



1. During the Reporting Period, the Company did not have material litigation and arbitration.
2. During the Reporting Period, the Company did not have material asset acquisition and disposal and merger.
3. Connected Transactions:

(1) Transfer of debt of RMB500 million

On 9 March 2005, the Company entered into an agreement for the transfer of debt ("Transfer of Debt Agreement") with Nanjing Panda Mobile Communication Equipment Company Limited ("Panda Mobile") and Jiangsu Province Investment Management Company Limited ("Jiangsu Investment Management"), pursuant to which the Company agreed to transfer the debt of RMB500 million owed by Panda Mobile as at 3 March 2005 to Jiangsu Investment Management and Jiangsu Investment Management agreed to repay the debt of RMB500 million to the Company. To handle the repayment of debt of RMB500 million, on 8 May 2006 the Company entered into an agreement for the transfer of debt ("Further Transfer of Debt Agreement") with Jiangsu Investment Management and the Jiangsu International Trust & Investment Corporation Limited (江蘇省國際信託投資有限公司) ("Jiangsu International Trust"), pursuant to which Jiangsu International Trust will bear responsibility for the debt and the interest thereon owed to the Company. Meanwhile, on 8 May 2006, the Company entered into an agreement for the transfer of investment ("Transfer of Equity Interest Agreement") with Jiangsu International Trust, pursuant to which Jiangsu International Trust would transfer to the Company the 25% equity interest ("Jiangsu International Trust Share") in Hua Fei Colour Display System Company Limited (華飛彩色顯示系統有限公司) ("Hua Fei") in the value of RMB522,487,000 which it held to settle debts. (The consideration of the transfer of Jiangsu International Trust Share was the aggregate of the amount of debt (i.e. RMB500 million) and the interest thereon, totaling RMB522,487,000.)

During the Reporting Period, the audit and appraisal on the Jiangsu International Trust Share were finished. The independent financial advisor had given relevant opinions to the independent board committee and independent shareholders. The Transfer of Equity Interest Agreement was considered and approved in the extraordinary general meeting on 17 August 2006. The agreement shall be effective after the approval of relevant government authority.

(Please refer to the announcements published in China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 12 May 2006 and 18 August 2006, the circular dispatched to holders of H share on 30 June 2006 and the circular published on the designated website of the China Securities Regulatory Commission (www.sse.com.cn) on 8 July 2006 for details.)

Pursuant to the requirement of the relevant approving authority, the transfer of the 25% equity interest of Hua Fei was an open transaction and thus the transaction have to be conducted through the Assets and Equity Exchange as an open transaction. During the Reporting Period, the Company and Jiangsu International Trust had fulfilled and completed the listing procedure for the transfer of the equity interest at the Jiangsu Assets and Equity Exchange. The transfer had been reported to the Ministry of Commerce and is now pending approval. After the approval of the Ministry of Commerce and business registration, the transfer of equity interest will be formally complete.

The Board considers that after the transfer of equity interest, the Company will be able to recover the debenture previously held by Panda Mobile and share the operating results of Hua Fei so as to increase investment gain and provide a source of stable income for the Company. Therefore, the transfer is beneficial to the Company and is in the interest of the Company and the shareholders as a whole.



Significant Events

3. Connected Transactions: (Continued)

(2) Using assets to discharge a debt by the controlling shareholder:

On 8 November 2006, the Company entered into the agreement of using assets to discharge a debt with the controlling shareholder, Panda Electronics Group Limited ("PEGL"), to offset part of its appropriated non-operating fund by PEGE. The transaction constituted a connected transaction and was approved in the Extraordinary General Meeting held on 31 December 2006.

