | 32,785,057.21 | 4.00 | 32,752,209.74 | 99.90 | 28,866,949.88 | 4.80 | 28,768,404.23 | 99.66 |
| more than 5 years | 12,005,873.16 | 1.46 | 11,966,952.13 | 99.68 | 9,230,529.99 | 1.53 | 9,230,529.99 | 100.00 |
| Total | 820,053,931.22 | 100 | 75,104,754.16 | | 601,971,247.83 | 100 | 53,045,897.78 | |

(3) Details of the five largest debtors of accounts receivable at the end of the period

| Name of debtor | Amount | Percentage in the total value of the accounts receivable | Ageing |
|--|----------------|--|---------------|
| | | % | |
| Film and Television Bureau of Gansu Province | 187,360,167.10 | 22.85 | Within 1 year |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 81,984,831.45 | 10.00 | Within 1 year |
| Pandigital, inc | 66,029,415.39 | 8.05 | 1-2 years |
| Nanjing Lopu Co., Ltd. | 54,111,265.00 | 6.60 | Within 1 year |
| Nanjing panda Handa technology Co., Ltd | 52,346,037.37 | 6.38 | Within 2 year |
| Total | 441,831,716.31 | 53.88 | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable (Continued)

(4) The situation of written-off accounts receivable:

| Name of debtor | Amount | Nature | Reason for written-off | Related party transactions |
|--|------------------|-------------------|---------------------------------|----------------------------|
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | 24,981.65 | Payment for goods | Company bankruptcy cancellation | Yes |
| Total | <u>24,981.65</u> | | | |

(5) The closing balance of foreign account receivable

| Item | 2012 | | | 2011 | | |
|-------|-----------------------------|---------------|--------------------------|-----------------------------|---------------|--------------------------|
| | Amount in original currency | Exchange rate | Equivalent amount in CNY | Amount in original currency | Exchange rate | Equivalent amount in CNY |
| USD | 15,794,182.72 | 6.2855 | 99,274,335.49 | 37,988,952.08 | 6.3009 | 239,364,588.16 |
| HKD | | | | 88,061.59 | 0.8107 | 71,391.53 |
| EUR | 235,497.68 | 8.3176 | <u>1,958,775.50</u> | 101,559.73 | 8.1625 | <u>828,981.30</u> |
| Total | | | <u>101,233,110.99</u> | | | <u>240,264,960.99</u> |

(6) The closing balance of accounts receivable included RMB1,447,748.07 due from Nanjing Panda Electronics Company Limited, the shareholder holding 51.10% shares of the Company.

(7) The closing balance of accounts receivable includes RMB150,067,131.90 due from related parties, representing 18.30% of the total accounts receivable (the opening balance: RMB43,619,237.26, representing 7.25%). Please refer to Note X 3 (9) for disclosure of relevant related transactions.

(8) compare to last year, the amount of account receivable increased by 36.23%.the major reason is the project " Gansu provincial government purchase for every family " lead the sales to The State Administration of Radio and Television increased, and then the account receivable which is during the credit period increased consequently.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

4. Prepayment

(1) Details of prepayment

| Ageing | Closing Balance | | | | Opening Balance | | | |
|-------------------|-----------------|--------------|------------------------|---|-----------------|--------------|------------------------|---|
| | Amount | Percentage % | Provision for Bad debt | Percentage of provision for bad debts % | Amount | Percentage % | Provision for Bad debt | Percentage of provision for bad debts % |
| Within 1 year | 64,265,770.74 | 73.23 | 1,157.62 | | 71,867,145.22 | 73.27 | 241,779.92 | 0.34 |
| 1-2 years | 11,449,338.75 | 13.04 | 765,553.30 | 6.69 | 20,236,125.84 | 20.63 | 2,527,674.44 | 12.49 |
| 2-3 years | 6,474,701.81 | 7.38 | 2,303,579.26 | 35.58 | 2,428,258.40 | 2.48 | 1,183,778.22 | 48.75 |
| More than 3 years | 5,572,215.30 | 6.35 | 4,225,125.62 | 75.82 | 3,549,281.05 | 3.62 | 2,962,538.52 | 83.47 |
| Total | 87,762,026.60 | 100 | 7,295,415.80 | | 98,080,810.51 | 100 | 6,915,771.10 | |

(2) Prepayment with aging more than one year mainly consisted of construction payment which was not settled.

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

| Client | Amount | Percentage % | The relationship with the prepared company | The time of prepayment | Reasons of unsettled accounts |
|---|---------------|--------------|--|------------------------|-------------------------------|
| Nanjing Shenye Intelligent System Engineering Co., Ltd. | 7,627,528.46 | 8.69 | The third party | Within 1 year | Project not completed |
| Jiangsu Overseas Group International Engineering Co., Ltd. | 6,166,511.71 | 7.03 | The third Party | Within 1 year | Products not reached |
| Shanghai Railway Communication Co., Ltd. | 5,573,184.00 | 6.35 | The third party | Within 1 year | Project not completed |
| Nantong HengRui Construction and Installation Engineering Co., Ltd. | 4,777,421.09 | 5.44 | The third party | Within 4 year | Project not completed |
| Nanjing Zhiyuan Information Technology Co., Ltd. | 4,201,492.73 | 4.79 | The third party | 2-3 years | Project not completed |
| Total | 28,346,137.99 | 32.30 | | | |

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

(5) The closing balance of prepayment includes RMB18,600.00 due from related parties (the opening balance: 5,647,038.95), accounting for 0.02% of the total prepayment (the opening balance: 5.76%). Please refer to Note X 3 (9) for disclosure of relevant related transactions.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

5. Other Receivables

(1) Break-down of other receivables by categories

| Item | Closing Balance | | | Percentage of provision for bad debts % |
|--|-----------------|--------------|------------------------|---|
| | Balance | Percentage % | Provision for bad debt | |
| Substantial amount of single other receivables with specific provision (note 1) | 29,712,528.91 | 49.18 | | |
| Other unsubstantial amount of other receivables with specific provision (note 2) | 30,705,865.16 | 50.82 | 11,404,354.32 | 37.14 |
| Total | 60,418,394.07 | 100 | 11,404,354.32 | |

| Item | Opening Balance | | | Percentage of provision for bad debts % |
|---|-----------------|--------------|------------------------|---|
| | Balance | Percentage % | Provision for bad debt | |
| Substantial amount of single other receivables with specific provision | 11,930,893.96 | 31.81 | 2,799,417.23 | 23.46 |
| Other unsubstantial amount of other receivables with specific provision | 25,575,966.67 | 68.19 | 11,440,333.30 | 44.73 |
| Total | 37,506,860.63 | 100 | 14,239,750.53 | |

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

5. Other Receivables (Continued)

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

Note 1. Substantial amount of single other receivable with specific provision.

| Name of debtor | Amount | Provision for bad debt | Percentage of provision for bad debts % | Reasons |
|---|----------------------|------------------------|---|---------------------------|
| Nanjing Baixia High-tech Industrial Park Investment and Development Co., Ltd. | 22,476,980.85 | | | Expected can be recovered |
| Yunnan Provincial Administration of Radio, Film and Television | 3,825,548.06 | | | Expected can be recovered |
| China Far East International Tendering Company | 3,410,000.00 | | | Expected can be recovered |
| Total | <u>29,712,528.91</u> | <u></u> | | |

Note 2. Unsubstantial amount of single other receivable with specific provision.

| Name of debtor | Amount | Provision for bad debt | Percentage of provision for bad debts % | Reasons |
|--|----------------------|------------------------|---|---|
| Panda Electronics (Kunshan) Co., Ltd. | 2,799,417.23 | 2,799,417.23 | 100.00 | Expected can not be recovered |
| Film and Television Bureau of Gansu Province | 1,223,971.50 | | | Expected can be recovered |
| Nanjing Public Resources Trading Center | 1,052,000.00 | | | Expected can be recovered |
| Jinan Supervision Co., Ltd. | 1,000,000.00 | | | Expected can be recovered |
| Others | 24,630,476.43 | 8,604,937.09 | 34.94 | The expected future cash flow is less than its carrying value |
| Total | <u>30,705,865.16</u> | <u>11,404,354.32</u> | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

5. Other Receivables (Continued)

(2) Aging analysis of other receivables

| Ageing | Closing Balance | | | | Opening Balance | | | |
|------------------|-----------------|------------|------------------------|---------------------------------------|-----------------|------------|------------------------|---------------------------------------|
| | Amount | Percentage | Provision for Bad debt | Percentage of provision for bad debts | Amount | Percentage | Provision for Bad debt | Percentage of provision for bad debts |
| | | % | | % | | % | | % |
| Within 1 years | 41,421,039.37 | 68.56 | 32,392.42 | 0.08 | 18,275,697.14 | 48.73 | 2,046,742.18 | 11.20 |
| 1-2 years | 2,166,191.51 | 3.58 | 304,180.79 | 14.04 | 6,374,678.81 | 17.00 | 683,251.42 | 10.72 |
| 2-3 years | 5,066,442.57 | 8.38 | 260,234.00 | 5.14 | 2,341,206.85 | 6.24 | 994,479.10 | 42.48 |
| 3-5 years | 3,344,569.84 | 5.54 | 2,555,867.92 | 76.42 | 1,289,220.32 | 3.43 | 1,289,220.32 | 100.00 |
| More than 5years | 8,420,150.78 | 13.94 | 8,251,679.19 | 98.00 | 9,226,057.51 | 24.60 | 9,226,057.51 | 100.00 |
| Total | 60,418,394.07 | 100 | 11,404,354.32 | | 37,506,860.63 | 100 | 14,239,750.53 | |

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

| Name of debtor | Amount | Percentage in the total value of the other Receivable | Ageing | Nature |
|---|---------------|---|---------------|--------------------------|
| | | % | | |
| Nanjing Baixia High-tech Industrial Park Investment and Development Co., Ltd. | 22,476,980.85 | 37.20 | Within 1 year | Government Subsidies |
| Yunnan Provincial Administration of Radio, Film and Television | 3,825,548.06 | 6.33 | 2-3 years | Deposit |
| China Far East International Tendering Company | 3,410,000.00 | 5.65 | Within 1 year | Deposit |
| Panda Electronics (Kunshan) Co., Ltd. | 2,799,417.23 | 4.63 | 3-5 years | Receivables and Payables |
| Film and Television Bureau of Gansu Province | 1,223,971.50 | 2.03 | Within 1 year | Deposit |
| Total | 33,735,917.64 | 55.84 | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

5. Other Receivables (Continued)

- (4) The situation of reversal of bad debts and provision of bad debts

| Name of debtor | Reason for reversal of bad debt or provision of bad debt | Reason for provision of bad debts | The reasons of cancellation after verification | Related party Transaction |
|--|--|-----------------------------------|--|---------------------------|
| Insolvency administrator of Hua Fei Color Display Systems Co.,Ltd' | Received the arrears | Expected cannot be recovered | 1,100,000.00 | 1,100,000.00 |
| Total | | | 1,100,000.00 | 1,100,000.00 |

- (5) The situation of written-off other receivables:

| Name of debtor | Amount | Nature | The reasons of written-off | Related party Transaction |
|----------------------------------|------------|-------------------|---------------------------------|---------------------------|
| Nanjing Hongye Television Co.Ltd | 148,920.26 | Payment for goods | Company Bankruptcy Cancellation | Yes |
| Total | 148,920.26 | | | |

- (6) The closing balance of other receivables included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (7) The closing balance of other receivables included RMB2,799,417.23 due from related parties (the opening balance: RMB2,799,417.23), representing 4.63% of the total other receivables (the opening balance: 7.46%). Please refer to Note X 3 (9) for disclosure of relevant related transactions.
- (8) The closing balance of the other receivables increased by 61.09% from the opening balance and the main reason is that the relocation of the Mopei City was completed, which caused the compensation of the relocation from the government increased.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

6. Inventories

(1) Details of inventories

| Items | Closing Balance | | | Opening Balance | | |
|-----------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|-----------------------|
| | Balance of inventories | Provision | Value of inventories | Balance of inventories | Provision | Value of inventories |
| Raw materials | 128,692,851.89 | 20,676,851.99 | 108,015,999.90 | 101,882,359.30 | 15,256,846.31 | 86,625,512.99 |
| Packaging materials | 412,224.26 | | 412,224.26 | 236,709.45 | | 236,709.45 |
| Low-value consumables | 412,797.63 | | 412,797.63 | 485,273.83 | | 485,273.83 |
| Work in progress | 74,331,606.12 | 6,517,984.83 | 67,813,621.29 | 83,863,344.94 | 9,168,436.03 | 74,694,908.91 |
| Stored commodities | 63,902,586.26 | 19,861,997.39 | 44,040,588.87 | 91,423,374.15 | 28,117,278.17 | 63,306,095.98 |
| Consigned commodities | 7,304,735.88 | | 7,304,735.88 | 3,513,104.19 | | 3,513,104.19 |
| Delivered commodities | 41,126,631.24 | 1,891,437.56 | 39,235,193.68 | 22,874,968.08 | 1,743,680.15 | 21,131,287.93 |
| Total | 316,183,433.28 | 48,948,271.77 | 267,235,161.51 | 304,279,133.94 | 54,286,240.66 | 249,992,893.28 |

(2) Provision for diminution in value of inventories

| Item | Opening Balance | Decrease in The year | Provision in the year | | | Closing Balance | Portion of reversal (%) |
|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|-------------------------|
| | | | Reverse | Write-off | Total | | |
| Raw materials | 15,256,846.31 | 6,600,745.82 | | 1,180,740.14 | 1,180,740.14 | 20,676,851.99 | |
| Work in progress | 9,168,436.03 | 363,870.83 | 212,719.29 | 2,801,602.74 | 3,014,322.03 | 6,517,984.83 | 0.29 |
| Stored commodities | 28,117,278.17 | 8,886,662.79 | | 17,141,943.57 | 17,141,943.57 | 19,861,997.39 | |
| Delivered commodities | 1,743,680.15 | 260,601.06 | | 112,843.65 | 112,843.65 | 1,891,437.56 | |
| Total | 54,286,240.66 | 16,111,880.50 | 212,719.29 | 21,237,130.10 | 21,449,849.39 | 48,948,271.77 | |

- A. Basis of provision for diminution in value of inventories: on each balance sheet day, inventories are measured based on the lower of cost and net realizable value, and provision for diminution in value of inventories is made based on the surplus of cost over net realizable value of inventories on an individual basis.
- B. Reason for reversal of provision for diminution in value of inventories: Should the factors causing any write-down of the inventories do not exist anymore, the amount of write-down shall be recovered and be reversed from the provision for diminution in value of inventories that has been made.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

7. Long-term equity investment

(1) Details of long-term equity investment

| Item | Opening balance | Increase In the year | Decrease In the year | Closing balance |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Investment in associated companies | 686,749,347.54 | 189,938,916.78 | 285,114,888.90 | 591,573,375.42 |
| Other Equity Investment | 3,650,000.00 | | | 3,650,000.00 |
| Less: provision for impairment of long term investment | 2,956,636.87 | | | 2,956,636.87 |
| Total | 687,442,710.67 | 189,938,916.78 | 285,114,888.90 | 592,266,738.55 |

Other equity investment is the investment in Jiangsu Provincial City Rail Transport Research & Design Institute Co., Ltd, The cost of investment amounting to RMB3,650,000, representing for 7.3%. No impairment was found by the year end of 2012.

(2) Details of investment in associated companies

| Name of investee | Opening balance | Increase In this year | Decrease In this year | Closing balance | Registration Address | Nature of business |
|--|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|------------------------|
| Associated company Beijing SE Putin Mobile Communications Co., Ltd | 215,843,200.00 | 83,736,800.00 | 86,800,000.00 | 212,780,000.00 | Beijing | Manufacture |
| Nanjing Huaxian High Technology Company Limited | | | | | Nanjing | Technology Development |
| Hua Fei Color Display Systems Co., Ltd. (note 1) | | | | | Nanjing | Manufacture |
| MPower Batteries (Nanjing) Co., Ltd. | | | | | Nanjing | Manufacture |
| Nanjing Ericsson Panda Communication Co., Ltd. | 358,052,670.00 | 93,220,601.22 | 182,764,751.22 | 268,508,520.00 | Nanjing | Manufacture |
| Shenzhen Jingwah Electronics Co., Ltd. | 97,153,708.10 | 14,030,026.52 | 13,129,203.60 | 98,054,531.02 | Shenzhen | Manufacture |
| Intenna (Nanjing) Co. Ltd. (note 2) | | | | | Nanjing | Manufacture |
| Nanjing Flextronics Panda Mobile Terminals Co. Ltd. | | | | | Nanjing | Manufacture |
| Panda Electronics (Kunshan) Co., Ltd. | | | | | Kunshan | Manufacture |
| Nanjing Thales Panda Transportation System Company Limited | 12,743,132.57 | (1,048,510.96) | 2,420,934.08 | 9,273,687.53 | Nanjing | Manufacture |
| Panda Korea Chen Xi Joint Venture Company Limited | 2,756,525.00 | | | 2,756,525.00 | Korea | |
| Nanjing Panda Medical Electronics Co. Ltd. | 200,111.87 | | | 200,111.87 | Nanjing | Manufacture |
| Total | 686,749,347.54 | 189,938,916.78 | 285,114,888.90 | 591,573,375.42 | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

7. Long-term equity investment (Continued)

(2) Details of investment in associated companies (Continued)

| Name of investee | The Company's shareholding percentage | The Company's percentage in voting rights of the investee | Total assets at the end of the period | Total debts at the end of the period | Total net assets at the end of the period | Total revenue from operations for the year | Net profit for the year |
|--|---------------------------------------|---|---------------------------------------|--------------------------------------|---|--|-------------------------|
| | % | % | | | | | |
| Associated companies | | | | | | | |
| Beijing SE Putian Mobile Communications Co., Ltd. | 20 | 20 | 6,262,748,000.00 | 5,216,063,000.00 | 1,046,685,000.00 | 26,742,812,000.00 | 418,711,000.00 |
| Nanjing Ericsson Panda Communication Co., Ltd. | 27 | 27 | 7,491,657,000.00 | 6,497,181,000.00 | 994,476,000.00 | 12,591,394,000.00 | 345,261,000.00 |
| Shenzhen Jingwah Electronics Co., Ltd. | 38.03 | 38.03 | 449,653,245.16 | 150,423,785.32 | 299,229,459.84 | 1,301,062,820.87 | 39,168,983.99 |
| Nanjing Thales Panda Transportation System Company Limited | 40 | 40 | 37,928,639.68 | 14,744,420.99 | 23,184,218.69 | 5,048,001.90 | -2,621,277.40 |

Note 1: The Company holds 25% stake of Hua Fei Color Display Systems Co., Ltd.. On 18 December 2012, the Intermediate People's Court of Nanjing City, Jiangsu Province, terminated the bankruptcy liquidation proceedings of Hua Fei Colour Display Systems Co., Ltd. And the cancellation of business registration is still under processing.

