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南京熊猫电子股份有限公司

NANJING PANDA ELECTRONICS COMPANY LIMITED

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

(Stock Code:00553)

2013 PRELIMINARY ANNUAL RESULTS ANNOUNCEMENT

1. IMPORTANT NOTICE

1.1 This summary of annual report was extracted from the Annual Report of Nanjing Panda Electronics Company Limited (the “Company”) and its subsidiaries (collectively as “the Group”). Investors who are interested in obtaining further details should carefully read the full text of the Annual Report which will be published on the website of the Shanghai Stock Exchange.

1.2 Basic Information of the Company

Stock abbreviation	A Share: Nanjing Panda	Stock code	A Share: 600775
	H Share: Nanjing Panda		H Share: 00553
Place of listing	A Share: Shanghai Stock Exchange		
	H Share: The Stock Exchange of Hong Kong Limited		

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2. MAJOR FINANCIAL DATA AND CHANGE OF SHAREHOLDERS

2.1 Major financial data (prepared in accordance with the PRC Accounting Standards for Business Enterprises)

Unit: RMB'000

	2013	2012	Increase/ decrease from last year (%)	2011
Total assets	4,138,059.51	3,116,256.11	32.79	2,713,131.16
Net assets attributable to shareholders of the Company	3,122,698.04	1,684,756.01	85.35	1,587,039.95
Net cash flow from operating activities	-86,545.58	-82,211.03	N/A	-189,911.76
Operating income	2,479,485.13	2,430,042.28	2.03	2,142,395.29
Net profit attributable to shareholders of the Company	182,839.21	131,554.10	38.98	110,070.23
Net profit attributable to shareholders of the Company after non-recurring profit and loss	48,046.32	59,446.94	-19.18	104,142.13
Weighted average return on net assets (%)	7.62	8.06	Decreased by 0.44 percentage point	7.17
Basic earnings per share (RMB/share)	0.23	0.20	16.09	0.17
Diluted earnings per share (RMB/share)	0.23	0.20	16.09	0.17

2.2 Accounting data and financial indicators highlights (prepared under Hong Kong Financial Reporting Standards)

Consolidated statement of comprehensive income

for the year ended 31 December 2013

(Expressed in Renminbi)

		2013	2012
	Note	RMB'000	RMB'000
Turnover	4	2,447,754	2,396,126
Cost of sales		<u>(2,136,425)</u>	<u>(2,174,222)</u>
Gross profit		311,329	221,904
Other income and net (losses)/gains	5	148,266	95,011
Distribution costs		(43,284)	(35,452)
Administrative expenses		<u>(345,801)</u>	<u>(291,993)</u>
Operating profit/(loss)		70,510	(10,530)
Finance costs, net	6	(8,341)	(24,956)
Share of profits of associates		<u>138,377</u>	<u>190,806</u>
Profit before taxation	7	200,546	155,320
Income tax expense	8	<u>(12,171)</u>	<u>(19,297)</u>
Profit and total comprehensive income for the year		<u>188,375</u>	<u>136,023</u>
Attributable to:			
Equity shareholders of the Company		182,840	131,554
Non-controlling interests		<u>5,535</u>	<u>4,469</u>
		<u>188,375</u>	<u>136,023</u>
Earnings per share (RMB cents)			
— Basic and diluted	9	<u>23.31</u>	<u>20.08</u>

Consolidated balance sheet

At 31 December 2013

(Expressed in Renminbi)

		2013	2012
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights		74,046	83,835
Property, plant and equipment		748,742	663,889
Associates		502,457	588,617
Available-for-sale equity securities		3,650	3,650
Deferred tax assets		406	6,127
		<u>1,329,301</u>	<u>1,346,118</u>
Current assets			
Inventories		199,614	180,260
Trade and bills receivables	11	754,728	782,623
Amounts due from customers for contract work		172,314	86,975
Deposits, prepayments and other receivables		302,277	129,481
Restricted bank deposits	12	70,846	212,759
Cash and cash equivalents		1,308,980	378,040
		<u>2,808,759</u>	<u>1,770,138</u>
Total assets		<u><u>4,138,060</u></u>	<u><u>3,116,256</u></u>

		2013	2012
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY			
Capital and reserves attributable to equity shareholders of the Company			
Share capital		913,839	655,015
Share premium and reserves		2,208,860	1,029,741
		3,122,699	1,684,756
Non-controlling interests		9,527	7,536
Total equity		3,132,226	1,692,292
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		233	312
Current liabilities			
Bank and other borrowings	13	160,926	648,335
Trade payables	14	579,860	473,874
Accruals and other payables		258,571	293,347
Tax payable		6,244	8,096
		1,005,601	1,423,652
Total liabilities		1,005,834	1,423,964
Total equity and liabilities		4,138,060	3,116,256
Net current assets		1,803,158	346,486
Total assets less current liabilities		3,132,459	1,692,604

Notes:

1 General information

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

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

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

2 Basis of preparation

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

3 Application of new and revised HKFRSs

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

- Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income
- Annual improvements to HKFRSs 2009-2011 cycle
- Amendments to HKFRS 7, Financial instruments: Disclosure — Offsetting financial assets and financial liabilities
- HKFRS 10, Consolidated financial statements
- HKFRS 11, Joint arrangements
- HKFRS 12, Disclosure of interests in other entities
- HKFRS 13, Fair value measurement
- HKAS 27 (2011), Separate financial statements
- HKAS 28 (2011), Investments in associates and joint ventures

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation - Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

The adoption of other revisions, amendments and new HKFRSs has had no effect on the Group's consolidated financial statements.

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

**Effective for
accounting periods
beginning on
or after**

Amendments to HKAS 32, Financial instruments:

Presentation - offsetting financial assets and financial liabilities	1 January 2014
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Amendments to HKAS 36, Recoverable

amount disclosures for non-financial assets	1 January 2014
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HK(IFRIC) - Interpretation 21, Levies

1 January 2014

Annual improvements to HKFRSs 2010 - 2012 cycle

1 July 2014

Annual improvements to HKFRSs 2011 - 2013 cycle

1 July 2014

HKFRS 9, Financial instruments

1 January 2015

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

4 Revenue and segmental information

The Group determines its operating segments based on the internal financial information reviewed by the board of directors of the Company that are used to make strategic decisions. For the year ended 31 December 2013, the Group has the following reportable segments:

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

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

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

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

The following tables provide an analysis of the Group's revenue, results and certain assets, liabilities and expenditure information by reportable segments for the years ended 31 December 2013 and 2012:

