

Report Of The Auditors

Zhong Rui Yue Hua Shen Zi (2008) No. 10883

To All Shareholders of Nanjing Panda Electronics Company Limited:

We have audited the attached Nanjing Panda Electronics Company Limited ("Nanjing Panda") financial statements, among other things, the Balance Sheets and Consolidated Balance Sheets as at 31 December 2007, Income Statement, Consolidated Income Statement, Statement of Changes in Equity, Consolidated Statement of Changes in Equity, Cash Flow Statement, Consolidated Cash Flow Statement for the year ended 31 December 2007, and notes to the financial statements.

1. Management's responsibility for the financial statements

The responsibility for preparing these statements in accordance with "Accounting Standards for Business Enterprises" lies with Nanjing Panda. These responsibility include: (1) design, implementation and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted out audit in accordance with PRC standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 auditors' 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 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 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.

3. Opinion

In our opinion, Nanjing Panda's financial statements are prepared in conformity with the "Accounting Standards for Business Enterprises", and in all material respects, present fairly the financial positions of the Nanjing Panda as at 31 December 2007 and the results of its operations and cash flow for the year then ended.

**Zhong Rui Yue Hua Certified
Public Accountants Co. Ltd.**

Beijing, the PRC

27 March 2008

PRC registered accountant: Liu Jianhua

PRC Registered accountant: Liao Xiaohong



Balance Sheet

Balance Sheet 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	31 December 2007	31 December 2006
Current assets:			
Currency Funding		326,570,810.95	540,035,813.29
Trading financial assets		—	—
Bills receivable		—	30,098,000.00
Accounts receivable	IX.1	49,241,785.93	61,746,509.94
Prepayments		11,663,438.53	43,743,400.62
Interest receivable		—	—
Dividends receivable		2,081,925.44	1,677,294.39
Other receivables	IX.2	170,638,217.62	599,967,169.42
Stocks		151,880,667.77	130,338,506.15
Non-current assets due within one year		—	—
Other current assets		—	—
Total current assets		712,076,846.24	1,407,606,693.81
Non-current assets:			
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	IX.3	1,140,268,172.50	698,566,146.60
Investment properties		—	—
Fixed assets		288,419,814.81	279,197,397.00
Construction in progress		8,227,280.23	14,096,558.60
Construction supplies		—	—
Clearance of fixed assets		—	—
Biological assets for production		—	—
Gas assets		—	—
Intangible assets		11,522,711.12	12,012,509.80
Development expenses		—	—
Goodwill		—	—
Long term deferred expenses		—	—
Deferred tax asset		—	—
Other non-current assets		—	—
Total non-current assets		1,448,437,978.66	1,003,872,612.00
Total assets		2,160,514,824.90	2,411,479,305.81

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Balance Sheet

Balance Sheet (Continued) 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	31 December 2007	31 December 2006
Current liabilities:			
Short term loans		623,000,000.00	806,000,000.00
Trading financial liabilities		—	—
Bills payable		30,000,000.00	20,000,000.00
Accounts payable		22,687,564.60	45,421,192.14
Advances from customers		4,864,497.42	4,786,379.41
Salaries payable		1,201,428.09	8,509,547.16
Taxes payable		34,576,451.40	46,926,373.41
Interest payable		1,306,732.50	1,303,000.00
Dividends payable		—	—
Other payables		54,878,443.93	141,343,567.19
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		772,515,117.94	1,074,290,059.31
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		772,515,117.94	1,074,290,059.31
Shareholders' equity:			
Share capital		655,015,000.00	655,015,000.00
Capital reserve		478,941,415.14	478,625,398.01
Less: Treasury stock		—	—
Surplus reserve		194,728,117.46	189,678,673.13
Undistributed profits		59,315,174.36	13,870,175.36
Total shareholders' equity		1,387,999,706.96	1,337,189,246.50
Total liabilities and shareholders' equity		2,160,514,824.90	2,411,479,305.81

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Consolidated Balance Sheet

Consolidated Balance Sheet 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	31 December 2007	31 December 2006
Current assets:			
Currency funding	VIII.1	483,699,275.19	652,094,029.71
Trading financial assets		—	—
Bills receivable	VIII.2	2,131,704.70	31,775,270.00
Accounts receivable	VIII.3	159,234,159.78	163,415,609.64
Prepayments	VIII.4	51,028,779.49	76,380,467.07
Interest receivable		—	—
Other receivables	VIII.5	57,076,371.78	555,531,779.05
Stocks	VIII.6	305,991,561.56	236,837,950.71
Non-current assets falling due within one year		—	—
Other current assets		—	—
Total current assets		1,059,161,852.50	1,716,035,106.18
Non-current assets:			
Available-for sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investment	VIII.7	976,375,099.99	537,994,917.66
Investment properties		—	—
Fixed assets	VIII.8	489,982,056.01	483,735,381.26
Construction in progress	VIII.9	10,257,698.23	16,486,338.80
Construction supplies		—	—
Clearance of fixed assets		—	—
Biological assets for production		—	—
Gas assets		—	—
Intangible assets	VIII.10	44,556,461.90	12,734,190.07
Development assets		—	—
Goodwill		—	—
Long term deferred expenses	VIII.11	4,098,976.61	—
Deferred income tax assets	VIII.12	5,203,608.70	4,562,258.03
Other non-current assets		—	—
Total non-current assets		1,530,473,901.44	1,055,513,085.82
Total assets		2,589,635,753.94	2,771,548,192.00

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Consolidated Balance Sheet

Consolidated Balance Sheet (Continued) 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Assets	Notes	31 December 2007	31 December 2006
Current liabilities			
Short term loans	VIII.14	657,304,600.00	836,070,200.00
Trading financial liabilities		—	—
Bills payable	VIII.15	54,029,931.78	37,794,637.80
Accounts payable	VIII.16	181,425,207.53	148,551,080.80
Advances from customers	VIII.17	49,445,588.77	53,792,028.89
Salaries payable	VIII.18	8,601,850.13	17,791,750.33
Taxes payable	VIII.19	40,170,918.76	47,642,148.66
Interest payable	VIII.20	1,306,732.50	1,303,000.00
Other payables	VIII.21	94,320,919.32	203,486,837.74
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
Total liabilities		1,086,605,748.79	1,346,431,684.22
Non-current liabilities:			
Long term loans		—	—
Bonds payables		—	—
Long term payables	VIII.22	17,921,097.26	34,990,818.63
Specific payables		—	—
Accrued liabilities		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		600,000.00	—
Total non-current liabilities		18,521,097.26	34,990,818.63
Total liabilities		1,105,126,846.05	1,381,422,502.85
Shareholders' equity:			
Share capital	VIII.23	655,015,000.00	655,015,000.00
Capital reserve	VIII.24	480,209,034.37	479,893,017.24
Less: treasury stock		—	—
Surplus reserve	VIII.25	194,728,117.46	189,678,673.13
Undistributed profits	VIII.26	107,737,884.91	23,694,619.36
Discounted spread in foreign currency statement		—	—
Sub-total of equity attributable to shareholders of the parent company		1,437,690,036.74	1,348,281,309.73
Minority interests		46,818,871.15	41,844,379.42
Total shareholders' equity		1,484,508,907.89	1,390,125,689.15
Total liabilities and shareholders' equity		2,589,635,753.94	2,771,548,192.00

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Profit statement

Profit statement 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	31 December 2007	31 December 2006
1. Operating income	IX.4	252,127,077.59	254,660,069.74
Less: Operating cost	IX.4	198,368,735.39	193,146,465.17
Business taxes and surcharge		528,868.24	499,388.33
Selling expenses		2,435,077.38	1,470,339.17
Administrative expenses		120,209,616.27	133,474,833.17
Financial expenses		51,246,513.72	48,516,529.49
Impairment loss on assets		42,185,486.48	32,630,486.96
Add: Income from change in fair value (losses are represented by "-")		—	—
Investment income (losses are represented by "-")	IX.5	234,287,754.97	227,821,107.37
Include: Investment income of associates and joint ventures		—	—
2. Operating Profit (losses are represented by "-")		71,440,535.08	72,743,134.82
Add: Non-operating income		388,385.00	42,321.94
Less: Non-operating expenses		21,334,476.75	2,140,029.29
Include: Loss from the disposal of non-current assets		742,425,449.28	712,484,635.71
3. Total Profit (losses are presented by "-")		50,494,443.33	70,645,427.47
Less: Income tax		—	—
4. Net profit (net losses are represented by "-")		50,494,443.33	70,645,427.47
5. Earnings per share:			
(1) Basic earnings per share		—	—
(2) Diluted earnings per share		—	—

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Consolidated Profit and Loss Statement

Consolidated Profit and Loss Statement 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2007	2006
1. Total operating income		1,009,935,655.50	911,166,858.13
Include: Operating income	VIII.27	1,009,935,655.50	911,166,858.13
2. Total operating cost		1,124,510,135.77	1,040,765,986.85
Include: Operating cost	VIII.27	835,578,728.39	755,992,060.70
Business taxes and surcharge	VIII.28	5,378,267.58	5,150,452.40
Selling expenses		18,282,260.22	17,904,483.05
Administrative expenses		165,622,102.97	192,184,902.62
Financial expenses	VIII.29	61,196,960.25	52,086,513.44
Loss in assets impairment	VIII.30	38,451,816.36	17,447,574.64
Add: Income from change in fair value (losses are represented by "-")		—	—
Investment income (losses are represented by "-")	VIII.31	230,511,715.19	225,560,736.08
Include: Investment income of associates and joint ventures		—	—
3. Operating profit (losses are represented by "-")		115,937,234.92	95,961,607.36
Add: Non-operating income	VIII.32	9,496,291.64	4,193,604.19
Less: Non-operating expenses	VIII.33	21,927,628.07	3,040,487.78
Include: Loss from the disposal of non-current assets		—	—
4. Total Profit (losses are represented by "-")		103,505,898.49	97,114,723.77
Less: Income tax	VIII.34	7,227,004.04	3,035,630.38
5. Net Profit (losses are represented by "-")		96,278,894.45	94,079,093.39
Profit attributable to the equity shareholders of the Parent		89,092,709.88	86,609,319.67
Minority interest		7,186,184.57	7,469,773.72
Net profit of the combined party in enterprise combination under the same control realised before the combining date		—	—
6. Earnings per share:			
(1) Basic earnings per share		0.14	0.13
(2) Diluted earnings per share		0.14	0.13

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Cash flow statement

Cash flow statement 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2007	2006
1. Cash flows from operating activities			
Cash received from the sale of goods and services provided		348,162,243.79	259,744,558.11
Return of tax payment		—	—
Other cash received relating to operating activities		1,098,366,625.02	1,839,931,144.65
Sub-total of cash inflows from operating activities		1,446,528,868.81	2,099,675,702.76
Cash paid on purchase of goods and services		219,020,048.78	243,107,111.87
Cash paid to staff and paid on behalf of staff		82,724,208.22	77,831,419.41
Taxes paid		7,400,292.70	11,291,474.98
Cash paid relating to other operating activities		1,285,263,329.14	1,565,252,315.95
Sub-total of cash outflows from operating activities		1,594,407,878.84	1,897,482,322.21
Net cash flows from operating activities		(147,879,010.03)	202,193,380.55
2. Cash flows from investment activities:			
Cash received from investment recovered		6,322,470.00	—
Cash received from investment income		182,892,367.57	240,927,660.86
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		391,900.00	16,410.00
Cash received from disposal of subsidiaries and other business units		—	—
Cash received relating to other operating activities		—	—
Sub-total of cash inflows from investment activities		189,606,737.57	240,944,070.86
Cash paid on purchase of fixed assets, intangible assets and other long term assets		16,078,237.78	101,692,193.47
Cash paid on investment		32,709,921.63	33,000,000.00
Net cash paid on acquisition of subsidiaries and other business units		—	—
Cash paid on other investment activities		—	—
Sub-total of cash outflows from investment activities		48,788,159.41	134,692,193.47
Net cash flows from investment activities		140,818,578.16	106,251,877.39



Cash flow statement

Cash flow statement (*Continued*) 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2007	2006
3. Cash flows from financing activities:			
Cash received from investment		—	—
Cash received from borrowings		1,047,000,000.00	1,212,000,000.00
Cash received from other financing activities		50,589,234.00	—
Sub-total of cash inflows from financing activities		1,097,589,234.00	1,212,000,000.00
Cash paid on repayment of debts		1,230,153,779.05	1,172,000,000.00
Cash paid on distribution of dividends or profits, or interest repayment		52,257,314.49	52,474,538.23
Cash paid on other financing activities		80,664,400.00	—
Sub-total of cash and cash equivalents outflows from financing activities		1,363,075,493.54	1,224,474,538.23
Net cash flows from financing activities		(265,486,259.54)	(12,474,538.23)
4. Effect on cash due to foreign currency exchange		(64,676.93)	—
5. Net increase in cash and cash equivalents		(272,611,368.34)	295,970,719.71
Add: balance of cash and cash equivalents at the beginning of the year		518,982,179.29	223,011,459.58
6. Balance of cash and cash equivalents at the end of the year		246,370,810.95	518,982,179.29

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Consolidated Cash flow statement

Consolidated Cash flow statement 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2007	2006
1. Cash flows from operating activities			
Cash received from the sale of goods and services provided		1,153,011,796.16	1,002,963,727.96
Return of tax payment		5,062,502.65	6,776,191.33
Other cash received relating to operating activities	VIII.36	1,332,368,675.89	1,843,336,190.86
Sub-total of cash inflows from operating activities		2,490,442,974.70	2,853,076,110.15
Cash paid on purchase of goods and services		833,250,717.55	855,905,189.87
Cash paid to staff and paid on behalf of staff		167,558,882.10	157,448,656.40
Taxes paid		52,998,273.44	55,968,455.86
Cash paid relating to other operating activities	VIII.37	1,468,715,800.97	1,534,505,221.70
Sub-total of cash outflows from operating activities		2,522,523,674.06	2,603,827,523.83
Net cash flows from operating activities		(32,080,699.36)	249,248,586.32
2. Cash flows from investment activities:			
Cash received from investment recovered		6,322,470.00	—
Cash received from investment income		179,017,802.40	233,582,332.16
Net cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		591,400.00	2,917,910.00
Cash received from disposal of subsidiaries and other business units		—	—
Cash received relating to other operating activities		—	—
Sub-total of cash inflows from investment activities		185,931,672.40	236,500,242.16
Cash paid on purchase of fixed assets, intangible assets and other long term assets		94,291,589.07	125,093,434.52
Cash paid for investment		—	14,124,400.00
Net cash paid on acquisition of subsidiaries and other business units		—	—
Cash paid on other investment activities		—	—
Sub-total of cash outflows from investment activities		94,291,589.07	139,217,834.52
Net cash flows from investment activities		91,640,083.33	97,282,407.64



Consolidated Cash flow statement

Consolidated Cash flow statement (Continued) 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	Notes	2007	2006
3. Cash flows from financing activities:			
Cash received from investment		—	—
Including: cash received by subsidiaries from equity investment of minority shareholders		—	—
Cash received from borrowings		1,092,305,000.00	1,245,570,200.00
Cash received from other financing activities	VIII.38	360,071,906.85	641,890,992.00
Sub-total of cash inflows from financing activities		1,452,376,906.85	1,887,461,192.00
Cash paid on repayment of debts		1,271,462,479.05	1,204,570,200.00
Cash paid on distribution of dividends or profits, or interest repayment		58,106,856.53	58,563,756.39
Including: bonus and profit paid to minority shareholders by subsidiaries		2,054,697.80	975,443.09
Cash paid on other financing activities	VIII.39	408,628,060.51	666,347,073.63
Sub-total of cash and cash equivalents outflows from financing activities		1,738,197,396.09	1,929,481,030.02
Net cash flows from financing activities		(285,820,489.24)	(42,019,838.02)
4. Effect on cash and cash equivalents due to foreign currency exchange		(234,632.26)	298,095.23
5. Net increase in cash and cash equivalents		(226,495,737.53)	304,809,251.17
Add: balance of cash and cash equivalents at the beginning of the year		607,318,095.22	302,508,844.05
6. Balance of cash and cash equivalents at the end of the year		380,822,357.69	607,318,095.22

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Statement of Change of Shareholders' equity

Statement of Change of Shareholders' equity 2007

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	2007					2006						
	Share capital	Capital reserve stock	Less: treasury	Surplus reserve	Undistributed profits	Total shareholders' equity	Share capital	Capital reserve	Less: treasury stock	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance of last year	655,015,000.00	480,404,773.85	—	191,184,000.53	27,830,687.05	1,354,434,461.43	655,015,000.00	480,208,784.04	—	188,137,542.53	(58,297,023.58)	1,265,064,302.99
Add: change in accounting policies	—	(1,779,375.84)	—	(1,505,327.40)	(13,960,511.69)	(17,245,214.93)	—	(1,594,186.03)	—	—	3,062,902.07	1,468,716.04
Correction of prior errors	—	—	—	—	—	—	—	—	—	—	—	—
2. Balance at the beginning of this year	655,015,000.00	478,625,398.01	—	189,678,673.13	13,870,175.36	1,337,189,246.50	655,015,000.00	478,614,598.01	—	188,137,542.53	(55,234,121.51)	1,266,533,019.03
3. Change of this year (a decrease is represented by "-")	—	316,017.13	—	5,049,444.33	45,444,999.00	50,810,460.46	—	10,800.00	—	1,541,130.60	69,104,296.87	70,656,227.47
(1) Net profit	—	—	—	—	50,494,443.33	50,494,443.33	—	—	—	—	70,645,427.47	70,645,427.47
(2) Profit and loss directly accounted for in shareholders' equity	—	316,017.13	—	—	—	316,017.13	—	10,800.00	—	—	—	10,800.00
1. Net change in fair value of financial assets available for sale	—	—	—	—	—	—	—	—	—	—	—	—
2. Effect of changes in other shareholders' equity in investee companies referred at equity	—	316,017.13	—	—	—	316,017.13	—	—	—	—	—	—
3. Effect of income tax in relation to items referred at equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	10,800.00	—	—	—	10,800.00
Subtotal of item (1) and (2) above	—	316,017.13	—	—	50,494,443.33	50,810,460.46	—	10,800.00	—	—	70,645,427.47	70,656,227.47
(3) Contribution and reduction of capital by shareholders	—	—	—	—	—	—	—	—	—	—	—	—
1. Capital contribution by shareholders	—	—	—	—	—	—	—	—	—	—	—	—
2. Amount settled by shares for amount accounted for in shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—	—
(4) Profit distribution	—	—	—	(5,049,444.33)	5,049,444.33	—	—	—	—	(1,541,130.60)	1,541,130.60	—
1. Transfer from surplus reserves	—	—	—	(5,049,444.33)	5,049,444.33	—	—	—	—	(1,541,130.60)	1,541,130.60	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—
3. 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	—	—	—	—	—	—	—	—	—	—	—	—
4. Balance at the end of this year	655,015,000.00	478,941,415.14	—	194,728,117.46	59,315,174.36	1,387,999,706.96	655,015,000.00	478,625,398.01	—	189,678,673.13	13,870,175.36	1,337,189,246.50

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Consolidated Statement of Change of Shareholders' equity

Consolidated Statement of Change of Shareholders' equity (2007)

Prepared by: Nanjing Panda Electronics Company Limited

Unit: RMB

Items	2007								2006							
	Shareholders' equity attributable to the Parent								Shareholders' equity attributable to the Parent							
	Share capital	Less: Capital reserve	treasury stock	Surplus reserve	Undistributed profits	Other	Minority interest	shareholders' equity	Share capital	Less: Capital reserve	treasury stock	Surplus reserve	Undistributed profits	Other	Minority interest	shareholders' equity
1. Balance of last year	655,015,000.00	480,404,773.85	—	191,104,000.53	27,418,123.14	(6,345,417.57)	—	1,347,078,479.95	655,015,000.00	480,208,784.04	—	188,137,542.53	(58,682,872.55)	(6,440,994.67)	—	1,258,237,459.95
Add: change in accounting policies	—	(511,756.61)	—	(1,505,327.40)	(3,723,563.78)	6,345,417.57	41,844,379.42	43,047,209.20	—	(511,756.61)	—	—	(2,690,697.16)	6,440,994.67	40,620,727.73	43,059,268.63
Correction of prior errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Balance at the beginning of this year	655,015,000.00	479,893,017.24	—	189,678,673.13	23,694,619.36	—	41,844,379.42	1,390,125,689.15	655,015,000.00	479,697,027.43	—	188,137,542.53	(61,373,569.71)	—	40,620,727.73	1,302,096,727.98
3. Change of this year (a decrease is represented by "-")	—	316,017.13	—	5,049,444.33	84,043,265.55	—	4,978,481.73	94,383,218.74	—	195,989.81	—	1,541,130.60	85,908,189.07	—	1,223,651.69	88,028,961.17
(1) Net profit	—	—	—	—	89,892,709.88	—	7,106,184.57	96,998,894.45	—	—	—	—	86,608,319.67	—	7,469,773.72	94,078,093.39
(2) Profit and loss directly accounted for in shareholders' equity	—	316,017.13	—	—	—	—	—	316,017.13	—	195,989.81	—	—	—	—	—	195,989.81
1. Net change in fair value of financial assets available for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Effect of changes in other shareholders' equity in investee companies referred at equity	—	316,017.13	—	—	—	—	—	316,017.13	—	195,989.81	—	—	—	—	—	195,989.81
3. Effect of income tax in relation to items referred at equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal of item (1) and (2) above	—	316,017.13	—	—	89,892,709.88	—	7,106,184.57	96,998,911.58	—	195,989.81	—	—	86,608,319.67	—	7,469,773.72	94,275,083.20
(3) Contribution by shareholders and reduction of capital	—	—	—	—	—	—	(59,386.24)	(59,386.24)	—	—	—	—	—	—	(5,192,266.64)	(5,192,266.64)
1. Capital contribution by shareholders	—	—	—	—	—	—	(59,386.24)	(59,386.24)	—	—	—	—	—	—	—	—
2. Amount settled by shares for amount accounted for in shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(5,192,266.64)	(5,192,266.64)
(4) Profit distribution	—	—	—	(5,049,444.33)	5,049,444.33	—	2,152,306.60	2,152,306.60	—	—	—	(1,541,130.60)	1,541,130.60	—	1,053,855.39	1,053,855.39
1. Transfer from surplus reserves	—	—	—	(5,049,444.33)	5,049,444.33	—	—	—	—	—	—	(1,541,130.60)	1,541,130.60	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	2,152,306.60	2,152,306.60	—	—	—	—	—	—	1,053,855.39	1,053,855.39
3. 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	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Balance at the end of this year	655,015,000.00	480,209,034.37	—	194,728,117.46	107,737,884.91	—	46,818,071.15	1,484,508,907.89	655,015,000.00	479,893,017.24	—	189,678,673.13	23,694,619.36	—	41,844,379.42	1,390,125,689.15

Legal Representative of the Company: Li Anjian

Chief Accountant: Shen Jianlong

Head of the Accounting Department: Wu Yuzhen



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

I. Introduction to the Company

The Company was established on 27 April 1992 after the approval from Nanjing Economic System Reform Committee with document number Ning Ti Gai Zi (1992) No. 34. 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, stationaries 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 disconsolidation and restructuring the assets and liabilities of the Company and companies under PEGL as well as re-affirming the state owned legal person shares of the Company. In the same meeting, one exceptional resolution was also passed. The Board of Directors was authorized to handle all affairs related to conversion of the Company into Socially Funded Company and to make a public offer and listing of the Company's A & H 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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

I. Introduction to the Company (Continued)

The Company obtained its enterprise legal person business license Qi Su Ning Zong Fu Zi No. 003967 18 April 1997. Its registered capital was RMB655,015,000. The approved scope of business includes research and development, production, sale and technical service of wireless communication equipment, broadcasting TV equipment, goldsmith and switching systems, electronic component parts, apparatus, machinery and equipment, industrial moulds and other equipment, computers and system engineering.