Note 2: The Company holds 35% shares of Intenna (Nanjing) Company Limited. It has been approved to dissolve and was announced liquidation publicly. The long-term equity investment was written-off on 17 December 2012.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

7. Long-term equity investment (Continued)

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

| Name of investee | Investment cost | Opening Balance | Additional investment in the year | Increase/decrease of the investee's equity | Cash bonus distributed | Closing Balance |
|---|-----------------|-----------------|-----------------------------------|--|------------------------|-----------------|
| Beijing SE Putian Mobile Communications Co., Ltd | 50,361,373.68 | 215,843,200.00 | | 83,736,800.00 | 86,800,000.00 | 212,780,000.00 |
| Nanjing Huaxian High Technology Company Limited | 10,000,000.00 | | | | | |
| Hua Fei Color Display Systems Co., Ltd. | 392,892,722.42 | | | | | |
| MPower Batteries (Nanjing) Co., Ltd. | 4,200,000.00 | | | | | |
| Nanjing Ericsson Panda Communication Co., Ltd Company Limited | 60,863,279.60 | 358,052,670.00 | | 93,220,601.22 | 182,764,751.22 | 268,508,520.00 |
| Shenzhen Jingwah Electronics Co., Ltd. | 69,687,437.75 | 97,153,708.10 | | 14,030,026.52 | 13,129,203.60 | 98,054,531.02 |
| Intenna (Nanjing) Co. Ltd. | 1,750,000.00 | | | | | |
| Nanjing Flextronics Panda Mobile Terminals Co. Ltd. | 34,769,364.00 | | | | | |
| Panda Electronics (Kunshan) Co., Ltd. | 1,757,905.88 | | | | | |
| Nanjing Thales Panda Transportation System Company Limited | 8,626,600.00 | 12,743,132.57 | | (1,048,510.96) | 2,420,934.08 | 9,273,687.53 |
| Panda Korea Chen Xi Joint Venture Company Limited | 3,494,075.00 | 2,756,525.00 | | | | 2,756,525.00 |
| Nanjing Panda Medical Electronics Co. Ltd. | 500,000.00 | 200,111.87 | | | | 200,111.87 |
| Total | 638,902,758.33 | 686,749,347.54 | | 189,938,916.78 | 285,114,888.90 | 591,573,375.42 |

(4) Impairment for the Long-term equity investment

| Name of investee | Opening balance | Provision during the year | Decrease in the year | | | Closing balance |
|---|-----------------|---------------------------|----------------------|-----------|-------|-----------------|
| | | | Reversal | Write-off | Total | |
| Panda Korea Chen Xi Joint Venture Company Limited | 2,756,525.00 | | | | | 2,756,525.00 |
| Nanjing Panda Medical Electronics Co. Ltd. | 200,111.87 | | | | | 200,111.87 |
| Total | 2,956,636.87 | | | | | 2,956,636.87 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

8. Fixed Assets

(1) Details of fixed assets

| Items | Buildings | Machinery and equipment | Transportation equipment | Electronic equipment | Other equipment | Total |
|---------------------------------|----------------|-------------------------|--------------------------|----------------------|-----------------|----------------|
| Cost | | | | | | |
| Opening Balance | 539,443,221.77 | 319,149,878.50 | 17,936,196.79 | 40,085,823.86 | 24,282,091.62 | 940,897,212.54 |
| Transfer from CIP | 32,263,967.82 | 1,211,162.81 | | 918,366.63 | 1,299,880.21 | 35,693,377.47 |
| Other Current Addition | 46,567.13 | 1,432,057.39 | 3,306,955.03 | 2,206,525.03 | 5,673,621.23 | 12,665,725.81 |
| Other Current Disposal | 15,851,437.51 | 3,717,041.02 | 1,648,271.71 | 3,737,521.86 | | 24,954,272.10 |
| Closing Balance | 555,902,319.21 | 318,076,057.68 | 19,594,880.11 | 39,473,193.66 | 31,255,593.06 | 964,302,043.72 |
| Accumulated Depreciation | | | | | | |
| Opening Balance | 126,848,150.58 | 146,119,111.43 | 5,636,090.01 | 28,641,344.58 | 11,521,220.39 | 318,765,916.99 |
| Current Depreciation | 17,216,456.20 | 26,795,033.51 | 1,801,833.73 | 3,799,314.47 | 4,273,691.51 | 53,886,329.42 |
| Current Disposal | 7,156,843.31 | 3,216,953.09 | 1,078,245.62 | 2,823,011.38 | | 14,275,053.40 |
| Closing Balance | 136,907,763.47 | 169,697,191.85 | 6,359,678.12 | 29,617,647.67 | 15,794,911.90 | 358,377,193.01 |
| Impairment Provision | | | | | | |
| Opening Balance | 2,972,121.11 | 251,784.62 | | 48,815.57 | 5,208.80 | 3,277,930.10 |
| Current Increase | | | | | | |
| Current Decrease | | 112,373.64 | | 32,330.58 | | 144,704.22 |
| Closing Balance | 2,972,121.11 | 139,410.98 | | 16,484.99 | 5,208.80 | 3,133,225.88 |
| Net book value | | | | | | |
| Closing Balance | 416,022,434.63 | 148,239,454.85 | 13,235,201.99 | 9,839,061.00 | 15,455,472.36 | 602,791,624.83 |
| Opening Balance | 409,622,950.08 | 172,778,982.45 | 12,300,106.78 | 11,395,663.71 | 12,755,662.43 | 618,853,365.45 |

- (2) As at 31 December 2012, the buildings with a net book value of RMB108,318,342.96 (the original cost of RMB193,742,565.43) had been pledged as security for short-term borrowings of RMB50,000,000.00. Please refer to Note VIII 14 for disclosure of relevant information.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

8. Fixed Assets (Continued)

(3) Fixed assets leased out by operating lease

| Items | Original book Value | Accumulated depreciation | Impairment provision | Book value |
|-----------|---------------------|--------------------------|----------------------|---------------|
| Buildings | 138,199,618.84 | 59,771,245.36 | 2,930,788.83 | 75,497,584.65 |
| Total | 138,199,618.84 | 59,771,245.36 | 2,930,788.83 | 75,497,584.65 |

(4) Fixed assets without certification

| Items | Original book Value | Accumulated depreciation | Impairment provision | Book value |
|-----------|---------------------|--------------------------|----------------------|---------------|
| Buildings | 28,240,918.50 | 2,830,942.02 | 2,972,121.11 | 22,437,855.37 |
| Total | 28,240,918.50 | 2,830,942.02 | 2,972,121.11 | 22,437,855.37 |

The certificates of the buildings (Xingang No.9 and No.10 Plant) with the original cost of RMB15,086,989.84 are still in processing, and are expected to be obtained in 2013.

(5) Impairment provision of fixed assets

| Items | Opening balance | Provision during the year | Decrease in the year | | | Closing balance |
|-------------------------|-----------------|---------------------------|----------------------|------------|------------|-----------------|
| | | | Reversal | Write-off | Total | |
| Buildings | 2,972,121.11 | | | | | 2,972,121.11 |
| Machinery and equipment | 251,784.62 | | | 112,373.64 | 112,373.64 | 139,410.98 |
| Electronic equipment | 48,815.57 | | | 32,330.58 | 32,330.58 | 16,484.99 |
| Other equipment | 5,208.80 | | | | | 5,208.80 |
| Total | 3,277,930.10 | | | 144,704.22 | 144,704.22 | 3,133,225.88 |

Some fixed assets were disposed this year. Therefore, the write-off of the impairment with the amount of RMB144,704.22 incurred during the year.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

9. Construction in progress

(1) The balance of Construction in progress

| Items | Closing Balance | | The balance on account | Opening Balance | |
|---|------------------------|--|------------------------|---------------------------|-------------------|
| | The balance on account | Provision during the year Value on account | | Provision during the year | Value on account |
| The first phase of the electronic equipment industry park | 54,259,749.45 | | 54,259,749.45 | | |
| Xin Gang training Center | 3,890,602.01 | | 3,890,602.01 | | |
| Machinery and equipment | 471,794.98 | | 471,794.98 | 306,362.89 | 306,362.89 |
| Total | <u>58,622,146.44</u> | | <u>58,622,146.44</u> | <u>306,362.89</u> | <u>306,362.89</u> |

(2) Details of Construction in progress

| Name of project | Budget | Opening balance | Increase in the year | Transferred to fixed assets in the year | | Other decrease | Closing balance | % of completion | % of budget | Resource of fund |
|---|----------------|-------------------|----------------------|---|--|----------------------|-----------------|-----------------|--------------|------------------|
| | | | | | | | | | | |
| The first phase of the electronic equipment industry park | 182,795,872.36 | | 54,259,749.45 | | | 54,259,749.45 | 29.68 | 29.68 | Its own fund | |
| Xin Gang No.4 and No.5 Plant Project | 180,000,000.00 | | 32,263,967.82 | 32,263,967.82 | | | 91.60 | 91.60 | Its own fund | |
| Xin Gang training Center | 16,950,000.00 | | 3,890,602.01 | | | 3,890,602.01 | 22.95 | 22.95 | Its own fund | |
| Machinery and equipment | | 306,362.89 | 3,594,841.74 | 3,429,409.65 | | 471,794.98 | | | Its own fund | |
| Total | | <u>306,362.89</u> | <u>94,009,161.02</u> | <u>35,693,377.47</u> | | <u>58,622,146.44</u> | | | | |

(3) The Company has no capitalization of borrowing costs for the year. The Company made no impairment provision for construction in progress as there is no indication of impairment.

(4) The closing balance of the CIP increased by 19034.87% from the opening balance, mainly due to that an electronic equipment industrial park and training center were launched newly this year.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

10. Intangible assets

(1) Details of intangible assets

| Items | Opening balance | Increase in the year | Decrease in the year | Closing balance |
|--|-----------------|----------------------|----------------------|-----------------|
| Total original cost | 190,476,554.39 | 63,363,410.03 | 17,400.00 | 253,822,564.42 |
| Land-use right | 27,219,260.67 | 61,924,632.90 | | 89,143,893.57 |
| Trademark use rights | 158,640,000.00 | | | 158,640,000.00 |
| Non-patent technology | 4,220,493.69 | 463,247.87 | | 4,683,741.56 |
| Computer Software | 379,440.03 | 968,669.26 | 17,400.00 | 1,330,709.29 |
| Patents | 17,360.00 | 6,860.00 | | 24,220.00 |
| Total accumulated amortization | 165,688,604.15 | 1,631,499.15 | 17,400.00 | 167,302,703.30 |
| Land-use right | 4,523,084.36 | 786,050.44 | | 5,309,134.80 |
| Trademark use rights | 158,430,000.00 | | | 158,430,000.00 |
| Non-patent technology | 2,455,601.18 | 704,864.16 | | 3,160,465.34 |
| Computer Software | 276,660.28 | 138,378.80 | 17,400.00 | 397,639.08 |
| Patents | 3,258.33 | 2,205.75 | | 5,464.08 |
| Total accumulated impairment amount | 210,000.00 | | | 210,000.00 |
| Land-use right | | | | |
| Trademark use rights | 210,000.00 | | | 210,000.00 |
| Non-patent technology | | | | |
| Computer Software | | | | |
| Patents | | | | |
| Total book value of intangible assets | 24,577,950.24 | | | 86,309,861.12 |
| Land-use right | 22,696,176.31 | | | 83,834,758.77 |
| Trademark use rights | | | | |
| Non-patent technology | 1,764,892.51 | | | 1,523,276.22 |
| Computer Software | 102,779.75 | | | 933,070.21 |
| Patents | 14,101.67 | | | 18,755.92 |

(2) As at 31 December 2012, the land-use right with a net book value of RMB1,106,635.40 (the original cost of RMB2,097,551.00) had been pledged as security for short-term borrowings of RMB50,000,000.00. Please refer to Note VIII 14 for disclosure of relevant information.

(3) The certificate of the land use right with the original cost of RMB 61,924,632.90 was obtained on 4 March 2013 and the number of the certificate is Ning Xi Guo (2013) No. 02828.

(4) The closing balance of the intangible assets increased by 33.26% from the opening balance, and the main reason is that the Company bought the land-use right of the electronic equipment industrial park.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

11. Deferred Income Tax Assets and Deferred Income Tax Debts

(1) Details of deferred income tax assets

| Items | Closing Balance | | Opening Balance | |
|--------------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| | Deferred income tax assets | Deductible temporary difference | Deferred income tax assets | Deductible temporary difference |
| Provision for asset impairment | 5,407,287.89 | 32,661,978.46 | 5,615,952.90 | 37,064,712.58 |
| Salaries payable | 122,786.14 | 818,574.27 | 176,640.82 | 1,177,605.42 |
| Depreciation of fixed assets | 103,866.29 | 492,515.01 | 159,249.79 | 729,281.31 |
| Accounts payable (more than 3 years) | 39,742.59 | 264,950.63 | 38,526.53 | 256,843.54 |
| Other accounts payable | 450,000.00 | 3,000,000.00 | | |
| Intangible assets amortization | | | 932.84 | 6,218.92 |
| Accrued expenses | 3,568.67 | 14,274.64 | | |
| Total | <u>6,127,251.58</u> | <u>37,252,293.01</u> | <u>5,991,302.88</u> | <u>39,234,661.77</u> |

(2) Details of deferred income tax liability

| Items | Closing Balance | | Opening Balance | |
|--------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| | Deferred income tax assets | Deductible temporary difference | Deferred income tax assets | Deductible temporary difference |
| Long-term payables | 311,720.39 | 2,078,135.93 | 390,239.64 | 2,601,597.60 |
| Total | <u>311,720.39</u> | <u>2,078,135.93</u> | <u>390,239.64</u> | <u>2,601,597.60</u> |

(3) Details of temporary difference of unrecognized deferred income tax assets

| Items | Closing Balance | Opening Balance |
|---------------------------------|-----------------------|-----------------------|
| Deductible temporary difference | 141,179,105.18 | 128,515,951.47 |
| Deductible loss | 12,105,776.57 | 27,982,010.40 |
| Total | <u>153,284,881.75</u> | <u>156,497,961.87</u> |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

11. Deferred Income Tax Assets and Deferred Income Tax Debts (Continued)

(4) Details of unrecognized deferred income tax assets will due at the following years

| Items | Closing balance | Opening balance | Notes |
|-------|----------------------|-----------------|-------|
| 2012 | | 15,092,917.03 | |
| 2013 | | | |
| 2014 | 1,734,874.65 | 1,763,990.42 | |
| 2015 | 2,556,281.18 | 3,697,013.30 | |
| 2016 | 936,609.49 | 7,428,089.65 | |
| 2017 | 6,878,011.25 | | |
| Total | 12,105,776.57 | 27,982,010.40 | |

12. Details of Provision for Impairment of Assets

| Items | Opening balance | Provision in the year | Decrease in the year | | | Closing balance |
|---|-----------------|-----------------------|----------------------|---------------|---------------|-----------------------|
| | | | Reversal | Write-off | Total | |
| 1. Total provision for bad debt | 74,201,419.41 | 22,528,747.98 | 2,686,475.95 | 239,167.16 | 2,925,643.11 | 93,804,524.28 |
| Including: Accounts receivable | 53,045,897.78 | 22,083,838.03 | | 24,981.65 | 24,981.65 | 75,104,754.16 |
| Other receivables | 14,239,750.53 | | 2,686,475.95 | 148,920.26 | 2,835,396.21 | 11,404,354.32 |
| Prepayment | 6,915,771.10 | 444,909.95 | | 65,265.25 | 65,265.25 | 7,295,415.80 |
| 2. Total provision for impairment of inventories | 54,286,240.66 | 16,111,880.50 | 212,719.29 | 21,237,130.10 | 21,449,849.39 | 48,948,271.77 |
| Including: Raw materials | 15,256,846.31 | 6,600,745.82 | | 1,180,740.14 | 1,180,740.14 | 20,676,851.99 |
| Work in Progress | 9,168,436.03 | 363,870.83 | 212,719.29 | 2,801,602.74 | 3,014,322.03 | 6,517,984.83 |
| Commodity inventories | 28,117,278.17 | 8,886,662.79 | | 17,141,943.57 | 17,141,943.57 | 19,861,997.39 |
| Delivered Commodities | 1,743,680.15 | 260,601.06 | | 112,843.65 | 112,843.65 | 1,891,437.56 |
| 3. Total provision for impairment of long term equity investment | 2,956,636.87 | | | | | 2,956,636.87 |
| 4. Total provision for impairment of fixed assets | 3,277,930.10 | | | 144,704.22 | 144,704.22 | 3,133,225.88 |
| Including: Buildings | 2,972,121.11 | | | | | 2,972,121.11 |
| Machinery And equipment | 251,784.62 | | | 112,373.64 | 112,373.64 | 139,410.98 |
| Electronic equipment | 48,815.57 | | | 32,330.58 | 32,330.58 | 16,484.99 |
| Other equipment | 5,208.80 | | | | | 5,208.80 |
| 5. Provision for impairment of intangible assets | 210,000.00 | | | | | 210,000.00 |
| Including: Trademark | 210,000.00 | | | | | 210,000.00 |
| Total | 134,932,227.04 | 38,640,628.48 | 2,899,195.24 | 21,621,001.48 | 24,520,196.72 | 149,052,658.80 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

13. Restricted Assets

| Restricted Assets | Opening balance | Increase In the year | Decrease In the year | Closing balance |
|--|-----------------------|-----------------------|-----------------------|------------------------------|
| I. Fixed assets to be guaranteed | | | | |
| Pledged fixed assets | 113,821,516.45 | 659,913.29 | 6,163,086.78 | 108,318,342.96 |
| Pledged intangible assets | 1,149,662.08 | | 43,026.68 | 1,106,635.40 |
| II. Other reasons for restricted assets | | | | |
| Bank bill payables deposits | 44,683,300.09 | 378,425,691.69 | 281,842,249.38 | 141,266,742.40 |
| Contract guarantee deposits | 57,953,961.09 | 62,423,051.56 | 48,884,315.31 | 71,492,697.34 |
| Letter of Credit deposits | 468,000.00 | 17,138,765.00 | 17,606,765.00 | |
| Total | <u>218,076,439.71</u> | <u>458,647,421.54</u> | <u>354,539,443.15</u> | <u>322,184,418.10</u> |

14. Short Term Loans

(1) Details of Short term loans

| Type of loan | Closing Balance | Opening Balance |
|-----------------|------------------------------|-----------------------|
| Credit loan | | 78,307,585.20 |
| Guaranteed loan | 310,000,000.00 | 210,000,000.00 |
| Collateral loan | 50,000,000.00 | 70,000,000.00 |
| Total | <u>360,000,000.00</u> | <u>358,307,585.20</u> |

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

(3) Details of collateral loans of the Company RMB50,000,000.00 (2011:RMB70,000,000.00), please refer to Note VIII 8 (2) and VIII 10 (2)

(4) Details of guaranteed loan of the Company and its subsidiaries, please refer to Note X 3 (5) and (6).

(5) The weighted average interest rate of the short term loans for the year is 7.00% (year 2011: 6.43%).

