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

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

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南京熊猫电子股份有限公司

NANJING PANDA ELECTRONICS COMPANY LIMITED

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

(Stock Code: 0553)

**(1) PROPOSED ISSUANCE AND PLACING OF A SHARES AND
(2) CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION
OF NEW A SHARES BY NEIC**

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

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

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

A letter from the Board is set out on pages 1 to 26 of this circular. A letter from the Independent Board Committee is set out on page 27 of this circular. A letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 39 of this circular. A notice convening the EGM and the Proxy Form were despatched to the Shareholders on 9 November 2012. Please refer to the announcement of the Company dated 19 November 2012 for details of the venue of the EGM, which was changed to be held at Hall Charlie, 3/F, Grand Metropark Hotel, 319 Zhongshan Road East, Nanjing. Whether or not you are able to attend and vote at the EGM, please complete and return the Proxy Form in accordance with the instructions printed thereon to the office of the Company as soon as possible and in any event not less than 24 hours before the time of the EGM or any adjournment thereof. Completion and return of the Proxy Form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

7 December 2012

CONTENTS

	<i>Page</i>
DEFINITIONS	ii
LETTER FROM THE BOARD	1
LETTER FROM THE INDEPENDENT BOARD COMMITTEE.....	27
LETTER FROM GUANGDONG SECURITIES.....	28
APPENDIX I — GENERAL INFORMATION	40
APPENDIX II — REPORT ON PREVIOUS USE OF PROCEEDS.....	47
APPENDIX III — FEASIBILITY ANALYSIS REPORT	55

DEFINITIONS

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

“A Shares”	the domestic ordinary shares issued by the Company with a nominal value of RMB1.00 each which are subscribed for and paid in Renminbi, and which are listed on the Shanghai Stock Exchange;
“A Shareholders”	holders of A Shares;
“A Shareholders Class Meeting”	the 2012 first class meeting of the A Shareholders to be held to approve, inter alia, the Proposed Placing of A Shares and the NEIIC Subscription Agreement;
“Articles of Association”	the existing articles of association of the Company;
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“Business Days”	any day on which the Stock Exchange is open for the business of dealing in securities;
“CEC”	China Electronics Corporation (中國電子信息產業集團有限公司), the ultimate controller of the Company;
“Company”	Nanjing Panda Electronics Company Limited, a joint stock company incorporated in the PRC with limited liability;
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“CSRC”	China Securities Regulatory Commission;
“Director(s)”	the directors of the Company;

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held on Monday, 24 December 2012 for the purposes of considering and, if thought fit, approving, inter alia, the Proposed Placing of A Shares and the NEIIC Subscription Agreement;
“Feasibility Analysis Report”	the Feasibility Analysis Report on the Use of Proceeds to be Raised by the Proposed Placing of A Shares of the Company approved by the Board on 7 November 2012, a copy of which is set out in Appendix III to this circular;
“Group”	the Company and its subsidiaries;
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the Hong Kong Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the NEIIC Subscription;
“H Shares”	the overseas listed foreign invested shares issued by the Company with a nominal value of RMB1.00 each which are subscribed for and traded in Hong Kong Dollars, and which are listed on the Main Board of the Hong Kong Stock Exchange;
“H Shareholders”	holders of H Shares;
“H Shareholders Class Meeting”	the 2012 first class meeting of the H Shareholders to be held to approve, inter alia, the Proposed Placing of A Shares and the NEIIC Subscription Agreement;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administration Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent;
“Independent Shareholders”	Shareholders other than PEGL and its associates;
“Information Industry Company”	Nanjing Panda Information Industry Co., Ltd. (南京熊猫信息产业有限公司), a company incorporated according to the PRC laws and a subsidiary of the Company;
“Latest Practicable Date”	3 December 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules;
“Mr. Deng”	Mr. Deng Weiming, a non-executive Director;
“Mr. Hsuan”	Mr. Jason Hsuan, a non-executive Director;
“Mr. Lai”	Mr. Lai Weide, an executive Director;
“Mr. Lu”	Mr. Lu Qing, a non-executive Director;
“Mr. Xu”	Mr. Xu Guofei, an executive Director;
“Mr. Zhu”	Mr. Zhu Lifeng, a non-executive Director;
“Ms. Zhang”	Ms. Zhang Zhengping, a supervisor of the Company;
“NEIIC”	Nanjing Electronics Information Industrial Corporation (南京中电熊猫信息产业集团有限公司), the controlling shareholder of PEGL;
“NEIIC Subscription”	the subscription of new A Shares to be issued under the Proposed Placing of A Shares by NEIIC pursuant to the NEIIC Subscription Agreement;