Year ended 31 December 2013

	Electronic equipment products <i>RMB'000</i>	Consumer electronic products <i>RMB'000</i>	Electronic manufacturing products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue						
External sales	1,433,402	238,340	717,295	58,717	—	2,447,754
Internal sales	<u>168,073</u>	<u>29,039</u>	<u>6,649</u>	<u>39,656</u>	<u>(243,417)</u>	<u>—</u>
Total	<u><u>1,601,475</u></u>	<u><u>267,379</u></u>	<u><u>723,944</u></u>	<u><u>98,373</u></u>	<u><u>(243,417)</u></u>	<u><u>2,447,754</u></u>
Results						
Segment results	<u><u>125,032</u></u>	<u><u>(54,465)</u></u>	<u><u>29,468</u></u>	<u><u>4,638</u></u>	<u><u>(8,086)</u></u>	96,587
Unallocated corporate expenses						(26,077)
Interest income						21,107
Interest expense						(29,448)
Share of profits of associates						138,377
Income tax expense						<u>(12,171)</u>
Profit for the year						<u><u>188,375</u></u>

At 31 December 2013

	Electronic equipment products <i>RMB'000</i>	Consumer electronic products <i>RMB'000</i>	Electronic manufacturing products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Assets						
Segment assets	1,827,423	237,119	626,208	154,894	(609,510)	2,236,134
Associates						502,457
Available-for-sale equity securities						3,650
Unallocated corporate assets						<u>1,395,819</u>
Consolidated total assets						<u><u>4,138,060</u></u>

Liabilities						
Segment liabilities	797,670	88,136	258,596	99,828	(338,908)	905,322
Unallocated corporate liabilities						<u>100,512</u>
Consolidated total liabilities						<u><u>1,005,834</u></u>

	Electronic equipment products <i>RMB'000</i>	Consumer electronic products <i>RMB'000</i>	Electronic manufacturing products <i>RMB'000</i>	Other operations <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Other information						
Capital expenditure	157,404	829	5,761	195	13,221	177,410
Depreciation and amortisation	5,716	526	29,129	605	19,789	55,765
Write-down of inventories	1,887	86	5,833	367	—	8,173
Loss/(gain) on disposals of property, plant and equipment	199	29	(309)	(17)	180	82
Impairment loss recognised/ (reversed) on trade receivables	<u>1,080</u>	<u>49,928</u>	<u>(549)</u>	<u>(139)</u>	<u>—</u>	<u>50,320</u>

Year ended 31 December 2012

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

At 31 December 2012

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

(a) Geographical information

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

(b) Major customers

For the year ended 31 December 2013, no single customers contributed 10% or more to the Group's revenue.

For the year ended 31 December 2012, there was one customer in the consumer electronic products segment that accounted for over 10% of the Group's revenue. Sales to this customer amounted to RMB357,778,000.

5 Other income and net (losses)/gains

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Rental income	7,141	13,266
Property management fee income	5,310	5,397
Compensation income on relocation of factory plants [#]	83,753	17,382
Government grants ^{##}	45,519	46,697
Sundry income	8,579	14,495
	150,302	97,237
Other net (losses)/gains		
(Loss)/gain on disposals of property, plant and equipment	(82)	282
Exchange losses	(1,954)	(2,508)
	(2,036)	(2,226)
	148,266	95,011

- # Compensation income from local government authorities is net of the loss recognised on disposal of land use rights of RMB7,882,000 (2012: RMBnil) and property, plant and equipment of RMB32,416,000 (2012: RMB8,694,000) incidental to the relocation of the factory plants.
- ## Government grants include mainly funds and subsidies from local government authorities for the development of the Group and the research and development activities undertaken by the Group.

6 Finance costs, net

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Finance costs		
— Bank and other borrowings		
wholly repayable within five years	28,788	30,465
— Others	660	551
	29,448	31,016
Finance income		
— Interest income on short-term deposits	(12,139)	(6,060)
— Other interest income	(8,968)	—
	(21,107)	(6,060)
Finance costs, net	8,341	24,956

7 Profit before taxation

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

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories recognised as an expense	1,423,878	1,614,866
Amortisation of land use rights	1,922	786
Depreciation of property, plant and equipment	53,843	54,733
Impairment loss recognised/(reversed) on		
— Trade receivables	50,320	21,194
— Other receivables	(773)	(2,242)
— Amounts due from fellow subsidiaries and associates	(758)	890
Write-down of inventories	8,173	15,899
Research and development expenses [#]	108,072	101,572
Staff costs (including directors' and supervisors' emoluments)		
— Salaries and other allowances	257,233	221,200
— Retirement benefit scheme contributions	49,024	43,072
Auditors' remuneration	1,700	1,700
Operating lease rentals in respect of		
— Land and buildings	5,842	4,207
— Plant and equipment	1,772	2,404
— Motor vehicles	498	400
	<u> </u>	<u> </u>

[#] Research and development expenses include RMB51,311,000 (2012: RMB36,854,000) relating to staff costs which is also included in the respective amount disclosed separately above.

8 Income tax expense

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Current tax		
— PRC enterprise income tax	13,643	14,577
— (Over)/under-provision in prior year	(7,114)	4,934
	<u>6,529</u>	<u>19,511</u>
Deferred tax		
— attributable to the origination and reversal of temporary differences	5,165	(143)
— resulting from a change in tax rate	477	(71)
	<u>5,642</u>	<u>(214)</u>
	<u>12,171</u>	<u>19,297</u>

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

	2013 RMB'000	2012 <i>RMB'000</i>
Profit before taxation	<u>200,546</u>	<u>155,320</u>
Tax calculated at the statutory PRC tax rate of 25% (2012: 25%)	50,137	38,830
Exemption/reduction of income tax under preferential tax treatment	(20,213)	(13,043)
Tax effect of:		
Share of results of associates	(20,756)	(28,517)
Income not subject to tax	(59)	(25)
Expenses not deductible for tax purposes	1,689	2,527
Tax concessions	(2,265)	(1,450)
Effect of change in tax rate	477	(71)
Unrecognised tax losses and other deferred tax assets	10,477	16,604
Utilisation of previously unrecognised tax losses and other deferred tax assets	(202)	(492)
(Over)/under-provision in prior year	<u>(7,114)</u>	<u>4,934</u>
Tax charge for the year	<u>12,171</u>	<u>19,297</u>

9 Earnings per share

The calculation of the basic earnings per share is based on profit attributable to equity shareholders of the Company of RMB182,840,000 (2012: RMB131,554,000) and the weighted average number of 784,427,000 (2012: 655,015,000) shares in issue during the year, calculated as follows:

	2013 '000	2012 <i>'000</i>
Issued shares at 1 January	655,015	655,015
Effect of new A shares issued during the year	<u>129,412</u>	<u>—</u>
Weighted average number of shares at 31 December	<u>784,427</u>	<u>655,015</u>

The diluted earnings per share for the years ended 31 December 2013 and 2012 are the same as the basic earnings per share as there were no potential dilutive shares outstanding during both years.