15. Bills payable

| Types of Bills | Closing Balance | Opening Balance | Amount due in the next accounting period |
|-----------------------|------------------------------|----------------------|--|
| Bank acceptance notes | <u>288,335,481.41</u> | <u>69,060,351.93</u> | 288,335,481.41 |
| Total | <u>288,335,481.41</u> | <u>69,060,351.93</u> | 288,335,481.41 |

The closing balance of bills payable increased by 317.51% from the opening balance is mainly due to the increased use of bank notes to settle the trade payment of the project " Gansu provincial government purchase for every family "

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

16. Accounts payable

(1) Details of accounts payable

| Aging | Closing Balance | | Opening Balance | |
|-------------------|-----------------------|--------------|-----------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Within 1 year | 369,204,529.85 | 77.91 | 395,205,804.67 | 84.64 |
| 1-2 years | 44,629,856.66 | 9.42 | 28,843,783.97 | 6.18 |
| 2-3 years | 24,038,667.25 | 5.07 | 18,094,238.78 | 3.88 |
| More than 3 years | 36,000,734.57 | 7.60 | 24,730,349.83 | 5.30 |
| Total | 473,873,788.33 | 100 | 466,874,177.25 | 100 |

(2) The closing balance of accounts payable includes RMB3,997,184.39 due to Nanjing Panda Electronics Company Limited, the shareholder with 51.10% of shareholding with voting power in the Company (the opening balance: 4,086,716.39)

(3) The closing balance of accounts payable included RMB26,424,383.02 (the opening balance: RMB21,426,590.15) due to related parties. Please refer to Note X 3 (9) for disclosure of relevant related transactions.

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

| Name of creditor | Amount | Reason for failure to repay | Whether will be repaid after the balance sheet day |
|---|----------------------|-----------------------------|---|
| Amlogic (hongkong)Limited | 10,125,221.96 | Unsettled | RMB 6,967,351.96 was paid after the balance sheet day |
| Thales Software Systems (Shanghai) Co. Ltd | 6,500,431.35 | Unsettled | No |
| Nanjing Panda Electronics Company Limited | 3,997,184.39 | Unsettled | No |
| Guangdong Zhicheng (Electronic Group) | 3,970,550.20 | Could not get in touch | No |
| Nanjing Panda Electronic Import/Export Co.,Ltd | 3,704,517.18 | Unsettled | No |
| Star of Electronic Science and Technology Co., Ltd. | 2,654,954.70 | Unsettled | RMB 2,372,124.75 was paid after the balance sheet day |
| Total | <u>30,952,859.78</u> | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

17. Advances from customers

- (1) Details of Advances from customers

| Aging | Closing Balance | | Opening Balance | |
|-------------------|-----------------------|--------------|-----------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Within 1 year | 87,898,085.21 | 79.58 | 48,372,300.87 | 65.64 |
| 1-2 years | 19,316,999.31 | 17.49 | 20,991,025.14 | 28.49 |
| 2-3 years | 1,855,519.50 | 1.68 | 2,608,512.24 | 3.54 |
| More than 3 years | 1,380,327.38 | 1.25 | 1,715,828.64 | 2.33 |
| Total | 110,450,931.40 | 100 | 73,687,666.89 | 100 |

- (2) The closing balance of advances from customers includes no shareholder over 5% of shareholding with voting power in the Company.
- (3) The closing balance of advances from customers includes RMB5,596,748.06 (the opening balance: RMB7,091,953.93) due to related parties. Please refer to Note X3(9) for disclosure of relevant related transactions.
- (4) The advances from customers with aging over 1 year had not been settled, mainly due to that the receipt of advance is more than the unsettled payment subject to the construction progress.
- (5) The closing balance of the advances from customers increased by 49.89%, mainly due to the receipts in advance for the project named AFC for underground NO.3 and NO.10 in Nanjing and the project of communication.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

18. Salaries payable

| Items | Opening Balance | Increase | Decrease | Closing Balance |
|--|----------------------|-----------------------|-----------------------|----------------------|
| Salaries and bonus | 14,115,352.44 | 181,307,869.36 | 183,339,708.59 | 12,083,513.21 |
| Expenses for employee benefits | | 15,518,461.92 | 15,518,461.92 | |
| Expenses for social security | 2,433,168.42 | 43,071,703.60 | 44,021,295.80 | 1,483,576.22 |
| Including: Medical insurance | 379,378.78 | 12,593,299.77 | 12,870,467.56 | 102,210.99 |
| Pension fund | 1,897,941.20 | 25,934,215.06 | 26,493,280.28 | 1,338,875.98 |
| Unemployment insurance | 107,883.81 | 2,730,338.06 | 2,810,235.52 | 27,986.35 |
| Injury insurance | 14,951.79 | 776,938.29 | 781,790.14 | 10,099.94 |
| Maternity insurance | 33,012.84 | 1,036,912.42 | 1,065,522.30 | 4,402.96 |
| Housing reserve fund | 983,800.29 | 13,786,920.98 | 13,947,209.17 | 823,512.10 |
| Trade union funds and employee education funds | 2,322,014.81 | 3,562,130.08 | 3,659,279.23 | 2,224,865.66 |
| Compensation for employment termination | 108,000.00 | 190,944.00 | 190,944.00 | 108,000.00 |
| Laid-off benefits | 24,661,913.41 | 6,126,654.36 | 9,485,947.14 | 21,302,620.63 |
| Others | 53,531.76 | 707,316.34 | 714,134.10 | 46,714.00 |
| Total | 44,677,781.13 | 264,272,000.64 | 270,876,979.95 | 38,072,801.82 |

- (1) There are not any salaries payable in arrears and all the salaries, bonuses and benefits (retired employees excluded) are paid to employees in line with the Company's payment schedule.
- (2) Laid-off benefits are the total accrued expenses of internal laid-off staff since 1 January 2013 to the retirement date, including the unrecognized financing expenses amounting to RMB1,914,889.27 (the opening balance: 1,611,863.55). The unrecognized financing cost is amortized by the effective interest method.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

19. Taxes payable

| Items | Tax Rate | Closing Balance | Opening Balance |
|-----------------------|----------------------------|----------------------|-----------------|
| Value-added tax | Refer to Note VI: Taxation | 18,051,948.55 | (15,200,507.51) |
| Business tax | Refer to Note VI: Taxation | 294,103.10 | 485,830.31 |
| Urban development tax | Refer to Note VI: Taxation | 1,203,009.79 | 538,952.11 |
| Education surcharges | Refer to Note VI: Taxation | 764,997.00 | 331,805.73 |
| Enterprise income tax | Refer to Note VI: Taxation | 8,096,078.00 | 466,931.42 |
| Individual income tax | | 485,769.00 | 979,921.00 |
| Others | | 29,284.70 | 26,096.62 |
| Total | | 28,925,190.14 | (12,370,970.32) |

The closing balance of tax payable increased by 333.82% from the opening balance is due to the substantial increase in the value-added tax and enterprise income tax.

20. Interest Payable

| Items | Closing Balance | Opening Balance |
|--------------------------|-------------------|-----------------|
| Short-term loan interest | 521,752.78 | 969,055.41 |
| Total | 521,752.78 | 969,055.41 |

The closing balance of Interest Payable decreased by 46.16% from the opening balance is due to the repayment of the borrowing.

21. Dividend Payable

| Name of investors | Closing Balance | Opening Balance | Reason not to pay more than one year |
|-------------------------|---------------------|-----------------|--------------------------------------|
| Individual shareholders | 1,364,696.99 | 143,289.96 | |
| Total | 1,364,696.99 | 143,289.96 | |

The closing balance of dividend payable increased by 852.40% from the opening balance is due to that Nanjing Panda Mechanical and Electrical Manufacturing Co., Ltd. has not paid the dividends to the non-controlling shareholders.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

22. Other payables

| Aging | Closing Balance | | Opening Balance | |
|-------------------|-----------------------|--------------|-----------------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Within 1 year | 75,150,089.55 | 61.54 | 37,947,486.44 | 33.90 |
| 1-2 years | 8,991,669.80 | 7.36 | 25,789,338.61 | 23.03 |
| 2-3 years | 6,821,249.16 | 5.59 | 17,440,780.60 | 15.58 |
| More than 3 years | 31,144,894.03 | 25.51 | 30,772,786.45 | 27.49 |
| Total | <u>122,107,902.54</u> | <u>100</u> | <u>111,950,392.10</u> | <u>100</u> |

- (1) The closing balance of other payables included RMB 11,814,041.57 payables to Nanjing Panda Electronics Company Limited, the shareholder with 51.10% of shareholding with voting power in the Company (the opening balance: RMB 7,416,030.00).
- (2) The closing balance of other payables includes RMB 47,631,655.52 payables to related parties (the opening balance: RMB 10,137,286.44). Please refer to Note X 3 (9) for disclosure of relevant related transactions.
- (3) Other payables in large amount

| Name of creditor | Amount | Nature or (content) |
|--|----------------------|-------------------------|
| China Electronic Information Industry Group Co., Ltd. | 34,000,000.00 | Receivable and Payable |
| Nanjing Panda Electronics Company Limited | 11,814,041.57 | Receivable and Payable |
| Nanjing PENGDA Labor Advisory Co., Ltd. | 4,654,170.78 | Labor costs |
| Nanjing Economic and Technological Development Zone Management Committee | 4,424,425.48 | Deposits |
| Film and Television Bureau of Gansu | 3,278,868.00 | After-sale services fee |
| The Baixia Financial Bureau | 3,000,000.00 | Government subsidies |
| Nanjing Wantong Logistics Co., Ltd. | 2,441,334.66 | Transportation costs |
| Nanjing Science and Technology Agency | 2,283,000.00 | project funds |
| Total | <u>65,895,840.49</u> | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

25. Capital Reserve

| Items | Opening Balance | Increase in the year | Decrease in the year | Closing Balance |
|-----------------------|-----------------------|----------------------|----------------------|------------------------------|
| Capital premium | 453,107,996.27 | | 220,198.64 | 452,887,797.63 |
| Other capital reserve | <u>14,365,417.16</u> | | <u>867,084.00</u> | <u>13,498,333.16</u> |
| Total | <u>467,473,413.43</u> | | <u>1,087,282.64</u> | <u>466,386,130.79</u> |

- (1) Nanjing Panda Electronic Equipment Co., Ltd, one of the subsidiaries of the Company acquired 14.90% non-controlling stockholders' interest of Nanjing Panda Appliance & Apparatus Co. Ltd., and the amount exceeding the value of the Non-controlling interest RMB 220,198.64 on the acquiring day, offset capital reserve.
- (2) The Company offset capital reserve by RMB867,084.00 according to the proportions of shares of Shenzhen Jingwah Electronics Co., Ltd. the associated enterprise of the Company as it was involved in a merger under the same control.

26. Surplus Reserve

| Items | Opening Balance | Increase in the year | Decrease in the year | Closing Balance |
|-------------------------------|-----------------------|----------------------|----------------------|------------------------------|
| Statutory surplus reserve | 137,841,923.13 | 12,521,434.43 | | 150,363,357.56 |
| Discretionary surplus reserve | <u>70,376,641.33</u> | | | <u>70,376,641.33</u> |
| Total | <u>208,218,564.46</u> | <u>12,521,434.43</u> | | <u>220,739,998.89</u> |

According to "the Company law of the PRC", the Company's Articles of Association, the Company appropriates 10% of net profits of the year to statutory surplus reserve. The Company shall not appropriate statutory surplus reserve when it reaches above 50% of the total share capital. The statutory surplus reserve could be used to recover loss or increase share capital. Based on resolution at the Board of Directors, the Company appropriated statutory surplus reserve amounting to RMB12,521,434.43, which amounted to 10% net profit of the Company this year (year 2011: RMB 5,186,940.79).

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

27. Undistributed Profit

| Items | 2012 | 2011 |
|---|-----------------------|----------------|
| Closing balance of previous year | 256,332,969.10 | 151,449,674.99 |
| Add: Changes in accounting policies | | |
| Correction of previous errors | | |
| Opening balance of the year | 256,332,969.10 | 151,449,674.99 |
| Add: Consolidated net profit attributable to parent company | 131,554,099.89 | 110,070,234.90 |
| Compensation of loss from surplus reserve | | |
| Other transfer-in | | |
| Less: Transfer to statutory surplus reserve | 12,521,434.43 | 5,186,940.79 |
| Transfer to discretionary surplus reserve | | |
| Distribution to shareholders | 32,750,750.00 | |
| Closing balance of the year | 342,614,884.56 | 256,332,969.10 |

- (1) According to the profit distribution plan released on the second of the Seventh conference of the Board of Directors and the Annual General Meeting of 2011, the profit will be distributed at the base of the share capital of 655,015,000. Every 10 shares will be paid by RMB0.5 (Tax included) cash dividends, amounting to RMB 32,750,750.00 totally.
- (2) The closing balance of undistributed profit increased by 33.66% compared with the opening balance, mainly due to increased retained from operating for the year.

28. Operating Income and Cost

- (1) Income from principal activities and other activities

| Items | 2012 | 2011 |
|----------------------------------|-------------------------|------------------|
| Income from principal activities | 2,373,615,372.55 | 2,080,936,185.51 |
| Income from other activities | 56,426,904.40 | 61,459,107.86 |
| Total operating income | 2,430,042,276.95 | 2,142,395,293.37 |
| Cost of principal activities | 2,108,754,840.59 | 1,813,187,524.50 |
| Cost of other activities | 49,567,827.23 | 39,781,228.51 |
| Total operating cost | 2,158,322,667.82 | 1,852,968,753.01 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

28. Operating Income and Cost (Continued)

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

| Business segment | Income from principal activities | 2012 | |
|---------------------------------|----------------------------------|------------------------------|--------------------------------|
| | | Cost of principal activities | Profit of principal activities |
| Electronic equipment products | 1,198,417,306.36 | 1,049,788,113.37 | 148,629,192.99 |
| Electronic manufacture products | 649,509,408.87 | 586,955,082.36 | 62,554,326.51 |
| Consumer electronics products | 469,265,710.78 | 430,257,689.63 | 39,008,021.15 |
| Others | 56,422,946.54 | 41,753,955.23 | 14,668,991.31 |
| Total | <u>2,373,615,372.55</u> | <u>2,108,754,840.59</u> | <u>264,860,531.96</u> |

| Business segment | Income from principal activities | 2011 | |
|---------------------------------|----------------------------------|------------------------------|--------------------------------|
| | | Cost of principal activities | Profit of principal activities |
| Electronic Equipment products | 1,006,333,931.70 | 897,654,919.62 | 108,679,012.08 |
| Electronic manufacture products | 629,507,963.45 | 500,026,388.46 | 129,481,574.99 |
| Consumer electronics products | 384,836,325.56 | 364,744,888.95 | 20,091,436.61 |
| Others | 60,257,964.80 | 50,761,327.47 | 9,496,637.33 |
| Total | <u>2,080,936,185.51</u> | <u>1,813,187,524.50</u> | <u>267,748,661.01</u> |

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

(4) Sales revenue from the largest five customers totaled RMB928,217,711.77, accounting for 38.20% of total sales revenue of the year.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

29. Sales tax and surcharges

| Items | 2012 | | 2011 | |
|-----------------------|-------------------------------|----------------------|-------------------------------|----------------------|
| | Calculation basis | Amount | Calculation basis | Amount |
| Business tax | 5% of lease income and others | 7,477,584.67 | 5% of lease income and others | 6,852,207.36 |
| Urban development tax | 7% of turnover tax | 4,731,946.96 | 7% of turnover tax | 5,477,821.39 |
| Education surcharges | 3%-5% of turnover tax | 3,043,774.54 | 3%-5% of turnover tax | 3,388,896.45 |
| Total | | <u>15,253,306.17</u> | | <u>15,718,925.20</u> |

30. Selling expenses

| Items | 2012 | 2011 |
|-----------------------|----------------------|----------------------|
| Salaries and Benefits | 12,262,049.99 | 13,720,052.87 |
| Advertising fee | 9,317,326.70 | 6,676,260.63 |
| Transport fee | 4,291,669.05 | 6,420,650.36 |
| Entertainment | 4,127,892.52 | 3,097,317.71 |
| Travelling expenses | 1,902,109.76 | 1,874,498.20 |
| Labor expenses | 1,760,594.13 | 2,517,093.69 |
| Office expenses | 1,366,261.55 | 2,070,173.90 |
| Insurance fee | | 2,469,546.27 |
| Others | 423,604.39 | 1,844,060.34 |
| Total | <u>35,451,508.09</u> | <u>40,689,653.97</u> |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

31. General and administrative expenses

| Items | 2012 | 2011 |
|-------------------------------|------------------------------|-----------------------|
| R&D expenses | 101,571,534.65 | 86,065,848.90 |
| Salaries and Benefits | 96,542,660.18 | 103,742,629.80 |
| Entertainment and Trave | 14,840,744.71 | 11,917,329.01 |
| Agent fee | 10,153,609.86 | 8,954,979.54 |
| Office expenses | 9,513,740.97 | 7,779,519.36 |
| Depreciation and Amortization | 8,825,782.36 | 15,869,045.05 |
| Tax | 5,629,561.50 | 4,588,731.98 |
| Labor expenses | 4,591,695.28 | 1,755,705.78 |
| Maintenance Fee | 3,915,733.02 | 2,689,606.47 |
| Utilities | 3,143,784.99 | 2,305,830.20 |
| Others | 10,671,722.82 | 9,890,027.96 |
| Total | <u>269,400,570.34</u> | <u>255,559,254.05</u> |

32. Financial expenses

| Items | 2012 | 2011 |
|---------------------------------|-----------------------------|----------------------|
| Interest expenses | 30,464,726.99 | 25,706,598.09 |
| Less: Interest income | 6,059,904.60 | 4,966,137.00 |
| Exchange loss | 2,653,726.31 | 3,584,591.70 |
| Less: Exchange gain | 144,927.50 | 1,568,883.99 |
| Bank charges | 1,160,382.55 | 814,970.68 |
| Unrecognized financing expenses | 551,287.87 | 871,421.09 |
| Others | 784,937.37 | 363,859.20 |
| Total | <u>29,410,228.99</u> | <u>24,806,419.77</u> |

33. Assets Impairment Loss

| Items | 2012 | 2011 |
|--------------------------------|-----------------------------|----------------------|
| Bad debt losses | 19,842,272.03 | (1,690,685.40) |
| Loss from inventory impairment | 15,899,161.21 | 19,550,687.02 |
| Total | <u>35,741,433.24</u> | <u>17,860,001.62</u> |

Assets impairment loss for year 2012 increased by 100.12% from that of 2011, due to the large amount of bad debts provision accrued in the year.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

34. Investment Income

(1) Listed by Items

| Items | 2012 | 2011 |
|--|-----------------------|----------------|
| Share of profit of investees under equity method of accounting | 190,806,000.78 | 188,191,184.04 |
| Total | 190,806,000.78 | 188,191,184.04 |

(2) Investment income listed by investees

| Name of Investees | 2012 | 2011 | Remarks |
|--|-----------------------|-----------------|---------|
| Nanjing Ericsson Panda Communication Co.,Ltd | 93,220,601.22 | 174,045,960.36 | A |
| Beijing SE Putian Mobile Communications Co., Ltd. ("BMC") | 83,736,800.00 | 89,525,800.00 | A |
| Hua Fei Color Display Systems Co., Ltd. | | (83,574,966.26) | |
| Shenzhen Jingwah Electronics Co., Ltd | 14,897,110.52 | 10,922,193.57 | |
| Intenna (Nanjing) Co. Ltd. | | (1,190,178.18) | |
| Nanjing Thales Panda Transportation System Company Limited | (1,048,510.96) | 73,488.56 | |
| Nanjing Huaxian High Technology Company Limited | | (1,611,114.01) | |
| Total | 190,806,000.78 | 188,191,184.04 | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

34. Investment Income (Continued)

(2) Investment income listed by investees (Continued)

- A. The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2012, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
- B. Since i) there was no material difference in the accounting policies and accounting periods adopted between the investee and those of the Company; ii) there was no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs to be offset between the investee and the Company. The Company recognized investment income based on the investee's book value of net profit.