(Please refer to the announcements published in China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 16 November 2006 and the announcements published in Sing Tao Daily and The Standard in Hong Kong on 2 January 2007 and China Securities Journal, Shanghai Securities News, Sing Tao Daily and The Standard in Hong Kong on 4 January 2007)

- (3) Save as the above connected transactions, the Company did not have other material connected transactions and asset reorganization during the Reporting Period. In 2006, the continuing connected transactions of the Company were entered into in the usual course of business on normal commercial terms which were required for normal business operation, and were audited by auditors. All connected transactions were confirmed by Independent Non-executive Directors, the details of which are contained in the Auditor's Report. Since the waiver on continuing connected transactions granted by the Stock Exchange had expired in 2004, the continuing connected transactions of the Company in 2006 did not comply with the requirements of Rule 14A.35 of the Listing Rules for obtaining the approval of independent shareholders. On 11 December 2006, the Company reported, published an announcement and submitted to the Extraordinary General Meeting held on 3 April 2007 and obtained independent shareholders' approval for the continuing connected transaction for the period from 2007 to 2009 ("New Continuing Connected Transaction").

(Please refer to the announcements published in China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 12 December 2006 and 4 April 2007.)

- (4) During the Reporting Period, the transaction amount of sales of products and the provision of service by the Company to connected parties was RMB56,145,400, amongst which the transaction amount of the connected transactions of sales of products and the provision of service to controlling shareholders and its subsidiaries was RMB36,988,600, while the transaction amount of purchase of products and the acceptance of service from connected parties was RMB34,094,100.
- (5) During the Reporting Period, the actual amount of the provision of fund by the Company to connected parties was RMB23,328,400 and the balance was RMB95,796,300, amongst which the actual amount of the provision of fund to controlling shareholders and its subsidiaries was RMB19,193,800 and the balance was RMB50,317,600, while the actual amount of the provision of fund by connected parties to the Company was RMB352,684,000 and the balance was RMB87,774,400.



3. Connected Transactions: (Continued)

(6) The appropriation of funds and the progress of repayment in 2006

The balance of appropriated non-operating fund of the listed company by the substantial shareholder and its subsidiaries		Total repayment in the Reporting Period (RMB'0,000)	Means of repayment (RMB'0,000)	Repayment amount (RMB'0,000)	Repayment time (month)
Beginning of the period	End of the period				
27,531	0	27,531	Cash	1,500	4
			Cash	1,792	5
			Cash	1,900	6
			Cash	5,300	7
			Cash	232	8
			Cash	5,000	9
			Cash	7,272	10
			Cash	1,375	11
			Asset	3,160	12

The appropriation and repayment

As at the beginning of the Reporting Period, the balance of non-operating capital due from Panda Electronic Group Limited, the controlling shareholder and its subsidiaries ("PEGL"), to the Company was RMB275.31 million. According to the prescribed repayment plan (please refer to 2005 annual report) and the undertakings that the PEGL would not increase appropriation of non-operating fund of the Company in the Share Segregation Reform and would not settled the appropriation of non-operating capital of the Company by way of asset transfer and cash repayment, during the Reporting Period, the Company received cash repayment from PEGL in the sum of RMB243.71 million and certain assets in the consideration of RMB31.6 million. As at 31 December 2006, PEGL had fully repaid all of the appropriated non-operating capital. (Please refer to the announcements published in China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 4 January 2007.)

During the Reporting Period, PEGL had not made new appropriation of non-operating capital of the Company.

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



Significant Events

5. Material guarantee

As of 31 December 2006, the Company granted guarantees respectively to bank loan totaling RMB8,070,200 (originally: US\$1 million) to Nanjing Panda Information Industry Co., Ltd., bank acceptance draft of RMB8,897,300; bank loan of RMB5 million to Nanjing Panda Mechanical Machinery Co. Ltd. and bank loan of RMB17 million to Nanjing Panda Accurate Machinery Co., Ltd., all of which are its controlling subsidiaries.

The said guarantees totaling RMB38,967,500, representing 2.89% of the Company's net asset, are provided to controlling subsidiaries. The gearing ratio of the above subsidiaries receiving guarantees were below 70%.

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

6. Share Reform

During the Reporting Period, the Company completed the implementation of the Share Segregation Reform. The Share Segregation Reform Proposal of the Company was that Panda Electronic Group Limited ("PEGL") the only holder of Non-circulating Shares agreed to offer a total of 20,300,000 shares as a consideration to holders of circulating A shares of the Company, whose names appear on the register of members at the close of business on the Reform Implementation and Shareholding Record Date in exchange for the granting of listing status to all non-circulating shares. (i.e. 3.5 Non-circulating Shares are offered to each A Shareholder for every 10 A Shares held by A Shareholders.)