10 Dividends

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

	2013 RMB'000	2012 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB66 cents per ten shares (2012: RMB60 cents per ten shares)	<u>60,313</u>	<u>39,301</u>

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

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

	2013 RMB'000	2012 <i>RMB'000</i>
Final dividend in respect of the financial year ended 31 December 2012, approved and paid during the year, of RMB60 cents per ten shares (2011: RMB50 cents per ten shares)	<u>39,301</u>	<u>32,751</u>

11 Trade and bills receivables

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade receivables	512,523	669,987
Less: Provision for impairment	(59,838)	(74,010)
	452,685	595,977
Bills receivable	120,212	37,674
Due from intermediate holding company	9	—
Due from immediate holding company	21,634	1,439
Due from fellow subsidiaries	158,347	142,475
Due from associates	1,841	5,058
Total trade and bills receivables	<u>754,728</u>	<u>782,623</u>

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Within 1 year	674,210	683,845
1 to 2 years	64,358	98,429
2 to 3 years	15,859	277
Over 3 years	301	72
	<u>754,728</u>	<u>782,623</u>

12 Restricted bank deposits

The restricted bank deposits are pledged as security for:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Bills payable	28,814	141,267
Performance bonds given by banks to customers in respect of projects undertaken	<u>42,032</u>	<u>71,492</u>
	<u>70,846</u>	<u>212,759</u>

13 Bank and other borrowings

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Short term bank loans	94,000	360,000
Other short term loans	5,000	-
Bills payables, secured	<u>61,926</u>	<u>288,335</u>
	<u>160,926</u>	<u>648,335</u>

At 31 December 2013, the Company's short term bank loans amounting to RMB50,000,000 (2012: RMB205,000,000) were secured by corporate guarantees from the immediate holding company. At 31 December 2012, the Company's short term bank loans amounting to RMB50,000,000 were secured by pledge of certain land use rights and buildings of the Company with carrying values of RMB1,107,000 and RMB108,318,000 respectively.

At 31 December 2013, the Group's and the Company's bills payables were secured by restricted bank deposits (see note 12). In addition, the Company's bills payables were also secured by corporate guarantees from the immediate holding company and an intermediate holding company to the extent of RMBnil (2012: RMB60,595,000) and RMB1,333,000 (2012: RMB34,520,000) respectively.

Other short term loans represented the loans borrowed from a fellow subsidiary of the Company, being a financial institution in the PRC.

At 31 December 2013, the effective interest rate of the short term bank loans and other short term loans was 6.29% (2012: 7%) and 6% (2012: nil) per annum respectively.

14 Trade payables

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade payables	538,951	447,449
Due to immediate holding company	3,678	3,997
Due to fellow subsidiaries	37,136	22,348
Due to associates	95	80
Total trade payables	<u>579,860</u>	<u>473,874</u>

The following is an ageing analysis of trade payables:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Within 1 year	484,491	369,204
1 to 2 years	42,019	44,630
2 to 3 years	6,407	24,039
Over 3 years	46,943	36,001
	<u>579,860</u>	<u>473,874</u>

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

15 Contingent liabilities

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Performance bonds given by banks to customers in respect of projects undertaken	<u>42,032</u>	<u>71,492</u>

16 Capital commitments

At 31 December 2013, outstanding capital commitments not provided for in the consolidated financial statements are as follows:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Contracted for		
— Property, plant and equipment	<u>123,006</u>	<u>146,376</u>

2.3 Changes in share capital and information of shareholders

2.3.1 Particulars of changes in shareholdings

Unit: shares

	Before the change		Increase/decrease from the change (+, -)					After the change	
	Amount	Percentage (%)	Newly Issued shares	Bonus shares	Transfer of capital reserve	Others	Subtotal	Amount	Percentage (%)
I. Shares subject to trading moratorium			258,823,529				258,823,529	258,823,529	28.32
1. State-owned shares									
2. State-owned legal person shares			115,415,686				115,415,686	115,415,686	12.63
3. Other domestically owned shares			143,407,843				143,407,843	143,407,843	15.69
Including: Domestic non-state owned legal person shares			143,407,843				143,407,843	143,407,843	15.69
Domestic natural person shares									
II. Shares not subject to trading moratorium	655,015,000	100						655,015,000	71.68
1. Renminbi ordinary shares	413,015,000	63.05						413,015,000	45.20
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	242,000,000	36.95						242,000,000	26.48
4. Others									
III. Total number of shares	655,015,000	100	258,823,529				258,823,529	913,838,529	100

Notes:

- (1) The Company issued 258,823,529 ordinary shares dominated in RMB by way of non-public issuance in June 2013, and raised proceeds of RMB1,319,999,997.90. For details please refer to the Announcement on Results of the Non-Public Issue of Shares and Change in Share Capital of Nanjing Panda Electronics Company Limited (Lin 2013-019) published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 2 July 2013.

- (2) As at 28 March 2014, the most practicable and recent date for the announcement of the annual report, based on information that is published by the Company and so far as the Directors are aware, the Company has complied with the requirements of The Stock Exchange of Hong Kong Limited in relation to sufficient public float.

2.3.2 Particulars of top 10 shareholders

Unit: shares

Total number of shareholders as at the end of the Reporting Period	20,829 shareholders including 20,781 A shareholders and 48 H shareholders
Total number of shareholders on the 5th trading day prior to the disclosure of this annual report	18,816 shareholders including 18,770 A shareholders and 46 H shareholders