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

- C. There was no material restriction on the remittance of the investment income to the Company.

35. Non-operating Income

(1) Details of Non-operating income

| Items | 2012 | 2011 | Amount recorded in the current profits and losses |
|---|----------------------|---------------|---|
| Gains from disposal of non-current assets | 560,832.53 | 1,172,222.77 | 560,832.53 |
| Including: Gains from disposal of fixed assets | 560,832.53 | 1,172,222.77 | 560,832.53 |
| Gains from disposal of other non-current fixed assets | | | |
| Write off payables | 7,302,348.71 | 1,591,477.74 | 7,302,348.71 |
| Debt restructuring income | 5,722,713.08 | | 5,722,713.08 |
| Governmental subsidy | 46,696,640.56 | 5,531,492.76 | 45,977,414.50 |
| Governmental compensation for relocation | 17,382,386.65 | 17,382,386.65 | |
| Net gain from fine payments | 564,872.44 | 218,775.34 | 564,872.44 |
| Other | 905,294.77 | 2,274,661.55 | 905,294.77 |
| Total | 79,135,088.74 | 10,788,630.16 | 78,415,862.68 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

35. Non-operating Income (Continued)

(2) Governmental subsidy

| Items | 2012 | Data sources |
|--|-------------------------|---|
| Subsidy for The project of the system IBMS based on the framework of RIA in 2012 NCQ[2012] No.581 | 445,000.00 | NJXRJ[2012] No.305 |
| Subsidy for the leading enterprise of software industry of 2012 | 500,000.00 | NJXRJ[2012] No.353 |
| The Notice of Special Grants about Discount Charges for loans | 2,400,000.00 | SCJ[2012] No.63 |
| Grants paid by Nanjing Science and Technology Bureau for the development of science and technology NKJ[2011] No.911 | 174,000.00 | NK[2011] No.219 |
| Subsidy for projects of "He Gao Ji" Special Grants for financial development of 2011 | 30,000.00 641,000.00 | GXZXYJ[2011] No.65 SCGM[2012] No.57 |
| Subsidy for the national construction-projects of digital televisions, video and audio systems. | 14,967,872.00 | CQ[2009] No.391 |
| Subsidy for the leading enterprise of software industry established in Nanjing | 65,000.00 | NJXRJ[2012] No.353 |
| Special Grants for the network of 2011 | 104,000.00 | NJXTZ[2012] No.26 |
| Grants for PDP plant | 5,236,562.50 | FGBGJ[2009] No.2223 |
| Grants to guide the development of Provincial Modern service industry (software industry) of 2009 NCJ[2009] No.379 | 4,000,000.00 | NK[2009] No.114 |
| Tax rebate for software | 164,003.29 | Software Enterprise Certificate |
| Special Grants for environmental protection. | 172,000.00 | NZGZ[2012] No.14 |
| Subsidy for the service industry and Information Industry NCQ[2011] No.955 NKQZ[2011] No.66 | 620,000.00 | NJXRJ[2011] No.460 |
| Subsidy from Economic Development Zone for "Innovation&Transformation" | 100,000.00 | Nanjing economic technical development area |
| Rewards for high-tech business | 100,000.00 | NKWJZ[2012] No.12 |
| Subsidy for patents from Qixia Science and Technology Bureau | 5,580.00 | Qixia Science and Technology Bureau |
| Grants from the government | 1,920,000.00 | NKWJZ[2001] No.119 |
| Subsidy for projects of "Jin g Xin Wei" NCQ[2011] No.1026 | 1,300,000.00 | NJXTZ[2011] No.468 |
| Grants to guide the emerging industries | 500,000.00 | NCQ[2012] No.588 |
| Grants turned from achievements through mid-checking transferred to the profit and loss | 5,300,000.00 | NK[2012] No.1 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

35. Non-operating Income (Continued)

(2) Governmental subsidy (Continued)

| Items | 2012 | Data sources |
|--|----------------------|---|
| Grants for Science and Technology Award | 500,000.00 | SKC[2012] No.345 |
| Subsidy for children care from Nanjing | 986,400.00 | NJC[2011] No.8 |
| Grants from Municipal Science and Technology Bureau | 500,000.00 | Nanjing Science and Technology Bureau |
| Refund VAT for software products | 201,302.77 | Encouraging preferential policies for the development of software and IC industries |
| Exemption of sales tax for technology development contracts | 353,920.00 | CSZ[1994] No.010 |
| Comprehensive control of water resources | 500,000.00 | NJXTZ[2012] No.315 |
| NCQ[2012] No.588 | | |
| Grants to guide the adjustments of key industries and encouragements of special project from the Department of Finance of Jiangsu Province | 4,910,000.00 | SCGM[2010] No.4 |
| Total | 46,696,640.56 | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

35. Non-operating Income (Continued)

(2) Governmental subsidy (Continued)

| Items | 2011 | Data sources |
|--|--------------|---|
| Grants for PDP plant | 113,437.50 | CJ[2010]No.128 |
| Grants for stereoscopic television | 32,128.00 | CQ[2009]No.391 |
| Grants for chip components project | 446,041.84 | CQ[2008]No.120 |
| Tax rebate for software | 726,010.22 | Certificate for software company |
| Rewards for high-tech business | 100,000.00 | BKF[2011]No.10 |
| Subsidy for social insurance | 117,423.92 | NZF[2009]No.22, NZF[2010]No.5 |
| Grants for technology development plan | 250,000.00 | NK[2010]No.133 NCJ[2010] No.473 |
| Special Subsidy for projects | 500,000.00 | NCQ[2010] No.955 |
| Subsidy for projects | 500,000.00 | NCQ[2010] No.644 |
| Subsidy for social insurance | 181,616.06 | Subsidy for social insurance |
| Special grants for industrial transformation and upgrading in Jiangsu Province | 1,200,000.00 | NJXTZ[2010] No.474 NCQ[2011] No.1147 |
| The third grants for technology development from Baixia District | 500,000.00 | BKF[2010]No.11 |
| Subsidy for Economic Development Zone | 180,000.00 | NKWJZ[2001] No.119 |
| Subsidy for child care from Nanjing | 392,960.00 | NJC[2011] No.8 |
| Grants from Municipal Science and Technology Bureau | 140,000.00 | SCJ[2010] No.177 |
| Tax exemption for contract of Technology development | 93,242.67 | CSZ[1994] No.010 |
| Refund VAT for software Products | 58,632.55 | CKZ[1995] No.006 |
| Total | 5,531,492.76 | |

(3) The gain of debt restructuring

Nanjing Panda Information Industry Co,Ltd. and Nanjing Panda Electronic Equipment Co. Ltd, the subsidiary companies of the company entered into a debt restructuring contract, Exempt debt of RMB5,722,713.08 totally, which is accounted as non-operating income.

(4) Governmental compensation for relocation

According to "the letter of starting works about relocation of Nanjing Panda Electronics Company Limited." by Nanjing Baixia District Government on 5 January 2012, the Company made a decision that Nanjing Panda Mechanical Engineering Plant removed from No.118 Haifu Lane in the beginning of year 2012. According to the relocation agreement between the Baixia District Government and the Company, and the actual situation of relocation, the Company recognized RMB17,382,386.65 as earnings.

(5) The non-operating income for year 2012 increased by 633.50% from that of 2011, was due to the increase in Government Subsidies and the compensation for relocation.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

36. Non-operating Expenses

| Items | 2012 | 2011 | Amount recorded in the current profits and losses |
|--|---------------------|------------|---|
| Loss from the disposal of non-current assets | 278,419.78 | 235,145.39 | 278,419.78 |
| Including: loss from disposal of fixed assets | 278,419.78 | 235,145.39 | 278,419.78 |
| Loss from the disposal of other non-current assets | | | |
| Donation expenses | 104,200.00 | 50,000.00 | 104,200.00 |
| Fine payment expenses | 91,131.32 | 33,310.37 | 91,131.32 |
| Compensation expenses | 99,470.65 | 23,314.00 | 99,470.65 |
| Others | 510,117.44 | 500,172.36 | 510,117.44 |
| Total | 1,083,339.19 | 841,942.12 | 1,083,339.19 |

37. Income Tax Expenses

(1) Composition of income tax expenses (gains)

| Items | 2012 | 2011 |
|---------------------|----------------------|---------------|
| Current income tax | 19,511,548.75 | 15,995,492.66 |
| Deferred income tax | (214,467.95) | 839,283.22 |
| Total | 19,297,080.80 | 16,834,775.88 |

(2) The reconciliation from total profit presented in the consolidated financial statements to the income tax expenses is as follows:

| Items | 2012 | 2011 |
|--|------------------------|-----------------|
| Total profit | 155,320,312.63 | 132,930,157.83 |
| Income tax expenses calculated at the applicable tax rate | 38,830,078.16 | 33,232,539.46 |
| Exemption/reduction of income tax under preferential tax treatment | (13,043,539.10) | (11,670,848.19) |
| Adjustment on previous income tax | 4,934,648.91 | (1,752,909.23) |
| Share of results of associates | (28,517,050.28) | (28,226,840.39) |
| Income not subject to tax | (24,600.49) | (595,248.06) |
| Expenses not deductible for tax purposes | 2,527,092.14 | 2,141,798.98 |
| Effect of change in tax rate | (71,596.09) | 352,107.43 |
| Utilization of previously unrecognized tax losses | (492,303.42) | (899,681.75) |
| Unrecognized deductible temporary difference and deductible tax loss | 15,154,350.97 | 24,253,857.63 |
| Income tax expenses | 19,297,080.80 | 16,834,775.88 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

38. Basic Earnings per Share and Diluted Earnings per Share

| Items | 2012 | 2011 |
|----------------------------|---------------|--------|
| Basic earnings per share | 0.2008 | 0.1680 |
| Diluted earnings per share | 0.2008 | 0.1680 |

Note:

(1) Calculation of basic earnings per share

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

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

Including: "S₀" represents total number of shares at the beginning of the period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution in the period; "S_i" represents shares increased from issue of new shares or debt to equity during reporting period; "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M₀" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

(2) Calculation of diluted earnings per share

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

Including, "P₁" represents net profit attributable to ordinary shareholders, taking into consideration of impact from potential diluted ordinary shares and adjustments according to the Enterprise Accounting Standards and Accounting System for business enterprises. In calculating diluted earnings per share, the Company takes into consideration of impact from all potential diluted ordinary shares on net profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares. The potential diluted ordinary shares are included in the calculation of diluted earnings per share in sequence to the degree of dilution till diluted earnings per share become minimum.

39. Cash Received Relating to Other Operating Activities

Among the "cash received relating to other operating activities", the items with large amount are listed as follows:

| Items | 2012 | 2011 |
|--------------------|----------------------|---------------|
| Government subsidy | 14,362,980.00 | 15,672,082.75 |
| Interest Income | 6,059,904.60 | 4,966,137.00 |
| Others | 1,065,475.74 | 5,704,366.65 |
| Total | 21,488,360.34 | 26,342,586.40 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

40. Cash Paid Relating to Other Operating Activities

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

| Items | 2012 | 2011 |
|----------------------------------|-----------------------|----------------|
| Receipt of deposit of commitment | 109,654,178.56 | 48,171,824.94 |
| Research & development expenses | 73,442,355.91 | 65,442,710.97 |
| Entertainment expenses | 14,673,330.85 | 11,448,322.22 |
| Office expenses | 10,131,498.69 | 9,799,693.26 |
| Agent fee | 10,153,609.86 | 8,954,979.54 |
| Advertising fee | 9,317,326.70 | 6,676,260.63 |
| Travelling expenses | 6,197,416.14 | 5,440,822.70 |
| Transportation fee | 5,261,572.38 | 6,420,650.36 |
| Service fee | 2,349,844.60 | 2,517,093.69 |
| Insurance fee | 730,088.23 | 2,469,546.27 |
| Others | 1,961,453.01 | 15,002,488.15 |
| Total | 243,872,674.93 | 182,344,392.73 |

41. Other Cash receipt in Connection with Investment Activities

| Items | 2012 | 2011 |
|------------|------|----------------|
| Investment | | 175,000,000.00 |
| Total | | 175,000,000.00 |

42. Other Cash paid in Connection with Investment Activities

| Items | 2012 | 2011 |
|---|-------------------|------|
| The cash paid for acquisition of a non-controlling shareholding | 486,500.00 | |
| Total | 486,500.00 | |

43. Other Cash receipt Relating to Financing Activities

| Items | 2012 | 2011 |
|--|----------------------|------|
| State-owned capital from China Electronic Information Industry Group Co., Ltd. | 34,000,000.00 | |
| Total | 34,000,000.00 | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

44. Other Cash Paid Relating to Financing Activities

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

| Items | 2012 | 2011 |
|---------------------------------------|------|--------------|
| Payment of amount under finance lease | | 1,313,481.60 |
| Total | | 1,313,481.60 |

45. Supplemental Information of Cash Flow Statements

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

| Items | 2012 | 2011 |
|---|------------------------|------------------|
| 1. Reconciliation of net profit to net cash flows from operating activities: | | |
| Net profit | 136,023,231.83 | 116,095,381.95 |
| Add: Provision for asset impairment | 35,741,433.24 | 17,860,001.62 |
| Depreciation of fixed assets | 53,886,329.42 | 51,783,147.94 |
| Amortization of intangible assets | 1,631,499.15 | 1,482,627.36 |
| Amortization of long term deferred expenses | | |
| Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "—") | (282,412.75) | (937,077.38) |
| Loss from fixed assets scrapped (gains are represented by "—") | | |
| Losses from change in fair value (gains are represented by "—") | | |
| Financial expense (gains are represented by "—") | 31,853,347.87 | 24,962,820.77 |
| Loss on investment (gains are represented by "—") | (190,806,000.78) | (188,191,184.04) |
| Decrease in deferred income tax assets (Increase is represented by "—") | (214,467.95) | 517,954.75 |
| Increase in deferred income tax liabilities (decrease is represented by "—") | | 321,328.47 |
| Decrease in inventories (increase is represented by "—") | (11,904,299.34) | (50,087,998.25) |
| Decrease in trade receivables (Increase is represented by "—") | (385,777,628.37) | (302,313,229.10) |
| Increase in trade payables (Decrease is represented by "—") | 247,637,941.85 | 138,594,467.81 |
| Net cash flow from operating activities | (82,211,025.83) | (189,911,758.10) |
| 2. Material investment and financial activities not involving cash: | | |
| 3. Net change in cash and cash equivalents: | | |
| Cash balance as at end of the year | 378,040,300.31 | 343,783,370.28 |
| Less: cash balance as at beginning of the year | 343,783,370.28 | 392,369,699.37 |
| Add: balance of cash equivalents as at the end of the year | | |
| Less: balance of cash equivalents as at the beginning of the year | | |
| Net increase in cash and cash equivalents | 34,256,930.03 | (48,586,329.09) |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

45. Supplemental Information of Cash Flow Statements (Continued)

(2) Information on cash and cash equivalents

| Items | 2012 | 2011 |
|--|-----------------------|----------------|
| I. Cash | 378,040,300.31 | 343,783,370.28 |
| Including: Cash on hand | 775,785.00 | 1,091,139.29 |
| Bank deposit available for payment at any time | 377,264,515.31 | 342,692,230.99 |
| Other cash fund available for payment at any time | | |
| II. Cash equivalents | | |
| Including: Bond investment due within three months | | |
| III. Closing balance of cash and cash equivalents | 378,040,300.31 | 343,783,370.28 |

46. Segment Report

Primary reporting format - business segments

(1) Segment information as at and for the year is as follows:

| | Electronic manufacturing products | Electronic equipment products | Consumer electronics products | Other | Unallocated | Elimination among segments | Total |
|---|-----------------------------------|-------------------------------|-------------------------------|----------------|------------------|----------------------------|------------------|
| Trade income from third party | 669,931,980.58 | 1,214,174,011.53 | 478,556,164.29 | 67,380,120.55 | | | 2,430,042,276.95 |
| Trade income between segments | 13,178,765.87 | 23,804,130.57 | 25,508,236.86 | 35,474,313.43 | | (97,965,446.73) | |
| Investment income from joint ventures and associated enterprises impairment of assets | 7,378,205.98 | (158,448.74) | (1,048,510.96) | 309,880.66 | 191,854,511.74 | 4,185,060.87 | 190,806,000.78 |
| Depreciation and amortisation expense | 30,089,084.16 | 5,302,197.33 | 519,154.36 | 612,550.62 | 18,994,842.10 | | 55,517,828.57 |
| Total Profit | 23,793,926.42 | 53,818,470.46 | (10,676,087.89) | 8,081,133.97 | 123,134,686.02 | (42,831,816.35) | 155,320,312.63 |
| Income tax expense | 7,636,507.67 | 8,305,213.70 | 2,625,643.64 | 729,715.79 | 19,297,080.80 | | |
| Net profit | 16,157,418.75 | 45,513,256.76 | (13,301,731.53) | 7,351,418.18 | 123,134,686.02 | (42,831,816.35) | 136,023,231.83 |
| Total assets | 548,962,889.63 | 1,098,559,499.09 | 574,224,542.97 | 154,319,134.13 | 1,999,525,766.83 | (1,259,335,724.75) | 3,116,256,107.90 |
| Total liabilities | 209,208,542.46 | 552,537,713.40 | 442,418,826.62 | 106,285,318.92 | 544,970,002.91 | (431,456,138.51) | 1,423,964,265.80 |
| Other non-cash expense beside Depreciation and amortisation expense | | | | | | | |
| Long term investment for joint ventures and associated enterprises | | | 9,273,687.53 | | 579,343,051.02 | | 588,616,738.55 |
| an increase in other non-current assets besides long-term investment | 6,333,452.45 | 125,918,686.89 | 54,810.26 | 461,093.77 | 37,235,652.17 | | 170,003,695.54 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