DEFINITIONS

“NEIIC Subscription Agreement”	the conditional non-public share issue and subscription agreement relating to the NEIIC Subscription entered into between the Company and NEIIC on 7 November 2012;
“PEGL”	Panda Electronics Group Limited (熊猫電子集團有限公司), the controlling Shareholder of the Company holding approximately 51.1% of the total issued share capital of the Company as at the Latest Practicable Date;
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau and Taiwan);
“Pricing Base Date”	8 November 2012, i.e. the date of the announcement of the Board’s resolutions in respect of the Proposed Placing of A Shares;
“Proposed Placing of A Shares”	the proposed placing of not more than 260,500,000 new A Shares by the Company to not more than 10 specific qualified investors (including NEIIC);
“Proxy Form”	the form of proxy for use at the EGM;
“Report on Previous Use of Proceeds”	the Report of Use of Proceeds from the Last Fund Raising Exercise of the Company approved by the Board on 7 November 2012, a copy of which is set out in Appendix II to this circular;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong);
“Shareholder(s)”	A Shareholders and H Shareholders;
“Technology Development Company”	Nanjing Panda Electronic Technology Development Co., Ltd. (南京熊猫電子科技發展有限公司), a company incorporated according to the PRC laws and a subsidiary of the Company;

DEFINITIONS

“TPV Technology”	TPV Technology Limited, a company incorporated in Bermuda with limited liability and listed on the Stock Exchange (Stock Code: 903) whose ultimate controlling shareholder is CEC and whose chairman is Mr. Hsuan;
“trading day”	a day on which the Shanghai Stock Exchange is open for dealing or trading in securities; and
“%”	percentage.

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



南京熊猫电子股份有限公司
NANJING PANDA ELECTRONICS COMPANY LIMITED
(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0553)

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

Registered Address:

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

Office Address:

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

7 December 2012

To the Shareholders

Dear Sir or Madam,

**PROPOSED ISSUANCE AND PLACING OF A SHARES AND
CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION
OF NEW A SHARES BY NEIC**

I. INTRODUCTION

Reference is made to the announcement issued by the Company dated 8 November 2012 in relation to, among other matters, the Proposed Placing of A Shares and the NEIC Subscription, which are subject to the approval of Shareholders at the EGM, the approval of the A Shareholders at the A Shareholders Class Meeting and the approval of the H Shareholders at the H Shareholders Class Meeting.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further details of the Proposed Placing of A Shares; (ii) further details of the NEIC Subscription; (iii) a letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders containing its advice on the NEIC Subscription; and (iv) a letter from the Independent Board Committee with its recommendations on the NEIC Subscription to the Independent Shareholders.

II. PROPOSED ISSUANCE AND PLACING OF A SHARES

1. NEW A SHARES TO BE ISSUED UNDER THE PROPOSED PLACING

On 7 November 2012, the Board passed written resolutions pursuant to which it was resolved that, among other things, subject to Shareholders' approval, the Company will apply to the CSRC for the non-public issuance of no more than 260,500,000 additional A Shares, representing approximately 63.07% of all the A Shares currently in issue or 38.68% of the total issued A Shares as enlarged by the Proposed Placing of A Shares, at a subscription price of not less than RMB5.07 (approximately HK\$6.24)* per A Share. It is proposed that the A Shares under the Proposed Placing of A Shares will be issued to no more than ten investors including NEIC.