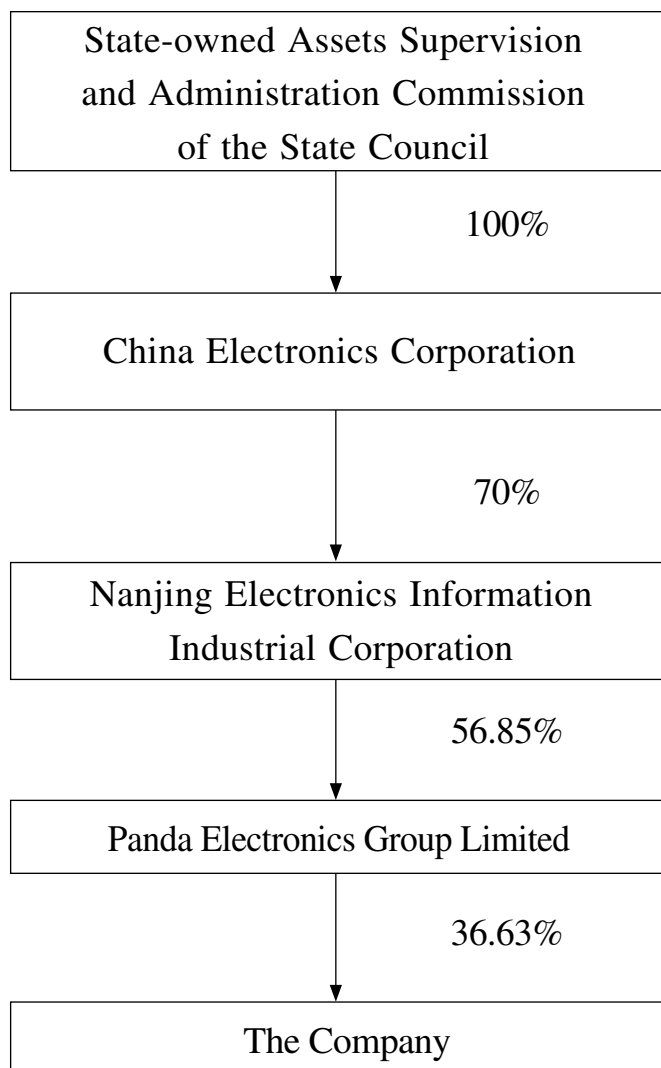
Details of the top ten shareholders

Name of shareholders	Increase/ decrease during the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage of Shareholding (%)	Number of shares held subject to trading moratorium	Pledge or freeze		
					Status of shares	Number of shares	Type of shareholders
Panda Electronics Group Limited		334,715,000	36.63	0	Pledged	167,350,000	State-owned legal person
HKSCC (Nominees) Limited	177,700	240,887,299	26.36	0		Unknown	Overseas legal person
Nanjing Ruisen Investment Management Partnership Enterprise (Limited Partnership)* (南京瑞森投資 管理合夥企業(有限合夥))	51,000,000	51,000,000	5.58	51,000,000	Pledged	51,000,000	Domestic nonstate- owned legal person
Nanjing Electronics Information Industrial Corporation	39,215,686	39,215,686	4.29	39,215,686		Unknown	State-owned legal person
Jiangsu GTIG Huading Investment Co., Ltd.* (江蘇國泰華鼎投資 有限公司)	35,000,000	35,000,000	3.83	35,000,000		Unknown	Domestic nonstate- owned legal person
Caitong Fund Company — Ping An — Ping An Trust — Ping An Fortune — Chuangying Phase I No.38 Collective Funds Trust (財通基金公司 — 平安 — 平安信託 — 平安財富 • 創 贏一期38號集合資金信託計劃)	30,000,000	30,000,000	3.28	30,000,000		Unknown	Other
Beijing Infrastructure Investment Co., Ltd* (北京市基礎設施投 資有限公司)	26,000,000	26,000,000	2.85	26,000,000		Unknown	State-owned legal person
South Industry Assets Management Co., Ltd* (南方工業資產管理 有限責任公司)	25,200,000	25,200,000	2.76	25,200,000		Unknown	State-owned legal person
Tibet Autonomous Region Investment Co., Ltd.* (西藏自 治區投資有限公司)	25,000,000	25,000,000	2.74	25,000,000		Unknown	State-owned legal person
Tibet Shan Nan Zhong He Investment Management Centre (Limited Partnership)* (西藏山 南中和投資管理中心(有限合 夥))	9,803,921	9,803,921	1.07	9,803,921		Unknown	Domestic nonstate- owned legal person

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

Nanjing Electronic Information Industrial Corporation (“NEIIC”) holds 56.85% equity interest in Panda Electronics Group Limited (“PEGL”), the controlling shareholder of the Company, and directly holds 39,215,686 shares of the Company, representing 4.29% of the total number of shares. NEIIC directly and indirectly holds 40.92% of the shares of the Company. Save as disclosed above, the Company is not aware of any connected relationship or party acting in concert among other shareholders.

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



3. MANAGEMENT DISCUSSION AND ANALYSIS

In 2013, the Company centered on industry development, implemented operation and development objectives, proactively took countermeasures amid slow global economic recovery, the downturn and gradual stabilization of domestic economy and cut-throat market competition, and well accomplished various tasks and indicators. The Company passed the review of Enterprises which are Trustworthy and which Always Honor Contracts (重合同守信用企業) administered by the State Administration for Industry and Commerce and was presented a plaque that read Joint Corporate R&D and Innovation Center of Jiangsu Enterprises by Jiangsu Economic and Information Technology Commission.

In 2013, the Company obtained relatively good results of operation. Under the PRC Accounting Standards for Business Enterprises, the Company's revenue from operations for 2013 amounted to RMB2,479,485,100, representing an increase of 2.03% as compared with that of the same period last year; total profit amounted to RMB200,546,400, representing an increase of 29.12% as compared with that of the same period last year; net profit amounted to RMB182,839,200, representing an increase of 38.98% as compared with that of the same period last year. Under the Hong Kong Financial Reporting Standards, revenue from principal operations for 2013 amounted to RMB2,447,750,000, representing an increase of 2.15% as compared with that of the corresponding period last year; profit of principal operations amounted to RMB200,550,000, representing an increase of 29.12% as compared with that of the corresponding period last year; net profit attributable to shareholders of the Company amounted to RMB182,840,000, representing an increase of 38.98% as compared with that of the corresponding period last year.

In 2013, the Company issued 258,823,529 RMB-denominated ordinary (A shares) shares by way of non-public issue to raise RMB1.32 billion. The non-public issue effectively reduced financial and management cost, further optimized the Company's assets structure, industrial structure, product mix and organizational structure, and gave fresh impetus for the Company's rapid development.

In 2013, the Company continued to increase investment in research and development, and extensively established technological innovation platforms in various fields and at different levels to accelerate the application and transformation of research results and effectively improve strengths in technological innovation. By strengthening the leading basic research through industry-university research collaboration, the Company promoted a leap in the development of technology, which brought about a number of key technological innovations, and took the Company's technological strengths and core competitiveness to a new level.

In 2013, the Company continued to improve top talents management approaches, strengthened performance-based appraisal and efforts for introducing high caliber talents. In 2013, the Company recruited over 120 talents with various expertise and holding a bachelor's degree or above, including more than 34 master's degree holders and recruited 2 national experts. The Company actively recommended its employees for various selection campaigns, with two selected by the “333” talent project of Jiangsu Province, one named “Chief Technician of Jiangsu Enterprises”. In a move to boost employee development and enhance their business capability, the Company held 54 training programs of various types and 8 training programs for key operation, management and R&D personnel during the year, trained more than 1,500 persons and among them, 15 senior professional technicians and 19 senior technicians.

In 2013, the Company achieved a growth in all operational indicators and completed the first refinance since its listing in 1996. However, there was no substantial change in domestic and international economic environments, the upward trend in labor costs was more notable and the pressure of technological update and market competition became increasingly large. These factors are likely to adversely affect the sustained growth in business performance of the Company in the near future.

3.1 Analysis of principal operations

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

Unit: RMB0'000

	Amount for the period	Amount for the same period last year	Change (%)
Financial expenses	1,975.73	2,941.02	-32.82
Loss in assets impairment	5,696.19	3,574.14	59.37
Non-operating income	13,992.72	7,913.51	76.82
Non-operating expenses	262.02	108.33	141.87
Income tax	1,217.14	1,929.71	-36.93
Net cash flows from investment activities	6,106.20	15,389.64	-60.32
Net cash flows from financing activities	95,650.80	-3,603.98	N/A

- (1) The decrease in financial expenses is mainly due to the substantial increase in interest income as a result of the increase in bank deposits of raised proceeds during the period;
- (2) The increase in loss in assets impairment is mainly attributable to a large amount of provision for bad debt during the period;
- (3) The increase in non-operating income is mainly attributable to the recognition of income from demolition compensation pursuant to demolition agreement in the period;
- (4) The increase in non-operating expenses is mainly due to the disposal of fixed assets during the period;
- (5) The decrease in income tax is mainly due to the receipt of refunded income tax during the period;
- (6) The decrease in net cash flows from investment activities is mainly due to two projects in construction, i.e. Xingang Training Center and The first phase of the electronic equipment industry park;
- (7) The increase in net cash flows from financing activities is mainly due to the receipt of raised proceeds from non-public issuance of shares.