The Financial Statements of the Company were authorised to issue by the Board of the Company on 27 March 2008.

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

The financial statements of the Company were prepared under the requirements of Accounting Standards for Business Enterprises, reflecting the Company's financial positions, operating results, cash flows and other relevant information on a true and complete basis.

III. Basis of preparation of financial statements

The Company's financial statements are prepared on a going concern basis based on the actual transactions and affairs occurred under the following major accounting policies and estimates, which are in accordance with the Accounting Standards for Business Enterprises — Basic Principle (Order 33 of the Ministry of Finance), the Notice on Circulation of 38 Accounting Standards for Business Enterprises including <Standard 1 — Inventories> (Cai Kuai [2003] No.3) issued on 15 February 2006, the Notice on Circulation of <Accounting Standards for Business Enterprises — Application Guide> (Cai Kuai [2006] No.18) issued on 30 October 2006 ("New Accounting Standards") and Interpretation 1 to Accounting Standards for Business Enterprises issued on 16 November 2007 by the Ministry of Finance, as well as the relevant regulations including the Q&A No. 7 regarding Rules on Information Disclosure of Publicly-listed Companies — Preparation and Disclosure of Comparative Financial Information during the Transitional Period of Existing and New Accounting Standards issued on 15 February 2007 by China Securities Regulatory Commission.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IV. Accounting policies and accounting estimates adopted by the Company and prior period errors

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 January 1 to December 31.

2. Measurement currency

The Company uses Renminbi as its currency for recording transactions.

3. Principle of book-keeping and accounting measurement attribute

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

4. Recognition standard for cash equivalents

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

5. Foreign Currency businesses

(1) Translation method of foreign currency transaction when occurred

The foreign currency transactions of the Company, when initially recognized, is translated into RMB as per middle rate of the exchange rate at that day as quoted by the People's Bank of China, while the foreign currency exchange and transactions in connection with foreign exchange, shall be translated into RMB as per exchange rate adopted by the Company.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

5. Foreign Currency businesses (Continued)

- (2) Treatment measures for the foreign currency monetary items and foreign currency non-monetary items

The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The gap arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or on the last balance sheet date shall be recorded into the profits and losses at the current period, except that the exchange gap arising from foreign currency borrowings related to construction or production of assets eligible for capitalization in shall be capitalized in accordance with the Accounting Standards No. 17 — Borrowing Costs.

The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of its recording currency shall remain unchanged.

Foreign currency non-monetary item measured at the fair value are translated at the spot exchange rate on the date of determination of fair value. The difference between before and after the translation of the amount of functional currency will be treated as the changes in fair value (including changes in foreign exchange rates) and recorded in the profits and losses in the current period.

- (3) Translation Method of Foreign Currency Financial Statements

According to the following provisions, the Company will translate the foreign currency dominated financial statements into RMB dominated financial statements.

The 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 income and expense items in the income statements shall be translated at the spot exchange rate of the transaction date.

The gap 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.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

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

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

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

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

(3) Transferral and Calculation of Financial Assets

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

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

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

6. Financial Assets and Financial Liabilities (Continued)

(3) Transferral and Calculation of Financial Assets (Continued)

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

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

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

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

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

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

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

(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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IV. Accounting policies and accounting estimates adopted by the Company and prior period errors (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 unfavourable;
- 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.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

6. Financial Assets and Financial Liabilities (Continued)

(5) Impairment of Financial Assets (Continued)

Upon recognition of the impairment loss on financial assets at amortized cost, if there is an 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 provisions for impairment has been made.

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

7. Receivables

(1) Recognition scope of provision for bad debts

Where the Company inspects the carrying value of account receivables on the balance sheet date and there are objective evidence of impairment of account receivables, impairment provisions will be made.

- A serious financial difficulty occurs to the debtor;
- The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal;
- The debtor will probably become bankrupt or carry out other financial reorganizations;
- Other objective evidences showing the impairment of the accounts receivable.

(2) Accounting methods for bad debts

The Company adopted allowance method for bad debts incurred.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

7. Receivables (Continued)

(3) Provision method for bad debts

On each balance sheet date, the Company carries out impairment tests on a standalone basis on individually material receivables (which standalone accounts for 5% or more of the outstanding receivables or amounts to over RMB5 million). Where objective evidence of impairment exists, an impairment loss is calculated and provision for bad debts is made based on the difference of the present value of future cash flows below its carry amount. Receivables individually insignificant or without impairment after standalone test are classified into certain groups based on the ageing, whereby impairment loss is calculated and provision for bad debts is made by applying a certain percentage to the balance of receivable groups. Typically, provision for bad debts is made based on the following percentages:

Ageing	Percentage of provision
Within 1 year (include 1 year, the same as below)	5%
1-2 years	10%
2-3 years	50%
3-5 years	80%
5 years above	100%

Percentage of provision for bad debts of the Company in 2006:

Ageing	Percentage of provision
Within 1 year (include 1 year, the same as below)	3%
1-2 years	6%
2-3 years	30%
3 years above	60%

The Company made provision for bad debts of its associate Beijing SE Putian Mobile Communication Company Limited after evaluating the possibilities of recovering with clear evidence. Receivables include amounts due from related parties and amounts due from unrelated parties. Should there be evidence that it is difficult to recover any amounts due from related parties or unrelated parties, a special provision for bad debts is made. In the event there is clear evidence showing no possibilities to recover any outstanding receivables, such receivables are stated as loss from bad debts and written off from provision for bad debts.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

7. Receivables (Continued)

(3) Provision method for bad debts (Continued)

Nanjing Ericsson Panda Communication Co., Ltd, an associated company of the Company, adopted allowance method for impossible bad debts, and individual recognized method to determine special provision for bad debts for recoverables which is obviously different from other accounts receivable. For other accounts receivable for which made no special provision for bad debts, the provision is made by aging analysis based on the following percentage:

Overdue credit period	Percentage of provision for bed debts
Within 1 year	0%
1 year above	100%

Hua Fei Colour Display Systems Company Limited, an associated company of the Company, adopted allowance method for impossible bad debts. Provisions for bad debts were made according to ageing analysis of accounts receivable at the end of the period. According to the actual financial status and cash flows of debtors (excluding associated companies), provision is made for the bad debts by the Company based on the following percentages:

No provision for bad debts if ageing is within 5 months (exclusive three months, the same as follow);

50% provision is made if ageing is above 5 months.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

8. Inventories

(1) Classification of Inventories

The inventories of the Company include raw materials, products in progress and semi-finished products, circulation materials, low-value consumables and commodity inventories, etc.

(2) Measurement method for inventories received and delivered Inventories

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

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

(4) The Company adopts perpetual inventory record system.

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

On each balance sheet date, the Company's inventories are stated at the lower of cost or net realisable 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 realisable 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 realisable value is determined by the amount of estimated selling price of inventories less estimated sale expense and related tax; for material inventories, net realisable 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 labour contracts, net realisable value is calculated based on contractual price. Where the quantity of the Company's inventories exceeds that ordered under sale contract, the net realisable value of the surplus inventories is calculated based on general selling price.

Net realisable value of inventories is recognised on each balance sheet date. Should the factors causing any write-down of the inventories do not exist any more, 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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IV. Accounting policies and accounting estimates adopted by the Company and prior period errors (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

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.

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 can not 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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

9. Long-term equity investment (Continued)

(2) Initial measurement of long-term equity investment

For long-term equity investment acquired by merger of business, the Company will recognize its initial 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 initial 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 initial 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 initial 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 initial 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 initial cost of a long-term equity investment acquired by other means shall be recognized in accordance with the provisions as follows:

The initial cost of a long-term equity investment acquired by payment of cash shall be recognized at the actual purchase cost. The initial cost consists of the expenses directly related to the acquiring of the long-term equity investment, taxes and other necessary expenses;

The initial 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;

The initial 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;

The initial 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.

The initial 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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

9. Long-term equity investment (Continued)

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

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 declared by investee are included into current profit and loss. The amount of investment income recognized is limited to the amount distributed out of accumulated net profits of the investee that has arisen after the investment was made. The amount of profit or cash dividends declared by the investee in excess of the above threshold is treated as return of investment cost.

Long-term equity investment with joint control or material impact on the investee is accounted for using equity method. The initial 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 initial 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 reorganised 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 unrecognised loss.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IV. Accounting policies and accounting estimates adopted by the Company and prior period errors (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 recognised 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 can not 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 can not be acquired due to other reasons and an adjustment can not 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 recognised. Changes in shareholders' equity other than the share of the investee's net profit and loss are accounted for with an adjustment to the book value of the long-term equity investment and included into shareholders' equity, and the portion previously included in the owner's equity shall be transferred to the current profits and losses according to a certain proportion.

10. Accounting Method for Investment Properties

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

- (1) Recognition of Investment properties

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

The economic benefits pertinent to this investment property are likely to flow into the enterprise;

The cost of the investment property can be reliably measured.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

10. Accounting Method for Investment Properties (Continued)

(2) Initial measurement of the investment property

The cost of an purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.

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.

The cost of an investment property obtained by other means shall be recognized in accordance with the relevant accounting standards.

Subsequent expenditures related to an investment property shall be included to the cost of the investment property if they meet the recognition conditions for investment property; Otherwise, if they fail to meet the recognition conditions, they shall be included in the current profits and losses upon occurrence.

(3) Subsequent measurement of the investment property

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

(4) Conversion of the investment property

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

11. Fixed assets

(1) Recognition scope of fixed assets

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

The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;

The cost of the fixed asset can be measured reliably.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

11. Fixed assets (Continued)

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

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.

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.

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.

Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalised 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 recognised 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 capitalised as long-term deferred expenses and amortised on a reasonable basis.

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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

11. Fixed assets (Continued)

(4) Depreciation of Fixed assets

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

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

Depreciation method for fixed assets with provision for impairment: A fixed asset with provision for impairment is depreciated based on its initial 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.

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 realisation mode of economic benefit related to the fixed assets.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IV. Accounting policies and accounting estimates adopted by the Company and prior period errors (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 capitalised 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 recognised 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 capitalised as long-term deferred expenses and amortised on a reasonable basis.

(6) Fixed assets acquired under finance leases

Recognition basis for fixed assets acquired under finance leases

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

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

11. Fixed assets (Continued)

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

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

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.

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

12. Construction in progress

- (1) Constructions in progress of the Company are recognized at actual cost.
- (2) Time point for construction in progress being transferred to the fixed asset:

A construction in progress is transferred to fixed assets at actual cost when it has reached the working condition for its intended use. 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:

Meet the definition of intangible assets;

The economic benefits pertinent to the assets are likely to flow into the Company;

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:

The cost of purchased intangible assets shall include the purchase price, relevant taxes and other necessary expenditures 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.

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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

13. Intangible assets (Continued)

(2) Initial measurement of intangible assets (Continued)

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.

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IV. Accounting policies and accounting estimates adopted by the Company and prior period errors *(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. Accounting Methods of long-term prepaid expenses

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

16. Impairment of Assets

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

- (2) Recognition of Assets with Potential Impairment

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

The current market price of assets falls significantly, beyond the expectation based on the advance of time or normal use;

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;

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;

Any evidence shows that the assets have become obsolete or physical damage occurred;

The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;

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.;

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IV. Accounting policies and accounting estimates adopted by the Company and prior period errors (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 recognised shall not be reversed in subsequent accounting periods.

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

(6) Impairment of goodwill

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

17. Borrowing Costs

(1) Recognition Principles for Borrowing Cost Capitalisation

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

Capital expenditure has been incurred.

The borrowing costs have been incurred.

Having commenced the acquisition and construction or production activities which enable the assets reach the working condition for its intended use or sale..

(2) Period of Capitalization of Borrowing Cost

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

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

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



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

17. Borrowing Costs (Continued)

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

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:

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.

Where a general borrowing is used for the acquisition and construction or production assets qualifying for capitalization, the Company shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average value of the accumulative expenditures to asset minus the specific borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

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

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

18. Share-based Payments

(1) The Equity-settled Share-based Payments

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.

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.

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.

On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.

(2) The Cash-settled Share-based Payments

The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.

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.

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.

Subsequent Measurement

- A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.
- B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits and losses.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

19. Accrued liabilities

(1) Recognition Principle for the accrued liabilities

When the businesses in relevant with external guaranties, pending litigation or arbitrations, products quality guarantee, job cuts plan, contract which suffered a loss, restructuring obligations, disposal obligations of fixed assets satisfy the following conditions, it shall be recognized as liabilities:

That obligation is a current obligation borne by the Company;

It is likely that an outflow of economic benefits will be resulted from the performance of the obligation;

The amount of the obligation can be measured in a reliable way.

(2) Measurement Method for the accrued liabilities

The accrued liabilities shall be initially measured at the best estimate of the necessary expenses for the performance of the current obligation. If there is a sequent range for the necessary expenses and if all the outcomes within this range are equally likely to occur, the best estimate shall be determined in accordance with the middle estimate within the range; in other cases, the best estimate shall be conducted in accordance with the following situations, respectively:

If the contingencies concern a single item, it shall be determined in light of the most likely outcome;

If the contingencies concern two or more items, the best estimate should be calculated and determined in accordance with all possible outcomes and the relevant probabilities.

When all or some of the expenses necessary for the liquidation of estimated debts of the Company is expected to be compensated by a third party or other party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained. The amount recognized for the reimbursement should not exceed the book value of the accrued liabilities.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

20. 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:

The major risks and rewards attached to ownership of the goods have been transferred to the buyers by the Company;

The Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods;

A reliable measurement can be made to the amount of the revenue;

The relevant economic benefits are likely to flow into the Company;

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 can not, 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:

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.

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

20. Revenue (Continued)

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

Recognition Principles for the revenue from abalienating use right of assets

The revenue from abalienating 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.

21. 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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

21. Construction Contract (Continued)

- (2) If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: 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 can not be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

22. Government Subsidies

- (1) Recognition conditions of government subsidies

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

The Company can meet the conditions attached to the government subsidies;

The Company can obtain the government subsidies.

- (2) Measurement of government subsidies

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).

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.

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

23. 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.

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.

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.

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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

24. 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

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.

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

24. Debt Restructuring (Continued)

(3) Accounting treatments of the creditor

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.

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.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

25. Leases

(1) Classification of Leases

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

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

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

The ownership of the leased asset is transferred to the lessee when the term of lease expires.

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.

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).

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.

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.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

25. Leases (Continued)

(3) Main accounting treatment of finance lease

Accounting treatments of lessees

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

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

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

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

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.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

25. Leases (Continued)

(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.

26. 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

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.

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.

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

26. 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:

Merger of enterprises;

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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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

1. Statement of change in accounting policy

The Company has adopted the new Accounting Standards for Business Enterprise since 1 January 2007, pursuant to which amendments were made to the following accounting policies of the Company and retrospective adjustments have been made in the comparative financial statements in accordance with the requirements of "Notification of Implementation of Information Disclosure on Financial Accounting relating to New Accounting Standards" 《關於做好與新會計準則相關財務會計信息披露的通知》(Zheng Jian Fa[2006]No.136) and "Q&A No. 7 regarding Rules on Information Disclosure of Publicly-listed Companies — Preparation and Disclosure of Comparative Financial Information during the Transitional Period of Existing and New Accounting Standards" issued by China Securities Regulatory Commission, during which:

Enterprise income taxes of the Company were previously accounted for using tax payable method, while they shall be accounted for using balance sheet liability method as required by the new accounting standard. Retrospective adjustment method was adopted for such change in accounting policy. Accordingly, net profit was revised up RMB1,124,619.51 for 2006 and an owner's equity as at 1 January 2007 was increased by RMB4,562,258.03.

In accordance with the previous Accounting Standard for Business Enterprise and Company Accounting System and their supplementary regulations, as for the unrecognized share of loss arising from loss of subsidiaries, i.e. "additional loss", the Company listed it as "(cumulative) unrecognized investment loss" in the consolidated balance sheet and listed it as "(current period) unrecognized investment loss" in the income statement in preparing the consolidated financial statements. In accordance with the "control" requirements from parent to subsidiaries under the new Accounting Standard for Business Enterprise, where minority shareholders have no obligations to bear the aforesaid "additional loss" as specified by the Articles of Association of the subsidiary or agreements, it shall be borne by the parent and shall be included in the "Undistributed Profit". All of the subsidiary's profits in the future shall be attributable to the parent prior to covering losses borne by shareholders' equity of the parent and attributable to minority shareholders. Retrospective adjustment method was adopted for such change in accounting policy, thus, net profit for 2006 was decreased by RMB3,536,076.48 and undistributed profit as at 1 January 2007 was reduced by RMB9,754,652.46.

Retrospective adjustment was made for investment difference arising from merger of enterprises under same control. Capital reserve was reduced by RMB511,756.61, undistributed profit was increased by RMB511,756.61, accordingly.

In accordance with relevant provisions of Interpretation No. 1 of Accounting Standard for Business Enterprise, accounting method of long-term equity investment in subsidiaries shall be changed to cost method for retrospective adjustment by the Company, reducing the parent's undistributed profit by RMB3,062,902.07 as at 1 January 2006, and increasing the parent's investment income of RMB18,528,741.16 for 2006. Statutory common reserve fund shall be appropriated in accordance with profits available for distribution after adjustment, reducing the surplus reserve by RMB1,454,151.74, and increasing undistributed profit by RMB1,454,151.74.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

V. Statement of Main Accounting Policies, Change in Accounting Estimate and Correction of Previous Errors (Continued)

1. Statement of change in accounting policy (Continued)

The item of minority interests which separately presented outside the owner's equity of the consolidated financial statements in accordance with the original Accounting Standard for Business Enterprise and Company Accounting System and their supplementary regulations prepared on 31 December 2006 shall be presented in the item of owner's equity subsequent to adoption of the new Accounting Standard for Business Enterprise on 1 January 2007.

The Company reviewed the balance of book value of relevant assets, liabilities and shareholders' equity on the date of initial implementation, with the reviewed amendment results and the shareholders' equity at the beginning of the year as follows:

Item	Amount disclosed in 2007 AR	Amount disclosed in 2006 AR	Difference
Shareholders' equity as at 31 December 2006 (under the old accounting standard)	1,347,078,479.95	1,347,078,479.95	—
1 Long-term equity investment difference	30,840.36	30,840.36	—
Including: long-term equity investment difference arising from merger of enterprises under same control	—	—	—
Other differences between the creditor's long-term equity investment calculated by equity method	30,840.36	30,840.36	—
2 Investment property to be measured through fair value	—	—	—
3 Additional depreciation for the previous year arising from expected expenses of discarding assets	—	—	—
4 Dismissal compensation qualified as accrued liabilities	—	—	—
5 Share-based Payments	—	—	—
6 Restructuring obligations qualified as accrued liabilities	—	—	—
7 Merger of enterprises	—	—	—
Including: book value of goodwill arising from merger of enterprises under same control	—	—	—
Provisions for goodwill impairment under the new Accounting Standard	—	—	—
8 Financial assets at fair value through profit or loss and available-for-sale financial assets	—	—	—
9 Financial liabilities at fair value through profit or loss	—	—	—
10 Equity increased from split of financial instruments	—	—	—



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

V. Statement of Main Accounting Policies, Change in Accounting Estimate and Correction of Previous Errors (Continued)

1. Statement of change in accounting policy (Continued)

Item	Amount disclosed in 2007 AR	Amount disclosed in 2006 AR	Difference
11 Derivative financial instruments	—	—	—
12 Income taxes	3,971,673.67	14,405,410.66	(10,433,736.99)*
13 Minority interests	41,844,379.42	42,900,393.10	(1,056,013.68)*
14 Additional loss borne for subsidiaries	(2,811,234.89)	—	(2,811,234.89)*
15 Special retrospective adjustment of listed companies of B shares and H shares	—	—	—
16 Others	11,550.64	—	11,550.64
Shareholders' equity as at 1 January 2007 (under the new Accounting Standard)	1,390,125,689.15	1,404,415,124.07	(14,289,434.92)

* The Company compared the assets at the beginning of the year, carrying amount of liabilities and tax base in accordance with relevant provisions of the new accounting standard, and recognized taxable temporary differences and deductible temporary difference, pursuant to which deferred income tax assets and deferred income tax liabilities were calculated. The difference between the two items resulted in an increase of RMB18,863,243.59 in retained earnings as at 1 January 2007 increased in respect of, of which equity attributable to the shareholders of the parent increased by RMB14,405,410.66, while those attributable to minority shareholders increased by RMB4,457,832.93. Due to re-analysis and review on the relevant temporary difference in 2007, some subsidiaries in the red are expected to be unable to obtain sufficient amount of taxable income tax. It is less likely to reverse that part of deductible temporary difference, and deferred income tax assets for such part was reversed based on the conservative principle. Retained earnings of 14,300,985.56 for 1 January 2007 was reversed, of which equity attributable to the shareholders of the parent was RMB10,433,736.99, while those attributable to minority shareholders was RMB3,867,248.57. The Company bore additional loss of RMB2,811,234.89 attributable to minority shareholders of subsidiaries under the new accounting standard. As a result, equity attributable to minority shareholders as at 1 January 2007 was reduced by RMB2,811,234.89 and retained earnings attributable to parent was decreased by RMB2,811,234.89 accordingly.