VIII. Notes to major items of consolidated financial statements (Continued)

46. Segment Report (Continued)

(2) Segment information as at and for the last year is as follows:

| | Electronic manufacturing products | Electronic equipment products | Consumer electronics products | Other | Unallocated | Elimination among segments | Total |
|--|---|-------------------------------------|-------------------------------------|----------------|------------------|----------------------------------|------------------|
| Trade income from third party | 655,651,614.29 | 1,032,605,285.84 | 385,606,083.20 | 68,532,310.04 | | | 2,142,395,293.37 |
| Trade income between segments | 2,055,634.00 | 11,021,064.09 | 1,234,675.19 | 32,510,936.12 | | (46,822,309.40) | |
| Investment income from joint ventures and associated enterprises | | | 73,488.56 | | 188,117,695.48 | | 188,191,184.04 |
| impairment of assets | 13,767,197.62 | 5,006,266.85 | 4,301,713.61 | 188,417.07 | 69,753.94 | (5,473,347.47) | 17,860,001.62 |
| Depreciation and amortisation expense | 28,683,510.71 | 4,730,410.52 | 602,550.13 | 600,571.02 | 18,648,732.92 | | 53,265,775.30 |
| Total Profit | 56,589,921.77 | 52,196,250.15 | (9,794,558.12) | 6,979,286.88 | 45,667,567.25 | (18,708,310.10) | 132,930,157.83 |
| Income tax expense | 8,962,752.72 | 5,669,623.62 | 1,586,913.17 | 615,486.37 | | | 16,834,775.88 |
| Net profit | 47,627,169.05 | 46,526,626.53 | (11,381,471.29) | 6,363,800.51 | 45,667,567.25 | (18,708,310.10) | 116,095,381.95 |
| Total assets | 510,066,810.34 | 802,513,697.74 | 351,963,819.11 | 143,194,937.33 | 1,808,506,660.43 | (903,114,766.97) | 2,713,131,157.98 |
| Total liabilities | 161,469,881.92 | 431,617,302.51 | 275,831,552.71 | 102,299,642.75 | 436,145,509.11 | (289,674,319.81) | 1,117,689,569.19 |
| Other non-cash expense beside Depreciation and amortisation expense | | | | | | | |
| Long term investment for joint ventures and associated enterprises | | | 12,743,132.57 | | 671,049,578.10 | | 683,792,710.67 |
| an increase in other non-current assets besides long-term investment | 23,718,170.16 | 5,000,553.22 | 586,628.04 | 1,407,864.03 | 32,215,755.62 | | 62,928,971.07 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company

a) Accounts Receivable

(1) Break-down of accounts receivable by categories

| Items | Balance | Closing balance | | Percentage of provision for bad debt % |
|---|----------------|-----------------|------------------------|--|
| | | Percentage % | Provision for bad debt | |
| Substantial amount of single accounts receivable with specific provision(note 1) | 225,367,373.71 | 94.23 | 7,154,750.00 | 3.17 |
| Other unsubstantial amount of accounts receivable with specific provision(note 2) | 13,801,418.12 | 5.77 | 597,954.51 | 4.33 |
| Total | 239,168,791.83 | 100 | 7,752,704.51 | |

| Items | Balance | Opening balance | | Percentage of provision for bad debt % |
|---|---------------|-----------------|------------------------|--|
| | | Percentage % | Provision for bad debt | |
| Substantial amount of single accounts receivable with specific provision | 56,643,012.73 | 82.47 | 5,888,595.00 | 10.40 |
| Other unsubstantial amount of accounts receivable with specific provision | 12,036,364.84 | 17.53 | 719,036.90 | 5.97 |
| Total | 68,679,377.57 | 100 | 6,607,631.90 | |

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

a) Accounts Receivable (Continued)

(1) Break-down of accounts receivable by categories (Continued)

Note 1. Breakdown of substantial amount of single accounts receivable with specific provision.

| Name of debtor | Amount | Provision for bad debt | Percentage of provision for bad debt % | Reasons for provision |
|--|-----------------------|------------------------|--|---|
| Nanjing Panda Information Industry Co.,Ltd | 148,048,353.71 | | | Expected can be recovered |
| Binhai County Administration of Radio, Film and Television | 24,958,700.00 | 555,850.00 | 2.23 | Current value of the expected future cash flow is lower than its carrying value |
| International Far Eastern Leasing Co., Ltd. | 13,860,000.00 | | | Expected can be recovered |
| Nanjing Qixia District Cable Management Station | 7,348,860.00 | | | Expected can be recovered |
| Fengxian Broadcasting and Television Information Network Co., Ltd. | 7,220,440.00 | 912,400.00 | 12.64 | Current value of the expected future cash flow is lower than its carrying value |
| Sihong County Radio and Television Information Network Co. Ltd | 6,822,000.00 | | | Expected can be recovered |
| Sheyang County Broadcasters | 6,373,400.00 | | | Expected can be recovered |
| Shenzhen no.1 Environmental Science and Technology Co. Ltd | 5,686,500.00 | 5,686,500.00 | 100.00 | Expected can not be recovered |
| Heilongjiang Radio and Television Network Co. Ltd | 5,049,120.00 | | | Expected can be recovered |
| Total | 225,367,373.71 | 7,154,750.00 | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

a) Accounts Receivable (Continued)

(1) Break-down of accounts receivable by categories (Continued)

Note 2. Unsubstantial amount of accounts receivable with specific provision

| Name of debtor | Amount | Provision for bad debt | Percentage of provision for bad debt % | Reasons for provision |
|---|----------------------|------------------------|--|---|
| Nanjing Panda Handa Technology Co., Ltd. | 3,495,985.35 | | | Expected can be recovered |
| Peixian Broadcasting and Television Information Network Co., Ltd. | 3,414,040.00 | | | Expected can be recovered |
| Funing County Broadcasters | 1,354,500.00 | | | Expected can be recovered |
| Nanjing Radio and Television Network Co., Ltd. | 1,263,665.30 | | | Expected can be recovered |
| Guannan Radio and Television Network Co., Ltd. | 1,220,000.00 | | | Expected can be recovered |
| Others | 3,053,227.47 | 597,954.51 | 19.58 | The expected future cash flow is less than its carrying value |
| Total | 13,801,418.12 | 597,954.51 | | |

(2) The aging analysis of accounts receivable

| Ageing | Closing balance | | | | Opening balance | | | |
|-------------------|-----------------------|--------------|------------------------|---|----------------------|--------------|------------------------|---|
| | Amount | Percentage % | Provision for Bad debt | Percentage of provision for bad debts % | Amount | Percentage % | Provision for Bad debt | Percentage of provision for bad debts % |
| Within 1 year | 206,471,376.36 | 86.33 | | | 59,716,944.74 | 86.95 | 36,182.39 | 0.06 |
| 1-2 years | 24,944,710.96 | 10.43 | | | 2,631,238.32 | 3.83 | 240,255.00 | 9.13 |
| 2-3 years | 1,506,410.00 | 0.63 | 1,506,410.00 | 100.00 | 5,771,400.00 | 8.40 | 5,771,400.00 | 100.00 |
| More than 3 years | 6,246,294.51 | 2.61 | 6,246,294.51 | 100.00 | 559,794.51 | 0.82 | 559,794.51 | 100.00 |
| Total | 239,168,791.83 | 100 | 7,752,704.51 | | 68,679,377.57 | 100 | 6,607,631.90 | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

a) Accounts Receivable (Continued)

(3) Details of the five largest debtors of accounts receivable at the end of the period

| Name of debtor | Amount | Percentage in the total value of the accounts receivable % | Ageing |
|--|-----------------------|--|---------------|
| Nanjing Panda Information Industry Co.,Ltd | 148,048,353.71 | 61.90 | Within 1 year |
| Binhai County Administration of Radio,Film and Television | 24,958,700.00 | 10.43 | Within 3years |
| International Far Eastern Leasing Co., Ltd. | 13,860,000.00 | 5.80 | Within 1 year |
| Nanjing Qixia District Cable Management Station | 7,348,860.00 | 3.07 | Within 1 year |
| Fengxian Broadcasting and Television Information Network Co., Ltd. | 7,220,440.00 | 3.02 | Within 3years |
| Total | <u>201,436,353.71</u> | <u>84.22</u> | |

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

(5) The closing balance of accounts receivable includes RMB152,273,153.06 due from related parties, representing 63.67% of the total accounts receivable.

(6) The closing balance of accounts receivable increased by 248.24% from the opening balance, and the main reason was that payment due from the related party has not yet received.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

b) Other Receivables

(1) Breakdown of other receivables by categories

| Items | Balance | Closing balance | | Percentage of provision for bad debt % |
|--|-----------------------|-----------------|------------------------|--|
| | | Percentage % | Provision for bad debt | |
| Substantial amount of single other receivables with specific provision (note 1) | 194,081,848.26 | 92.91 | 17,392,505.06 | 8.96 |
| Other unsubstantial amount of other receivables with specific provision (note 2) | 14,811,906.29 | 7.09 | 8,249,643.68 | 55.70 |
| Total | 208,893,754.55 | 100 | 25,642,148.74 | |

| Items | Balance | Opening balance | | Percentage of provision for bad debt % |
|---|-----------------------|-----------------|------------------------|--|
| | | Percentage % | Provision for bad debt | |
| Substantial amount of single other receivables | 158,985,376.36 | 88.25 | 21,606,736.60 | 13.59 |
| Other unsubstantial amount of other receivables | 21,165,646.07 | 11.75 | 8,575,278.74 | 40.52 |
| Total | 180,151,022.43 | 100 | 30,182,015.34 | |

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

b) Other Receivables (Continued)

(1) Breakdown of other receivables by categories (Continued)

Note 1. Substantial amount of single other receivable with specific provision

| Name of debtor | Amount | Provision for bad debt | Percentage of provision for bad debt % | Reasons for the provision |
|---|-----------------------|------------------------|--|---|
| Galant Limited | 59,880,446.17 | | | Expected can be recovered |
| Nanjing Panda Information Industry Co.,Ltd | 46,251,775.07 | 2,312,588.76 | 5.00 | Current value of the expected future cash flow is lower than its carrying value |
| Nanjing Panda Electronic Equipment Co., Ltd | 32,387,839.41 | 1,615,289.86 | 4.99 | Current value of the expected future cash flow is lower than its carrying value |
| Nanjing Baixia High-tech Industrial Park Investment and Development Co., Ltd. | 22,476,980.85 | | | Expected can be recovered |
| Nanjing Panda International Communication Systems Co.,Ltd | 19,205,045.29 | 960,252.26 | 5.00 | Current value of the expected future cash flow is lower than its carrying value |
| Nanjing Panda Technology Equipment Co.,Ltd | 7,045,778.30 | 7,045,778.30 | 100.00 | Expected can not be recovered |
| Nanjing Panda Machinery Co.,Ltd | 6,833,983.17 | 5,458,595.88 | 79.87 | Current value of the expected future cash flow is lower than its carrying value |
| Total | <u>194,081,848.26</u> | <u>17,392,505.06</u> | | |

Note 2. Unsubstantial amount of single other receivable with specific provision.

| Name of debtor | Amount | Provision for bad debt | Percentage of provision for bad debt % | Reasons for the provision |
|--|----------------------|------------------------|--|---|
| Nanjing Panda Mechanical Manufacturing Co., Ltd. | 4,500,000.00 | 3,600,000.00 | 80.00 | The expected future cash flow is less than its carrying value |
| Nanjing Panda Electronic Manufacture Co., Ltd. | 1,650,000.00 | 165,000.00 | 10.00 | The expected future cash flow is less than its carrying value |
| Nanjing Panda Power supply Technology Co., Ltd. | 1,352,772.92 | 1,352,772.92 | 100.00 | Expected can not be recovered |
| Others | 7,309,133.37 | 3,131,870.76 | 42.85 | The expected future cash flow is less than its carrying value |
| Total | <u>14,811,906.29</u> | <u>8,249,643.68</u> | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

b) Other Receivables (Continued)

(2) Aging analysis of other receivables

| Ageing | Closing balance | | | | Opening balance | | | |
|---------------|-----------------|------------|------------------------|---------------------------------------|-----------------|------------|------------------------|---------------------------------------|
| | Amount | Percentage | Provision for Bad debt | Percentage of provision for bad debts | Amount | Percentage | Provision for Bad debt | Percentage of provision for bad debts |
| | | % | | % | | % | | % |
| Within 1 year | 124,756,946.22 | 59.72 | 4,910,019.05 | 3.94 | 63,141,917.79 | 35.05 | 4,047,027.96 | 6.41 |
| 1-2 years | 2,837,196.68 | 1.36 | 434,000.00 | 15.30 | 89,784,639.46 | 49.84 | 4,946,120.02 | 5.51 |
| 2-3 years | 59,360,185.07 | 28.42 | 215,875.61 | 0.36 | 12,636,467.42 | 7.01 | 6,955,973.08 | 55.05 |
| 3-5 years | 12,302,267.16 | 5.89 | 10,616,248.86 | 86.30 | 8,153,603.65 | 4.53 | 7,798,500.17 | 95.64 |
| Over 5 years | 9,637,159.42 | 4.61 | 9,466,005.22 | 98.22 | 6,434,394.11 | 3.57 | 6,434,394.11 | 100.00 |
| Total | 208,893,754.55 | 100 | 25,642,148.74 | | 180,151,022.43 | 100 | 30,182,015.34 | |

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

| Name of debtor | Amount | Percentage in the total value of the accounts receivable | Ageing |
|---|----------------|--|-----------------------------|
| | | % | |
| Galand Co.,Ltd | 59,880,446.17 | 28.67 | Within 1 year, 2-3 years |
| Nanjing Panda Information Industry Co.,Ltd | 46,251,775.07 | 22.14 | Within 1 year |
| Nanjing Panda Electronic Equipment Co., Ltd | 32,387,839.41 | 15.50 | Within 1 year |
| Nanjing Baixia High-tech Industrial Park Investment and Development Co., Ltd. | 22,476,980.85 | 10.76 | Within 1 year |
| Nanjing Panda International Communication Systems Co.,Ltd | 19,205,045.29 | 9.19 | Within 1 year |
| Total | 180,202,086.79 | 86.26 | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

b) Other Receivables (Continued)

- (4) The closing balance of other receivable included no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (5) The closing balance of other receivable includes RMB 180,765,953.53 due from related parties, representing 86.53% of the total accounts receivable

c) Long-term Equity Investment

- (1) Details of long-term equity investment

| Item | Opening balance | Increase In the year | Decrease In the year | Closing balance |
|--|-------------------------|-----------------------|-----------------------|--------------------------------|
| Investment in subsidiaries | 513,101,811.88 | 191,895,320.00 | 7,992,706.88 | 697,004,425.00 |
| Investment in associated companies | 671,049,578.10 | 190,987,427.74 | 282,693,954.82 | 579,343,051.02 |
| Other equity investment | 3,650,000.00 | | | 3,650,000.00 |
| Less: provision for impairment of long term investment | 21,436,944.58 | | | 21,436,944.58 |
| Total | <u>1,166,364,445.40</u> | <u>382,882,747.74</u> | <u>290,686,661.70</u> | <u>1,258,560,531.44</u> |

Other equity investment this year means to the long-term equity investment in Jiangsu Province City Rail Transit Design and Research Institute Co.,Ltd, it cost RMB3,650,000.00 of the Company, accounting for 7.3% of the Company's investment and no impairment occurred.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

c) Long-term Equity Investment (Continued)

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

| Name of investee | Opening balance | Increase In this year | Decrease In this year | Closing balance | Registration Address | Nature of business |
|---|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|------------------------|
| Associated company Beijing SE Putian Mobile Communications Co., Ltd | 215,843,200.00 | 83,736,800.00 | 86,800,000.00 | 212,780,000.00 | Beijing | Manufacture |
| Nanjing Huaxian High Technology Company Limited | | | | | Nanjing | Technology Development |
| Hua Fei Colour Display Systems Company MPower Batteries (Nanjing) Co., Ltd. | | | | | Nanjing | Manufacture |
| Nanjing Ericsson Panda Communication Co., Ltd. | 358,052,670.00 | 93,220,601.22 | 182,764,751.22 | 268,508,520.00 | Nanjing | Manufacture |
| Shenzhen Jinghua Electronics Co., Ltd. | 97,153,708.10 | 14,030,026.52 | 13,129,203.60 | 98,054,531.02 | Shenzhen | Manufacture |
| Intenna (Nanjing) Co. Ltd. | | | | | Nanjing | Manufacture |
| Nanjing Flextronics Panda Mobile Terminals Co. Ltd. | | | | | Nanjing | Manufacture |
| Total | <u>671,049,578.10</u> | <u>190,987,427.74</u> | <u>282,693,954.82</u> | <u>579,343,051.02</u> | | |

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

| Name of investee | Investment cost | Opening Balance | Investment amount increased (less the equity transfer for the year) | Increase/ decrease of the investee's equity | Cash dividends Distributed | Closing balance |
|---|-----------------------|-----------------------|---|---|----------------------------|-----------------------|
| Beijing SE Putian Mobile Communications Co., Ltd. | 50,361,373.68 | 215,843,200.00 | | 83,736,800.00 | 86,800,000.00 | 212,780,000.00 |
| Nanjing Huaxian High Technology Company Limited | 10,000,000.00 | | | | | |
| Hua Fei Colour Display Systems Company MPower Batteries (Nanjing) Co., Ltd. | 392,892,722.42 | | | | | |
| Nanjing Ericsson Panda Communication Co., Ltd. | 4,200,000.00 | | | | | |
| Shenzhen Jinghua Electronics Co., Ltd. | 60,863,279.60 | 358,052,670.00 | | 93,220,601.22 | 182,764,751.22 | 268,508,520.00 |
| Intenna (Nanjing) Co. Ltd. | 69,687,437.75 | 97,153,708.10 | | 14,030,026.52 | 13,129,203.60 | 98,054,531.02 |
| Nanjing Flextronics Panda Mobile Terminals Co. Ltd. | 1,750,000.00 | | | | | |
| | 34,769,364.00 | | | | | |
| Total | <u>624,524,177.45</u> | <u>671,049,578.10</u> | | <u>190,987,427.74</u> | <u>282,693,954.82</u> | <u>579,343,051.02</u> |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

c) Long-term Equity Investment (Continued)

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

| Name of investee | Initial investment | Opening balance | Increase in the year | Decrease in the year | Closing balance | Dividend |
|---|--------------------|-----------------|----------------------|----------------------|-----------------|---------------|
| Subsidiaries | | | | | | |
| Nanjing Panda Appliance & Apparatus Co. Ltd. | 992,700.00 | 992,706.88 | | 992,706.88 | | |
| Nanjing Panda Mechanical Manufacturing Co. Ltd | 7,000,000.00 | 7,000,000.00 | | 7,000,000.00 | | 6,368,585.95 |
| Nanjing Panda Accurate Machinery Co., Ltd | 5,627,934.12 | 5,627,934.12 | | | 5,627,934.12 | |
| Nanjing Panda Technology Equipment Co., Ltd. | 5,031,900.00 | 5,031,944.58 | | | 5,031,944.58 | |
| Nanjing Panda Mechanical Co., Ltd | 2,582,191.03 | 2,582,191.03 | | | 2,582,191.03 | |
| Nanjing Panda Mechanical Engineering Plant | 30,042,000.00 | 30,042,016.46 | | | 30,042,016.46 | |
| Nanjing Panda Information Industry Co., Ltd. | 121,736,513.98 | 81,091,193.98 | 40,645,320.00 | | 121,736,513.98 | |
| Nanjing Panda Electronic Manufacture Co., Ltd. | 111,221,994.10 | 111,221,994.10 | | | 111,221,994.10 | 15,000,000.00 |
| Nanjing Panda Power Supply Technology Co., Ltd | 8,750,000.00 | 8,750,000.00 | | | 8,750,000.00 | |
| Nanjing Guanghua Electronics Plastic Casings Factory | 8,271,100.00 | 8,271,096.45 | | | 8,271,096.45 | |
| Nanjing Panda International Communication Systems Co.,Ltd | 7,655,000.00 | 7,655,000.00 | | | 7,655,000.00 | |
| Nanjing Panda Electronic Technology Development Co. Ltd | 247,500,000.00 | 173,250,000.00 | 74,250,000.00 | | 247,500,000.00 | |
| Nanjing Panda Communication Technology Co., Ltd | 50,018,000.00 | 1,585,734.28 | 47,000,000.00 | | 48,585,734.28 | |
| Nanjing Panda Industrial Enterprise Co., Ltd | 20,000,000.00 | 20,000,000.00 | | | 20,000,000.00 | 1,000,000.00 |
| Nanjing Panda Electronic Equipment Co., Ltd. | 80,000,000.00 | 50,000,000.00 | 30,000,000.00 | | 80,000,000.00 | |
| Total | 706,429,333.23 | 513,101,811.88 | 191,895,320.00 | 7,992,706.88 | 697,004,425.00 | 22,368,585.95 |