3.1.2 Income

Unit: RMB0'000

Name of product or service	Amount for the period		Amount for the previous period		Increase from last year (%)
	Income	As a percentage of the income from principal operations (%)	Income	As a percentage of the income from principal operations (%)	
Electronic equipment products	142,771.36	58.77	119,841.73	50.49	19.13
Consumer electronics products	23,836.75	9.81	46,926.57	19.77	-49.20
Electronic manufacturing service	70,271.29	28.93	64,950.94	27.36	8.19
Others	6,046.78	2.49	5,642.29	2.38	7.17

During the reporting period, the sales revenue of electronic equipment products amounted to RMB1,427,713,600, representing an increase of 19.13% as compared with that of the same period last year, and its rate of contribution to the principal business was 58.77%; the sales revenue of consumer electronics products amounted to RMB238,367,500, representing a decrease of 49.20% as compared with that of the same period last year, and its rate of contribution to the principal business was 9.81%; and the sales revenue of electronic manufacturing service amounted to RMB702,712,900, representing an increase of 8.19% as compared with that of the same period last year, and its rate of contribution to the principal business was 28.93%.

3.1.3 Cost

Unit: RMB0'000

Composition of cost	Amount for the period	As a percentage of total cost for the period (%)	Amount for the same period last year	As a percentage of total cost for the same period last year (%)	Change in the amount for the period as compared with that of the same period last year (%)
Material cost	172,011.41	81.79	166,594.02	79.00	3.25
Labor cost	17,812.69	8.47	22,069.39	10.47	-19.29
Manufacturing costs	20,485.34	9.74	22,212.08	10.53	-7.77

3.1.4 Major suppliers and customers

During the reporting period, the aggregate amount of sales to the top five customers of the Company amounted to RMB815,334,900, accounting for 32.88% of the total amount of sales of the Company for the year. The sales to the largest customer made up 9.70% of the sales of the Company for the year.

During the reporting period, the aggregate amount of purchases from the top five suppliers of the Company amounted to RMB464,113,200, accounting for 27.03% of the total amount of purchases made by the Company for the year. The purchase amount from the largest supplier accounted for 8.86% of the total amount of purchases of the Company for the year.

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

3.1.5 Expenses

Unit: RMB0'000

	Amount for the period	Amount for the same period last year	Change (%)
Selling expenses	4,328.39	3,545.15	22.09
Administrative expenses	29,605.57	26,940.06	9.89
Financial expenses	1,975.73	2,941.02	-32.82
Income tax	<u>1,217.14</u>	<u>1,929.71</u>	<u>-36.93</u>

- (1) The decrease in financial expenses is mainly due to the substantial increase in interest income as a result of the increase in bank deposits of raised proceeds during the period;
- (2) The decrease in income tax is mainly due to the receipt of refunded income tax during the period.

3.1.6 R&D expenses

Unit: RMB0'000

	Amount for the period	Amount for the previous period	Change (%)
R&D expenses for the period	10,807.22	10,157.15	6.40
Capitalized R&D expenses for the period			
Total R&D expenses	10,807.22	10,157.15	6.40
The percentage of total R&D expenses over net assets (%)	3.46	6.03	Decreased by 2.57 percentage points
The percentage of total R&D expenses over operating income (%)	4.36	4.18	Increased by 0.18 percentage point

3.1.7 Cash flow

Unit: RMB0'000

	Amount for the period	Amount for the same period last year	Change (%)
Net cash flow from operating activities	-8,654.56	-8,221.10	N/A
Net cash flow from investment activities	6,106.20	15,389.64	-60.32
Net cash flow from financing activities	95,650.80	-3,603.98	N/A

- (1) The decrease in net cash flow from investment activities was mainly due to the two projects in construction, i.e. Xingang Training Center and The first phase of the electronic equipment industry park;
- (2) The increase in net cash flow from financing activities was mainly due to the receipt of raised proceeds from non-public issuance of shares.

During the reporting period, the net profit of the Company was generated from operating activities and investment activities. There was a difference between the cash flow from operating activities and net profit for the year as more income was generated from investment activities.

3.1.8 Liquidity of capital

In accordance with the Hong Kong Financial Reporting Standards, the Group's gearing ratio (the ratio between total liabilities and total assets), current liabilities, liquidity ratio and quick ratio were 24.31%, RMB1,005,600,000, 2.79 and 2.59 respectively as at 31 December 2013 as shown in the consolidated financial statements of the Company.

Cash: bank balances and cash amounted to RMB1,379,826,000 as at 31 December 2013 as shown in the consolidated financial statements of the Company.

Loans: short-term bank and other loans amounted to RMB99,000,000 as at 31 December 2013 as shown in the consolidated financial statements of the Company.

3.2 Principal operations by product (prepared under the PRC Accounting Standards for Business Enterprises)

Unit: RMB0'000

Product	Operating income	Operating cost	Profit margin (%)	Increase/decrease in operating income from the same period last year (%)	Increase/decrease in operating cost from the same period last year (%)	Increase/decrease in operating profit margin from the same period last year (%)
Electronic equipment products	142,771.36	120,968.66	15.27	19.13	15.23	Increased by 2.87 percentage points over last year
Consumer electronics products	23,836.75	23,131.89	2.96	-49.20	-46.24	Decreased by 5.35 percentage points over last year
Electronic manufacturing services	70,271.29	61,710.64	12.18	8.19	5.14	Increased by 2.55 percentage points over last year
Others	6,046.78	4,498.25	25.61	7.17	7.73	Decreased by 0.39 percentage point over last year
Total	242,926.18	210,309.44	13.43	2.34	-0.27	Increased by 2.27 percentage point over last year

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

3.3 Analysis of assets and liabilities

Unit: RMB0'000

Item	Amount at the end of the period	Amount at the end of the period as a percentage of the total assets (%)	Amount at the end of the previous period	Amount at the end of the previous period as a percentage of the total assets (%)	Change in the amount at the end of the period as compared to the amount at the end of the previous period (%)
Cash and					
bank deposits	137,982.60	33.34	59,079.97	18.96	133.55
Bills receivable	12,021.20	2.91	3,767.38	1.21	219.09
Prepayments	13,069.28	3.16	8,046.66	2.58	62.42
Other receivables	17,158.44	4.15	4,901.40	1.57	250.07
Inventories	37,192.79	8.99	26,723.52	8.58	39.18
Construction in progress	21,817.11	5.27	5,862.21	1.88	272.17
Deferred income					
tax assets	40.65	0.01	612.73	0.20	-93.37
Short term loans	9,900.00	2.39	36,000.00	11.55	-72.50
Bills payable	6,192.58	1.50	28,833.55	9.25	-78.52
Taxes payable	1,994.19	0.48	2,892.52	0.93	-31.06
Interest payable	8.33	0.00	52.18	0.02	-84.04
Dividends payable	0.00	0.00	136.47	0.04	-100.00
Share capital	91,383.85	22.08	65,501.50	21.02	39.51
Capital reserve	150,196.63	36.30	46,638.61	14.97	222.04
Undistributed profit	47,494.72	11.48	34,261.49	10.99	38.62