Notes To The Financial Statements

For the year of 2007
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V. Statement of Main Accounting Policies, Change in Accounting Estimate and Correction of Previous Errors (Continued)

2. Statement of change in accounting estimates

The Company re-estimated provisions for bad debts based on the analysis on actual situations of the Company's account receivable for the year, and such accounting estimate has been approved by the Board and shareholders' general meeting of the Company, and relevant disclosure is set out in Note IV. 7.

Such change in accounting estimate resulted in an increase of RMB23,755,128.51 in provisions for bad debts as compared with the provisions under the original provision method .

3. Previous errors

During the year, there was no correction of previous errors of the Company.

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.

The assessable amount of value-added tax is the balance after current import duty is deducted by current sales tax.

Under the PRC relevant policies and approved by the High and New Technology Industrial Development Zone Branch of the Nanjing State Tax Bureau, some of the satellite telecommunication products made by the Company were exempted from value-added tax.

2. Sales Tax

Sales tax is applicable to the Company's revenue from lease of premises, construction and installation, etc.

Of this tax, the tax rate of revenue from lease of premises is 5% while the tax rate of revenue from construction and installation is 3%.

3. Urban development tax and education surcharge

The Company's urban development tax and education surcharge are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 4% respectively.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VI. Tax (Continued)

4. Enterprise income tax

The Company was recognized by Jiangsu Provincial Technological Commission as a high-tech enterprise on 29 August 1995. Accordingly, it enjoys a preferential policy of income tax and has paid income taxes as per 15% of taxable income since 1 January 1995.

The applicable enterprise income rates for subsidiaries of the Company are from 15% to 33%. Where a subsidiary of the Company is registered in Jiangning Economic and Technological Development Area, it shall enjoy the preferential income tax policy of "2-year free and 3-year half" since the profitable year as approved by Jiangning Economic and Technological Development Area.

The Company's subsidiary, Nanjing Panda Appliance & Apparatus Co. Ltd. approved as a software enterprise by Jiangsu Information Industry Department and relevant authorities, enjoys preferential tax policy as specified by Certain Policies on Encouraging the Development of Software and Integrated Circuit Industry by the State.

5. Real property tax

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

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

6. Land appreciation tax

It is calculated and paid at excess progressive tax rate of added value.

7. Other taxes

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



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements

1. Merger of enterprises

(1) Merger of enterprises under same control

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: parties of the merger are under the ultimate control of the group company before and after the merger; 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 .

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.

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.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

1. Merger of enterprises (Continued)

(1) Merger of enterprises under same control (Continued)

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 initial measured amount of the issued corporate bonds and other liabilities. Expenses including handling charges and commission incurred in issue of equity securities shall be offset premium income of equity securities; where premium income is insufficient to offset, retained earnings shall be reduced.

(2) Merger of enterprises not under same control

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.

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.

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 merger cost shall be sum of each single transaction cost.
- C. All relevant direct expenses incurred to the Company for the merger of enterprises shall be included in costs for the merger of enterprises.
- D. 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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

1. Merger of enterprises (Continued)

(2) Merger of enterprises not under same control (Continued)

Treatment method of the merger expenses

All direct relevant expenses incurred by the Company for the merger of enterprises, including auditing fees and assessment fees and legal fees, shall be included in costs of the merger of enterprises. 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. Expenses including handling charges and commission incurred in issue of equity securities shall be minus premium income of equity securities; where premium income is insufficient to be written off, retained earnings shall be written off.

Measurement of the merger consideration

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.

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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

1. Merger of enterprises (Continued)

(3) Merger by absorption

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

As for the merger by absorption under same control, assets and liabilities acquired by the Company on the merger date shall be recognized as per the original book value of such assets and liabilities in the acquiree (acquirees). If the accounting policy adopted by the acquiree (acquirees) is inconsistent with the Company, on the principle of materiality, the Company shall adjust the fair value of relevant assets and liabilities of the acquiree (acquirees) in accordance with the Company's accounting policy based on which the Company shall recognize the book value of assets and liabilities acquired in the merger.

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

Recognition principle

Recognition of the consolidation scope of the consolidated financial statements 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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements(Continued)

(1) Consolidation scope (Continued)

Major subsidiaries and determination of consolidation scope for 2007

Company name	Registration address	Nature of business	Registered capital: (RMB'0000)	Business scope
I. Subsidiaries acquired from merger of enterprises under same control				
Nanjing Panda Mechanical Engineering Plant	Nanjing	Industry	4500	Manufacture and sales of electronic products, communication equipment and instruments
II. The subsidiaries acquired otherwise				
Nanjing Electronic Calibration Co., Ltd.	Nanjing	Industry	100	Inspection of electronic instruments
Nanjing Panda Appliance & Apparatus Co. Ltd.	Nanjing	Industry	100	Production, development and sale of testing appliance; design and installation of electronic information system
Nanjing Panda Mechanical Manufacturing Co., Ltd.	Nanjing	Industry	500	metal components
Nanjing Panda Accurate Machinery Co., Ltd.	Nanjing	Industry	500	production of equipment and spare parts for electronic industry; processing of sophisticated machinery
Nanjing Panda Technology Equipment Co., Ltd.	Nanjing	Industry	500	production and installation of production line
Nanjing Panda Machinery Co., Ltd.	Nanjing	Industry	300	processing and manufacturing of mechanical parts
Nanjing Panda Information Industry Co., Ltd.	Nanjing	Industry	USD740	development, production and sale of electronic information products



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements(Continued)

(1) Consolidation scope (Continued)

Major subsidiaries and determination of consolidation scope for 2007 (Continued)

Company name	Registration address	Nature of business	Registered capital: (RMB'0000)	Business scope
II. The subsidiaries acquired otherwise (Continued)				
Nanjing Panda System Integration Co., Ltd.	Nanjing	Industry	300	development and sales of computer software
Nanjing Panda Electronics Manufacturing Co., Ltd.	Nanjing	Industry	US\$1000	development and production of new models of electronic products
Nanjing Huage Appliance and Plastic Industrial Co., Ltd.	Nanjing	Industry	4000	plastic product & accessories
Nanjing Panda Power Sources Technology Co., Ltd.	Nanjing	Industry	1100	design, production and sales of power sources and special type power transformer
Nanjing Guanghua Electronics Co. Ltd	Nanjing	Industry	1149.76	PVC, ABS products
Nanjing Panda International Telecommunication System Co., Ltd.	Nanjing	Industry	US\$124	development, production sale of telephone and telecommunication system
Shenzhen Panda Electronic Co., Ltd.	Shenzhen	Industry	650	home appliance telecommunication equipment and appliance and apparatus
Galant Limited	Hong Kong	R & D	HK\$10,000	R&D of communication products



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements(Continued)

(1) Consolidation scope (Continued)

Major subsidiaries and determination of consolidation scope for 2007 (Continued)

Company name	The Company's actual investment (RMB'0000)	Balance of net investment in substance in subsidiaries (RMB'0000)	Shareholding percentage	Percentage of voting rights	Whether to consolidate
I. Subsidiaries acquired from merger of enterprises under same control					
Nanjing Panda Mechanical Engineering Plant	3004.20	3004.20	99.11%	100%	Yes
II. The subsidiaries acquired otherwise					
Nanjing Electronic Calibration Co., Ltd.	70	70	70%	70%	Yes
Nanjing Panda Appliance & Apparatus Co. Ltd.	70	70	70%	70%	Yes
Nanjing Panda Mechanical Manufacturing Co. Ltd.	350	350	70%	70%	Yes
Nanjing Panda Accurate Machinery Co., Ltd.	362.53	362.53	70%	70%	Yes
Nanjing Panda Technology Equipment Co., Ltd.	350	350	70%	70%	Yes
Nanjing Panda Mechanical Co., Ltd.	210	210	70%	70%	Yes
Nanjing Panda Information Industry Co., Ltd.	4400	4400	72%	72%	Yes
Nanjing Panda System Integration Co., Ltd.	152.08	152.08	52.7%	52.7%	Yes
Nanjing Panda Electronic Manufacturing Company Limited	3724.12	3724.12	75%	75%	Yes
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	2462.28	2462.28	100%	100%	Yes
Nanjing Panda Power Supply Technology Co., Ltd.	875	875	79.55%	79.55%	Yes



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements(Continued)

(1) Consolidation scope (Continued)

Major subsidiaries and determination of consolidation scope for 2007 (Continued)

Company name	The Company's actual investment (RMB'0000)	Balance of net investment in substance in subsidiaries (RMB'0000)	Shareholding percentage	Percentage of voting rights	Whether to consolidate
II. The subsidiaries acquired otherwise (Continued)					
Nanjing Guanghua Electronics Plastic Casting Factory	827.11	827.11	71.94%	100%	Yes
Nanjing Panda International Telecommunication System Co., Ltd.	765.50	765.50	72%	72%	Yes
Shenzhen Panda Electronics Company Limited	617.50	617.50	95%	95%	Yes
Galant Limited	HK\$1.00	HK\$1.00	100%	100%	Yes

Change in consolidation scope

A. Reasons for change in consolidation scope

Upon Approval through Shang He Pi [2006] No. 394 by Ministry of Commerce of the PRC and Su Hui Sheng [2006] No. 56 by State Administration of Foreign Exchange Jiangsu Branch, the Company established GALANT LIMITED in August 2007 and obtained No. 37134048-000-11-07-5 Commercial Registration Certificate. Galant Limited has been included in the consolidation scope since 2007.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements(Continued)

(2) Preparation method of consolidated financial statements

Basic preparation method of consolidated financial statements

Based on the financial statements of the parent and subsidiaries included in the consolidation and in accordance with other relevant information, financial statements are prepared through adjustment in long-term equity investment in subsidiaries after offsetting the parent's equity capital investment and its share in shareholders' equity of the subsidiaries, material transactions within the Company and transactions between home office and branches. Minority interests shall be presented as "Minority Interests" under the owner's equity in the consolidated balance sheet. Minority interests shall be presented as "Minority Interests" under net profits in the consolidated income statements.

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.

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

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VII. Merger of enterprises and consolidated financial statements (Continued)

2. Consolidated financial statements (Continued)

(3) Minority interests

Minority interests of subsidiaries

Company name	Closing balance	Opening balance
Nanjing Electronic Calibration Co., Ltd.	388,169.47	437,737.56
Nanjing Panda Appliance & Apparatus Co. Ltd.	799,915.63	1,070,917.35
Nanjing Panda Mechanical Manufacturing Co. Ltd.	3,344,921.17	3,394,249.78
Nanjing Panda Accurate Machinery Co., Ltd.	3,264,835.99	2,832,309.20
Nanjing Panda Technology Equipment Co., Ltd.	—	—
Nanjing Panda Mechanical Co., Ltd.	876,510.91	790,198.06
Nanjing Panda Mechanical Engineering Plant	—	—
Nanjing Panda Information Industry Co., Ltd.	4,798,597.88	2,299,983.03
Nanjing Panda System Integration Co., Ltd.	1,762,690.22	2,240,954.98
Nanjing Panda Electronic Manufacturing Company Limited	21,470,720.78	17,988,082.93
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	—	—
Nanjing Panda Power Supply Technology Co., Ltd.	1,596,269.78	2,180,512.36
Nanjing Guanghua Electronic Plastic Casting Factory	8,406,160.29	8,406,160.29
Nanjing Panda International Telecommunication System Co., Ltd.	—	—
Shenzhen Panda Electronics Company Limited	110,079.03	203,273.88
Total	46,818,871.15	41,844,379.42

Additional loss borne by the Company

Company name	2007	2006
Nanjing Panda Technology Equipment Co., Ltd.	4,651,622.27	3,996,609.87
Nanjing Panda International Telecommunication System Co., Ltd.	11,790,518.70	5,758,042.59
Total	16,442,140.97	9,754,652.46



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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 2007 and 31 December 2007 respectively, and the terms "last year" and "the year" refer to year 2006 and year 2007 respectively.

1. Cash and Bank Balances

Items	Closing balance			Opening balance		
	Amount in original currency	Exchange rate	Equivalent amount in Renminbi	Amount in original currency	Exchange rate	Equivalent amount in Renminbi
Cash						
Including: Renminbi	465,875.15	1.0000	465,875.15	562,187.57	1.0000	562,187.57
US dollar	9,351.00	7.3046	68,305.31	11,624.65	7.8087	90,773.40
Euro	424.10	10.6669	4,523.83	424.10	10.2665	4,354.02
Subtotal of cash	—	—	<u>538,704.29</u>	—	—	<u>657,314.99</u>
Bank balances						
Including: Renminbi	446,450,445.15	1.0000	446,450,445.15	587,256,853.95	1.0000	587,256,853.95
US dollars	319,208.18	7.3046	2,331,688.07	2,348,666.21	7.8087	18,340,029.83
HK dollar	1,623.47	0.93638	1,520.18	623,719.46	1.0047	626,650.94
Euro	—	10.6669	—	42,589.54	10.2665	437,245.51
Subtotal of bank balances	—	—	<u>448,783,653.40</u>	—	—	<u>606,660,780.23</u>
Other cash and bank balances						
Including: Renminbi	34,376,917.50	1.0000	34,376,917.50	44,775,934.49	1.0000	44,775,934.49
Subtotal of other cash and bank balances	—	—	<u>34,376,917.50</u>	—	—	<u>44,775,934.49</u>
Total	—	—	<u>483,699,275.19</u>	—	—	<u>652,094,029.71</u>



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

1. Cash and Bank Balances (Continued)

- (1) Details of the time deposits totaling RMB76,500,000.00 included in the Company's bank balances are as follows:

Bank	Amount	Period	Commencement and ending date	Interests	Note
Huaxia Bank, Nanjing Baixia subbranch	20,000,000.00	6 months	2007.10.22-2008.4.22	3.42%	Pledged as bank acceptance
Bank of Communications, Xuanwu subbranch of Nanjing branch	50,000,000.00	3 months	2007.12.14-2008.3.14	2.88%	Pledged as loans
Nanjing Bank, Huangpu subbranch	5,000,000.00	6 months	2007.9.28-2008.3.28	3.42%	—
Industrial and Commercial Bank of China, Haifuxiang office	1,500,000.00	1 year	2007.11.15-2008.11.14	2.52%	—
Total	76,500,000.00				

- (2) The Company's bank balances included call deposits totaling RMB47,093,413.18.
- (3) The closing balance of cash and bank balances decreased by 25.82% from the opening balance, mainly due to repayment of certain bank borrowings.

2. Bills Receivable

- (1) Details of bills receivable

Types of Bills	Closing balance	Opening balance
Bank acceptance notes	2,131,704.70	31,775,270.00
Total	2,131,704.70	31,775,270.00

- (2) The closing balance of bills receivable includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (3) The year-end bills receivable have no pledge or security.
- (4) The discount business of bank acceptances without the accounting of the item transacted by Nanjing Huage Electronics&Automobile Plastic Industry Co., Ltd., a subsidiary of the Company for Nanjing Panda Television Co., Ltd. has a year-end balance of RMB51,610,900.00 for the bank acceptance notes discounted and not expired, the marginal deposit for which was deposited by Nanjing Panda Television Co., Ltd., while the expenses occurred in such discount business were afforded by Nanjing Panda Television Co., Ltd.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable

(1) Break-down of ageing of accounts receivable

Items	Balance	Percentage %	Closing balance	Net amount
			Provision for bad debt	
Substantial amount of single account receivable	101,274,999.32	55.33	7,118,861.00	94,156,138.32
Other unsubstantial amount of accounts receivable	81,767,961.14	44.67	16,689,939.68	65,078,021.46
Total	183,042,960.46	100.00	23,808,800.68	159,234,159.78

Items	Balance	Percentage %	Opening balance	Net amount
			Provision for bad debt	
Substantial amount of single account receivable	111,184,863.83	57.83	7,878,202.07	103,306,661.76
Other unsubstantial amount of accounts receivable	81,064,085.15	42.17	20,955,137.27	60,108,947.88
Total	192,248,948.98	100.00	28,833,339.34	163,415,609.64

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

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable (Continued)

(2) Ageing analysis of accounts receivable

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt
Within 1 year	162,175,600.43	88.60	5	10,103,143.11	162,406,805.80	84.48	3	7,883,704.26
1-2 years	8,567,430.55	4.68	10	3,237,598.88	6,661,950.10	3.47	6	2,338,070.88
2-3 years	4,163,470.21	2.27	50	2,826,867.00	5,131,993.41	2.67	30	2,190,629.71
3-5 years	6,025,808.76	3.30	80	5,530,541.18	8,474,396.80	4.40	60	6,847,131.62
more than 5 years	2,110,650.51	1.15	100	2,110,650.51	9,573,802.87	4.98	60	9,573,802.87
Total	183,042,960.46	100.00		23,808,800.68	192,248,948.98	100.00		28,833,339.34

(3) Details of the five largest debtors of accounts receivable at the end of the period

Name of debtor	Amount	Percentage in the total value of the accounts receivable %	Ageing
Nanjing Panda Handa Technology Co., Ltd.	46,625,678.56	25.47	Within 1 year
Nanjing Sharp Electronics Co., Ltd.	17,931,024.92	9.80	Within 1 year
Nanjing Panda Television Co. Ltd.	15,458,159.76	8.45	Within 1 year, 1-3 years
Yamakoh Precision Plastics (Wuxi) Co., Ltd.	11,440,261.32	6.25	Within 1 year
Hongxun Electronics Industry (Hangzhou) Co., Ltd.	9,828,307.96	5.37	Within 1 year
Total	101,283,432.52	55.34	

(4) As resolved at the extraordinary board meeting of the Company in December 2007, RMB11,083,406.45 of accounts receivable for which RMB11,083,406.45 of provision for bad debts has been made was written off for the year.

(5) The closing balance of accounts receivable includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

3. Accounts Receivable (Continued)

- (6) The closing balance of accounts receivable includes RMB68,409,388.88 due from related parties, representing 37.37% of the total accounts receivable. Please refer to Note X(III) 10 for disclosure of relevant related transactions.

4. Prepayment

- (1) Details of prepayment

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt
Within 1 year	41,365,683.61	79.32	5	265,366.89	65,304,816.70	85.50	—	—
1-2 years	9,559,549.97	18.33	10	368,193.92	10,472,044.14	13.71	—	—
2-3 years	779,867.22	1.50	50	207,764.50	479,416.72	0.63	—	—
3-5 years	335,908.97	0.64	80	170,904.97	124,189.51	0.16	—	—
More than 5 years	107,289.51	0.21	100	107,289.51	—	—	—	—
Total	52,148,299.28	100.00		1,119,519.79	76,380,467.07	100.00		

- (2) Prepayment more than one year mainly consisted of research costs and construction payment which were not settled.
- (3) The closing balance of prepayment includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (4) The closing balance of prepayment decreased by 31.73% from the opening balance, mainly due to settlement of certain material prepayments.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

5. Other Receivables

(1) Break-down of other receivables

Items	Balance	Percentage %	Closing balance	Net amount
			Provision for bad debt	
Substantial amount of single other receivables	52,267,128.98	52.58	25,078,049.19	27,189,079.79
Other unsubstantial amount of other receivables	47,137,299.36	47.42	17,250,007.37	29,887,291.99
Total	99,404,428.34	100.00	42,328,056.56	57,076,371.78

Items	Balance	Percentage %	Opening balance	Net amount
			Provision for bad debt	
Substantial amount of single other receivables	667,363,204.09	89.76	137,469,063.79	529,894,140.30
Other unsubstantial amount of other receivables	76,114,169.59	10.24	50,476,530.84	25,637,638.75
Total	743,477,373.68	100.00	187,945,594.63	555,531,779.05

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

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

5. Other Receivables (Continued)

(2) Ageing analysis of other receivables

Ageing	Closing balance				Opening balance			
	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt	Amount	Percentage %	Percentage of provision for bad debts %	Provision for bad debt
Within 1 year	26,682,111.56	26.84	5	1,705,245.28	24,278,197.66	3.27	3	2,459,740.91
1-2 years	5,350,599.45	5.38	10	1,481,030.77	387,196,982.95	52.08	6	26,293,018.23
2-3 years	51,848,168.46	52.16	50	24,669,537.00	245,141,541.48	32.97	30	75,545,126.22
3-5 years	5,797,179.77	5.84	80	4,745,874.41	34,064,711.60	4.58	60	30,851,769.28
More than 5 years	9,726,369.10	9.78	100	9,726,369.10	52,795,939.99	7.10	60	52,795,939.99
Total	99,404,428.34	100.00		42,328,056.56	743,477,373.68	100.00		187,945,594.63

(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
Fund raising project for building	45,153,340.74	45.42	1-3 years
Nanjing Panda Digital Technology Development Co., Ltd.	7,113,788.24	7.16	Within 1 year, 1-2 years
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	1,950,000.00	1.96	More than 5 years
Nanjing Electronics (Kunshan) Co., Ltd.	1,768,220.94	1.78	Within 1 year, 3-4 years
Xiamen Hongkang Network Communication Equipment Co., Ltd.	880,000.00	0.89	3-4 years
Total	56,865,349.92	57.21%	



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

5. Other Receivables (Continued)

- (4) As resolved at the extraordinary board meeting of the Company in December 2007, RMB64,389,428.68 of unrecoverable other receivables for which RMB64,389,428.68 of provision for bad debts has been made was written off for the year.
- (5) The closing balance of other receivables includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.
- (6) The closing balance of other receivables includes RMB3,718,220.94 due from related parties, representing 3.74% of the total other receivables. Please refer to Note X (III) 10 for disclosure of relevant related transactions.
- (7) The closing balance of other receivables decreased by 86.63% from the opening balance, mainly due to the transfer of 25% equity interest in Hua Fei Colour Display Systems Company Limited by Jiangsu International Trust & Investment Corporation Limited for settlement of the debts owing to the Company.