(5) Impairment provision of long-term equity investment

| Name of investee | Opening balance | Provision during the year | Decrease in the year | | | Closing balance |
|---|-----------------|---------------------------|----------------------|-----------|-------|-----------------|
| | | | Reversal | Write-off | Total | |
| Nanjing Panda Power Supply Technology Co., Ltd | 8,750,000.00 | | | | | 8,750,000.00 |
| Nanjing Panda International Communication Systems Co.,Ltd | 7,655,000.00 | | | | | 7,655,000.00 |
| Nanjing Panda Technology Equipment Co., Ltd. | 5,031,944.58 | | | | | 5,031,944.58 |
| Total | 21,436,944.58 | | | | | 21,436,944.58 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

d) Operating Income and Operating Cost

(1) Income from principal business and other business

| Items | 2012 | 2011 |
|--------------------------------|-----------------------|----------------|
| Income from principal business | 331,001,617.73 | 73,060,114.57 |
| Income from other business | 27,395,506.08 | 28,035,274.28 |
| Total income from operation | 358,397,123.81 | 101,095,388.85 |
| Cost of principal business | 309,123,203.48 | 55,079,349.65 |
| Cost of other business | 12,761,597.62 | 9,385,774.76 |
| Total operating cost | 321,884,801.10 | 64,465,124.41 |

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

| Business segment | Income from principal business | 2012 | |
|-------------------------------|--------------------------------|----------------------------|------------------------------|
| | | Cost of principal business | Profit of principal business |
| Electronic equipment products | 856,197.83 | 452,314.69 | 403,883.14 |
| Consumer electronics products | 309,469,736.00 | 295,638,388.47 | 13,831,347.53 |
| Other | 20,675,683.90 | 13,032,500.32 | 7,643,183.58 |
| Total | 331,001,617.73 | 309,123,203.48 | 21,878,414.25 |

| Business segment | Income from principal business | 2011 | |
|-------------------------------|--------------------------------|----------------------------|------------------------------|
| | | Cost of principal business | Profit of principal business |
| Electronic equipment products | 14,857,063.26 | 5,635,781.90 | 9,221,281.36 |
| Consumer electronics products | 48,111,924.89 | 43,705,442.11 | 4,406,482.78 |
| Other | 10,091,126.42 | 5,738,125.64 | 4,353,000.78 |
| Total | 73,060,114.57 | 55,079,349.65 | 17,980,764.92 |

(3) The company's main business area is in Nanjing area.

(4) Sales revenue from the largest five customers totaled RMB296,268,019.45 in 2012, accounting for 82.66% of total sales revenue for the year.

(5) The increase of sales revenue by 254.51% in 2012 from that of 2011 was due to the sales of Nanjing Panda Information Industry Co., Ltd for project "Gansu provincial government purchase for every family"

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

e) Investment Income

(1) According to the program listed

| Source of investment income | 2012 | 2011 |
|--|------------------------------|-----------------------|
| Long-term equity investment income accounted for at cost | 22,368,585.95 | 12,913,919.91 |
| Long-term equity investment income accounted for using equity method | 191,854,511.74 | 188,117,695.48 |
| Investment income from the disposal of the long-term equity investment (2) | 4,893,390.56 | (1,040,159.85) |
| Total | <u>219,116,488.25</u> | <u>199,991,455.54</u> |

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

| Name of the invested entity | 2012 | 2011 | Notes |
|--|-----------------------------|----------------------|-------|
| Nanjing Panda Mechanical Manufacturing Co. Ltd | 6,368,585.95 | 5,413,919.91 | |
| Nanjing Panda Electronic Manufacture Co., Ltd | 15,000,000.00 | 7,500,000.00 | |
| Nanjing Panda Industrial Enterprise Co., Ltd. | 1,000,000.00 | | |
| Total | <u>22,368,585.95</u> | <u>12,913,919.91</u> | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

e) Investment Income (Continued)

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

| Name of the invested entity | 2012 | 2011 | Notes |
|---|-----------------------|-----------------|-------|
| Nanjing Ericsson Panda Communication Co., Ltd. | 93,220,601.22 | 174,045,960.36 | (i) |
| Beijing SE Putian Mobile Communications Co., Ltd. | 83,736,800.00 | 89,525,800.00 | (i) |
| Hua Fei Colour Display Systems Company | | (83,574,966.26) | |
| Shenzhen Jinghua Electronics Co., Ltd. | 14,897,110.52 | 10,922,193.57 | |
| Intenna (Nanjing) Co. Ltd. | | (1,190,178.18) | |
| Nanjing Huaxian High Technology Company Limited | | (1,611,114.01) | |
| Total | 191,854,511.74 | 188,117,695.48 | |

- i. The financial statements of Nanjing Ericsson Panda Communication Co. Ltd and Beijing SE Putian Mobile Communication Co. Ltd. in 2012, associated companies of the Company were audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and standard unqualified audited reports were issued.
- ii. The company transferred the shares of Nanjing Panda Appliance & Apparatus Co. Ltd. and Nanjing Panda Mechanical and Electrical Manufacturer Co. Ltd subsidiaries of the Company to its subsidiary Nanjing Panda Electronic Equipment Co. Ltd. The balance between the carrying value of the long-term equity investment and the transferred price amounting to RMB4,893,390.56 were recognized as investment income.
- iii. Since i) there was no material difference in the accounting policies and accounting periods adopted by the investee with those of the Company; ii) there was no issue affecting the net profit of the investee for the year arising from the difference between fair value and book value of the long term assets; iii) there was no unrecognized internal profit that needs offset between the investee and the Company, the Company recognized investment income based on the investee's book value of net profit. The investment income or loss was recognized based on the share of profit or loss of investees under equity method of accounting.

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

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

f) Cash flow Supplementary Information

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

| Items | 2012 | 2011 |
|---|-------------------------------|-------------------------------|
| 1, Reconciliation of net profit to net cash flows from operating activities: | | |
| Net profit | 125,214,344.28 | 51,869,407.90 |
| Add: Provision for asset impairment | (3,395,070.55) | 1,876,469.47 |
| Depreciation of fixed assets | 17,840,832.28 | 17,497,803.53 |
| Amortization of intangible assets | 1,387,706.88 | 1,200,390.56 |
| Amortization of long term deferred expenses | | |
| Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "—") | 155,070.60 | 207,566.22 |
| Loss from fixed assets scrapped (gains are represented by "—") | | |
| Loss from change in fair value (gains are represented by "—") | | |
| Financial expense (gains are represented by "—") | 24,529,813.00 | 17,839,348.10 |
| Loss on investment (gains are represented by "—") | (219,116,488.25) | (199,991,455.54) |
| Decrease in deferred income tax assets (Increase is represented by "—") | | |
| Increase in deferred income tax liabilities (Decrease is represented by "—") | | |
| Decrease in inventories (Increase is represented by "—") | (7,661,132.56) | 2,288,035.41 |
| Decrease in trade receivables (Increase is represented by "—") | (286,743,818.39) | (39,520,727.98) |
| Increase in trade payables (Decrease is represented by "—") | 329,750,845.01 | 107,692,497.98 |
| Others | | |
| Net cash flows from operating activities | <u>(18,037,897.70)</u> | <u>(39,040,664.35)</u> |
| 2, Material investment and financial activities not involving cash: | | |
| Debt capitalization | | |
| Convertible bonds due within one year | | |
| Fixed assets acquired under finance leases | | |
| 3, Net change in cash and cash equivalents: | | |
| Cash balance as at end of the year | 79,348,878.62 | 58,995,526.58 |
| Less: cash balance as at beginning of the year | 58,995,526.58 | 151,591,454.98 |
| Add: balance of cash equivalents as at the end of the year | | |
| Less: balance of cash equivalents as at the beginning of the year | | |
| Net increase in cash and cash equivalents | <u>20,353,352.04</u> | <u>(92,595,928.40)</u> |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

IX. Notes to major items of the financial statements of parent company (Continued)

f) Cash flow Supplementary Information (Continued)

(2) Information on Cash and Cash Equivalents

| Items | 2012 | 2011 |
|--|----------------------|---------------|
| I. Cash | 79,348,878.62 | 58,995,526.58 |
| Including: Cash on hand | 262,282.84 | 277,972.33 |
| Bank deposit available for payments at any time | 79,086,595.78 | 58,717,554.25 |
| Other cash fund available for payment at any time | | |
| II. Cash equivalents | | |
| Including: Bond investment due within three months | | |
| III. Closing balance of cash and cash equivalents | 79,348,878.62 | 58,995,526.58 |

X. Relationship and transactions with related parties

a) Related parties

i. Recognition standards for a related party

Recognition standards for a related party: In case a party controls, commonly controls or exerts significant influence over another party, or in case two or more parties are under exclusive control, common control or significant influence of the same party, they shall constitute related parties. Recognition standards for a related party in 2012: During the financial and business decision-makings, in case that a party is able to directly or indirectly control, commonly control over another party or exerts significant influence over another party or in case two or more parties are under exclusive control, the Company deem it as a related party.

ii. Parent Company of the Company

| Name of the parent company | Code of Organization | Legal Representative | Type of Company | Registered Address | Nature of business | Registered capital | Shareholding percentage in the Company % | Voting right percentage in the Company % |
|-----------------------------|----------------------|----------------------|------------------------------------|---|--------------------|--------------------|--|--|
| Panda Electronics Group Ltd | 134883152 | Xu Guofei | a company with limited liabilities | Nanjing economy and technology development zone | Manufacture | RMB1,266,060,000 | 51.10 | 51.10 |

The actual controller of the Company is China Electronics Corporation.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

a) Related parties (Continued)

iii. Subsidiaries of the Company

| Name of subsidiaries | Code of Organization | Legal Representative | Registered Address | Nature of Business | Registered capital | Total shareholding percentage of the Company % | Total voting right percentage of the Company % |
|--|----------------------|----------------------|--------------------|---------------------------------------|--------------------|--|--|
| Nanjing Panda Accurate Machinery Co., Ltd. | 70416403-8 | Xu Guofei | Nanjing | Services | RMB5,000,000 | 100 | 100 |
| Nanjing Panda Technology Equipment Co., Ltd. | 24981058-6 | Xu Guofei | Nanjing | Manufacture | RMB5,000,000 | 100 | 100 |
| Nanjing Panda Power Supply Technology Co., Ltd. | 76816539-8 | Zhou Guixiang | Nanjing | Manufacture | RMB11,000,000 | 79.55 | 79.55 |
| Nanjing Panda Information Industry Co., Ltd. | 60897073-4 | Xia Dechuan | Nanjing | Manufacture | USD23,000,000 | 100 | 100 |
| Nanjing Huage Appliance and Plastic Industrial Co., Ltd. | 73316319-X | Wang Wenbo | Nanjing | Manufacture | RMB60,000,000 | 100 | 100 |
| Nanjing Panda Appliance & Apparatus Co., Ltd. | 72457423-7 | Liu Kun | Nanjing | Manufacture, software industry | RMB1,000,000 | 100 | 100 |
| Nanjing Panda International Communication Systems Co.,Ltd | 60892596-8 | Dong Zhiming | Nanjing | Manufacture | USD 1,240,000 | 72 | 72 |
| Nanjing Panda Electronic Manufacture Co.,Ltd | 76214760-7 | Zhou Guixiang | Nanjing | Manufacture | USD20,000,000 | 100 | 100 |
| Nanjing Guanghua Electronics Plastic Casings Factory | 13491197-7 | Wang Zhensu | Nanjing | Service industry | RMB11,497,600 | 100 | 100 |
| Nanjing Panda Mechanical Co., Ltd. | 73317462-2 | Liu Guozhong | Nanjing | Manufacture | RMB3,000,000 | 85.82 | 85.82 |
| Nanjing Panda Mechanical Manufacturing Co. Ltd. | 72609764-9 | He Shulin | Nanjing | Manufacture | RMB10,000,000 | 70 | 70 |
| Nanjing Panda Mechanical Engineering Plant | 13506466-9 | He Zaiding | Nanjing | Service industry | RMB45,000,000 | 99.11 | 100 |
| Nanjing Panda System Integration Co., Ltd. | 74237045-7 | Liu Changhua | Nanjing | Engineering software industry | RMB3,000,000 | 54.37 | 54.37 |
| Nanjing Panda Electromechanical Instruments Technology Co., Ltd. | 73888466-6 | Guo Qing | Nanjing | Manufacture | RMB10,000,000 | 70 | 70 |
| Nanjing Panda Industrial Enterprise Co., Ltd. | 69043834-0 | Wen Yuan | Nanjing | Service industry | RMB20,000,000 | 100 | 100 |
| Nanjing Panda Electronic Equipment Co., Ltd. | 69460069-1 | Liu Kun | Nanjing | Manufacture | RMB80,000,000 | 100 | 100 |
| Nanjing Panda Communication Technology Co., Ltd | 777014380-0 | Dong Zhiming | Nanjing | Manufacture | RMB50,000,000 | 100 | 100 |
| Nanjing Panda Electronic Technology Development Co. Ltd | 56721194-1 | Wen Yuan | Nanjing | Manufacture | RMB250,000,000 | 100 | 100 |
| Galant Limited | 1006135 | Xu Guofei | Hong Kong | Development of communication products | HKD1 | 100 | 100 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

a) Related parties (Continued)

iv. Related parties with non-controlling relationship

| Name of related parties | Code of Organization | Relationship with the Company |
|--|----------------------|---|
| Nanjing Panda Electronics Transportation Company | 134888519 | Subsidiary of the Group |
| Nanjing Zhen Hua Packing Material Plant | 13487319X | Subsidiary of the Group |
| Nanjing Panda Zhongdian Furniture Company Limited | 690402137 | Subsidiary of the Group |
| Nanjing Panda DaSheng Electronics Technology Company Limited | 742394272 | Subsidiary of the Group |
| Nanjing Panda Handa Technology Co., Ltd | 79710227-3 | Subsidiary of the Group |
| Nanjing Panda Electronic Import/Export Company | 134850684 | Subsidiary of the Group |
| Nanjing Panda Electronic Import/Export (HK) Company | | Subsidiary of the Group |
| Panda (Beijing) International Information Technology Co., Ltd | 765031909 | Subsidiary of the Group |
| Nanjing 21st Century Electronic and Technology Square Company Limited | 71627148X | Subsidiary of the Group |
| Panda Electronics Material Usage Co., Ltd. | 134888156 | Subsidiary of the Group |
| Nanjing Panda Electronic Technology Development Company Limited | 134870044 | Subsidiary of the Group |
| Nanjing Electronic Calibration Co., Ltd | 13487289-1 | Subsidiary of the Group |
| Nanjing Panda Technology Park Development Company Limited | 59802163-0 | Subsidiary of the Group |
| Shenzhen Jingwah Information Technology Co., Ltd | 757607162 | Same actual controller |
| Nanjing Panda China's electronic information industry group Co. Ltd | 660687426 | Same actual controller |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 690442841 | Same actual controller |
| China Electronic Exhibition & advertisement international Co. Ltd | 101130939 | Same actual controller |
| Nanjing Changjiang Electronic Information Industry Group Co. Ltd | 134899023 | Same actual controller |
| China National Electronics Import/ Export Corporation | 10000106X | Same actual controller |
| Shenzhen Huaxin China's Electronic Technology Co. Ltd | 727152697 | Same actual controller |
| China Electronic Appliance Corporation | 10000624X | Same actual controller |
| Nanjing Panda Crystal Technology Co., Ltd. | 704125290 | Same actual controller |
| China Electronics Finance Company Limited | 10209083-6 | Same actual controller |
| Nanjing Ericsson Panda Communication Co., Ltd. | 60891684-2 | Associated company |
| Nanjing Flextronics Panda Mobile Terminals Co. Ltd. | 608977514 | Associated company |
| Panda Electronics (Kunshan) Co., Ltd. | 718679729 | Associated company of the subsidiary of the group |
| Nanjing Huaxian High Technology Company Limited | 78711237-1 | Associated company |
| Nanjing Thales Panda Transportation System Company Limited | 76819214-2 | Associated company of the subsidiary of the group |
| Intenna (Nanjing) Co. Ltd. (note) | 60898216-1 | Associated company |
| Hua Fei Color Display Systems Co., Ltd. | 608910950 | Associated company |
| Shenzhen sander baili electric appliance co., LTD | 771622086 | Same actual controller |
| Wuhan Zhongyuan Electronics group Co. Ltd | 177717592 | Same actual controller |