- (1) The increase in cash and bank deposits was mainly due to the receipt of raised proceeds from non-public issuance of shares and cash balance from operations;
- (2) The increase in bills receivable was mainly because more customers used bills for settlement during the period;
- (3) The increase in prepayments was mainly due to the increase in procurement of commodities for construction projects during the period;
- (4) The increase in other receivables was due to the outstanding government subsidy recognized pursuant to the demolition compensation agreement in the period;
- (5) The increase in inventories was mainly due to the increase in goods prepared for orders;
- (6) The increase in construction in progress was mainly due to two projects in construction, i.e. The first phase of the electronic equipment industry park and Xingang Training Center;
- (7) The decrease in deferred income tax assets was mainly due to the decrease in deductible temporary difference;
- (8) The decrease in short term loans was mainly due to the repayment of loans with the dividends received from associates during the period;
- (9) The decrease in bills payable was mainly due to the payment of bills of material projects, including Huhutong and Nanjing Subway in the period;
- (10) The decrease in taxes payable was mainly due to the relatively large payment of added-value tax and changes in the income tax ratio of some subsidiaries during the period;

- (11) The decrease in interest payable was mainly due to the substantial decrease in short term bank loans;
- (12) The decrease in dividends payable was mainly because a subsidiary of the Company paid the dividends payable to minority shareholders during the period;
- (13) The increase in share capital was mainly because the non-public issuance increased the share capital during the period;
- (14) The increase in capital reserve was mainly because the non-public issuance increased capital premium during the period;
- (15) The increase in undistributed profits was mainly due to the operating balance for the year.

3.4. Use of raised proceeds

For the details of the use of the raised proceeds please see the “Specific Report on the Deposit and the Actual use of Proceeds Raised by Nanjing Panda Electronics Company Limited” (《南京熊貓電子股份有限公司募集資金存放與實際使用情況的專項報告》) (Lin 2014-022) published on the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange, and the “Verification Report on the Deposit and the Actual use of Proceeds Raised by Nanjing Panda Electronics Company Limited (Tian Zhi Ye Zi [2014] No. 4603-2)” (《南京熊貓電子股份有限公司募集資金存放與實際使用情況的鑒證報告》(天職業字[2014]4603-2號)) issued by Baker Tilly China (Special General Partnership).

3.5 Analysis of subsidiaries and invested companies

3.5.1 Analysis of major subsidiaries

Unit: RMB0'000

Subsidiary	Net profit		Change (%)
	2013	2012	
Nanjing Panda Electronics Equipment Co., Ltd. (南京熊猫电子装备有限公司)	1,420.18	1,153.82	23.09
Nanjing Panda Information Industry Co., Ltd. (南京熊猫信息产业有限公司)	1,546.16	489.94	215.58
Nanjing Panda Electronic Manufacture Co., Ltd. (南京熊猫电子制造有限公司)	3,287.74	731.61	349.38
Nanjing Panda Communications Technology Co., Ltd. (南京熊猫通信科技有限公司)	815.94	120.84	575.22
Nanjing Panda Xinxing Industrial Co., Ltd. (南京熊猫新興實業有限公司)	182.77	136.95	33.46
Nanjing Huage Appliance and Plastic Industrial Co., Ltd. (南京華格電汽塑業有限公司)	-501.95	884.13	-156.77
Nanjing Panda Mechanical Manufacturing Co., Ltd. (南京熊猫機電製造有限公司)	945.10	1,102.56	-14.28
Nanjing Panda Electromechanical Instruments Technology Co., Ltd. (南京熊猫機電儀技術有限公司)	518.07	538.35	-3.77
Nanjing Panda Electronic Technology Development Company Limited (南京熊猫電子科技發展有限公司)	63.32	31.12	103.47
Galant Limited (佳恒興業有限公司)	190.56	457.86	-58.38

3.5.2 Analysis of invested companies

(1) Nanjing Ericsson Panda Communication Co., Ltd. (“ENC”)

ENC was set up on 15 September 1992 with a total investment of US\$40.88 million and a registered capital of US\$20.9 million. ENC is held as to 27% by the Company, 51% by Ericsson (China) Company Limited, 20% by China Potevio Co., Ltd., and 2% by Hong Kong Yung Shing Enterprise Company. ENC is mainly engaged in R&D and production of mobile telecommunication system equipment and network communication system equipment, etc. It is one of Ericsson’s three major supply and manufacturing centres in the world. Operating revenue of ENC for 2013 amounted to RMB12,397,390,000, representing a decrease of 1.54% year-on-year; net profit amounted to RMB381,300,000, representing an increase of 10.44% year-on-year. Changes of main indicators are due to the decline in revenues resulting from less export income and the increase in profit resulting from the strengthening of cost control.

(2) Beijing SE Putian Mobile Communication Co., Ltd. (“BMC”)

BMC was set up on 8 August 1995 with a total investment of US\$90 million and a registered capital of US\$30 million. BMC is held as to 20% by the Company, 27% by China Potevio Co., Ltd., 26% by Sony Mobile Communications (China) Limited (索尼移動通信產品(中國)有限公司), 25% by Sony Mobile Communications Limited (索尼移動通信有限公司) and 2% by Hong Kong Yung Shing Enterprise Company. BMC is mainly engaged in the manufacture of Sony mobile terminals (mobile phones) and is the principal production base and supply centre of Sony mobile phones. Operating revenue of BMC for 2013 amounted to RMB33,898,440,000, representing an increase of 26.76% year-on-year; net profit was RMB96,080,000, representing a decrease of 77.05% year-on-year. Changes of main indicators are due to the increase in revenues driven by significant boost in export income, and the decline in profit resulting from the payments for taxes of transference price and penalty.

(3) Shenzhen Jingwah Electronics Co., Ltd. (“Shenzhen Jingwah Company”)

Shenzhen Jingwah Company was set up on 8 May 1984 with a registered capital of RMB115,070,000. Shenzhen Jingwah Company is held as to 38.03% by the Company, 5.07% by PEGL, 38.18% by China Electronics Shenzhen Company, 5.07% by Shenzhen CEIEC Property Management Co., Ltd. and 13.65% by employees. Shenzhen Jingwah Company is mainly engaged in the manufacture of communications equipment and digital products. Operating revenue of Shenzhen Jingwah Company for 2013 amounted to RMB1,656,730,000, representing an increase of 27.34% year-on-year; net profit was RMB39,250,000, representing an increase of 0.20% year-on-year. Reasons for changes of main indicators are that export orders for Shenzhen Jingwah Company’s digital products soared, leading to growth in revenue and profit.