Please refer to Note XIV(1) for details.

6. Inventories

- (1) Details of Inventories

Items	Balance	Closing balance		Net amount
		Including: capitalised borrowing expenses	Provision for diminution in value of inventories	
Raw materials	68,957,954.96	—	2,589,723.86	66,368,231.10
Packaging materials	25,383.33	—	—	25,383.33
Low-value consumables	585,956.72	—	—	585,956.72
Work in progress	149,941,549.31	—	2,340,658.65	147,600,890.66
Stored commodities	87,068,309.75	—	4,571,464.19	82,496,845.56
Sub-contracting materials	6,074,105.73	—	—	6,074,105.73
Consigned commodities	113,653.38	—	—	113,653.38
Delivered commodities	2,888,516.24	—	162,021.16	2,726,495.08
Total	315,655,429.42	—	9,663,867.86	305,991,561.56



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

6. Inventories (Continued)

(1) Details of Inventories (Continued)

Items	Balance	Opening balance Including: capitalised borrowing expenses	Provision for diminution in value of inventories	Net amount
Raw materials	53,540,430.52	—	6,069,658.67	47,470,771.85
Packaging materials	60,843.19	—	—	60,843.19
Low-value consumables	592,082.96	—	—	592,082.96
Work in progress	136,666,046.80	—	1,234,342.60	135,431,704.20
Stored commodities	42,539,374.33	—	7,500,663.65	35,038,710.68
Sub-contracting materials	802,640.55	—	—	802,640.55
Delivered commodities	21,880,770.27	—	4,439,572.99	17,441,197.28
Total	256,082,188.62	—	19,244,237.91	236,837,950.71

(2) Provision for diminution in value of inventories

Items	Opening balance	Decrease in the year	Reverse	Provision in the year Write-off	Total	Closing balance
Raw materials	6,069,658.67	9,803,087.31	—	13,283,022.12	13,283,022.12	2,589,723.86
Work in progress	1,234,342.60	1,804,829.10	7,408.74	691,104.31	698,513.05	2,340,658.65
Stored commodities	7,500,663.65	613,373.05	864,523.98	2,678,048.53	3,542,572.51	4,571,464.19
Delivered commodities	4,439,572.99	91,233.73	—	4,368,785.56	4,368,785.56	162,021.16
Total	19,244,237.91	12,312,523.19	871,932.72	21,020,960.52	21,892,893.24	9,663,867.86

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 realisable value, and provision for diminution in value of inventories is made based on the surplus of cost over net realisable value of inventories on an individual basis.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

6. Inventories (Continued)

(2) Provision for diminution in value of inventories (Continued)

Reason for reversal of provision for diminution in value of inventories: Should the factors causing any write-down of the inventories do not exist any more, the amount of write-down shall be recovered and be reversed from the provision for diminution in value of inventories that has been made.

(3) As resolved at the extraordinary board meeting of the Company in December 2007, RMB21,020,960.52 of inventories for which RMB21,020,960.52 of provision for diminution in value of such inventories has been made was written off for the year.

(4) The closing balance of inventories increased by 23.26% from the opening balance, mainly due to increase in inventories necessary for production.

7. Long-term equity investment

(1) Details of long-term equity investment

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Investment in associated companies	552,842,377.75	621,782,689.53	195,293,330.42	979,331,736.86
Investment in other enterprises	4,763,465.36	—	4,763,465.36	—
Less: Provision for impairment of long term investment	19,610,925.45	—	16,654,288.58	2,956,636.87
Total	<u>537,994,917.66</u>	<u>621,782,689.53</u>	<u>183,402,507.20</u>	<u>976,375,099.99</u>



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

7. Long-term equity investment (Continued)

(2) Details of investment in associated companies

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Associated companies						
Beijing SE Putian Mobile Communications Co., Ltd.	185,002,504.56	149,230,876.00	64,400,000.00	269,833,380.56	Beijing	Manufacture
Nanjing Huaxian High Technology Company Limited	10,000,000.00	—	—	10,000,000.00	Nanjing	Technology development
Hua Fei Colour Display Systems Company Limited*	—	321,310,048.42	—	321,310,048.42	Nanjing	Manufacture
Nanjing Panda Hitachi Technology Co., Ltd.	4,384,704.80	—	4,384,704.80	—	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	240,682,313.79	140,157,851.20	105,865,000.00	274,975,164.99	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd.	84,530,546.58	11,109,232.87	8,752,802.40	86,886,977.05	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	2,717,825.52	-528,475.39	—	2,189,350.13	Nanjing	Manufacture
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	—	—	—	—	Nanjing	Manufacture
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00	—	—	2,756,525.00	Korea	—
Nanjing Thales Panda Transportation System Company Limited	8,267,934.24	262,474.11	—	8,530,408.35	Nanjing	Manufacture
Nanjing Electronics (Kunshan) Co. Ltd.	2,409,088.17	240,682.32	—	2,649,770.49	Kunshan	Manufacture
Nanjing Panda Medical Electronics Co. Ltd.	200,111.87	—	—	200,111.87	Nanjing	Manufacture
Other Company	11,890,823.22	—	11,890,823.22	—	—	—
Total	<u>552,842,377.75</u>	<u>621,782,689.53</u>	<u>195,293,330.42</u>	<u>979,331,736.86</u>		



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For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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 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	1,349,166,902.81	32,642,387,925.80	747,908,745.94
Hua Fei Colour Display Systems Company Limited	25	25	1,350,355,193.67	2,689,271,540.27	-363,833,063.96
Nanjing Ericsson Panda Communication Company Limited	27	27	1,018,426,537.00	15,733,453,075.00	519,096,327.00
Shenzhen Jingwah Electronics Co., Ltd.	38.03	38.03	247,001,614.53	276,248,657.42	34,176,588.40
Intenna (Nanjing) Co. Ltd.	35	35	6,255,286.09	—	-1,509,929.68
Nanjing Thales Panda Transportation System Company Limited	40	40	32,326,020.87	74,522,464.57	656,185.27

* Details of increased long-term equity investment on Hua Fei Colour Display Systems Company Limited for the year, please refer to Note XIV. 1.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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	Initial investment	Opening balance	Investment amount increased during the year (less the equity transfer for the year)	Increase/decrease of the investee's equity	Cash bonus distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	50,361,373.68	185,002,504.56	—	149,230,876.00	64,400,000.00	269,833,380.56
Nanjing Huaxian High Technology Company Limited	10,000,000.00	10,000,000.00	—	—	—	10,000,000.00
Hua Fei Colour Display Systems Company Limited	392,892,722.42	—	392,892,722.42	(71,582,674.00)	—	321,310,048.42
Tamura Electronics (Nanjing) Co., Ltd.	3,310,800.00	—	—	—	—	—
Nanjing Panda Hitachi Techno Co., Ltd.	6,533,170.00	4,384,704.80	-4,384,704.80	—	—	—
MPower Batteries (Nanjing) Ltd.	4,200,000.00	—	—	—	—	—
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	240,682,313.79	—	140,157,851.20	105,865,000.00	274,975,164.99
Shenzhen Jingwah Electronics Co., Ltd.	69,687,437.75	84,530,546.58	—	11,109,232.87	8,752,802.40	86,886,977.05
Intenna (Nanjing) Co. Ltd.	1,750,000.00	2,717,825.52	—	(528,475.39)	—	2,189,350.13
Nanjing Flextronics Panda Mobile Terminals Co. Ltd.	34,769,364.00	—	—	—	—	—
Nanjing Electronics (Kunshan) Co. Ltd.	1,757,905.88	2,409,088.17	—	240,682.32	—	2,649,770.49
Nanjing Panda Medical Electronics Co. Ltd.	500,000.00	200,111.87	—	—	—	200,111.87
Nanjing Thales Panda Transportation System Company Limited	8,626,600.00	8,267,934.24	—	262,474.11	—	8,530,408.35
Panda Korea Chen Xi Joint Venture Company Limited	3,494,075.00	2,756,525.00	—	—	—	2,756,525.00
Other Company	19,188,567.85	11,890,823.22	(11,890,823.22)	—	—	—
Total	667,935,296.18	552,842,377.75	376,617,194.40	228,889,967.11	179,017,802.40	979,331,736.86



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For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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 (Continued)

Long-term equity accounted for using equity method, written off for the year

Name of investee	Initial investment	Opening balance	Written-off for the year	Increase/decrease of the investee's equity	Closing balance
Nanjing Lingyun Information Co., Ltd.	150,000.00	64,912.45	64,912.45	—	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	510,000.00	510,000.00	510,000.00	—	—
Nanjing Panda Electronics Advertisement Company Limited	600,000.00	(127,564.75)	(127,564.75)	—	—
Nanjing Panda Chenguang Electronics Group Limited	7,600,764.60	1,279,542.01	1,279,542.01	—	—
Nanjing Panda Electronics Repairs Center	500,000.00	500,000.00	500,000.00	—	—
Nanjing Asia Pacific Satellite Communication Company	500,000.00	500,000.00	500,000.00	—	—
Nanjing Panda Computer Co., Ltd.	4,950,000.00	4,950,000.00	4,950,000.00	—	—
Nanjing Shuangqiang Computer Co., Ltd.	2,076,623.57	2,076,623.57	2,076,623.57	—	—
Shenzhen Panda Gold Card Industrial Co., Ltd.	1,080,000.00	1,040,155.07	1,040,155.07	—	—
Nanjing Panda Electronics Eastern Suburb Technology Operation Department	221,179.68	221,179.68	221,179.68	—	—
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd.	1,000,000.00	875,975.19	875,975.19	—	—
Total	<u>19,188,567.85</u>	<u>11,890,823.22</u>	<u>11,890,823.22</u>	<u>—</u>	<u>—</u>



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

7. 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
Combined Lab Station of Communication & Broadcasting Bureau and Tsinghua University	200,000.00	200,000.00	—	200,000.00	—
Panda Experiment Co., Ltd. (Burma)	1,203,465.36	1,203,465.36	—	1,203,465.36	—
Feihong Electronics Co., Ltd.	1,200,000.00	1,200,000.00	—	1,200,000.00	—
Hunan Hengyang Pioneer Industry Co., Ltd.	500,000.00	500,000.00	—	500,000.00	—
Beijing DTVA Digital System Co., Ltd.	360,000.00	360,000.00	—	360,000.00	—
Private Business Technology Center	300,000.00	300,000.00	—	300,000.00	—
Nanjing Panda Mobile Communication Equipment Co., Ltd.	1,000,000.00	1,000,000.00	—	1,000,000.00	—
Total	4,763,465.36	4,763,465.36	—	4,763,465.36	—

The decrease of long term investment accounted for at cost for the year refers to the written-off decrease.

(5) Write-off of long-term equity investment during the year

As resolved at the extraordinary board meeting of the Company in December 2007, the Company wrote off the unrecoverable long-term equity investments which have incurred losses in substance. In particular, long-term equity investment accounted for using equity method amounted to RMB11,890,823.22, for which impairment provision of RMB11,890,823.22 had been made. Long-term equity investment accounted for at cost amounted to RMB4,763,465.36, for which impairment provision of RMB4,762,465.36 had been made. For details of the written-off long-term equity investment, please refer to Note VII. 7(3) and Note VII. 7(4) .



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

7. Long-term equity investment (Continued)

(6) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision during the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
Nanjing Lingyun Information Co., Ltd	64,912.45	—	—	64,912.45	64,912.45	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	510,000.00	—	—	510,000.00	510,000.00	—
Nanjing Panda Electronics Advertisement Company Limited	(127,564.75)	—	—	(127,564.75)	(127,564.75)	—
Nanjing Panda Chenguang Electronics Group Limited	1,279,542.01	—	—	1,279,542.01	1,279,542.01	—
Nanjing Panda Electronics Repairs Center	500,000.00	—	—	500,000.00	500,000.00	—
Nanjing Asia Pacific Satellite Communication Company	500,000.00	—	—	500,000.00	500,000.00	—
Nanjing Panda Computer Co., Ltd.	4,950,000.00	—	—	4,950,000.00	4,950,000.00	—
Nanjing Shuangqiang Computer Co., Ltd.	2,076,623.57	—	—	2,076,623.57	2,076,623.57	—
Shenzhen Panda Gold Card Industrial Co., Ltd.	1,040,155.07	—	—	1,040,155.07	1,040,155.07	—
Nanjing Panda Electronics Eastern Suburb Technology Operation Department	221,179.68	—	—	221,179.68	221,179.68	—
Panda Korea Chen Xi Joint Venture Company Limited	2,756,525.00	—	—	—	—	2,756,525.00
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd	875,975.19	—	—	875,975.19	875,975.19	—
Nanjing Panda Medical Electronics Co. Ltd	200,111.87	—	—	—	—	200,111.87
Other investment accounted for at cost	4,763,465.36	—	—	4,763,465.36	4,763,465.36	—
Total	19,610,925.45	—	—	16,654,288.58	16,654,288.58	2,956,636.87



Notes To The Financial Statements

For the year of 2007
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VIII. Notes to major items of consolidated financial statements (Continued)

7. Long-term equity investment (Continued)

- (7) Pursuant to the Equity Transfer Agreement entered into by the Company and Hitachi Plant Technologies, Ltd. on 15 March 2007 and the resolution passed at extraordinary board meeting in 2007, the Company fully transferred its 49% equity in Nanjing Panda Hitachi Technology Co., Ltd. to Hitachi Plant Technologies, Ltd. at price of 98 million yen, and the gains from the transfer were RMB1,937,765.20.
- (8) The closing balance of long-term equity investment was increased by 81.48% over the opening balance, mainly due to the transfer of 25% equity interest in Hua Fei Colour Display Systems Company Limited by Jiangsu International Trust & Investment Corporation Limited for settlement of the debts owing to the Company. For details, please refer to Note XIV.1.

8. Fixed Assets

- (1) Details of fixed assets

	Opening balance	Increase in the year	Decrease in the year	Closing balance
Original cost				
Buildings	385,415,431.47	25,008,089.74	4,000,738.04	406,422,783.17
Machinery and equipment	287,389,108.83	20,723,524.45	10,810,866.67	297,301,766.61
Transportation equipment	7,524,901.69	1,116,438.05	859,701.59	7,781,638.15
Electronic equipment	10,687,445.21	1,674,766.90	1,758,944.57	10,603,267.54
Other equipment	21,738,857.76	926,871.57	781,011.13	21,884,718.20
Total	712,755,744.96	49,449,690.71	18,211,262.00	743,994,173.67
Accumulated depreciation				
Buildings	80,476,377.88	14,176,202.31	1,531,281.55	93,121,298.64
Machinery and equipment	123,866,485.79	21,331,336.14	7,041,642.16	138,156,179.77
Transportation equipment	3,683,161.07	690,729.97	727,535.48	3,646,355.56
Electronic equipment	6,029,587.60	1,196,191.88	1,062,414.35	6,163,365.13
Other equipment	6,825,210.09	1,950,072.00	132,479.64	8,642,802.45
Total	220,880,822.43	39,344,532.30	10,495,353.18	249,730,001.55



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

8. Fixed Assets (Continued)

(1) Details of fixed assets (Continued)

	Opening balance	Increase in the year	Decrease in the year	Closing balance
Impairment provision of fixed assets				
Buildings	285,356.16	—	—	285,356.16
Machinery and equipment	6,890,570.97	—	3,169,359.40	3,721,211.57
Transportation equipment	—	—	—	—
Electronic equipment	963,614.14	—	688,065.76	275,548.38
Other equipment	—	—	—	—
Total	8,139,541.27	—	3,857,425.16	4,282,116.11
Net fixed assets				
Buildings	304,653,697.43			313,016,128.37
Machinery and equipment	156,632,052.07			155,424,375.27
Transportation equipment	3,841,740.62			4,135,282.59
Electronic equipment	3,694,243.47			4,164,354.03
Other equipment	14,913,647.67			13,241,915.75
Total	483,735,381.26			489,982,056.01

(2) Construction in progress being transferred to fixed asset

Items	Transfer date	Transferred amount
SMT installation engineering	31 Dec. 2007	9,852,077.23
Project of digitalizing financial information	31 Dec. 2007	626,300.00
Xingang project	31 Dec. 2007	10,511,251.27
Power distribution room	Jan- Jun 2007	3,319,672.85
Mould	Jun- Dec 2007	3,441,440.05
Total		27,750,741.40

(3) Fixed assets acquired under finance leases

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Machinery and equipment	56,957,484.77	6,809,280.12	—	50,148,204.65
Total	56,957,484.77	6,809,280.12	—	50,148,204.65



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

8. Fixed Assets (Continued)

(4) Fixed assets leased out by operating lease

Items	Original book value	Accumulated depreciation	Book value	Remarks
Buildings	193,082,652.14	54,751,163.05	138,331,489.09	Partial lease
Total	<u>193,082,652.14</u>	<u>54,751,163.05</u>	<u>138,331,489.09</u>	—

(5) Fixed assets without certificate

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	91,198,593.76	5,526,996.70	—	85,671,597.06
Total	<u>91,198,593.76</u>	<u>5,526,996.70</u>	<u>—</u>	<u>85,671,597.06</u>

(6) Fixed assets used for pledge

Items	Original book value	Accumulated depreciation	Impairment provision	Book value
Buildings	193,082,652.14	54,751,163.05	—	138,331,489.09
Total	<u>193,082,652.14</u>	<u>54,751,163.05</u>	<u>—</u>	<u>138,331,489.09</u>

(7) Impairment provision of fixed assets

Items	Opening balance	Provision in the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
Buildings	285,356.16	—	—	—	—	285,356.16
Machinery and equipment	6,890,570.97	—	—	3,169,359.40	3,169,359.40	3,721,211.57
Electronic equipment	963,614.14	—	—	688,065.76	688,065.76	275,548.38
Total	<u>8,139,541.27</u>	<u>—</u>	<u>—</u>	<u>3,857,425.16</u>	<u>3,857,425.16</u>	<u>4,282,116.11</u>

As resolved at the extraordinary board meeting of the Company in December 2007, the Company wrote off fixed assets of RMB3,857,425.16 for the year, for which impairment provision of RMB3,857,425.16 had been made.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

9. Construction in Progress

(1) 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	Resource of fund
SMT installation engineering	RMB229.95 million	7,140,318.02	2,711,759.21	9,852,077.23	—	—	Proceeds from government bonds
Jiangning base	—	18,153,728.45	—	—	18,153,728.45	—	Raised proceeds and other sources
Expansion project of building 103	RMB5 million	6,118,448.97	—	—	6,118,448.97	—	Internal capital
Project of digitalizing financial information	RMB5.5 million	492,300.00	134,000.00	626,300.00	—	—	Internal capital
Xingang project	RMB120 million	6,463,940.58	12,274,590.92	10,511,251.27	—	8,227,280.23	Internal capital
Reconstruction of commercial houses, newly built wall and sewer	RMB241,600	—	270,418.00	—	—	270,418.00	Compensation for removal of Urban Construction & Development Company
Newly built offices	RMB2.09 million	—	1,730,000.00	—	—	1,730,000.00	Compensation for removal of Urban Construction & Development Company
Power distribution room	—	2,389,780.20	929,892.65	3,319,672.85	—	—	—
Mould	—	—	3,471,440.05	3,441,440.05	—	30,000.00	—
Others	—	1,941,771.48	—	—	1,941,771.48	—	—
Total		<u>42,700,287.70</u>	<u>21,522,100.83</u>	<u>27,750,741.40</u>	<u>26,213,948.90</u>	<u>10,257,698.23</u>	



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

9. Construction in Progress (Continued)

(2) Impairment provision for construction in progress

Name of project	Opening balance	Provision in the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
Jiangning base	18,153,728.45	—	—	18,153,728.45	18,153,728.45	—
Expansion project of building 103	6,118,448.97	—	—	6,118,448.97	6,118,448.97	—
Others	1,941,771.48	—	—	1,941,771.48	1,941,771.48	—
Total	26,213,948.90	—	—	26,213,948.90	26,213,948.90	—

As resolved at the extraordinary board meeting of the Company in December 2007, the Company wrote off obsolescent construction in progress of RMB26,213,948.90 during the year, for which impairment provision of RMB26,213,948.90 had been made.