Note: The cancellation of business of Intenna (Nanjing) Co., Ltd was on 17 December 2012.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

b) Pricing policy

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

c) Transactions with related parties

i. Purchase of goods

| Name of related parties | Content of related parties | Pricing policy and Decision-making process | 2012 | Percentage of Similar transaction (%) | 2011 | Percentage of Similar transaction (%) |
|---|----------------------------|--|---------------|---------------------------------------|---------------|---------------------------------------|
| | | | Amount | | Amount | |
| Nanjing Panda Electronic Import/Export Company | Electronic products | Fair price in the market | 23,951,458.08 | 1.49 | 32,189,841.32 | 1.87 |
| Nanjing Panda Zhongdian Furniture Company Limited | Electronic products | Fair price in the market | 14,621,799.00 | 0.91 | 5,444,934.49 | 0.32 |
| Nanjing Panda Electronic Technology Development Company Limited | Electronic products | Fair price in the market | 6,388,001.03 | 0.40 | 910,191.75 | 0.05 |
| Nanjing Zhen Hua Packing Material Plant | Packing material | Fair price in the market | 3,257,955.71 | 0.20 | 5,534,547.43 | 0.32 |
| Nanjing Huaxian High Technology Company Limited | Electronic products | Fair price in the market | 1,088,613.38 | 0.07 | | |
| Nanjing Panda Electronics Transportation Company | Electronic products | Fair price in the market | 932,567.18 | 0.06 | 12,991.45 | |
| Panda Electronics Group Ltd | Electronic products | Fair price in the market | 627,508.97 | 0.04 | | |
| Nanjing Panda Handa Technology Co., Ltd | Electronic products | Fair price in the market | 78,632.48 | | | |
| Nanjing Electronic Calibration Co., Ltd. | Electronic products | Fair price in the market | 5,500.00 | | 17,733.34 | |
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | Electronic products | Fair price in the market | | | 8,471.79 | |
| Total | | | 50,952,035.83 | 3.17 | 44,118,711.57 | 2.56 |

ii. Receipt of services

| Name of related parties | Content of related parties | Pricing policy and Decision-making process | 2012 | Percentage of Similar transaction (%) | 2011 | Percentage of Similar transaction (%) |
|---|----------------------------|--|--------------|---------------------------------------|--------------|---------------------------------------|
| | | | Amount | | Amount | |
| Nanjing Panda Electronic Technology Development Company Limited | Receipt of services | Fair price in the market | 3,620,750.00 | 0.61 | 2,265,879.67 | 1.94 |
| Nanjing Panda Electronics Transportation Company | Receipt of services | Fair price in the market | 1,653,901.26 | 0.28 | 2,188,052.20 | 1.87 |
| Nanjing Panda Zhongdian Furniture Company Limited | Receipt of services | Fair price in the market | 967,435.90 | 0.16 | | |
| Panda Electronics Group Ltd | Receipt of services | Fair price in the market | 921,421.51 | 0.16 | 2,490,628.17 | 2.13 |
| Nanjing Huaxian High Technology Company Limited | Receipt of services | Fair price in the market | 273,504.27 | 0.05 | | |
| Nanjing Electronic Calibration Co., Ltd. | Receipt of services | Fair price in the market | 241,344.35 | 0.04 | 315,160.55 | 0.27 |
| Nanjing Panda Construction And Decoration Engineering Co., Ltd. | Receipt of services | Fair price in the market | | | 513,746.39 | 0.44 |
| Total | | | 7,678,357.29 | 1.30 | 7,773,466.98 | 6.65 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

iii. Sales of products

| Name of related parties | Content of related parties | Pricing policy and Decision-making process | 2012 | Percentage of Similar transaction (%) | 2011 | Percentage of Similar transaction (%) |
|--|----------------------------|--|------------------------|---------------------------------------|-----------------------|---------------------------------------|
| | | | Amount | | Amount | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | Electronic products | Fair price in the market | 65,255,778.58 | 3.62 | | |
| Nanjing Panda Handa Technology Co., Ltd | Electronic products | Fair price in the market | 57,406,020.77 | 3.18 | 44,915,338.44 | 2.52 |
| Nanjing Panda Electronic Import/Export (HK)Company | Electronic products | Fair price in the market | 48,683,054.77 | 2.70 | 9,395,058.13 | 0.53 |
| Nanjing Panda Zhongdian Furniture Company Limited | Electronic products | Fair price in the market | 22,659,535.08 | 1.26 | 22,528,589.89 | 1.26 |
| Nanjing Panda Electronic Import/Export Company | Electronic products | Fair price in the market | 17,721,944.14 | 0.98 | 34,072,453.30 | 1.91 |
| Nanjing Ericsson Panda Communication Co., Ltd. | Electronic products | Fair price in the market | 6,786,557.81 | 0.38 | 20,246,758.63 | 1.13 |
| Nanjing Thales Panda Transportation System Company Limited | Electronic products | Fair price in the market | 2,458,527.42 | 0.14 | 9,238,502.62 | 0.52 |
| Nanjing Panda DaSheng Electronics Technology Company Limited | Electronic products | Fair price in the market | 93,230.71 | 0.01 | 43,205.13 | |
| Nanjing Zhen Hua Packing Material Plant | Electronic products | Fair price in the market | 55,555.56 | | | |
| Nanjing Panda Electronics Transportation Company | Electronic products | Fair price in the market | 20,426.52 | | 25,877.00 | |
| Panda Electronics Group Ltd | Electronic products | Fair price in the market | 3,846.15 | | 1,664,552.98 | 0.09 |
| Nanjing Panda Electronic Technology Development Company Limited | Electronic products | Fair price in the market | 2,837.61 | | 721,143.10 | 0.04 |
| Nanjing Huaxian High Technology Company Limited | Electronic products | Fair price in the market | 2,347.00 | | 2,063,700.79 | 0.12 |
| Nanjing Panda Huaxian Technology Industrial Co., Ltd. | Electronic products | Fair price in the market | | | 4,774.92 | |
| Total | | | 221,149,662.122 | 12.27 | 144,919,954.93 | 8.12 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

iv. Provision of services

| Name of related parties | Content of related parties | Pricing policy and Decision-making process | 2012 | Percentage of Similar transaction (%) | 2011 | Percentage of Similar transaction (%) |
|--|----------------------------|--|---------------|---------------------------------------|----------------|---------------------------------------|
| | | | Amount | | Amount | |
| Nanjing Panda Handa Technology Co., Ltd | Provision of services | Fair price in the market | 23,734,811.71 | 4.41 | 13,479,344.25 | 4.53 |
| Nanjin Ericsson Panda Communication Company Limited | Provision of services | Fair price in the market | 19,105,879.21 | 3.55 | 97,685,979.96 | 32.80 |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | Provision of services | Fair price in the market | 3,553,573.31 | 0.66 | | |
| Panda Electronics Group Ltd | Provision of services | Fair price in the market | 1,165,573.04 | 0.22 | 1,000,423.08 | 0.34 |
| Nanjing Panda Electronic Import/Export Co.,Ltd | Provision of services | Fair price in the market | 902,008.68 | 0.17 | 8,614,835.00 | 2.89 |
| Nanjing Panda Technology Park Development Company Limited | Provision of services | Fair price in the market | 849,570.19 | 0.16 | | |
| Panda Electronics Material Usage Co., Ltd. | Provision of services | Fair price in the market | 384,615.377 | 0.07 | | |
| Nanjing 21st Century Electronic and Technology Square Company Limited | Provision of services | Fair price in the market | 330,000.00 | 0.06 | 330,000.00 | 0.11 |
| Nanjing Panda Zhongdian Furniture Company Limited | Provision of services | Fair price in the market | 142,595.15 | 0.03 | 42,735.04 | 0.01 |
| Nanjing Zhen Hua Packing Material Plant | Provision of services | Fair price in the market | 94,000.00 | 0.02 | | |
| Nanjing Panda Electronics Transportation Company | Provision of services | Fair price in the market | 32,700.00 | 0.01 | 25,046.78 | 0.01 |
| Nanjing Huaxian High Technology Company Limited | Provision of services | Fair price in the market | 5,435.90 | | | |
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | Provision of services | Fair price in the market | | | 29,005.22 | 0.01 |
| Total | | | 50,300,762.57 | 9.36 | 121,207,369.33 | 40.70 |

v. Provision of guarantee

- The Company provided a maximum amount guarantee for bank credit of RMB20,000,000.00 granted to Nanjing Huage Appliance and Plastic Industrial Co.,Ltd, a subsidiary of the Company, with a term from 21 November 2012 to 20 November 2013, from Jiangsu Bank Co., Ltd. Nanjing Huage Appliance and Plastic Industrial Co.,Ltd provides counter-guaranty with all of its assets. As at 31 December 2012 the loan amounted to RMB20,000,000.00,with a term from 22 November 2012 to 21 November 2013.

The Company provided a maximum amount guarantee for bank loan of RMB10,000,000.00 granted to Nanjing Huage Appliance and Plastic Industrial Co.,Ltd, a subsidiary of the Company, with a term from 21 December 2011 to 20 December 2012, from Nanjing Bank Co., Ltd. Nanjing Huage Appliance and Plastic Industrial Co.,Ltd provides counter-guaranty with all of its assets. As at 31 December 2012,the loan amounted to RMB10,000,000.00, among which, loan amounted to RMB6,000,000.00 with a term from 6 January 2012 to 5 January 2013 and loan amounted to RMB4,000,000.00 with a term from 2 February 2012 to 5 January 2013.

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties *(Continued)*

c) Transactions with related parties *(Continued)*

v. Provision of guarantee *(Continued)*

2. The Company provided a maximum amount guarantee for bank credit of RMB20,000,000.00 granted to Nanjing Panda Information Industry Co.,Ltd., a subsidiary of the Company with a term from 20 August 2012 to 20 August 2013, from Huaxia Bank Co., Ltd. As at 31 December 2012, the Company provided guarantee for bank acceptances of RMB10,799,253.76. Nanjing Panda Information Industry Co. Ltd provides counter-guaranty with all of its assets.

The Company provided a maximum amount irrevocable guarantee for bank line of credit of RMB35,000,000.00 granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company with a term from 13 June 2012 to 13 June 2013, from Nanjing Branch of China Merchants Bank. As at 31 December 2012, the used credit line amounted to RMB29,652,019.13, among which, the Company provided guarantee for bank loan of RMB20,000,000.00 and secured promissory notes of RMB9,652,019.13. Nanjing Panda Information Industry Co. Ltd provided counter-guaranty with all of its assets.

The Company provided a maximum amount guarantee for bank line of credit of RMB135,000,000.00 granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company with a term from 18 June 2012 to 30 June 2013, from Nanjing Branch of Ningbo Bank Co. Ltd. As at 31 December 2012, the used credit line amounted to RMB86,361,735.02, among which, the Company provided guarantee for bank acceptances of RMB19,265,233.70 as well as secured promissory notes of RMB67,096,501.32. Nanjing Panda Information Industry Co. Ltd provided counter-guaranty with all of its assets.

The Company provided a maximum amount guarantee for bank line of credit of RMB85,000,000.00 granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company with a term from 7 September 2012 to 30 June 2013, from Nanjing Branch of Shanghai Pudong Development bank Co. Ltd. As at 31 December 2012, the used credit line amounted to RMB43,943,707.88, among which, the Company provided guarantee for bank loan of RMB10,000,000.00, and for bank acceptances of RMB19,995,503.47 as well as secured promissory notes of RMB13,948,204.41. Nanjing Panda Information Industry Co. Ltd provided counter-guaranty with all of its assets.

3. The Company provided a maximum amount irrevocable guarantee for bank loan of RMB5,000,000.00 granted to Nanjing Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, from Nanjing Branch of China Merchants Bank with a term from 6 April 2012 to 6 April 2013. As at 31 December 2012, the loan amounted to RMB5,000,000.00, with a term from 11 April 2012 to 11 April 2013. Nanjing Panda Mechanical Manufacturing Co. Ltd provided counter-guaranty with all of its assets.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

v. Provision of guarantee (Continued)

4. The Company provided a maximum amount guarantee for bank loan of RMB30,000,000.00 granted to Nanjing Panda Electronic Manufacture Co. Ltd., a subsidiary of the Company, with a term from 18 December 2012 to 23 August 2013, from Nanjing Branch of Industrial Bank Co., Ltd. Nanjing Panda Electronic Manufacture Co. Ltd., provided counter-guaranty with all of its assets. As at 31 December 2012, no credit was used.

The Company provided a maximum amount guarantee for bank loan of RMB20,000,000.00 granted to Nanjing Panda Electronic Manufacture Co. Ltd., a subsidiary of the Company with a term from 14 September 2012 to 30 June 2013, from Nanjing Branch of Pudong Development bank Co. Ltd. As at 31 December 2012, the used credit line amounted to RMB14,135,681.20, among which, the Company provided guarantee for bank loan of RMB10,000,000.00 as well as bank acceptances of RMB4,135,681.20. Nanjing Panda Electronic Manufacture Co. Ltd provided counter-guaranty with all of its assets.

5. The Company provided a maximum amount guarantee for bank loan of RMB20,000,000.00 granted to Nanjing Panda Electronic Equipment Co. Ltd., a subsidiary of the Company with a term from 25 November 2012 to 23 August 2013 from Industrial Bank Maigaoqiao Branch. Nanjing Panda Electronic Equipment Co. Ltd provides counter-guaranty with all of its assets. As at 31 December 2012, the used credit line amounted to RMB10,000,000.00, among which, the Company provided guarantee for bank loan of RMB10,000,000.00 for its subsidiary company Nanjing Panda Electronic Equipment Co. Ltd.

The Company provided a maximum amount guarantee for bank loan of RMB20,000,000.00 granted to Nanjing Panda Electronic Equipment Co. Ltd., a subsidiary of the Company with a term from 22 July 2011 to 28 June 2012 from Nanjing Branch of Shanghai Pudong Development Bank. Nanjing Panda Electronic Equipment Co. Ltd provides counter-guaranty with all of its assets. As at 31 December 2012, the used credit line amounted to RMB7,000,000.00, among which, the Company provided guarantee for bank loan of RMB7,000,000.00 for its subsidiary company Nanjing Panda Electronic Equipment Co. Ltd.

The Company provided a maximum amount guarantee for bank loan of RMB40,000,000.00 granted to Nanjing Panda Electronic Equipment Co. Ltd., a subsidiary of the Company with a term from 3 September 2012 to 30 June 2013 from Nanjing Branch of Shanghai Pudong Development Bank. Nanjing Panda Electronic Equipment Co. Ltd provides counter-guaranty with all of its assets. As at 31 December 2012, the used credit line amounted to RMB13,000,000.00, among which, the Company provided guarantee for bank loan of RMB13,000,000.00 for its subsidiary company Nanjing Panda Electronic Equipment Co. Ltd.

As at 31 December 2012, the Company provided guarantee to its subsidiaries with an amount of RMB249,892,396.99 (Year 2011:RMB97,926,393.30)

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

vi. Acceptance of guarantee

1. Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount irrevocable letter of guarantee with Nanjing Branch of China Merchants Bank in April 2012, providing guarantee for credit facilities of RMB90,000,000 granted to the Company from Nanjing Branch of China Merchants Bank during the credit period from 6 April 2012 to 6 April 2013. As at 31 December 2012, details of unpaid borrowings under the guarantee contract are as follows:

| Name of borrowers | Name of bank | Borrowing Amount | Period |
|---|--|----------------------|-----------------------|
| Nanjing Panda Electronics Company Limited | Chengdong Sub-branch of Nanjing Branch of China Merchants Bank | 40,000,000.00 | 2012.04.17-2013.04.17 |
| Nanjing Panda Electronics Company Limited | Chengdong Sub-branch of Nanjing Branch of China Merchants Bank | 50,000,000.00 | 2012.04.06-2013.04.06 |
| Total | | <u>90,000,000.00</u> | |

2. Panda Electronics Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Hua Xia Bank in March 2012, providing guarantee for borrowings of RMB50,000,000.00 granted to the Company from Nanjing Branch of Hua Xia Bank with the loan term from 8 March 2012 to 8 March 2013. As at 31 December 2012, details of unpaid borrowings under the guarantee contract are as follows:

| Name of borrowers | Name of bank | Borrowing Amount | Period |
|---|-------------------------------|----------------------|-----------------------|
| Nanjing Panda Electronics Company Limited | Nanjing Branch of Huaxia Bank | 50,000,000.00 | 2012.03.08-2013.03.08 |
| Total | | <u>50,000,000.00</u> | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

vi. Acceptance of guarantee (Continued)

3. Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Longpan Branch of Nanjing Bank in June 2012, providing guarantee for borrowings of RMB20,000,000.00 granted to the Company from Longpan Branch of Nanjing Bank with the loan term from 29 June 2012 to 29 June 2013. As at 31 December 2012, details of unpaid borrowings under the guarantee contract are as follows:

| Name of borrowers | Name of bank | Borrowing Amount | Period |
|---|--------------------------------|----------------------|-----------------------|
| Nanjing Panda Electronics Company Limited | Longpan Branch of Nanjing Bank | 20,000,000.00 | 2012.06.29-2013.06.29 |
| Total | | <u>20,000,000.00</u> | |

Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Longpan Branch of Nanjing Bank in 5 September 2012, providing guarantee for bank acceptances granted to the Company from Longpan Branch of Nanjing Bank. As at 31 December 2012, the unsettled bank acceptances is RMB25,996,786.45.

Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Longpan Branch of Nanjing Bank in 29 September 2012, providing guarantee for bank acceptances granted to the Company from Longpan Branch of Nanjing Bank. As at 31 December 2012, the unsettled bank acceptances is RMB20,053,759.94.

4. Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Jiangsu Branch of Bank of Communications in March 2012, providing guarantee for borrowings of RMB45,000,000.00 granted to the Company with the loan term from 26 March 2012 to 26 March 2013, As at 31 December 2012, details of unpaid borrowings under the guarantee contract are as follows:

| Name of borrowers | Name of bank | Borrowing Amount | Period |
|---|--|----------------------|-----------------------|
| Nanjing Panda Electronics Company Limited | Jiangsu Branch of Bank of Communications | 45,000,000.00 | 2012.03.26-2013.03.26 |
| Total | | <u>45,000,000.00</u> | |

Notes To The Financial Statements *(Continued)*

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties *(Continued)*

c) Transactions with related parties *(Continued)*

vi. Acceptance of guarantee *(Continued)*

5. Panda Electronics Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Ping'an Bank in June 2012, providing guarantee for credit facilities of RMB30,000,000 granted to the Company with a term from 18 June 2012 to 18 June 2013. As at 31 December 2012, the unsettled bank credit is RMB14,544,691.67, all of which is bank acceptance.
6. Nanjing Electronics Information Industrial Corporation, the related party of the Company entered into a guarantee contract with Nanjing Branch of Industrial Bank Co.Ltd in November 2012, providing guarantee for credit facilities of RMB100,000,000.00 granted to the Company with a term from 20 November 2012 to 28 October 2013. As at 31 December 2012, the unsettled credit is RMB34,519,560.43, all of which is bank acceptance.

As at 31 December 2012, the Company had acceptance of guarantee for bank loan provided by Panda Electronics Group Limited, the controlling shareholder of the Company with an amount of RMB205,000,000.00, RMB60,595,238.06 for bank acceptance (RMB170,000,000.00 in 2011), and the Company had acceptance of guarantee for bank acceptance provided by China Electronics Corporation with an amount of RMB34,519,560.43.