3.6 Outlook and Future Plans of the Company

To objectively judge the enterprise’s existing conditions and predict industrial development trend scientifically through analyzing international and domestic economic situations and the development trend of electronic information industry; To combine the national industry policies and focus on mainly three business sectors, i.e. electronic equipment, consumer electronics and electronic manufacturing; To further deepen the reform of the Company’s system and mechanism, and optimize resources allocation; To be oriented by scientific and technological innovation, and supported by the construction of industrial capability; To make efforts to develop main businesses, such as electronic transport equipment, industrial automation equipment, civilian communications equipment, digital home electronics and electronics manufacturing, etc, so as to further boost the Company’s independent innovation capability and advanced manufacturing capability, as well as making efforts to achieve industrial transformation and upgrading; To create a new marketing platform and improve the product sales ability; To further accelerate the adjustment for structures of industry, enterprise, assets and talents, so as to seize a new round of developmental opportunities and become active in the changes of industrial settings; To be committed in achieving the strategic target of “building the Company into a domestic first and internationally known manufacturer and service provider for information and communications products and electronic equipments”.

In 2014, the Company will further boost independent innovation capability, steadily promote the construction of its internal control system, use raised proceeds efficiently and in compliance with the regulations, expand marketing channels, accelerate construction of corporate culture, and proactively build a harmonious enterprise, promote steady and sustainable development of the enterprise. Focus will be placed on the following tasks:

- 3.6.1 Endeavour to achieve all operating targets: The target operating revenue and total profit of the Company in 2014 are RMB3,000,000,000 and RMB220,000,000 respectively. In 2014, as the operation and development environment is still complicated, the attainment of the above targets is still subject to lots of uncertain factors, however, the Company will closely centered on its operation and development target and make efforts to achieve these targets, by way of utilizing internal potential and expanding external markets.
- 3.6.2 Use raised proceeds efficiently and in compliance with regulations: The Company will refine and clarify the plan for the use of raised proceeds, make additional contribution to Technology Development Company, Information Industry Company, Electronics Equipment Company and Communications Technology Company, so as to ensure the use of raised proceeds is legal, in compliance with the regulations and efficient. The Company will also continue to promote the implementation of the investment projects, strengthen the Company's comprehensive strength via the automation equipment industrialization project, communication equipment industrialization project, traffic electronic equipment industrialization project and the construction of R&D center, boost the economic benefits of the Company, further shorten the gap with the world's leading enterprises, and raise the Company's competitiveness in global markets.
- 3.6.3 Further boost independent innovation capability: The Company will well organize the preparation and implementation of the 2014 plan for scientific research projects, consolidate scientific and technological resources, and raise industrialized application of technological achievements. The Company will also coordinate and implement works relating to the reporting and inspection of governmental project as well as the reporting of intellectual property rights of the enterprises it belongs to, promote the introduction of technology and high-level scientific talents and concentrate on making new breakthroughs in key technologies, such as electronic equipment, railway transportation and communication technology.

- 3.6.4 Promote the construction of internal control system steadily: The Company will take more effective measures to enhance control on significant risks, execute the legal review system for contracts, strengthen the prior control of operating behaviors with the focus on contract management, achieve the in-process control of operating behaviors through audit tracking, report on accounts receivables, financial information system tracking and efficiency supervision. The Company will also carry out the management of risks and internal control, evaluation and rectification supervision on key departments, key businesses and key projects by responsibility audit and internal control evaluation activities, consistently improve the system management and firmly push forward the construction of internal control system.
- 3.6.5 Proactively build a harmonious enterprise: The Company will apply the achievements of the Party's mass line education practice in specific works, regard taking care of employees as an important part of our work, pay attention to the problems reflected by employees and ensure the income growth of most general staffs in post. The Company will also care for employees' living, in particular further help and subsidize staffs with difficulties, organize activities liked by employees to enrich their cultural life, proactively build a harmonious enterprise, so as to enhance the cohesion and centripetal force of the enterprise.

3.7 Capital Demands for Maintaining the Existing Business and Completing Construction of the Investment Projects

In 2014, the Company will continue to push forward the electronic equipment industrialization project. At the same time, the Company will further enhance its capability in electronic manufacturing services and actively expand the line of consumer electronics and digital home products.

As for fund sources, in addition to its accumulated profit, the Company issued 258,823,529 ordinary shares dominated in RMB by non-public offering in June 2013, raised proceeds amounted to RMB1,319,999,997.90, which was used to develop electronic equipment industry. For details please refer to the related announcement of the Company on non-public issuance of A shares. Furthermore, the Company will make investments in matters relating to enhancement of electronic manufacturing service capability and expansion of the product line of consumer electronics and digital home products based on the actual conditions.

3.8 Potential Risks

3.8.1 Market risk

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

3.8.2 Risk associated with development of technology

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

3.9 Plan for Profit Distribution

In accordance with the Articles of Association of the Company, it was proposed to distribute a cash dividend of RMB0.66 (tax inclusive) for every ten shares to all the shareholders on the basis of a total share capital of 913,838,529 shares as at 31 December 2013, with the total cash dividend to be distributed amounting to RMB60,313,300, and the remaining part to be carried forward to next year. The Company does not transfer capital reserve into share capital. This proposal was considered and approved at the 12th meeting of the seventh session of the Board of the Company and is submitted to the general meeting for consideration.

3.10 Fulfillment of social responsibility

The Company prepared and disclosed the "Social Responsibility Report of Nanjing Panda Electronics Company Limited for 2013", the full text of which was published at the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

3.11 Significant Events

3.11.1 Asset transactions and enterprise merger

On 23 September 2013, Electronic Manufacture Company, a controlled subsidiary of the Company and CEC LCD, a connected legal person of the Company entered into the Assets Transfer Agreement, pursuant to which Electronic Manufacture Company has agreed to transfer two idle production lines of LCDTV to CEC LCD. For details, please refer to the Announcement on Connected Transaction of Nanjing Panda Electronics Company Limited (Lin 2013-034) published on China Securities Journal, Shanghai Securities News and the website of the Shanghai Stock Exchange on 24 September 2013.

3.11.2 Connected transactions

During the reporting period, the continuing connected transactions conducted between the Group, NEIIC Group, CEC Group (including Financial Company) (the continuing connected transactions which were conducted in the usual course of business and on normal commercial terms) were considered and approved at the extraordinary meeting of the seventh session of the Board of the Company and were approved by independent shareholders at the second extraordinary general meeting of 2012, the procedures of which were in compliance with relevant requirements. All connected transactions were confirmed by the independent non-executive directors of the Company and had not exceeded their respective annual caps.

These continuing connected transactions can provide the Group with a stable source of income and reliable supply of high-quality services, materials, components and parts, which is conducive to the maintaining of stability of the Group's production and operation. In addition, all of these connected transactions were conducted on normal commercial terms and were fair and reasonable with justice pricing and had performed approval procedures in accordance with relevant requirements and were in the benefit of the Company and the shareholders as a whole.