10. Intangible Assets

(1) Details of intangible assets

Items	Initial cost	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Accumulative amortization in the year	Closing balance
Land use rights	68,688,309.80	11,289,189.80	32,788,309.80	—	717,288.96	25,328,099.16	43,360,210.64
Trademark use right	2,200,000.00	929,975.61	—	—	199,999.96	1,470,024.35	729,975.65
Others	933,899.00	725,024.66	151,999.00	—	200,748.05	257,623.39	676,275.61
Total	71,822,208.80	12,944,190.07	32,940,308.80	—	1,118,036.97	27,055,746.90	44,766,461.90

The increase in land use right was due to the acquisition of use right of land situated at No.3 Lianhecun, Shimenkan, Baixia District, Nanjing (land area 77,565.60 square meters in total) through the Contract for Assignment of the Right to the Use of State- Owned Land, Ning Guo Tu Zi Rang He No. [2007]219, entered into by Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., a subsidiary of the Company, and Nanjing Municipal Bureau of State Land and Resources.

(2) Impairment provision for intangible assets

Items	Opening balance	Provision in the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
Trademark use right	210,000.00	—	—	—	—	210,000.00
Total	210,000.00	—	—	—	—	210,000.00



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

11. Long-term Deferred Expenses

Items	Original amount	Opening balance	Increase in the year	Transferred-out in the year	Amortization in the year	Closing balance
Fitment expenses	3,587,722.56	—	3,587,722.56	—	426,245.95	3,161,476.61
Operating lease fee	1,250,000.00	—	1,250,000.00	—	312,500.00	937,500.00
Total	<u>4,837,722.56</u>	<u>—</u>	<u>4,837,722.56</u>	<u>—</u>	<u>738,745.95</u>	<u>4,098,976.61</u>

12. Deferred Income Tax Assets

(1) Details of deferred income tax assets

Items	Closing balance	Opening balance
Deferred income tax assets arising from the difference between the book value and tax base of assets	5,053,608.70	4,562,258.03
Deferred income tax assets arising from the difference between the book value and tax base of liabilities	150,000.00	—
Total	<u>5,203,608.70</u>	<u>4,562,258.03</u>

(2) Details of temporary difference

Items	Closing balance	Opening balance
Accounts receivable	10,881,534.62	7,006,463.17
Other Receivables	6,926,754.30	5,870,745.89
Prepayment	419,154.26	—
Inventories	5,208,881.55	5,563,853.63
Long-term equity investment	—	875,975.19
Fixed assets	483,269.93	346,005.85
Unrecovered losses	1,184,052.55	—
Deferred income	600,000.00	—
Total	<u>25,703,647.21</u>	<u>19,663,043.72</u>



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

13. Details of Provision for Impairment of Assets

Items	Opening balance	Provision in the year	Decrease in the year		Total	Closing balance
			Reversal	Write-off		
1. Total provision for bad debt	216,778,933.97	40,663,758.02	13,652,532.13	176,533,782.83	190,186,314.96	67,256,377.03
Including: Accounts receivable	28,833,339.34	9,437,331.46	2,501,515.13	11,960,354.99	14,461,870.12	23,808,800.68
Other accounts receivable	187,945,594.63	30,106,399.15	11,151,017.00	164,572,920.22	175,723,937.22	42,328,056.56
Prepayment	—	1,120,027.41	—	507.62	507.62	1,119,519.79
2. Total provision for impairment of inventories	19,244,237.91	12,312,523.19	871,932.72	21,020,960.52	21,892,893.24	9,663,867.86
Including: Raw materials	6,069,658.67	9,803,087.31	—	13,283,022.12	13,283,022.12	2,589,723.86
Work in progress	1,234,342.60	1,804,829.10	7,408.74	691,104.31	698,513.05	2,340,658.65
Commodity inventories	7,500,663.65	613,373.05	864,523.98	2,678,048.53	3,542,572.51	4,571,464.19
Delivered commodities	4,439,572.99	91,233.73	—	4,368,785.56	4,368,785.56	162,021.16
3. Total provision for impairment of long term equity investment	19,610,925.45	—	—	16,654,288.58	16,654,288.58	2,956,636.87
4. Total provision for impairment of fixed assets	8,139,541.27	—	—	3,857,425.16	3,857,425.16	4,282,116.11
Including: Buildings	285,356.16	—	—	—	—	285,356.16
Machinery and equipment	6,890,570.97	—	—	3,169,359.40	3,169,359.40	3,721,211.57
Electronic equipment	963,614.14	—	—	688,065.76	688,065.76	275,548.38
5. Provision for impairment of construction in progress	26,213,948.90	—	—	26,213,948.90	26,213,948.90	—
6. Provision for impairment of intangible assets	210,000.00	—	—	—	—	210,000.00
Including: Trademark	210,000.00	—	—	—	—	210,000.00
Total	<u>290,197,587.50</u>	<u>52,976,281.21</u>	<u>14,524,464.85</u>	<u>244,280,405.99</u>	<u>258,804,870.84</u>	<u>84,368,997.87</u>

14. Short Term Loans

(1) Details of Short term loans

Type of loan	Closing balance	Opening balance
Collateral loan	210,000,000.00	210,000,000.00
Guaranteed loan	402,304,600.00	626,070,200.00
Pledge loans	45,000,000.00	—
Total	<u>657,304,600.00</u>	<u>836,070,200.00</u>

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

14. Short Term Loans (Continued)

- (3) The Company pledged properties located at 301 Zhong Shan Dong Lu, Xuan Wu District, Nanjing with certificates of title to the property (Ning Xuan Zi No.102156) with assessed value of RMB336,560,000.00 for loans from Nanjing Han Fu Branch of Industrial and Commercial Bank of China as follows:

Name of Borrower	Amount	Duration period
Nanjing Panda Electronics Company Limited	70,000,000.00	2007.12.21-2008.11.12
Nanjing Panda Electronics Company Limited	75,000,000.00	2007.12.18-2008.11.26
Nanjing Panda Electronics Company Limited	25,000,000.00	2007.12.13-2008.12.10
Nanjing Panda Electronics Company Limited	40,000,000.00	2007.11.06-2008.10.17
Total	210,000,000.00	

- (4) Panda Electronics Group Company, the controlling shareholder of the Company, provided guarantee for the Company with properties located at 301 Zhong Shan Dong Lu, Xuan Wu District, Nanjing with certificates of title to the properties (Ning Xuan Zi No.241064, Ning Xuan Zi No.031481, Ning Xuan Zi No.031482, Ning Xuan Zi No.031483, Ning Xuan Zi No.031484, and Ning Xuan Zi No.241065,) for loans from Nanjing Han Fu Branch of Industrial and Commercial Bank of China as follows:

Name of Borrower	Amount	Duration period
Nanjing Panda Electronics Company Limited	75,000,000.00	2007.12.18-2008.11.26
Nanjing Panda Electronics Company Limited	25,000,000.00	2007.12.13-2008.12.10
Nanjing Panda Electronics Company Limited	40,000,000.00	2007.11.6-2008.10.17
Total	140,000,000.00	

- (5) The Company pledged the time certificate of RMB50,000,000.00 with Bank of Communications Nanjing Branch for loans of RMB45,000,000.00 from Bank of Communications Nanjing Branch. The loan term is from 17 December 2007 to 14 March 2008.
- (6) Details of guaranteed loans of the Company and its subsidiaries, please refer to Note X (III) 5 and 6.



Notes To The Financial Statements

For the year of 2007
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VIII. Notes to major items of consolidated financial statements (Continued)

15. Bills Payable

Types of Bills	Closing balance	Opening balance	Amount due in the next accounting period
Bank acceptance notes	54,029,931.78	37,794,637.80	54,029,931.78
Total	54,029,931.78	37,794,637.80	54,029,931.78

16. Accounts Payable

(1) Details of Accounts Payable

Aging	Closing balance		Opening balance	
	Amount	Percentage	Amount	Percentage
Within 1 year	137,824,514.65	75.97	114,513,268.84	77.09
1-2 years	13,012,255.57	7.17	13,953,228.30	9.39
2-3 years	12,317,635.00	6.79	2,078,078.98	1.40
more than 3 years	18,270,802.31	10.07	18,006,504.68	12.12
Total	181,425,207.53	100.00	148,551,080.80	100.00

- (2) No accounts payable to shareholders holding over 5% (5% inclusive) of the shares carrying voting rights of the Company in the accounts payable at the end of the year.
- (3) Accounts payable at the end of the year include RMB13,608,324.61 payable to other related parties. For details of such connected transaction, please refer to Note X. (III) 10.
- (4) Other payables in large amount with ageing over one year

Name of creditor	Amount	Reason for failure to repay	Whether will be repaid after the date of financial statement
Nanjing Flextronics Panda Thales Terminal Co. Ltd.	2,548,591.15	Unsettled	No
Nanjing Runkai Technical & Trade Co., Ltd.	1,924,303.54	Unsettled	No
THALES CO.LTD	1,470,297.93	Unsettled	No
Total	5,943,192.62		



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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	40,574,034.56	82.06	39,297,006.14	73.05
1-2 years	3,215,553.61	6.50	7,817,160.85	14.53
2-3 years	275,334.98	0.56	3,109,299.11	5.78
more than 3 years	5,380,665.62	10.88	3,568,562.79	6.64
Total	49,445,588.77	100.00	53,792,028.89	100.00

- (2) No advances from shareholders holding over 5% (5% inclusive) of the shares carrying voting rights of the Company in the advances from customers at the end of the year.
- (3) The advances from customers at the end of the year include the advances from other related parties of RMB12,113,802.30.
- (4) The receipts in advance had not yet carried forward mainly because the receipt of advance is more than the unsettled payment subject to the construction progress.

18. Salaries Payable

Items	Opening balance	Increase in the year	Payment in the year	Closing balance
Salaries and bonus	1,420,415.22	93,534,386.57	91,352,922.21	3,601,879.58
Expenses for employee benefits	10,449,610.27	8,635,419.83	19,085,030.10	—
Expenses for social security	2,215,023.28	30,620,556.61	31,254,601.48	1,580,978.41
Housing reserve fund	632,582.76	9,311,845.75	9,411,431.48	532,997.03
Trade union funds and employee education funds	2,636,455.40	2,363,222.95	2,221,683.24	2,777,995.11
Compensation for employment termination	437,663.40	11,620.00	341,283.40	108,000.00
Others	—	173,783.14	173,783.14	—
Total	17,791,750.33	144,650,834.85	153,840,735.05	8,601,850.13



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

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	17,594,621.32	21,310,947.42
Sales tax	Refer to Note VI: Taxation	147,140.74	692,539.69
City maintenance tax*	Refer to Note VI: Taxation	13,622,670.66	18,128,100.82
Education surcharges	Refer to Note VI: Taxation	4,325,871.73	5,187,068.61
Enterprise income tax	Refer to Note VI: Taxation	4,017,392.53	782,851.61
Individual income tax	Refer to Note VI: Taxation	229,572.79	875,294.99
Property tax	Refer to Note VI: Taxation	—	412,106.66
Fund for flood control	—	131,692.10	—
Local Fund	—	—	252,836.92
Stamp duty	—	—	401.94
Others	—	101,956.89	—
Total		40,170,918.76	47,642,148.66

* This item is the outstanding tax accumulated from the previous years.

20. Interest Payable

Item	Closing balance	Opening balance
Short-term loan interest	1,306,732.50	1,303,000.00
Total	1,306,732.50	1,303,000.00

21. Other Payables

Aging	Closing balance		Opening balance	
	Amount	Percentage	Amount	Percentage
Within 1 year	29,420,266.46	31.19	91,838,713.59	45.13
1-2 years	13,805,627.83	14.64	63,706,641.01	31.31
2-3 years	9,082,767.83	9.63	5,592,373.67	2.75
More than 3 years	42,012,257.20	44.54	42,349,109.47	20.81
Total	94,320,919.32	100.00	203,486,837.74	100.00

- (1) The closing balance of other payables includes payables of RMB5,657,115.50 to Panda Electronics Group Limited, the shareholder holding 51.10% shares of the Company.
- (2) The closing balance of other payables includes RMB4,842,668.08 payables to other related parties. For details of such connected transaction, please refer to Note X. (III) 10.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

21. Other Payables (Continued)

(3) Other payables in large amount

Name of creditor	Amount	Nature (or content)
Panda Electronic Group Company Limited	5,657,115.50	Current
Nanjing Economic and Technological Development Zone Management Committee	4,944,812.63	appropriating fund
WKK China (Shanghai) Ltd.	4,510,590.50	equipment payment
Zhiboxing Project of Information Industry Department	4,437,715.82	appropriating fund
Nanjing Pengda Labour Consulting Services Co., Ltd.	3,074,190.15	Labour payment
Total	22,624,424.60	

- (4) The closing balance of other payables decreased by 53.65% over the opening balance of the year, mainly due to the repayment of margin.

22. Long Term Payables

Type	Period	Closing balance	Opening balance
Finance lease	1 December 2006 to 1 February 2010	5,599,656.22	4,988,376.01
Finance lease	1 February 2006 to 1 September 2009	9,945,982.97	19,164,088.81
Finance lease	26 July 2006 to 26 July 2008	2,375,458.07	10,838,353.81
Total		17,921,097.26	34,990,818.63



Notes To The Financial Statements

For the year of 2007
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VIII. Notes to major items of consolidated financial statements (Continued)

23. Share Capital

Items	Opening balance		Increase/decrease in the year (+,-)					Closing balance	
	Amount	Percentage	New issue	Transfer of			Sub-total	Amount	Percentage
				Bonus share issue	capital reserve into share capital	Others			
I. Shares subject to trading moratorium									
1. State owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	334,715,000.00	51.10	—	—	—	—	—	334,715,000.00	51.10
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Including: Domestic legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
Total shares subject to trading moratorium	334,715,000.00	51.10	—	—	—	—	—	334,715,000.00	51.10
II. Shares not subject to trading moratorium									
1. RMB denominated ordinary shares	78,300,000.00	11.95	—	—	—	—	—	78,300,000.00	11.95
2. Domestic-listing foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares	242,000,000.00	36.95	—	—	—	—	—	242,000,000.00	36.95
4. Others	—	—	—	—	—	—	—	—	—
Total shares not subject to trading moratorium	320,300,000.00	48.90	—	—	—	—	—	320,300,000.00	48.90
III. Total shares	655,015,000.00	100.00	—	—	—	—	—	655,015,000.00	100.00



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

23. Share Capital (Continued)

- (2) Names of shareholders, natures of shares, shareholding and changes are as follows (unit: share):

Name of shareholder or class of share	Nature of shares	Closing balance	Opening balance
Panda Electronic Group Company Limited	Promoter's shares	334,715,000.00	334,715,000.00
Domestic listed RMB ordinary shares	Circulating A shares	78,300,000.00	78,300,000.00
Overseas listed foreign shares	Circulating H shares	242,000,000.00	242,000,000.00
Total		655,015,000.00	655,015,000.00

24. Capital Reserve

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Capital premium	477,875,089.49	—	—	477,875,089.49
Other capital reserve	2,017,927.75	316,017.13	—	2,333,944.88
Total	479,893,017.24	316,017.13	—	480,209,034.37

The increase of capital reserves in the year was due to the increase in the capital reserve of associated companies which was accounted for by equity method by the Company.

25. Surplus Reserve

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Statutory surplus reserve	119,302,031.80	5,049,444.33	—	124,351,476.13
Discretionary surplus reserve	70,376,641.33	—	—	70,376,641.33
Total	189,678,673.13	5,049,444.33	—	194,728,117.46

The increase in statutory surplus reserve of the Company was due to the 10% transfer of profits after tax.



Notes To The Financial Statements

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VIII. Notes to major items of consolidated financial statements (Continued)

26. Undistributed Profit

Items	2007	2006
Closing balance of previous year	27,418,123.14	(58,682,872.55)
Add: changes in accounting policies	(3,723,503.78)	(2,690,697.16)
Correction of previous errors	—	—
Opening balance of the year	23,694,619.36	(61,373,569.71)
Add: Consolidated net profit	96,278,894.45	94,079,093.39
Compensation of loss from surplus reserve	—	—
Other transfer-in	—	—
Less: Transfer to statutory surplus reserve	5,049,444.33	1,541,130.60
Transfer to discretionary surplus reserve	—	—
Distribution to shareholders	—	—
Minority interests	7,186,184.57	7,469,773.72
Closing balance of the year	107,737,884.91	23,694,619.36

- (1) The statutory surplus reserve of the Company was transferred based on 10% of profits after tax.
- (2) Pursuant to the Annual Profit Distribution Proposal for 2007 passed at the fourth meeting of the sixth Board, based on the total share capital of 655,015,000 shares at the end of the reporting period, the Company will distribute a cash dividend of RMB0.8 (tax inclusive) for every 10 shares to shareholders, totalling RMB52,401,200.00. (2) The implementation of the Profit Distribution Proposal is subject to the agreement by the general meeting of the Company.

27. Operating Income and Costs

- (1) Income from principal activities and other activities

Items	2007	2006
Income from principal activities	996,910,349.00	885,049,684.59
Income from other activities	13,025,306.50	26,117,173.54
Total operating income	1,009,935,655.50	911,166,858.13
Cost of principal activities	821,679,187.18	744,210,948.06
Cost of other activities	13,899,541.21	11,781,112.64
Total operating cost	835,578,728.39	755,992,060.70



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

27. Operating Income and Costs (Continued)

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

Business segment	Income from principal activities	2007 Cost of principal activities	Profit of principal activities
Electronic Manufacture products	306,753,022.68	254,131,934.83	52,621,087.85
Electronic information products	278,775,469.06	239,001,896.53	39,773,572.53
Electrometrical products	185,625,854.46	150,871,224.53	34,754,629.93
Satellite telecommunication products	197,370,000.00	150,399,144.96	46,970,855.04
Others	28,386,002.80	27,274,986.33	1,111,016.47
Sub-total	996,910,349.00	821,679,187.18	175,231,161.82
Less: inter-segment offset	—	—	—
Total	996,910,349.00	821,679,187.18	175,231,161.82

Business segment	Income from principal activities	2006 Cost of principal activities	Profit of principal activities
Electronic Manufacture products	238,797,012.01	192,301,236.33	46,495,775.68
Electronic information products	193,744,729.63	172,969,681.95	20,775,047.68
Electrometrical products	221,079,738.77	181,467,937.02	39,611,801.75
Satellite telecommunication products	179,562,460.53	131,313,785.99	48,248,674.54
Others	51,865,743.65	66,158,306.77	(14,292,563.12)
Sub-total	885,049,684.59	744,210,948.06	140,838,736.53
Less: inter-segment offset	—	—	—
Total	885,049,684.59	744,210,948.06	140,838,736.53

- (3) Sales revenue from the largest five customers totaled RMB502,968,122.79, accounting for 49.80% of total sales revenue for the year.



Notes To The Financial Statements

For the year of 2007
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VIII. Notes to major items of consolidated financial statements (Continued)

28. Sales tax and surcharges

Items	2007		2006	
	Calculation basis	Amount	Calculation basis	Amount
Sales tax	5% of lease income and others	3,406,553.50	5% of lease income and others	2,405,153.69
City maintenance tax	7% of turnover tax	1,213,935.17	7% of turnover tax	1,633,165.16
Education surcharges	4% of turnover tax	757,778.91	4% of turnover tax	1,038,662.24
Others	—	—	—	73,471.31
Total		<u>5,378,267.58</u>		<u>5,150,452.40</u>

29. Finance costs

Items	2007	2006
Interest expenses	56,071,928.02	54,139,345.29
Less: Interest income	3,413,275.18	4,296,335.83
Exchange loss	4,740,723.26	868,792.96
Less: Exchange gain	827,399.11	1,285,566.73
Handling charges	297,312.63	—
Others	4,327,670.63	2,660,277.75
Total	<u>61,196,960.25</u>	<u>52,086,513.44</u>

30. Asset Impairments Loss

Items	2007	2006
Bad debt losses	27,011,225.89	32,418,133.28
Loss from inventory impairment	11,440,590.47	(15,908,595.83)
Provision for impairment of long-term investment	—	875,975.19
Fixed asset impairments loss	—	62,062.00
Total	<u>38,451,816.36</u>	<u>17,447,574.64</u>



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

31. Investment income

Name of investee	2007	2006	Note
Nanjing Ericsson Panda Communication Company Limited	140,157,851.20	105,865,016.04	(1)
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	149,184,281.42	115,603,715.85	(2)
Nanjing Panda Hitachi Techno Co., Ltd.	1,937,765.20	(141,001.35)	(3)
Hua Fei Colour Display Systems Company Limited	(71,657,292.72)	—	(4)
Shenzhen Jingwah Electronics Co., Ltd	10,914,429.05	8,508,628.56	—
Intenna (Nanjing) Co. Ltd.	(528,475.39)	(1,055,307.97)	—
Nanjing Thales Panda Transportation System Company Limited	262,474.11	(184,290.41)	—
Nanjing Electronics (Kunshan) Co. Ltd	240,682.32	(111,350.32)	—
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	—	(1,965,545.45)	—
Other Company	—	(959,128.87)	—
Total	230,511,715.19	225,560,736.08	

- (1) The financial statement of Nanjing Ericsson Panda Communication Co. Ltd in 2007, an associated company of the Company, was audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and a standard unqualified audited report (2008) No. 20752 Pu Hua Yong Dao Zhong Tian Shen Zi was issued.
- (2) The financial statement of Beijing SE Putian Mobile Communication Co. Ltd. in 2007, an associated company of the Company, was audited by PricewaterhouseCoopers Zhong Tian Accountants Limited Company and a standard unqualified audited report (2008)No. 123 Pu Hua Yong Dao Zhong Tian Beijing Shen Zi was issued.
- (3) The Company has transferred equity interests in this company in 2007.
- (4) The financial statement of Hua Fei Colour Display Systems Company Limited in 2007, an associated company of the Company, was audited by Jiangsu Talent CPA and a standard unqualified audited report (2008) No. 219 Tian Heng Shen Zi was issued.