(7) Lease of assets

| Name of related parties | 2012 Amount | 2011 Amount |
|--|---------------------|----------------|
| Nanjing Panda Handa Technology Co., Ltd | 6,072,880.00 | |
| Nanjing Panda Electronics Transportation Company | 1,663,113.64 | 498,776.00 |
| Nanjing Panda Zhongdian Furniture Company Limited | 229,404.00 | |
| Nanjing Panda Electronics Import/Export Co. Ltd | 110,400.00 | |
| Total | 8,075,797.64 | 498,776.00 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

(8) Remuneration of key management

During the reporting period, total annual remuneration for directors, supervisors and senior management received from the Company was RMB2,451,800.00, details of which are as follows:

| Position | Total annual remuneration | Number of |
|-------------------|-------------------------------|-----------|
| Director | | 9 |
| Sub-total | | 9 |
| Supervisor | Below RMB100,000 | 1 |
| | From RMB100,000 to RMB200,000 | 3 |
| Sub-total | RMB587,800 | 4 |
| Senior management | From RMB400,000 to RMB500,000 | 3 |
| | From RMB500,000 to RMB600,000 | 1 |
| Sub-total | RMB1,864,000 | 4 |
| Total | RMB2,451,800 | 17 |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

(9) Balance of due from and due to related parties

| Item | Closing amount | Opening amount | Terms and conditions | Whether receive or provide guarantee |
|--|-----------------------|----------------------|----------------------|--------------------------------------|
| Accounts receivable | | | | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 81,984,831.45 | | | |
| Nanjing Panda Handa Technology Co., Ltd | 52,346,037.37 | 19,184,398.16 | | |
| Nanjing Panda Electronics Import/Export Co. Ltd. | 7,920,530.45 | 9,062,065.07 | | |
| Nanjing Ericsson Panda Communications Co. Ltd | 3,412,867.00 | 11,795,415.81 | | |
| Nanjing Thales Panda Transportation System Company Limited | 1,646,211.71 | 1,505,496.96 | | |
| Panda Electronics Group Co. Ltd. | 1,447,748.07 | 962,224.50 | | |
| Nanjing Panda Zhongdian Furniture Company Limited | 728,814.00 | 534,383.82 | | |
| Panda (Beijing) International Information Technology Co., Ltd | 107,685.29 | 107,685.29 | | |
| Nanjing Panda Electronics Transportation Company | 107,404.76 | | | |
| Nanjing Zhen Hua Packing Material Plan | 94,000.00 | | | |
| Nanjing Panda Electronic Technology Development Company Limited | 87,320.00 | 369,506.00 | | |
| Shenzhen Sangda Electronic Equipement Co.Ltd | 60,121.80 | | | |
| Nanjing Panda DaSheng Electronics Technology Company Limited. | 48,480.00 | | | |
| Panda Electronic (Kun Shan) Co. Ltd. | 35,850.00 | 35,850.00 | | |
| Hua Fei Color Display Systems Co., Ltd. | 33,450.00 | 33,450.00 | | |
| Nanjing Electronic Calibration Co., Ltd | 3,780.00 | 3,780.00 | | |
| Wuhan Zhongyuan Electronics Group Co.Ltd | 2,000.00 | | | |
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | | 24,981.65 | | |
| Total | 150,067,131.90 | 43,619,237.26 | | |
| Accounts receivable-provision for bad debt | | | | |
| Nanjing Panda Handa Technology Co., Ltd | 833,024.15 | 2,980.03 | | |
| Panda (Beijing) International Information Technology Co., Ltd | 107,685.29 | 107,685.29 | | |
| Shenzhen Sangda electronic Equipment Co. Ltd | 60,121.80 | | | |
| Panda Electronic (Kun Shan) Co. Ltd. | 35,850.00 | 35,850.00 | | |
| Hua Fei Color Display Systems Co., Ltd. | 33,450.00 | 33,450.00 | | |
| Panda Electronics Group Co. Ltd. | 9,300.00 | 12,354.50 | | |
| Nanjing Panda Electronics Import/Export Co. Ltd. | 9,009.77 | 9,778.35 | | |
| Nanjing Electronic Calibration Co., Ltd. | 3,780.00 | | | |
| Wuhan Zhongyuan Electronics Group Co.Ltd | 2,000.00 | | | |
| Nanjing Ericsson Panda Communications Co. Ltd | 360.00 | 2,721.29 | | |
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | | 24,981.65 | | |
| Nanjing Thales Panda Transportation System Company Limited | | 381.99 | | |
| Total | 1,094,581.01 | 230,183.10 | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

(9) Balance of due from and due to related parties (Continued)

| Item | Closing amount | Opening amount | Terms and conditions | Whether receive or provide guarantee |
|--|----------------|----------------|----------------------|--------------------------------------|
| Prepayments | | | | |
| Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD | 15,000.00 | | | |
| Nanjing Panda Zhongdian Furniture Company Limited | 3,600.00 | | | |
| Nanjing Panda Electronic Technology Development Company Limited | | 5,647,038.95 | | |
| Total | 18,600.00 | 5,647,038.95 | | |
| Other receivables | | | | |
| Panda Electronic (Kun Shan) Co. Ltd. | 2,799,417.23 | 2,799,417.23 | | |
| Total | 2,799,417.23 | 2,799,417.23 | | |
| Other receivables-provision for bad debt | | | | |
| Panda Electronic (Kun Shan) Co. Ltd. | 2,799,417.23 | 2,799,417.23 | | |
| Total | 2,799,417.23 | 2,799,417.23 | | |
| Accounts payable | | | | |
| Nanjing Panda Electronics Import/Export Co. Ltd. | 16,808,647.12 | 14,113,421.57 | | |
| Panda Electronics Group Co. Ltd. | 3,997,184.39 | 4,086,716.39 | | |
| China Electronics (ShenZhen) Co.Ltd | 1,597,057.23 | | | |
| Nanjing Panda Electronic Technology Development Company Limited | 1,394,495.53 | 471,110.71 | | |
| Nanjing Panda Electronics Transportation Company | 1,205,776.86 | 490,042.39 | | |
| Nanjing Zhen Hua Packing Material Plant | 1,015,984.09 | 2,075,772.90 | | |
| Nanjing Panda Zhongdian Furniture Company Limited | 270,380.35 | 90,072.53 | | |
| Panda Electronic (Kun Shan) Co. Ltd. | 63,139.64 | 63,139.64 | | |
| Nanjing Changjiang Electronic Information Industry Group Co.Ltd | 51,741.98 | | | |
| Nanjing Thales Panda Transportation System Company Limited | 16,410.02 | 16,410.02 | | |
| Shenzhen Sangda Baili Electric Appliance co., LTD | 3,565.81 | | | |
| Nanjing Electronic Calibration Co., Ltd | | 9,992.00 | | |
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | | 9,912.00 | | |
| Total | 26,424,383.02 | 21,426,590.15 | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

(9) Balance of due from and due to related parties (Continued)

| Item | Closing amount | Opening amount | Terms and conditions | Whether receive or provide guarantee |
|---|----------------------|----------------------|----------------------|--------------------------------------|
| Advances from customers | | | | |
| Nanjing Panda Electronics Import/Export (HK) Co. Ltd. | 2,331,011.25 | 6,357,442.06 | | |
| Nanjing Huaxian High Technology Company Limited | 2,060,000.00 | | | |
| Nanjing Panda Zhongdian Furniture Company Limited | 783,301.17 | | | |
| Nanjing Panda Electronics Import/Export Co. Ltd. | 356,614.84 | | | |
| Nanjing Panda Handa Technology Co., Ltd | 65,820.80 | 184,620.80 | | |
| Nanjing Panda Electronics Transportation Company | | 538,313.32 | | |
| Nanjing Panda Huaxin Technology Industrial Co., Ltd. | | 11,577.75 | | |
| Total | <u>5,596,748.06</u> | <u>7,091,953.93</u> | | |
| Other payables | | | | |
| China Electronics Corporation | 34,000,000.00 | | | |
| Panda Electronics Group Co. Ltd. | 11,814,041.57 | 7,416,030.00 | | |
| Nanjing Thales Panda Transportation System Company Limited | 860,265.92 | | | |
| Nanjing China Electronics Panda Property Management Co., LTD | 493,090.41 | | | |
| Panda Electronic (Kun Shan) Co. Ltd. | 300,000.00 | 300,000.00 | | |
| Nanjing Panda Electronic Technology Development Company Limited | 84,000.00 | 134,000.00 | | |
| Panda (Beijing) International Information Technology Co., Ltd | 45,588.91 | 45,588.91 | | |
| Nanjing Panda Electronics Transportation Company | 22,326.02 | 14,562.60 | | |
| Nanjing Panda DaSheng Electronics Technology Company Limited | 200.00 | 200.00 | | |
| Intenna (Nanjing) Co. Ltd. | | 2,175,073.67 | | |
| Nanjing Panda Garden Property Management Centre | | 51,831.26 | | |
| Total | <u>47,619,512.83</u> | <u>10,137,286.44</u> | | |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

X. Relationship and transactions with related parties (Continued)

c) Transactions with related parties (Continued)

(10) Finance service

The Company entered into the "Finance Service Contract" ((hereinafter referred to as "contract")with China Electronics Financial Co., Ltd.(hereinafter referred to as "Financial Company") on 26 October 2012, According to the contract, the Financial Company offered relevant finance service for the company within the scope of its business license. The service include but not limited to capital settlement, cash receipts and payment, credit financing, capital management, general planning consulting, etc. Both of the contractors made an agreement that the Financial Company should offer a comprehensive credit line up to RMB300,000,000 since the contract take effect. And the upper balance of cash settlement in financial company is RMB200,000,000. The valid duration is 3 years since the date of agreement. The above financial service agreement was approved by the extraordinary Board meeting, and the second extraordinary general meeting of shareholders in year 2012. As at 31 December 2012, the outstanding balance of deposits in the Financial Company is RMB173,901,345.51.

(11) Trademark licensing

| Name of related parties | 2012 Amount | 2011 Amount |
|---------------------------------|--------------------------|--------------------------|
| Panda Electronics Group Co.,Ltd | <u>634,352.83</u> | <u>511,591.00</u> |
| Total | <u><u>634,352.83</u></u> | <u><u>511,591.00</u></u> |

Pricing policy of trademark licensing granted to the related party: The related party will be offered a trademark license fee of RMB2 to 5 for each unit of Panda color television or CD player sold. Given to the higher cost or more resources is required for entering overseas market, the above license fee for each unit will be reduced if the products manufactured and sold for export use.

(12) Assets Rented

| Name of related parties | 2012 Amount | 2011 Amount |
|---|----------------------------|------------------------------------|
| Nanjing Panda Electronics Company Limited | <u>1,655,599.00</u> | <u> </u> |
| Total | <u><u>1,655,599.00</u></u> | <u><u> </u></u> |

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

XI. Contingencies

1. Please refer to Note X 3 (5) for the guarantees provided by the Company for bank borrowings of its subsidiaries.
2. As at 31 December 2012, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

XII. Commitments

a) Operating lease commitment

The future aggregate minimum lease payments due under non-cancelable operating leases are as follows:

| Items | 2012 | 2011 |
|-------------------|----------------------------|----------------------------|
| Within 1 year | 5,625,840.86 | 1,845,592.00 |
| 1-2 years | 396,933.34 | 1,346,769.00 |
| 2-3 years | 92,400.00 | 93,600.00 |
| More than 3 years | | 62,400.00 |
| Total | <u>6,115,174.20</u> | <u>3,348,361.00</u> |

b) Capital expenditure commitment

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

| Items | 2012 | 2011 |
|-----------|------------------------------|-----------------------------|
| Buildings | <u>146,376,194.91</u> | <u>14,841,953.04</u> |

XIII. Post Balance Sheet Events

1. According to the profit distribution plan released on the seventh of the Seventh conference of the Board of Directors of 2012, the profit will be distributed at the base of the share capital of 655,015,000. Every 10 shares will be paid by RMB0.6 cash(tax included) dividends, amounting to RMB39,300,900.00 totally. The profit distribution plan should be executed after the approval of the general meeting of shareholders of the Company.
2. Saved as above, there were no other material post balance sheet events in the Company as at the date when the financial was approved for issue.

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

XIV. Debt Restructuring

The detail information refer to note "VIII 35 (3) ".

XV. Foreign Currency Conversion

The amount of exchange gain which is recorded into the profits and losses is RMB144,927.50, the amount of the exchange loss is RMB2,653,726.31, and the net exchange profits and losses is RMB2,508,798.81.

XVI. Other Significant Events

1. According to the resolutions of annual general meeting of shareholders of 2011 on 31 May 2012, the Company will provide a maximum amount guarantee for borrowing of RMB180 million granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company with a term till 30 June 2013; According to the resolutions of the second extraordinary meeting of the general meetings of 2011 on 28 December 2011, the Company will provide a maximum amount guarantee for borrowing of RMB120 million granted to Nanjing Panda Information Industry Co., Ltd., a subsidiary of the Company with a term till 30 June 2013; a maximum amount guarantee for borrowing of RMB70 million granted to Nanjing Panda Electrical Equipment Co., Ltd, a subsidiary of the Company with a term till 30 June 2013. According to the resolutions of general meetings of shareholders of 2009 on 30 June 2010, the Company will provide a maximum amount guarantee for borrowing of RMB50 million, a maximum amount guarantee for borrowings of RMB60 million, a maximum amount guarantee for borrowings of RMB15 million granted to Nanjing Panda Electronic Manufacture Co., Ltd, Nanjing Huage Appliance and Plastic Industrial Co.,Ltd, and Nanjing Panda Mechanical Manufacturing Co. Ltd, subsidiaries of the Company respectively with a term till 30 June 2013.
2. The Company's controlling shareholders Panda Electronics Group Co.,Ltd("Panda Group") provided a pledge guaranty for Nanjing Panda Handa Technology Co.,Ltd for a loan amounting to RMB700,000,000.00 with a term of two years from China Electronics Financial Co. Ltd, Jiangsu branch of Bank of communications and Nanjing Zhongyangmen sub-branch of China Construction Bank. The Panda Group provided the guaranty at the pledge of 167,350,000 unlimited shares of the Company accounting for 25.55% of the shares of the Company. As at 28 November 2011, Panda Group has completed the stock pledge registration formalities at Shanghai Branch of China Securities Depository and Clearing Corporation.
3. The Non-public issuance of new A shares is targeted to not more than 10 specific qualified investors, including Nanjing Electronic Information Industrial Corporation (NEIIC), which is controlled by the actual controller China Electronics Corporation (CEC), and the expected raised amount is RMB1,320,000,000. NEIIC intended to purchase A shares in exchange of RMB 200,000,000. The issue was approved through the sixth of the Seventh Conference of the Board of Directors on 7 November 2012, the third extraordinary shareholders' general meeting in 2012, the first A shareholders' general meeting in 2012 and the first H shareholders' general meeting. The solutions and proposals are still need to be approved by the State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission (CSRC).

Notes To The Financial Statements (Continued)

(All amounts in RMB thousands unless otherwise stated)

XVI. Other Significant Events (Continued)

4. Lease

I Details of operating lease of the Company during the reporting period are as follows:

| Categories of assets leased out | Closing balance | Opening balance |
|---------------------------------|-----------------------|----------------------|
| Buildings | <u>138,199,618.84</u> | <u>61,995,460.16</u> |
| Total | <u>138,199,618.84</u> | <u>61,995,460.16</u> |

XVII. Reconciliation of Hong Kong and PRC Accounting Standards Differences (Unit: RMB thousands)

| Items | Closing Balance | Opening Balance |
|--|------------------|------------------|
| Equity attributable to the shareholders of parent company under PRC accounting standards and accounting principles generally accepted in Hong Kong during the year | <u>1,684,756</u> | <u>1,587,040</u> |

| Items | Closing Balance | Opening Balance |
|---|-----------------|-----------------|
| Net profit attributable to the shareholders of parent company under accounting principles generally accepted in Hong Kong | <u>131,554</u> | <u>110,070</u> |

Supplementary information

I. Related financial indicators

| Profit during reporting period | Reporting period | Return on net assets (%) | Earnings per share (RMB/share) | |
|---|------------------|--------------------------|--------------------------------|----------------------------|
| | | Weighted average | Basic earnings per share | Diluted earnings per share |
| Net profit attributable to holders of ordinary shares of the Company | 2012 | 8.06 | 0.2008 | 0.2008 |
| | 2011 | 7.17 | 0.1680 | 0.1680 |
| Net profit attributable to holders of ordinary shares after extraordinary items | 2012 | 3.64 | 0.0908 | 0.0908 |
| | 2011 | 6.77 | 0.1590 | 0.1590 |

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

1) Fully diluted return on net assets

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

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

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

2) Weighted average return on net assets

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

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

Supplementary information (Continued)

I. Related financial indicators (Continued)

3) Basic earnings per share

Basic earnings per share = $P \div S$

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

Including: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company; "S" represents the weighted average of outstanding ordinary shares; "S₀" represents total number of shares at the beginning of the reporting period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S_i" represents shares increased from issue of new shares or debt to equity during the reporting period; "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M₀" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period.

4) Diluted earnings per share

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

Including, "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company. "S₀" represents total number of shares at the beginning of the reporting period; "S₁" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S_i" represents shares increased from reporting period issue of new shares or debt to equity, etc; "S_j" represents the reduced shares arising from repurchase during reporting period; "S_k" represents the number of reduced shares during the reporting period; "M₀" represents months in the reporting period; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period. In calculating diluted earnings per share, the company takes into consideration of influence from all diluted potential ordinary shares till diluted earnings per share become minimized.

Supplementary information (Continued)

II. Statement of extraordinary items

Unit: RMB

| Item | 2012 | 2011 |
|---|----------------------|---------------------|
| (1) Profit and loss of disposal of non-current assets including reserved provision for asset impairment | 282,412.75 | 937,077.38 |
| (2) Tax rebate or tax reduction through approval beyond authorities or without official approval document | | |
| (3) Government subsidiaries accounted for as current profit and loss, (excluding those closely related to the enterprise's business and enjoyed according to the State's standard quote or quantity) | 45,977,414.50 | 4,513,607.32 |
| (4) Capital occupation fee received from non-financial enterprises and recorded into the current gains and losses | | |
| (5) Profit and loss incurred when cost of merger of enterprises are less than the fair value of the identifiable net assets of acquirees attributable to the Company during merger | | |
| (6) Profit and loss from exchange of non-monetary assets | | |
| (7) Profit and loss from entrusted investment | | |
| (8) Provision for assets impairment due to force majeure including natural disasters | | |
| (9) Profit and loss from debt restructuring | 5,722,713.08 | |
| (10) Expenses of enterprise restructuring, such as staff replacement, integration expenses, etc. | | |
| (11) Loss and profit exceeding fair value of transaction with unfair consideration | | |
| (12) Net profits and losses of the current period of subsidiaries under same control arising for merger of enterprise from the beginning of period to the date of merger | | (2,441,873.82) |
| (13) Loss and profit from accrued liabilities having no relation with principal business of the Company | | |
| (14) Investment income obtained from holding transactional financial assets transactions financial liabilities generated changes in fair values and disposal tradable financial assets and transactions financial liabilities and sellable financial assets apart with company normal operations related effective hedging business | | |
| (15) Reversal of impairment of receivables provided by specific provision | | |
| (16) Profit and loss from entrusted loans | | |
| (17) Profit and loss arising from changes in fair value of investment property under fair value model on subsequent measurement | | |
| (18) Profit and loss according to tax and accounting laws and regulations require a one-time adjustment of profit or loss | | |
| (19) Entrusted fee income obtained from entrusted operation | | |
| (20) Other net non-operating income/expenses other than the above items | 25,349,983.16 | 3,478,317.90 |
| (21) Other non-recurring profit and loss items recognized by CSRC | | |
| Sub-total | 77,332,523.49 | 6,487,128.78 |
| Less: the impact from income tax | 5,004,704.52 | 801,897.74 |
| Net non-recurring profit and loss | 72,327,818.97 | 5,685,231.04 |
| Net non-recurring profit and loss attributable to ordinary shareholders of the Company | 72,107,160.50 | 5,928,105.06 |
| Net non-recurring profit and loss attributable to non-controlling shareholders | 220,658.47 | (242,874.02) |

Documents Available For Inspection

1. Original financial statements signed and sealed under the hand of the head of the Company, the Chief Accountant and the Finance Manager of the Company.
2. Original auditors' report, with the auditing firms' chop affixed, signed and sealed by certified public accountants.
3. Original copies of all documents and announcements of the Company publicly disclosed on websites designated by the CSRC during the reporting period.
4. This annual report is prepared in Chinese and English. In case of any discrepancies in interpretation, the Chinese version shall prevail.