Detailed information regarding the continuing connected transactions between the Group, NEIIC Group and CEC Group (including Financial Company) was set out in the paragraph headed Connected Transactions under Note X(III) to the 2013 annual financial statements of the Company.

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

The auditors of the Company were engaged to report on the Group’s continuing connected transactions in accordance with “Hong Kong Standard on Assurance Engagements 3000” “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules”. The auditors of the Company have issued the letter containing the work result in respect of the aforesaid continuing connected transactions in accordance with Rule 14A. 38 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”), a copy of which has been provided to the Hong Kong Stock Exchange by the Company.

3.11.3 Connected transactions relating to creditor's rights and debts

Unit: RMB0'000

Connected parties	Provision of funds to connected parties			Provision of funds to the Company by connected parties		
	Opening balance	Amount of the transaction	Closing balance	Opening balance	Amount of the transaction	Closing balance
Nanjing Electronics (Kunshan) Co. Ltd.	279.94	0.00	279.94	30.00	0.00	30.00
CEC				3,400.00	0.00	3,400.00
Panda Electronics Group Limited				1,181.40	152.76	1,334.16
Nanjing Thales Panda Transportation System Company Limited				86.03	0.00	86.03
Nanjing Zhongdian Panda Property Management Co., Ltd. (南京中 電熊貓物業管理有限公司)				49.31	-25.42	23.89
Nanjing Panda Electronic Technology Development Company Limited				8.40	-5.82	2.58
Panda (Beijing) International Information Technology Co., Ltd.				4.56	0.00	4.56
Nanjing Panda Electronics Transportation Company				2.23	2.41	4.64
Nanjing Panda Piezoelectric Technology Co., Ltd.				0.02	0.00	0.02
Nanjing Ericsson Panda Communication Co., Ltd.					53.92	53.92
Nanjing China Electronics Panda Liquid Crystal Display Technology Co., LTD					7.24	7.24
Nanjing Electronics Information Industrial Corporation					4.36	4.36
Total	<u>279.94</u>	<u>0.00</u>	<u>279.94</u>	<u>4,761.95</u>	<u>189.45</u>	<u>4,951.40</u>

3.12 Auditors

At the Company's annual general meeting on 20 May 2013, the proposal for reappointment of Baker Tilly Hong Kong Limited and Baker Tilly China (Special General Partnership) as international auditor and the PRC auditor as well as internal control auditor of the Company for 2013 respectively was considered and approved; and the total remuneration for such auditors was determined within the limit of RMB1.7 million.

Baker Tilly China (Special General Partnership) and Baker Tilly Hong Kong Limited have provided the Company with audit services for 6 and 4 consecutive years, respectively. Remuneration paid by the Company to the two abovementioned audit institutions for their audit services for the annual report was aggregately RMB1,700,000, of which RMB1,050,000 was paid to Baker Tilly China (Special General Partnership) while RMB650,000 was paid to Baker Tilly Hong Kong Limited.

In June 2013, the Company entered into a sponsor and underwriting agreement with China Securities Co., Ltd. on the non-public issuance of A shares, pursuant to which, sponsorship and underwriting fees were RMB21.76 million.

3.13 Tax Policies

The Company is registered in the Nanjing New and High-tech Industrial Development Zone, which is approved by the State Council as a national new and high-tech industrial development zone. The Company passed the review of new and high-tech enterprise in September 2011 (certificate no. GF201132000407), which is valid for 3 years. The applicable enterprise income tax ratio is 15% under relevant policies and regulations.

3.14 Code on Corporate Governance and Model Code

During the reporting period, the Company has adopted and complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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

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

3.15 Audit Committee

The Company has set up an Audit Committee in compliance with the requirements of Rule 3.21 of the Listing Rules. The Audit Committee has reviewed the interim financial report for 2013 and the audited financial report for 2013.

- 3.16** The Company acted pursuant to the Provisional Regulations on Basic Medical Insurance for Employees in Nanjing Municipality (the “Regulations”) and implemented a basic medical insurance scheme for its employees since 1 January 2001. The Company pays the premiums for such basic medical insurance scheme and the premiums are equivalent to 8.5% of the verified basic payment of all of the existing employees of the Company and provides subsidy to employees who have serious illness and whose medical expenses are covered under the medical scheme. The total subsidy cost given in 2013 was not more than RMB2,974,000. Save for the aforesaid premiums, the Company is not responsible for any other medical expenses.

- 3.17 Reference is made to the relevant announcements of the Company published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 19 January 2012 and on the website of the Hong Kong Stock Exchange on 18 January 2012, the municipal government of Baixia District, Nanjing entered into a relocation agreement with the Company on the relocation of Nanjing Panda Mechanical and Electrical Equipment Factory. Pursuant to relevant valuation, the municipal government of Baixia District, Nanjing shall pay the Company a relocation compensation of RMB125 million by installments based on the relocation progress. During the reporting period, the said relocation resulted in an increase of RMB72,075,100 in the non-recurring profit and loss of the Company. As at 31 December 2013, the said relocation resulted in an aggregate increase of RMB89,457,500 in the non-recurring profit and loss of the Company.
- 3.18 During the reporting period, the Company purchased liability insurance for its Directors and senior management in compliance with the amendments to the Rules Governing the Listing of Securities on the Main Board issued by the Hong Kong Stock Exchange.
- 3.19 Reference is made to the relevant announcements of the Company published in China Securities Journal and Shanghai Securities News and on the website of the Shanghai Stock Exchange on 31 December 2013, the Guanghai Road office of the district government of Qinhuai District, Nanjing entered into a relocation agreement with the Company on the relocation of the Company's plant situated at No. 1-2 Youyihe Road, Qinhuai District, Nanjing. Pursuant to relevant valuation, the Guanghai Road office of the district government of Qinhuai District, Nanjing (or its designated unit) shall pay the Company a relocation compensation of RMB31.41 million by installments based on the relocation progress. During the reporting period, the said relocation resulted in an increase of RMB11,677,600 in the non-recurring profit and loss of the Company.

IV. MATTERS RELATING TO THE FINANCIAL REPORT

4.1 Auditor's opinion

The 2013 financial report of the Company was audited by Baker Tilly Hong Kong Limited and Baker Tilly China (Special General Partnership) in accordance with Hong Kong Financial Reporting Standards and Accounting Standards for Business Enterprises of China respectively, which issued auditor's reports with unqualified opinions.

4.2 As compared with the last financial report, there are no changes in accounting policies, accounting estimations and accounting methods during the reporting period.

4.3 There was no material accounting deviation adjustment during the reporting period.

4.4 As compared with the last financial report, changes in the scope of consolidation in the financial report for the reporting period are set out below:

Except for deregistration of Nanjing Panda System Integration Co., Ltd., a subsidiary of the Company, on 29 October 2013, there is no other change.

Nanjing Panda Electronics Company Limited

28 March 2014