Notes To The Financial Statements

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VIII. Notes to major items of consolidated financial statements (Continued)

32. Non-operating Income

(1) Details of Non-operating income

Items	2007	2006
Gains from disposal of non-current assets	634,266.75	913,291.54
Including: gains from disposal of fixed assets	564,486.46	913,291.54
Gains from disposal of other non-current fixed assets	69,780.29	—
Profits from debt restructuring	1,813.00	—
Governmental subsidy	8,237,724.07	2,115,640.81
Net gain from fine payments	5,500.00	155,444.26
Asset inventory surplus	9,524.50	—
Others	607,463.32	1,009,227.58
Total	9,496,291.64	4,193,604.19

(2) Governmental subsidy

Items	Amount	2007 Including: Amount recorded in the current profits and losses	Amount	2006 Including: Amount recorded in the current profits and losses
Reimbursement of value-added tax for software product	580,768.50	580,768.50	1,030,020.81	1,030,020.81
Financial subsidy	2,456,955.57	2,456,955.57	1,085,620.00	1,085,620.00
Compensation for removal	5,200,000.00	5,200,000.00	—	—
Total	8,237,724.07	8,237,724.07	2,115,640.81	2,115,640.81

(3) Non-operating income for 2007 increased by 126.45% over 2006, mainly due to the receipt of compensation for removal by Nanjing Guanghua Electronics Plastic Casings Factory, a subsidiary by the Company.

33. Non-operating Expenses

Items	2007	2006
Loss from the disposal of non-current assets	586,530.85	2,475,726.58
Including: loss from disposal of fixed assets	297,610.72	2,475,726.58
Loss from the disposal of other non-current assets	288,920.13	—
Loss from debt restructuring	18,907,277.58	—
Local Fund	—	189,747.04
Donation expenses	122,000.00	10,500.00
Fine payment expenses	—	59,931.03
Compensation expenses	1,700,000.00	—
Others	611,819.64	304,583.13
Total	21,927,628.07	3,040,487.78

Loss from debt restructuring: Please refer to Note XIV. 1.



Notes To The Financial Statements

For the year of 2007

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VIII. Notes to major items of consolidated financial statements (Continued)

34. Income Tax Expenses

(1) Composition of income tax expense (gains)

Items	2007	2006
Income tax expense in the period	7,868,354.71	4,160,249.89
Deferred income tax expense	(641,350.67)	(1,124,619.51)
Total	7,227,004.04	3,035,630.38

35. Basic Earnings per Share and Diluted Earnings per Share

Items	2007	2006
Basic earnings per share	0.14	0.13
Diluted earnings per share	0.14	0.13

Note: (1) Calculation of basic earning 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;

"Si" represents shares increased from issue of new shares or debt to equity during reporting period;

"Sj" represents the reduced shares arising from repurchase during reporting period;

"Sk" represents the number of reduced shares during the reporting period;

"M0" represents months in the reporting period;

"Mi" represents the months from the next month of the increase of shares to the end of the reporting period;

"Mj" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.



Notes To The Financial Statements

For the year of 2007
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VIII. Notes to major items of consolidated financial statements (Continued)

35. Basic Earnings per Share and Diluted Earnings per Share (Continued)

(2) Calculation of diluted earning per share

Diluted earnings per share=Net profit attributable to holders of ordinary shares of the company + (interests of the diluted potential ordinary shares recognized as expenses in the current period—Conversion expenses) × (1—Income tax ratio) / (S0+ S1 + Si × Mi ÷ M0—Sj × Mj ÷ M0—Sk +The weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond).

Including: "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 in the period;

"Si" represents shares increased from issue of new shares or debt to equity during reporting period;

"Sj" represents the reduced shares arising from repurchase during reporting period;

"Sk" represents the number of reduced shares during the reporting period;

"M0" represents months in the reporting period;

"Mi" represents the months from the next month of the increase of shares to the end of the reporting period;

"Mj" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

36. 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	2007	2006
Capital flows with Panda Electronics Group Limited	1,241,233,580.00	1,569,829,585.35
Capital flows with Nanjing Panda Electronics Import/Export Co., Ltd.	—	39,684,827.28
Capital flows with Nanjing Panda Television Co., Ltd.	47,805,694.00	48,957,559.33
Amount for acquisition of fixed assets by a leasing company	—	44,997,420.00
Capital flow with military representative office	—	51,170,000.00
Nanjing Panda Handa Technology Co., Ltd..	28,092,760.00	—
Deposit as margin	—	44,948,011.50
Others	15,236,641.89	43,748,787.40
Total	1,332,368,675.89	1,843,336,190.86



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

VIII. Notes to major items of consolidated financial statements (Continued)

37. 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	2007	2006
Capital flows with Panda Electronics Group Limited	1,240,370,757.33	1,246,501,441.03
Capital flows with Nanjing Panda Electronics Import/Export Co., Ltd.	—	39,000,000.00
Capital flows with Nanjing Panda Television Co., Ltd.	46,767,854.00	44,037,840.00
Deposit as margin	—	44,775,934.49
Amount for acquisition of fixed assets by a leasing company	—	31,218,737.85
Technology development fee	33,315,638.22	31,910,932.95
Operating fee	24,876,356.63	26,603,051.42
Nanjing Panda Handa Technology Co., Ltd.	28,092,760.00	—
Others	95,292,434.79	70,457,283.96
Total	1,468,715,800.97	1,534,505,221.70

38. Other Cash Received in Connection with Financing Activities

Among the "Other Cash Received in Connection with Financing Activities", the items with large amount are listed as follows:

Items	2007	2006
Discounted bill amount for Nanjing Panda Television Co., Ltd.	281,200,900.00	634,590,000.00
Deposit as margin	44,775,934.49	—
Discounted bill amount	29,535,600.00	—
Commissioned collection of amount under finance lease	4,524,900.00	—
Others	34,572.36	7,300,992.00
Total	360,071,906.85	641,890,992.00

39. 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	2007	2006
Discounted bill amount for Nanjing Panda Television Co., Ltd.	281,200,900.00	634,590,000.00
Deposit as margin	102,876,917.50	—
Commissioned payment of amount under finance lease	3,790,301.67	—
Payment of amount under finance lease	19,750,176.00	—
Payment of discount interest	464,400.00	—
Others	545,365.34	31,757,073.63
Total	408,628,060.51	666,347,073.63



Notes To The Financial Statements

For the year of 2007
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VIII. Notes to major items of consolidated financial statements (Continued)

40. Supplemental Information of Cash Flow Statements

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

Items	2007	2006
1.Reconciliation of net profit to cash flows from operating activities:		
Net profit	96,278,894.45	94,079,093.39
Add:Provision for assets impairment	38,451,816.36	17,447,574.64
Depreciation of fixed assets	39,344,532.30	33,281,023.14
Amortisation of intangible assets	1,118,036.97	4,199,226.40
Amortisation of long-term deferred expenses	738,745.95	42,672.38
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gain is represented by "-")	11,588,254.34	1,562,435.04
Loss from fixed assets scrapped (gain is represented by "-")	191,551.16	—
Loss from change in fair value (gain is represented by "-")	—	—
Finance expense (income is represented by "-")	57,360,422.75	57,588,313.30
Loss on investment (income is represented by "-")	(230,511,715.19)	(225,560,736.08)
Decrease in deferred income tax assets (increase is represented by "-")	(641,350.67)	(1,124,619.51)
Increase in deferred income tax liabilities (decrease is represented by "-")	—	—
Decrease in inventories (increase is represented by "-")	(59,573,240.80)	(44,655,137.83)
Decrease in trade receivables (Increase is represented by "-")	127,032,479.38	272,796,986.20
Increase in trade payables (Decrease is represented by "-")	(113,459,126.36)	39,591,755.25
Others	—	—
Net cash flow from operating activities	(32,080,699.36)	249,248,586.32
2.Material investment and financial activities not involving cash:		
Debt capitalization	—	—
Convertible bonds due within one year	—	—
Lease of fixed assets by financing	—	—
3.Net change in cash and cash equivalents:		
Cash balance as at end of the year	380,822,357.69	607,318,095.22
Less: cash balance as at beginning of the year	607,318,095.22	302,508,844.05
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	(226,495,737.53)	304,809,251.17



Notes To The Financial Statements

For the year of 2007

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VIII. Notes to major items of consolidated financial statements (Continued)

40. Supplemental Information of Cash Flow Statements (Continued)

(2) Information on cash and cash equivalents

Items	2007	2006
I. Cash		
Including: Cash on hand	538,704.29	657,314.99
Bank deposit available for payment at any time	378,783,653.40	253,195,108.33
Other cash fund available for payment at any time	1,500,000.00	353,465,671.90
II. Cash equivalents		
Including: Bond investment due within three months	—	—
III. Closing balance of cash and cash equivalents		
Including: restricted cash and cash equivalents used by the Parent Company or subsidiaries of the Group	102,876,917.50	44,775,934.49

IX. Notes to major items of the financial statements of parent company

1. Accounts Receivable

(1) Break-down of accounts receivable by categories

Items	Balance	Percentage	Closing balance	
			Provision for bad debts	Net amount
Substantial amount of single accounts receivable	49,026,348.46	92.55	2,389,925.49	46,636,422.97
Other unsubstantial amount of accounts receivable	3,943,789.74	7.45	1,338,426.78	2,605,362.96
Total	52,970,138.20	100.00	3,728,352.27	49,241,785.93
Items	Balance	Percentage	Opening balance	
			Provision for bad debts	Net amount
Substantial amount of single accounts receivable	60,912,227.60	93.66	1,827,366.83	59,084,860.77
Other unsubstantial amount of accounts receivable	4,122,576.41	6.34	1,460,927.24	2,661,649.17
Total	65,034,804.01	100.00	3,288,294.07	61,746,509.94

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

For the year of 2007
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IX. Notes to major items of the financial statements of parent company (Continued)

1. Accounts Receivable (Continued)

(2) The ageing analysis of accounts receivable

Ageing	Amount	Percentage	Closing balance		Amount	Percentage	Opening balance	
			Percentage of provision for bad debts	Provision for bad debt			Percentage of provision for bad debts	Provision for bad debt
Within 1 year	51,034,549.05	96.35	5	2,569,040.14	62,995,344.69	96.86	3	1,904,614.35
1-2 years	536,627.80	1.01	10	53,662.78	1,468,790.22	2.26	6	837,693.01
2-3 years	1,204,493.00	2.27	50	920,651.00	92,986.78	0.14	30	92,986.78
3-5 years	47,350.00	0.09	80	37,880.00	127,374.25	0.20	60	102,691.86
More than 5 years	147,118.35	0.28	100	147,118.35	350,308.07	0.54	60	350,308.07
Total	52,970,138.20	100.00		3,728,352.27	65,034,804.01	100.00		3,288,294.07

(3) Details of the five largest debtors of accounts receivable at the end of the period

Name of debtor	Amount	Percentage in the total value of the accounts receivable	Ageing
Nanjing Panda Handa Technology Co., Ltd..	45,930,891.23	86.71	Within 1 year
Nanjing Broadcasting Network Inc.	3,095,457.23	5.84	Within 1 year
Sichuan Ziyang Broadcasting Network Co., Ltd.	985,125.00	1.86	Within 1 year
Nanjing Panda Television Co. Ltd.	448,114.18	0.85	2-3 years
Nanjing Electric Substrate Plant	307,396.00	0.58	More than 5 years
Total	50,766,983.64	95.84	

(4) As resolved at the extraordinary board meeting of the Company in December 2007, the Company wrote off RMB504,782.32 of accounts receivable during the year, for which RMB504,782.32 of provision for bad debts had been made.



Notes To The Financial Statements

For the year of 2007

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IX. Notes to major items of the financial statements of parent company (Continued)

2. Other Receivables

(1) Break-down of other receivables by categories

Items	Balance	Percentage	Closing balance	Net amount
			Provision for bad debts	
Substantial amount of single other receivables	192,107,933.67	90.34	35,435,919.57	156,672,014.10
Other unsubstantial amount of other receivables	20,544,687.89	9.66	6,578,484.37	13,966,203.52
Total	212,652,621.56	100.00	42,014,403.94	170,638,217.62

Items	Balance	Percentage	Opening balance	Net amount
			Provision for bad debts	
Substantial amount of single other receivables	674,379,633.69	87.23	138,502,606.94	535,877,026.75
Other unsubstantial amount of other receivables	98,749,428.73	12.77	34,659,286.06	64,090,142.67
Total	773,129,062.42	100.00	173,161,893.00	599,967,169.42

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.

(2) Ageing analysis of other receivables

Ageing	Amount	Percentage	Closing balance		Amount	Percentage	Opening balance	
			Percentage of provision for bad debts	Provision for bad debt			Percentage of provision for bad debts	Provision for bad debt
Within 1 year	136,301,478.75	64.10	5	5,031,123.31	43,976,591.40	5.69	3	1,585,012.06
1-2 years	3,690,904.43	1.74	10	679,406.54	393,954,464.51	50.96	6	23,297,898.36
2-3 years	55,119,907.19	25.92	50	22,641,450.65	246,987,214.40	31.95	30	74,794,960.22
3-5 years	11,588,110.22	5.45	80	7,710,202.47	76,261,714.99	9.86	60	61,534,945.24
more than 5 years	5,952,220.97	2.80	100	5,952,220.97	11,949,077.12	1.55	60	11,949,077.12
Total	212,652,621.56	100.00		42,014,403.94	773,129,062.42	100.00		173,161,893.00



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IX. Notes to major items of the financial statements of parent company (Continued)

2. Other Receivables (Continued)

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

Name of debtor	Amount	Percentage in the total value of the accounts receivable	Ageing
Fund raising project for building	45,153,340.74	21.23	1-3 years
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	40,387,799.80	18.99	Within 1 year
Galant Limited	35,023,940.00	16.47	Within 1 year
Nanjing Panda Electronic Manufacturing Company Limited	20,386,707.14	9.59	Within 1 year
Nanjing Panda International Telecommunication System Co., Ltd.	20,209,308.17	9.50	Within 1 year
Total	161,161,095.85	75.78	

(4) As resolved at the extraordinary board meeting of the Company in December 2007, the Company wrote off RMB58,198,044.60 of other receivable during the year, for which provision for bad debts of RMB58,198,044.60 had been made.

3. Long-term Equity Investment

(1) Details of long-term equity investment

Items	Opening balance	Increase in the year	Decrease in the year	Closing balance
Investment in subsidiaries	182,403,251.35	10,000,000.00	—	192,403,251.35
Investment in associated companies	538,332,743.28	621,279,533.10	194,417,355.23	965,194,921.15
Investment in other enterprises	3,763,465.36	—	3,763,465.36	—
Less: provision for impairment of long term investment	25,933,313.39	6,175,000.00	14,778,313.39	17,330,000.00
Total	698,566,146.60	625,104,533.10	183,402,507.20	1,140,268,172.50



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IX. Notes to major items of the financial statements of parent company (Continued)

3. Long-term Equity Investment (Continued)

(2) Details of investment in associated companies

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance	Registration address	Nature of business
Associated companies	185,002,504.56	149,230,876.00	64,400,000.00	269,833,380.56	Beijing	Manufacture
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")						
Nanjing Huaxian High Technology Company Limited.	10,000,000.00	—	—	10,000,000.00	Nanjing	Technology development
Hua Fei Colour Display Systems Company Limited	—	321,310,048.42	—	321,310,048.42	Nanjing	Manufacture
Tamura Electronics (Nanjing) Co., Ltd.	—	—	—	—	Nanjing	Manufacture
Nanjing Panda Hitachi Techno Co., Ltd.	4,384,704.80	—	4,384,704.80	—	Nanjing	Manufacture
MPower Batteries (Nanjing) Ltd.	—	—	—	—	Nanjing	Manufacture
Nanjing Ericsson Panda Communication Company Limited	240,682,313.79	140,157,851.20	105,865,000.00	274,975,164.99	Nanjing	Manufacture
Shenzhen Jingwah Electronics Co., Ltd	84,530,546.58	11,109,232.87	8,752,802.40	86,886,977.05	Shenzhen	Manufacture
Intenna (Nanjing) Co. Ltd.	2,717,825.52	(528,475.39)	—	2,189,350.13	Nanjing	Manufacture
Nanjing Wei Chuang Li Terminal Co. Ltd.	—	—	—	—	Nanjing	Manufacture
Other Companies	11,014,848.03	—	11,014,848.03	—		
Total	538,332,743.28	621,279,533.10	194,417,355.23	965,194,921.15		

Name of investee	The Company's shareholding percentage	The Company's percentage in voting rights of the investee	Total net assets at the end of the period	Total operating income for the year	Net profit for the year
Associated companies					
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	20	20	1,349,166,902.81	32,642,387,925.80	747,908,745.94
Hua Fei Colour Display Systems Company Limited	25	25	1,350,355,193.67	2,689,271,540.27	(363,833,063.96)
Nanjing Ericsson Panda Communication Company Limited	27	27	1,018,426,537.00	15,733,453,075.00	519,096,327.00
Shenzhen Jingwah Electronics Co., Ltd	38.03	38.03	247,001,614.53	276,248,657.42	34,176,588.40
Intenna (Nanjing) Co. Ltd.	35	35	6,255,286.09	—	(1,509,929.68)

As to the details of new long-term equity investment to Hua Fei Colour Display Systems Company Limited for the year, please refer to Note XIV.1.



Notes To The Financial Statements

For the year of 2007
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IX. Notes to major items of the financial statements of parent company (Continued)

3. Long-term Equity Investment (Continued)

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

Name of investee	Initial investment	Opening balance	Investment amount increased during the year (less the equity transfer for the year)	Increase/decrease of the investee's equity	Cash bonus distributed	Closing balance
Beijing SE Putian Mobile Communications Co., Ltd. ("BMC")	50,361,373.68	185,002,504.56	—	149,230,876.00	64,400,000.00	269,833,380.56
Nanjing Huaxian High Technology Company Limited.	10,000,000.00	10,000,000.00	—	—	—	10,000,000.00
Hua Fei Colour Display Systems Company Limited	392,892,722.42	—	392,892,722.42	-71,582,674.00	—	321,310,048.42
Tamura Electronics (Nanjing) Co., Ltd.	3,310,800.00	—	—	—	—	—
Nanjing Panda Hitachi Techno Co., Ltd.	6,533,170.00	4,384,704.80	-4,384,704.80	—	—	—
MPower Batteries (Nanjing) Ltd.	4,200,000.00	—	—	—	—	—
Nanjing Ericsson Panda Communication Company Limited	60,863,279.60	240,682,313.79	—	140,157,851.20	105,865,000.00	274,975,164.99
Shenzhen Jingwah Electronics Co., Ltd	69,687,437.75	84,530,546.58	—	11,109,232.87	8,752,802.40	86,886,977.05
Intenna (Nanjing) Co. Ltd.	1,750,000.00	2,717,825.52	—	(528,475.39)	—	2,189,350.13
Nanjing Wei Chuang Li Terminal Co. Ltd.	34,769,364.00	—	—	—	—	—
Other Companies	18,188,567.85	11,014,848.03	(11,014,848.03)	—	—	—
Total	652,556,715.30	538,332,743.28	377,493,169.59	228,386,810.68	179,017,802.40	965,194,921.15



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

3. Long-term Equity Investment (Continued)

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

Long-term equity accounted for using equity method which was wrote off during the year

Name of investee	Initial investment	Opening balance	Write-off during the year	Increase/decrease of the investee's equity	Closing balance
Nanjing Lingyun Information Co., Ltd	150,000.00	64,912.45	64,912.45	—	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	510,000.00	510,000.00	510,000.00	—	—
Nanjing Panda Electronics Advertisement Company Limited	600,000.00	(127,564.75)	(127,564.75)	—	—
Nanjing Panda Chenguang Electronics Group Limited	7,600,764.60	1,279,542.01	1,279,542.01	—	—
Nanjing Panda Electronics Repairs Center	500,000.00	500,000.00	500,000.00	—	—
Nanjing Asia Pacific Satellite Communication Company	500,000.00	500,000.00	500,000.00	—	—
Nanjing Panda Computer Co., Ltd.	4,950,000.00	4,950,000.00	4,950,000.00	—	—
Nanjing Shuangqiang Computer Co., Ltd.	2,076,623.57	2,076,623.57	2,076,623.57	—	—
Shenzhen Panda Gold Card Industrial Co., Ltd.	1,080,000.00	1,040,155.07	1,040,155.07	—	—
Nanjing Panda Electronics Eastern Suburb Technology Operation Department	221,179.68	221,179.68	221,179.68	—	—
Total	18,188,567.85	11,014,848.03	11,014,848.03	—	—



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

3. Long-term Equity Investment (Continued)

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

Name of investee	Initial investment	Opening balance	Increase in the year	Decrease in the year	Closing balance
Subsidiaries					
Nanjing Electronic Calibration Co., Ltd.	700,000.00	700,000.00	—	—	700,000.00
Nanjing Panda Appliance & Apparatus Co. Ltd.	700,000.00	700,000.00	—	—	700,000.00
Nanjing Panda Mechanical Manufacturing Co. Ltd.	3,500,000.00	3,500,000.00	—	—	3,500,000.00
Nanjing Panda Accurate Machinery Co., Ltd.	3,625,300.00	3,625,300.00	—	—	3,625,300.00
Nanjing Panda Technology Equipment Co., Ltd.	3,500,000.00	3,500,000.00	—	—	3,500,000.00
Nanjing Panda Mechanical Co., Ltd.	2,100,000.00	2,100,000.00	—	—	2,100,000.00
Nanjing Panda Mechanical Engineering Plant	30,553,773.07	30,042,016.46	—	—	30,042,016.46
Nanjing Panda Information Industry Co., Ltd.	44,000,000.00	44,000,000.00	—	—	44,000,000.00
Nanjing Panda System Integration Co., Ltd.	1,520,834.09	1,520,834.09	—	—	1,520,834.09
Nanjing Panda Electronic Manufacturing Company Limited	37,241,175.00	37,241,175.00	—	—	37,241,175.00
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	24,622,830.35	24,622,830.35	10,000,000.00	—	34,622,830.35
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	8,271,095.45	8,271,095.45	—	—	8,271,095.45
Nanjing Panda International Telecommunication System Co., Ltd.	7,655,000.00	7,655,000.00	—	—	7,655,000.00
Shenzhen Panda Electronics Company Limited	6,175,000.00	6,175,000.00	—	—	6,175,000.00
Galant Limited	—	—	—	—	—
Sub-total	182,915,007.96	182,403,251.35	10,000,000.00	—	192,403,251.35
Other long term investment accounted for at cost method	—	—	—	—	—
Combined Lab Station of Communication & Broadcasting Bureau and Tsinghua University	200,000.00	200,000.00	—	200,000.00	—
Beijing Hunan Panda Experiment Co., Ltd. (Burma)	1,203,465.36	1,203,465.36	—	1,203,465.36	—
Feihong Electronics Co., Ltd.	1,200,000.00	1,200,000.00	—	1,200,000.00	—
Hunan Hengyang Pioneer Industry Co., Ltd.	500,000.00	500,000.00	—	500,000.00	—
Beijing DTVA Digital System Co., Ltd.	360,000.00	360,000.00	—	360,000.00	—
Private Business Technology Center	300,000.00	300,000.00	—	300,000.00	—
Sub-total	3,763,465.36	3,763,465.36	—	3,763,465.36	—
Total	186,678,473.32	186,166,716.71	10,000,000.00	3,763,465.36	192,403,251.35

The decrease in "Other long term investment accounted for at cost method" for the year refers to the written-off decrease.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

3. Long-term Equity Investment (Continued)

(5) Write-off of long-term equity investment during the year

As resolved at the extraordinary board meeting of the Company in December 2007, the Company wrote off the unrecoverable long-term equity investments which have incurred losses in substance. In particular, long-term equity investment accounted for using equity method amounted to RMB11,014,848.03, for which impairment provision of RMB11,014,848.03 had been made. Long-term equity investment accounted for at cost method amounted to RMB3,763,465.36, for which impairment provision of RMB3,763,465.36 had been made. For details of the written-off long-term equity investment, please refer to Note VIII. 7(3) and Note VIII. 7(4).