The Share Segregation Reform Proposal was approved in the relevant A Shareholder's meeting held on 28 July 2006 and by the relevant government authority, and was implemented on 11 September 2006. (Please refer to the announcements published in China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao and The Standard on 6 September 2006.)

In the process of the Share Segregation Reform, PEGL undertook to comply with the requirements of relevant laws, regulations and rules and observe statutory commitments and obligations. In addition, PEGL also made the following special undertakings:

- (1) PEGL would not trade or transfer of all original non-circulating shares which it held within 24 months of obtaining listing status.
- (2) PEGL undertook not to increase the appropriation of the non-operating capital of the Company from the date of the implementation of Share Segregation Reform Proposal, and to settle the appropriation of the non-operating capital of the Company by PEGL and its subsidiaries by the end of 2006 by means of cash repayment and using assets to discharge a debt .
- (3) PEGL undertook to bear all the expenses arising from the Share Segregation Reform.

By the end of the Reporting Period, PEGL had strictly fulfilled all the above undertaking. Up to 31 December 2006, 334,715,000 restricted circulating shares held by PEGL had not been traded or transferred. PEGL solely bore all the expenses arising from the Share Segregation Reform. Up to 31 December 2006, PEGL and its subsidiaries had not increase the appropriation of the non-operating capital of the Company, and had fully repaid all the non-operating capital of the Company by means of cash and certain assets as scheduled. (Please refer to item 3 of this section for the details of the repayment.)



7. At the Annual General Meeting on 30 June 2006, the proposal for reappointment of Yue Hua Certified Public Accountants Co., Ltd. and Horwath Hong Kong CPA Limited respectively as the PRC and international auditors of the Company for 2006 was considered and approved.

Horwath Hong Kong CPA Limited was appointed for seven consecutive years to provide audit services to the Company. Yue Hua Certified Public Accountants Co., Ltd. was appointed for the second year by the Company to provide audit services.

For the remuneration for such two certified public accountants paid by the Company for the year please refer to Section 7 under Part 5 "Corporate Governance Report" in this report.

8. During the Reporting Period, none of the Company, the Board of Directors or Director was administratively penalized or publicly criticised by any regulatory authorities.

9. Significant Events

The transfer of debt of RMB500 million and the transfer of equity interests: (Please refer to Item(1) under Connected Transactions on page 47 for details.)

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 Company Limited ("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) ("Jiangsu Information Corporation") to jointly establish Nanjing Electronics Information Industrial Corporation (南京電子信息產業集團公司) ("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.

The Company will disclose the progress of the matter on timely basis. (Details set out in the announcement published in China Securities Journal and Shanghai Securities News on 12 April 2007.)



Significant Events

10. Other Events

(1) Tax Policies

The Company is registered in High and New Technology Development Zone in Nanjing which is approved by the State Council as a national high and new technology zone. The Company has been approved by the Jiangsu Provincial Technological Commission as a high and new technology enterprise, which is entitled to the preferential income tax treatment of 15% up to the present moment.

(2) Basic medical insurance for employees

The Company acted pursuant to the Provisional Regulations on Basic Medical Insurance for Employees in Nanjing Municipality (南京市城鎮職工基本醫療保險暫行規定) (the "Regulations") and implemented a medical insurance scheme for its employees since 1 January 2001. Medical expenses of the existing and retired employees of the Company were charged to staff welfare benefits payable. Upon the implementation of new Regulations, the Company will pay the premiums for such medical insurance scheme which are equivalent to 8% of the total salaries of all of the existing employees of the Company and will grant appropriate amount of allowance in addition to the medical premiums for employees who have serious illness and fall within the medical scheme. The total allowance given in 2006 totalled less than RMB1.5 million. Save as the aforesaid premiums, the Company will not be responsible for other medical expenses payable. The 8% contribution to the medical insurance scheme and serious illness allowance are charged to staff welfare benefits payable, and the basis on which the staff welfare benefits payable are calculated remains unchanged, i.e., will still be based on 14% of the total salaries of all of the existing employees of the Company. Accordingly, this change in policy has no material effect on the consolidated income statement and consolidated balance sheet.