(6) Impairment provision of long-term equity investment

Name of investee	Opening balance	Provision in the year	Decrease in the year Reversal	Write-off	Total	Closing balance
Nanjing Panda Technology Equipment Co., Ltd.	3,500,000.00	—	—	—	—	3,500,000.00
Nanjing Panda International Telecommunication System Co., Ltd.	7,655,000.00	—	—	—	—	7,655,000.00
Shenzhen Panda Electronics Company Limited	—	6,175,000.00	—	—	—	6,175,000.00
Nanjing Lingyun Information Co., Ltd	64,912.45	—	—	64,912.45	64,912.45	—
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	510,000.00	—	—	510,000.00	510,000.00	—
Nanjing Panda Electronics Advertisement Company Limited	(127,564.75)	—	—	(127,564.75)	(127,564.75)	—
Nanjing Panda Chenguang Electronics Group Limited	1,279,542.01	—	—	1,279,542.01	1,279,542.01	—
Nanjing Panda Electronics Repairs Center	500,000.00	—	—	500,000.00	500,000.00	—
Nanjing Asia Pacific Satellite Communication Company	500,000.00	—	—	500,000.00	500,000.00	—
Nanjing Panda Computer Co., Ltd.	4,950,000.00	—	—	4,950,000.00	4,950,000.00	—
Nanjing Shuangqiang Computer Co., Ltd.	2,076,623.57	—	—	2,076,623.57	2,076,623.57	—
Shenzhen Panda Gold Card Industrial Co., Ltd.	1,040,155.07	—	—	1,040,155.07	1,040,155.07	—
Nanjing Panda Electronics Eastern Suburb Technology Operation Department	221,179.68	—	—	221,179.68	221,179.68	—
Other investment accounted for at cost method	3,763,465.36	—	—	3,763,465.36	3,763,465.36	—
Total	25,933,313.39	6,175,000.00	—	14,778,313.39	14,778,313.39	17,330,000.00



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

4. Operating Income and Operating Cost

(1) Income from principal business and other business

Items	2007	2006
Income from principal business	243,334,382.04	243,819,588.09
Income from other business	8,792,695.55	10,840,481.65
Total income from operation	252,127,077.59	254,660,069.74
Cost of principal business	193,268,467.49	190,101,256.71
Cost of other business	5,100,267.90	3,045,208.46
Total operating cost	198,368,735.39	193,146,465.17

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

Business segments	Income from principal business	2007 Cost of principal business	Profit of principal business
Electronic manufacturing products	—	—	—
Electronic Information Products	37,274,693.68	33,307,994.82	3,966,698.86
Electromechanical products	7,773,203.72	9,560,016.28	(1,786,812.56)
Satellite telecommunications products	197,370,000.00	150,399,144.96	46,970,855.04
Other	916,484.64	1,311.43	915,173.21
Total	243,334,382.04	193,268,467.49	50,065,914.55
Business segments	Income from principal business	2006 Cost of principal business	Profit of principal business
Electronic manufacturing products	—	—	—
Electronic Information Products	51,053,825.99	47,625,640.10	3,428,185.89
Electromechanical products	12,763,879.57	11,161,830.62	1,602,048.95
Satellite telecommunications products	179,562,460.53	131,313,785.99	48,248,674.54
Other	439,422.00	—	439,422.00
Total	243,819,588.09	190,101,256.71	53,718,331.38



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

5. Investment Income

Name of invested unit	2007	2006	Note
Nanjing Ericsson Panda Communication Company Limited	140,157,851.20	105,865,016.04	(1)
Beijing SE Putian Mobile Communication Co. Limited	149,184,281.42	115,603,715.85	(2)
Nanjing Panda Hitachi Technology Co. Ltd	1,937,765.20	(141,001.35)	(3)
Hua Fei Colour Display Systems Company Limited	(71,657,292.72)	—	(4)
Shenzhen Jinghua Electronic Company Limited	10,914,429.05	8,508,628.56	—
Intenna (Nanjing) Co. Ltd.	(528,475.39)	(1,055,307.97)	—
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	—	(1,965,545.45)	—
Nanjing Electronic Calibration Co., Ltd.	165,672.57	341,002.25	—
Nanjing Panda Appliance & Apparatus Co. Ltd.	1,214,183.80	1,225,968.15	—
Nanjing Panda Mechanical Manufacturing Co. Ltd	2,379,748.84	—	—
Nanjing Panda System Integration Co., Ltd.	519,591.00	397,760.16	—
Other companies	—	(959,128.87)	—
Total	234,287,754.97	227,821,107.37	

- (1) The financial statement of Nanjing Ericsson Panda Communication Co. Ltd in 2007, an associated company of the Company, was audited by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company and a standard unqualified audited report No. 20752 (2008) Pu Hua Yong Dao Zhong Tian Shen Zi was given.
- (2) The financial statement of Beijing SE Mobile Communication Co. Ltd. in 2007, an associated company of the Company, was audited by PricewaterhouseCoopers Zhong Tian Accountants Limited Company and a standard unqualified audited report No. 123 (2008) Pu Hua Yong Dao Zhong Tian Beijing Shen Zi was given.
- (3) The Company has transferred of equity interests of this company in 2007.
- (4) The 2007 financial statement of Hua Fei Colour Display Systems Company Limited, an associated company of the Company, was audited by Jiangsu Talent Certified Public Accountants and a standard unqualified audited report, Tian Heng Shen Zi No. 219 (2008), was issued.
- (5) There are no significant limitations on remittance of investments income of the Company.



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

6. Provision for impairment of assets condensed statement

Items	Opening amount	Provision for the year	Increase for the year		Total	Closing amount
			Reversal	Write-off		
I. Total provision for bad debts	176,450,187.07	36,415,300.93	8,064,558.20	159,011,923.59	167,076,481.79	45,789,006.21
Including: Accounts receivable	3,288,294.07	2,449,364.80	1,633,998.53	375,308.07	2,009,306.60	3,728,352.27
Other accounts receivable	173,161,893.00	33,919,686.13	6,430,559.67	158,636,615.52	165,067,175.19	42,014,403.94
Prepayments	—	46,250.00	—	—	—	46,250.00
II. Total provision for impairment of inventories	—	7,659,743.75	—	7,418,611.13	7,418,611.13	241,132.62
Including: Raw materials	—	7,418,611.13	—	7,418,611.13	7,418,611.13	—
Stored commodities	—	85,874.94	—	—	—	85,874.94
Delivery of goods	—	155,257.68	—	—	—	155,257.68
III. Total provision for impairment of long term equity investment	25,933,313.39	6,175,000.00	—	14,778,313.39	14,778,313.39	17,330,000.00
IV. Total provision for impairment of fixed assets	7,854,185.11	—	—	3,857,425.16	3,857,425.16	3,996,759.95
Including: Housing, building and machinery	—	—	—	—	—	—
Electronic equipment	6,890,570.97	—	—	3,169,359.40	3,169,359.40	3,721,211.57
Electronic equipment	963,614.14	—	—	688,065.76	688,065.76	275,548.38
V. Provision for construction supplies impairment	—	—	—	—	—	—
VI. Provision for construction in progress impairment	26,213,948.90	—	—	26,213,948.90	26,213,948.90	—
Total	236,451,634.47	50,250,044.68	8,064,558.20	211,280,222.17	219,344,780.37	67,356,898.78



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

7. Cash flow Supplementary Information

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

Items	2007	2006
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	50,494,443.33	70,645,427.47
Add: Provision for asset impairment	42,185,486.48	32,630,486.96
Depreciation of fixed assets	12,497,176.92	10,496,434.79
Amortisation of intangible assets	489,798.68	3,997,517.68
Amortisation of long term deferred expenses	—	—
Loss arising from disposal of fixed assets, intangible assets and other long term assets (gains are represented by "-")	16,825,797.19	1,817,119.29
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 "-")	52,326,448.90	52,474,538.23
Loss on investment (gains are represented by "-")	(234,287,754.97)	(227,821,107.37)
Decrease in deferred income tax assets (Increase is represented by "-")	—	—
Increase in deferred income tax assets (Decrease is represented by "-")	—	—
Decrease in inventories (Increase is represented by "-")	(21,783,294.24)	(74,045,683.19)
Decrease in trade debtors (Increase is represented by "-")	68,999,003.71	323,998,029.60
Increase in trade creditors (Decrease is represented by "-")	(135,626,116.03)	8,000,617.09
Others	—	—
Net cash flows from operating activities	(147,879,010.03)	202,193,380.55
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	246,370,810.95	518,982,179.29
Less: cash balance as at beginning of the year	518,982,179.29	223,011,459.58
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	(272,611,368.34)	295,970,719.71



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

IX. Notes to major items of the financial statements of parent company (Continued)

7. Cash flow Supplementary Information (Continued)

(2) Information on Cash and Cash Equivalents

Items	2007	2006
I. Cash		
Including: Cash on hand	101,547.59	113,352.70
Bank deposit available for payments at any time	246,269,263.36	181,403,154.69
Other cash and bank balances available for payments at any time	—	337,465,671.90
II. Cash equivalents		
Including: Bond investment due within three months	—	—
III. Closing balance of cash and cash equivalents		
Including: restricted cash and cash equivalents used by the Parent Company or subsidiaries of the Group	80,200,000.00	21,053,634.00

X. Relationship and transactions with related parties

(1) Related parties

1. Recognition standards for a related party

Recognition standards for a related party: In case a party controls, commonly controls or exerts significant influence over another party, or in case two or more parties are under exclusive control, common control or significant influence of the same party, they shall constitute related parties. Recognition standards for a related party in 2006: During the financial and business decision-makings, in case that a party is able to directly or indirectly control, commonly control over another party or exerts significant influence over another party or in case two or more parties are under exclusive control, the Company deem it as a related party.

2. Parent Company of the Company

Name of the parent company	Code of Organization	Registered address	Nature of business	Registered capital	Shareholding percentage in the Company	Voting right percentage in the Company
Panda Electronic Group Ltd.	134883152	Nanjing economy and technology development zone	a company with limited liabilities	RMB126,606	51.10%	51.10%

As at the approved issue date of these financial statements, ultimate controller of the Company is China Huarong Assets Management Company.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(1) Related parties (Continued)

3. Subsidiaries of the Company

Name of subsidiaries	Code of Organization	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	Nanjing	Manufacturing industry	RMB5,000,000	70%	70%
Nanjing Panda Technology Equipment Co., Ltd.	24981058-6	Nanjing	Manufacturing industry	RMB5,000,000	70%	70%
Nanjing Electronic Calibration Co., Ltd.	13487289-1	Nanjing	Manufacturing industry	RMB1,000,000	70%	70%
Nanjing Panda Power Supply Technology Co., Ltd.	76816539-8	Nanjing	Manufacturing industry	RMB11,000,000	79.55%	79.55%
Nanjing Panda Information Industry Co., Ltd.	60897073-4	Nanjing	Manufacturing industry	USD7,400,000	72%	72%
Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	73316319-X	Nanjing	Manufacturing industry	RMB40,000,000	100%	100%
Nanjing Panda Appliance & Apparatus Co., Ltd.	72457423-7	Nanjing	Manufacturing industry, software industry	RMB1,000,000	70%	70%
Nanjing Panda International Telecommunication System Co., Ltd.	60892596-8	Nanjing	Manufacturing industry	USD1,240,000	72%	72%
Nanjing Panda Electronic Manufacturing Company Limited	76214760-7	Nanjing	Manufacturing industry	USD10,000,000	75%	75%
Nanjing Guanghua Electronics Plastic Casings Factory	13491197-7	Nanjing	Service industry	RMB11,497,600	71.94%	100%
Nanjing Panda Machinery Co., Ltd.	73317462-2	Nanjing	Manufacturing industry	RMB3,000,000	70%	70%
Panda Mechanical Manufacturing Co. Ltd.	71609764-9	Nanjing	Manufacturing industry	RMB5,000,000	70%	70%
Nanjing Panda Mechanical Engineering Plant	13506466-9	Nanjing	Service industry	RMB45,000,000	99.11%	100%
Nanjing Panda System Integration Co., Ltd.	74237045-7	Nanjing	Engineering software industry	RMB3,000,000	52.7%	52.7%
Shenzhen Panda Electronics Company Limited		Shenzhen	Manufacturing industry	RMB6,500,000	95%	95%
GALANT LIMITED	1006135	Hong Kong	Development of communication products	HKD10,000	100%	100%



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(1) Related parties (Continued)

4. Related parties with non-controlling relationship

Name of related parties	Code of Organization	Relationship with the Company
Nanjing Panda Television Co. Ltd.	716223402	Subsidiary of the Group
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	738884666	Subsidiary of the Group
Nanjing Panda Technology Industrial Co., Ltd.	762131314	Subsidiary of the Group
Nanjing 21st Century Electronic and Technology Square Company Limited (南京二十一世紀電子科技廣場有限公司)	71627148X	Subsidiary of the Group
Nanjing Panda Garden Property Management Centre (南京熊猫花園物業管理中心)	134961667	Subsidiary of the Group
Nanjing Panda Electronics Technology Development Company Limited (南京熊猫電子技術開發公司)	134870044	Subsidiary of the Group
Nanjing Panda Electronics Transportation Company	134888519	Subsidiary of the Group
Nanjing Panda Construction And Decoration Engineering Co., Ltd.(南京熊猫建築裝飾工程公司)	134941148	Subsidiary of the Group
Nanjing Panda Piezoelectric Technique Co., Ltd.	742394272	Subsidiary of the Group
Nanjing Zhen Hua Sound Equipment plant	13487319X	Subsidiary of the Group
Nanjing Lianhui Communication Technology Company Limited	777014380	Subsidiary of the Group
Nanjing Panda Electronic Import/Export Company	134850684	Subsidiary of the Group
Nanjing Panda Handa Technology Co., Ltd	79710227-3	Subsidiary of the Group
Nanjing Thales Panda Transportation System Company Limited	76819214-2	Associated enterprise of subsidiary

(II) Pricing policy

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



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties

1. Purchase of goods

Name of related parties	2007	2006
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	345,133.24	4,567,512.26
Panda Electronics Group Co. Ltd.	918,424.35	4,642,887.50
Nanjing Zhen Hua Sound Equipment Plant	2,807,534.42	2,225,729.25
Nanjing Panda Electronics Import/Export Co. Ltd.	1,448,638.61	6,536,530.78
Nanjing Panda Television Co. Ltd.	2,038,370.79	4,022,098.44
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	285,404.50	739,759.07
Nanjing Thales Panda Transportation System Company Limited	410,552.02	—
Panda Electronic (Kunshan) Company Ltd.	2,429,374.57	—
Total	10,683,432.50	22,734,517.30

2. Receipt of services

Name of related parties	2007	2006
Panda Electronic Group Ltd.	5,174,071.66	2,626,534.44
Nanjing Panda Technology Industrial Co., Ltd.	9,610,894.45	5,859,859.02
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	454,879.56	—
Nanjing Thales Panda Transportation System Company Limited	2,349,754.00	—
Total	17,589,599.67	8,486,393.46

3. Sales of products

Name of related parties	2007	2006
Nanjing Panda Television Co. Ltd.	11,039,458.75	16,214,410.28
Panda Electronic Group Ltd.	39,880.36	13,218,415.87
Nanjing Ericsson Panda Communication Co., Ltd	10,446,263.94	13,153,257.89
Nanjing Panda Electronics Import/Export Co. Ltd.	7,740,045.89	2,832,360.01
Panda Electronics (Kunshan) Co., Ltd.	—	251,412.72
Nanjing Thales Panda Transportation System Company Limited	16,931,739.25	3,904,464.21
Nanjing Panda Electronmechanical Instruments Technology Co., Ltd.	2,895,708.36	4,723,428.76
Nanjing Panda Handa Technology Co., Ltd	13,714,808.09	—
Panda (Beijing) International Information Technology Co., Ltd (熊猫(北京)國際信息技術有限公司)	2,355,351.32	—
Total	65,163,255.96	54,297,749.74



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

4. Provision of services

Name of related parties	2007	2006
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	—	352,331.50
Nanjing Panda Handa Technology Co., Ltd.	525,619.60	—
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	164,278.99	—
Panda Electronic (Hong Kong) Company Ltd.	1,934,394.46	—
Total	2,624,293.05	352,331.50

5. Provision of guarantee

(1) The Company provided a maximum amount guarantee for bank loan of RMB5,000,000 with term of 6 months granted to Nanjing Panda Electronic Manufacturing Company Limited, a subsidiary of the Company, from Nanjing Centre Subbranch of Nanjing Branch of Shenzhen Development Bank Co., Ltd. As at 31 December 2007, the loan amounted to RMB5,000,000.00 with a term from 27 October 2007 to 24 April 2008.

(2) The Company provided a maximum amount guarantee for borrowings of RMB20,000,000 granted to Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., a subsidiary of the Company, from Nanjing Branch of Citic Bank. As at 31 December 2007, details of borrowing of Nanjing Huage Electronics&Automobile Plastic Industry Co., Ltd. are as follows:

Name of companies	Name of bank	Amount of borrowing	Period
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	Nanjing Branch of Citic Bank	7,000,000.00	2007.1.9-2008.1.9
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	Nanjing Branch of Citic Bank	5,000,000.00	2007.11.13-2008.11.13
Nanjing Huage Appliance and Plastic Industrial Co., Ltd	Nanjing Branch of Citic Bank	5,000,000.00	2007.12.7-2008.12.7
Total		17,000,000.00	

(3) The Company provided an irrevocable letter of guarantee with maximum amount for Panda Mechanical Manufacturing Co. Ltd., a subsidiary of the Company, for its borrowings of RMB5,000,000 from Nanjing Branch of China Merchants Bank, As at 31 December 2007, the amount of borrowing amounted to RMB5,000,000.00 with a loan term from 24 August 2007 to 24 February 2008.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

5. Provision of guarantee (Continued)

- (4) the Company provided an irrevocable letter of guarantee with maximum amount for borrowings of RMB25,000,000 from Nanjing Branch of China Merchants Bank granted to Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company, and provided guarantee for the loan granted to Nanjing Panda Information Industry Co. Ltd. during the credit period, from 27 November 2007 to 12 November 2008. As at 31 December 2007, the amount of borrowing amounted to US\$1,000,000.00 with a loan term from 3 December 2007 to 3 December 2008. As at 31 December 2007, the Company provided a guarantee for bank acceptance bills with an amount of RMB12,014,965.89 and for letter of credit with an amount of RMB3,482,555.05 for Nanjing Panda Information Industry Co. Ltd., a subsidiary of the Company.
- (5) The Company provided finance leasing guarantees for Nanjing Panda Electronic Manufacturing Company Limited and Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd., subsidiaries of the Company, details of which are as follows:

No. of Leasing Contract	Lessor	Lessee	Warrantor	Leasing Period	Amount of contract	Unpaid amount as at 31 December 2007
00070	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.9-2009.8	12,613,120.00	5,760,000.00
0070-1	Siemens Finance and Leasing Ltd	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.9-2009.9	11,816,400.00	5,029,500.00
Su Zu [2006] Zu Lin Zhi No.73	Jiangsu Financial Leasing Co., Ltd.	Nanjing Panda Electronic Manufacturing Company Limited	The Company	2006.10-2008.7	7,980,784.00	2,446,294.00
00105	Siemens Finance and Leasing Ltd	Nanjing Huage Electronics & Automobile Plastic Industry Co., Ltd.	The Company	2006.12-2009.11	13,163,800.00	6,183,076.00
Total					45,574,104.00	19,418,870.00



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

6. Acceptance of guarantee

- (1) Panda Electronic Group Limited, the controlling shareholder of the Company entered into a maximum amount irrevocable letter of guarantee with Chengdong Sub-branch of Nanjing Branch of China Merchants Bank in August 2007, providing guarantee for credit facilities of RMB120,000,000 granted to the Company from Chengdong Branch of Nanjing Branch of China Merchants Bank during the credit period, from 9 August 2007 to 16 November 2007. As at 31 December 2007, details of unpaid borrowings under the guarantee contract are as follows:

Name of borrowers	Name of bank	Amount of Borrowing	Period
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	10,000,000.00	2007.8.13-2008.2.13
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	10,000,000.00	2007.8.13-2008.2.13
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	30,000,000.00	2007.9.17-2008.3.17
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	40,000,000.00	2007.11.2-2008.5.2
Nanjing Panda Electronics Company Limited	Chengdong Sub-branch of Nanjing Branch of China Merchants Bank	20,000,000.00	2007.12.10-2008.12.10
Total		110,000,000.00	

- (2) Panda Electronic Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Chengdong Subbranch of Bank of Nanjing Co., Ltd., providing guarantee for borrowings of the Company from Chengdong Subbranch of Bank of Nanjing Co., Ltd.. As at 31 December 2007, the details of guarantee are as follows:

Name of borrowers	Name of bank	Amount of Borrowing	Period
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	28,000,000.00	2007.8.23-2008.7.23
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	20,000,000.00	2007.11.14-2008.11.14
Nanjing Panda Electronics Company Limited	Chengdong Subbranch of Bank of Nanjing Co., Ltd.	30,000,000.00	2007.8.22-2008.8.22
Total		78,000,000.00	



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

6. Acceptance of guarantee (Continued)

- (3) Panda Electronic Group Limited, the controlling shareholder of the Company entered into a guarantee contract with Nanjing Chengdong Subbranch of Guangdong Development Bank Co.,Ltd. in July 2007, providing guarantee for borrowings of RMB40,000,000.00 granted to the Company from Nanjing Chengdong Subbranch of Guangdong Development Bank Co.,Ltd. with the loan term from 21 August 2007 to 20 August 2008.
- (4) Panda Electronic Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Citic Bank in December 2007, providing guarantee for borrowing amount granted by Nanjing Branch of Citic Bank to the Company during 4 December 2007 to 5 December 2008 with guarantee amount of RMB80,000,000.00. As at 31 December 2007, the details of borrowings are as follows:

Name of borrowers	Name of bank	Amount of Borrowing	Period
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	50,000,000.00	2007.12.5-2008.12.5
Nanjing Panda Electronics Company Limited	Nanjing Branch of Citic Bank	30,000,000.00	2007.12.4-2008.12.4
Total		80,000,000.00	

- (5) Panda Electronic Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of Hua Xia Bank in March 2007, 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 2007 to 8 March 2008.
- (6) Panda Electronic Group Limited, the controlling shareholder of the Company entered into a maximum amount guarantee contract with Nanjing Branch of China Merchants Bank in August 2007, providing guarantee for borrowings of RMB10,000,000.00 granted to the Company from Nanjing Branch of China Merchants Bank with the loan term from August 2007 to February 2008.

7. Asset leased

Name of related parties	2007 Amount	2006 Amount
Nanjing Panda Technology Industrial Co., Ltd.	3,639,371.00	—
Total	3,639,371.00	—



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

8. Lease of assets

Name of related parties	2007 Amount	2006 Amount
Panda Electronic Group Ltd.	290,790.66	98,837.52
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	—	138,996.00
Nanjing Panda Television Co. Ltd.	719,598.00	—
Total	1,010,388.66	237,833.52

9. Remuneration of key management

During the reporting period, total annual remuneration for directors, supervisors and senior management received from the Company was RMB2,912,800, details of which are as follows:

Position	Total annual remuneration	Number of person
Director	Below RMB100,000	1
	From RMB200,000 to RMB300,000	4
	Above RMB300,000	2
Sub-total	RMB1,632,800	7
Supervisor	From RMB100,000 to RMB200,000	2
	From RMB200,000 to RMB300,000	1
Sub-total	RMB480,000	3
Senior management	From RMB200,000 to RMB300,000	4
Sub-total	RMB800,000	4
Sub-total	RMB2,912,800	14



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

10. Balance of due from and due to related parties

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Accounts receivable				
Nanjing Panda Television Co. Ltd.	15,458,159.76	13,242,236.04		
Nanjing Ericsson Panda Communications Co. Ltd.	2,735,641.79	1,775,611.20		
Nanjing Panda Electronics Import/Export Co. Ltd.	693,485.12	488,509.04		
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	526,032.62	526,032.61		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	586,243.75	408,595.20		
Panda Electronic (Kun Shan) Co. Ltd.	797,275.14	799,875.14		
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	218,214.00	218,214.00		
Nanjing Panda Handa Technology Co., Ltd.	46,625,678.56	31,950,091.99		
Nanjing Thales Panda Transportation System Company Limited	768,658.14	—		
Total	68,409,388.88	49,409,165.22		
Accounts receivable-provision for bad debt				
Nanjing Panda Television Co. Ltd.	3,073,326.29	3,143,481.65		
Nanjing Ericsson Panda Communication Co., Ltd.	169,525.71	157,722.30		
Nanjing Panda Electronics Import/Export Co. Ltd.	34,909.16	63,951.92		
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	526,032.62	526,032.62		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	26,687.19	12,258.22		
Panda Electronic (Kun Shan) Co. Ltd.	797,275.14	310,697.94		
Nanjing Panda Tamura Communications Power Supply Co., Ltd.	93,647.20	17,168.40		
Nanjing Panda Handa Technology Co., Ltd.	2,331,918.78	958,502.76		
Nanjing Thales Panda Transportation System Company Limited	38,432.91	—		
Total	7,091,755.00	5,189,815.81		



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Other receivables				
Nanjing Panda Television Co. Ltd.	—	1,037,840.00		
Nanjing Panda Chen Guang Electronics Co. Ltd.	—	12,986,830.72		
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	—	23,286,318.23		
Intenna (Nanjing) Co. Ltd.	—	1,000,000.00		
Nanjing Electronics (Kunshan) Co. Ltd.	1,768,220.94	2,052,220.94		
Nanjing Lianhua Nap New Coating & Decorating Co. Ltd.	1,950,000.00	2,391,398.42		
Total	3,718,220.94	42,754,608.31		
Other receivables-provision for bad debt				
Nanjing Panda Television Co. Ltd.	—	1,037,840.00		
Nanjing Panda Chen Guang Electronics Co. Ltd.	—	12,986,830.72		
Nanjing Panda Ju Neng Small Home Electronic Appliance Co., Ltd.	—	23,286,318.23		
Intenna (Nanjing) Co. Ltd.	—	1,000,000.00		
Panda Electronic (Kun Shan) Co. Ltd.	1,705,520.94	1,339,326.52		
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	1,950,000.00	2,391,398.42		
Total	3,655,520.94	42,041,713.89		



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

10. Balance of due from and due to related parties (Continued)

Item	Closing amount	Opening amount	Terms and conditions	Whether receive or provide guarantee
Payables				
Nanjing Panda Television Co. Ltd.	4,188,527.58	438,498.27		
Nanjing Panda Electronics Import/Export Co. Ltd.	2,411,668.64	1,848,022.16		
Nanjing Panda Electromechanical Instruments Technology Co. Ltd.	285,447.24	468,202.31		
Nanjing Lianhua Nap New Coating & Decorating Co., Ltd.	158,543.32	268,289.64		
Nanjing Zhen Hua Sound Equipment Plant	1,502,966.68	769,351.97		
Nanjing Thales Panda Transportation System Company Limited	16,410.02	216,410.00		
Nanjing Wei Chuang Li Terminal Co. Ltd.	2,548,591.15	—		
Nanjing Panda Technology Industrial Co., Ltd.	1,503,978.55	—		
Nanjing Le Jin Panda Electrical Appliance Co., Ltd.	992,191.43	—		
Total	13,608,324.61	4,008,774.35		
Prepayments				
Panda Electronic (Hong Kong) Co. Ltd.	933,130.00	380,155.64		
Nanjing Thales Panda Transportation System Company Limited	8,144,710.89	945,418.13		
Nanjing Panda Handa Technology Co., Ltd.	3,035,961.41	—		
Total	12,113,802.30	1,325,573.77		
Other payables				
Panda Electronics Group Co. Ltd.	5,657,115.50	77,149,426.62		
Nanjing Panda Television Co. Ltd.	1,137,335.14	1,359,000.00		
Nanjing Panda Electronmechanical Instruments Technology Co., Ltd.	—	140,000.00		
Panda Electronics (Kunshan) Co., Ltd.	—	300,000.00		
Intenna (Nanjing) Co. Ltd.	2,933,808.67	—		
Nanjing Panda Technology Industrial Co., Ltd.	771,524.27	—		
Total	10,499,783.58	78,948,426.62		



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

X. Relationship and transactions with related parties (Continued)

(III) Transactions with related parties (Continued)

11. Trademark licensing

Name of related parties	2007 Amount	2006 Amount
Nanjing Panda Television Co., Ltd.	132,944.00	482,786.00
Total	132,944.00	482,786.00

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 colour television or CD player sold. Given to the higher cost or more resources is required for entering overseas market, the above license fee for each unit will be reduced 50% if the products manufactured and sold are for export use.

XI. Contingencies

- Please refer to note X. (III) 5 for the guarantees provided by the Company for bank borrowings of its subsidiaries.
- As at 31 December 2007, the Company did not have material contingent issues required to be disclosed other than the aforesaid.

XII. Commitments

1. Expenses for contracted material external investment

As of 31 December 2007, the expenses for contracted material external investment with payment not made are as follows:

Items of investment	Investment amount of contract	Paid investment amount	Unpaid investment amount
Nanjing Panda Electronic Manufacturing Co. Ltd.	\$7,500,000.00	\$4,500,000.00	\$3,000,000.00

- As approved by the provisional board meeting of the Company, the Company is decided to invest and establish a wholly-owned subsidiary known as "GALANT LIMITED" in Hong Kong with its total investment of US\$9.5 million. Its scope of operation is the research and development of joint venture projects including communication products and investment in electronics information and electronmechanical industry.
- Save as the above commitments, as of 31 December 2007, the Company did not have any other material commitments discloseable.



Notes To The Financial Statements

For the year of 2007

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XIII. Post Balance Sheet Events

1. Pursuant to the Annual Profit Distribution Proposal for 2007 passed at the fourth meeting of the sixth Board, based on the total share capital of 655,015,000 shares at the end of the reporting period, the Company will be distribute a cash dividend of RMB0.8 (tax inclusive) for every 10 shares to shareholders, totalling RMB52,401,200.00. The implementation of the Profit Distribution Proposal is subject to the approval by the general meeting of the Company.
2. Starting from 1 January 2008, the following laws and regulations will be put into effect: Enterprise Income Tax Law of the People's Republic of China approved by 5th Session of the 10th National People's Congress of PRC, and Regulations for the Implementation of the Enterprise Income Tax Law of the People's Republic of China as well as Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax Guo Fa [2007] No.39. Therefore, the subsidiaries under the Company which enjoy the enterprise income tax rate of 15% shall be subject to the enterprise income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The enterprises that applied the tax rate of 24% and 33% before shall be subject to the tax rate of 25% as of 2008.
3. Save as above, there were no discloseable material post balance sheet events in the Company as at the date when the financial report was approved for issue.

XIV. Other Significant Events

1. Debt restructuring

On 9 March 2005, the Company entered into a debt assignment agreement with Panda Mobile and Jiangsu Provincial Investment Management Co. Ltd., whereby the agreement agreed the assignment of debt owed by Panda Mobile to the Company in the amount of RMB500 million to Jiangsu Provincial Investment Management Co. Ltd. which will answer for the repayment. This agreement took effect from 9 March 2005. On 8 May 2006, the Company entered into The Assignment of Debt Agreement with Jiangsu Province Investment Management Company Limited ("Jiangsu Investment Management") and Jiangsu International Trust & Investment Corporation Limited ("Jiangsu International Trust"), pursuant to which Jiangsu International Trust will assume the debt of RMB 500 million owed to the Company transferred by Jiangsu Investment Management. The Company also entered into an Equity Transfer Agreement with Jiangsu International Trust on 8 May 2006, pursuant to which Jiangsu International Trust is required to transfer 25% equity interest in Hua Fei Colour Display Systems Company, Limited to the Company in satisfaction of the Debt. The above agreements were considered and approved at the 2006 extraordinary board meeting. In the "Approval of the equity transfer of Hua Fei Colour Display Systems Company, Limited" (Su Guo Xing Fa [2006] No. 148) issued by the Jiangsu Provincial Guo Xing Group (江蘇省國信集團), the valuation report was approved and agreed to file to Jiangsu Provincial Guo Xing Group and to transfer and trade at the Jiangsu Property Stock Exchange. On 30 January 2007, the "Confirmation of the transfer of 25% equity interest in Hua Fei Colour Display Systems Company, Limited" (Su Cai Jiao [2007] No.004) confirmed the related equity transfer. The Ministry of Commerce issued the Reply to Transfer of Equity Interest of Hua Fei Colour Display Systems Company Limited on 28 April 2007 (Shang Zi Pi [2007] No. 822) to approve transfer of equity from Guo Xin Group to the Company, the transfer procedures of administration of industry have been completed by Hua Fei Colour Display Systems Company Limited on 20 May 2007, representing completion of formalities for the said transfer of equity interest.



Notes To The Financial Statements

For the year of 2007
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XIV. Other Significant Events (Continued)

1. Debt restructuring (Continued)

As at 31 May 2007, the Company recognized RMB392,892,722.4, the fair value of net assets of Hua Fei Colour Display Systems Company Limited attributable to the Company as cost of long-term equity investment. The original carrying value of such debt was RMB500,000,000.00; As at 31 May 2007, provision for bad debts amounted to RMB88,200,000.00 with carrying value of RMB411,800,000.00. The difference between cost of long-term equity investment recognized and carrying value of the debt, RMB18,907,277.58, was recognized as loss from debt restructuring and was recorded into non-operating expenses.

2. On 9 April 2007, the Company received the notice issued by Nanjing State-owned Assets Supervision and Administration Commission of the PRC ("Nanjing SASAC") that Nanjing SASAC signed an agreement with China Electronics Corporation ("CEC") and Jiangsu Provincial State-owned Information Asset Management Group Company Limited (江蘇省國信資產管理集團有限公司) ("Provincial State-owned Information") to jointly establish Nanjing Electronics Information Industrial Corporation (南京中電熊貓信息產業有限公司) ("NEIDC") with their respective equity interests in Panda Electronics Group Limited. The registered capital of NEIDC is RMB1 billion, of which CEC accounts for 70%, Provincial State-owned Information accounts for 15% and Nanjing SASAC accounts for 15%. The effective of the agreement is subject to the reporting to and approval of Jiangsu Provincial People's Government and Nanjing Municipal People's Government. If it is approved and become effective, NEIDC will hold 47.98% equity interests in Panda Electronics Group Limited and become the largest shareholder of Panda Electronics Group Limited and the ultimate controlling shareholder of the Company.
3. As at 31 December 2007, in the State-owned legal person share of the Company held by Panda Electronic Group Ltd., the controlling shareholder of the Company, 192,815,000 shares were frozen due to the disputes of contract, which account for 29.44% of the total shares in the Company, and account for 57.61% of the total shares it holds in the Company; 167,350,000 shares were pledged to the bank, which account for 25.55% of the total shares in the Company, and account for 50% of the total shares it holds in the Company.



Notes To The Financial Statements

For the year of 2007

(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

XIV. Other Significant Events (Continued)

4. Lease

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

Items	Closing amount	Opening amount
Fixed assets, at cost		
Machinery and equipment	<u>56,957,484.77</u>	<u>52,571,233.30</u>
Total	<u>56,957,484.77</u>	<u>52,571,233.30</u>
Accumulated depreciation		
Machinery and equipment	<u>6,809,280.12</u>	<u>1,594,147.28</u>
Total	<u>6,809,280.12</u>	<u>1,594,147.28</u>
Accumulated amount of provision for impairment		
Machinery and equipment	<u>—</u>	<u>—</u>
Total	<u>—</u>	<u>—</u>
Carring value		
Machinery and equipment	<u>50,148,204.65</u>	<u>50,977,086.02</u>
Total	<u>50,148,204.65</u>	<u>50,977,086.02</u>



Notes To The Financial Statements

For the year of 2007
(Amounts expressed in Renminbi ("RMB") unless otherwise specified)

XIV. Other Significant Events (Continued)

4. Lease (Continued)

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

1. Minimum lease payments in the following years

Remaining lease term	Minimum lease payments
Within 1 year (including 1 year)	11,170,127.33
1-2 years (including 2 year)	8,044,334.67
2-3 years (including 3 year)	204,408.00
Above 3 years	—
Total	19,418,870.00

2. As at 31 December 2007, the balance of unrecognized financing expenses amounted to RMB1,497,772.74, which was amortised by the effective interest method.

(2) Details of operating lease of the Company during the reporting period are as follows:

Categories of assets leased out	Closing balance	Opening balance
Buildings, Machinery and equipment	138,331,489.09	144,458,448.45
Total	138,331,489.09	144,458,448.45



Supplementary Information

I. Related financial indicators

Profit during reporting period	Reporting period	Return on net assets		Earnings per share (RMB/share)	
		Fully diluted	Weighted average	Basic earning per share	Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	2007	6.20%	6.40%	0.14	0.14
	2006	6.42%	6.64%	0.13	0.13
Net profit attributable to holders of ordinary shares after extraordinary items	2007	6.38%	6.58%	0.14	0.14
	2006	6.46%	6.68%	0.13	0.13

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

(1) Fully diluted return on net assets

Fully diluted return on net assets = $P \div E$

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

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

(2) Weighted average return on net assets

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

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; "E_i" represents net assets attributable to holders of ordinary shares of the Company, arising from the new issue of shares or debt for equity swap during the reporting period; "E_i" represents net assets attributable to holders of ordinary shares of the Company, reduced from repurchase or cash dividend during the reporting period; "M₀" represents the months in reporting period and; "M_i" represents the months from the next month of the increase of assets to the end of the reporting period; "M_j" represents the months from the next month of the decrease of assets to the end of the reporting period; "E_k" represents the increase or decrease of net assets arising from other transactions or matters; "M_k" represents the months from the next month of the increase or decrease of other assets to the end of the reporting period;.



Supplementary Information

I. Related financial indicators (Continued)

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

(3) Basic earning per share

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

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

II. Statement of extraordinary items

Unit: RMB

Item	2007	2006
Profit and loss of disposal of non-current assets	1,985,501.10	(1,562,435.04)
Tax rebate or tax reduction through approval beyond authorities or without official approval document	—	—
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)	8,237,724.07	1,085,620.00
Capital occupation fee received from non- financial enterprises and recorded into the current gains and losses, (excluding capital occupation fee received from non- financial enterprises by financial institute with operation qualification approved and established by the relevant authorities of the State)	—	12,864.58
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	—	—
Profit and loss from exchange of non-monetary assets	—	—
Profit and loss from entrusted investment	—	—
Provision for assets impairment due to force majeure including natural disasters	—	—
Profit and loss from debt restructuring	(18,905,464.58)	—
Expenses of enterprise restructuring	—	—
Loss and profit exceeding fair value of transaction with unfair consideration	—	—
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.	—	—
Loss and profit from accrued liabilities having no relation with principal business of the Company	—	—
Other net non-operating income/expenses other than the above items	(1,811,331.82)	599,910.64
Other non-recurring profit and loss items recognized by CSRC	9,122,555.11	—
Sub-total	(1,371,016.12)	135,960.18
Item	2007	2006
Less: the impact from income tax	893,145.50	604,152.10
Net non-recurring profit and loss	(2,264,161.62)	(468,191.92)
Net non-recurring profit and loss attributable to minority shareholders	327,715.24	33,074.24
Net non-recurring profit and loss attributable to ordinary shareholders of the Company	(2,591,876.86)	(501,266.16)
Net profit attributable to holders of ordinary shares of the Company after deducting extraordinary items	91,684,586.74	87,110,585.83
Impact of net non-recurring profit and loss on net profit	(2.35%)	(0.50%)

Note: "+" represents profit and income, "-" represents loss or expense.

Other non-recurring profit and loss items recognized by CSRC in 2007 is the amount of welfare expenses payable used for offsetting administrative.



Supplementary Information

III. Comparison to financial accounting information under new and old accounting standard

Net profit reconciliation statement under new and old accounting standard

Unit: RMB

Item	Consolidated	Parent company
Net profit for 2006 (under the old accounting standard)	89,147,453.69	89,174,168.63
Total affected amount by retroactive adjustments	(2,538,134.02)	(18,528,741.16)
Including: operating cost	—	—
Gain from change in fair value	—	—
Investment income by retroactive adjustments	(3,662,753.53)	(18,528,741.16)
Deferred income tax	1,124,619.51	—
Minority interests	7,469,773.72	—
Net profit for 2006 (under new accounting standard)	86,609,319.67	70,645,427.47
Pro forma information on assumption of full implementation of new accounting standards Total affected amount by other items	1,637,427.37	2,055,084.26
Including: Development expenses	—	—
Profit from debt restructuring	—	—
Income tax expenses	—	—
Welfare expense impact	1,637,427.37	2,055,084.26
Simulated net profits for 2006	88,246,747.04	72,700,511.73

“+” represents increase in net profit, “-” represents decrease in net profit.