* Such amount in RMB has been translated in HK\$ at the rate of RMB1.00=HK\$1.23 for illustration purpose. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

2. STRUCTURE OF THE PROPOSED PLACING OF A SHARES

The structure of the Proposed Placing of A Shares is as follows:

1. Type of shares and nominal value : A Shares, with a nominal value of RMB1.00 each.
2. Method of issue : Non-public issuance. The Company will, within 6 months from obtaining the approval of CSRC, place the A Shares to not more than ten specific qualified investors at the appropriate time.

LETTER FROM THE BOARD

3. Target subscribers : The Company will issue the new A Shares to no more than ten specific investors (including NEIIC). Apart from NEIIC, the scope of other specific qualified investors includes: securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, Qualified Foreign Institutional Investors and other investors entitled to subscribe for A Shares under laws and regulations. The Company will determine the target subscribers other than NEIIC after obtaining the relevant approval for the Proposed Placing of A Shares through bidding.

After approval from the CSRC for the Proposed Placing of A Shares has been obtained, the Company will proceed with the Proposed Placing of A Shares within the validity period of the CSRC's approval and commence the process for determining the identities of the target subscribers other than NEIIC as follows:

- (a) Prior to dispatching invitations to price bidding, the eligible institutional investors meeting the relevant requirements for price bidding shall be determined, which shall exclude all connected persons of the Company.
- (b) After the invitations to price bidding have been dispatched, the sponsor (lead underwriter) and the lawyers of the Company shall screen the identities of the price bidders, including but not limited to inspecting the business licences and shareholding structures, to ensure connected persons do not participate in the price bidding process.
- (c) Upon completion of the price bidding process, the target subscribers shall be determined and the sponsor (lead underwriter) and the lawyers of the Company will provide their expert opinions on the execution of the relevant subscription agreements.

LETTER FROM THE BOARD

As at the Latest Practicable Date, apart from the NEIIC Subscription Agreement, the Company has not entered into any agreement with any potential investors pursuant to the Proposed Placing of A Shares. To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, the Company is not aware, apart from NEIIC, any other potential investors and their respective ultimate beneficial owners are connected persons of the Company and its connected persons. The Company will comply with the relevant requirements of the Hong Kong Listing Rules should there be any changes or if otherwise necessary.

In accordance with the relevant rules and regulations of the PRC, the participation of a connected person of the listed issuer in a non-public issuance of A shares requires approval from its board of directors and shareholders in general meeting. Under the procedures for the implementation of the Proposed Placing of A Shares, no connected persons shall be potential investors in the Proposed Placing of A Shares. In the event any potential investors are subsequently noted to be connected persons, as any proposed subscription by such potential investors would constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules, the Company would re-comply with the reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules by making further announcement and seeking Independent Shareholders' approval, forming an Independent Board Committee to advise the Independent Shareholders on the terms of the subscription by such potential investors and appointing an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same as and when necessary.

LETTER FROM THE BOARD

4. Lock-up period : The shares subscribed by NEIIC are not transferable for a period of 36 months from the date of completion of the Proposed Placing of A Shares. The shares subscribed by other target subscribers apart from NEIIC are not transferable for a period of 12 months from the date of completion of the Proposed Placing of A Shares.
5. Subscription method : All target subscribers will subscribe for the shares under the Proposed Placing of A Shares in cash.
6. Number of A Shares to be issued : Not more than 260,500,000 A Shares. The final number of shares to be issued will be determined by the Board through negotiation with the sponsor (lead underwriter) in accordance with the mandate granted by the Shareholders' general meeting of the Company as well as the actual circumstances at the time of issuance. The number of shares to be issued under the Proposed Placing of A Shares shall be adjusted accordingly in case of ex-rights or ex-dividend during the period from the Pricing Base Date to the issue date.
7. Pricing Base Date and price of the issue : The Pricing Base Date of the Proposed Placing of A Shares is the date of announcement of the resolutions of the 6th meeting of the 7th session of the Board (i.e. 8 November 2012). The issue price per A Share will not be less than 90% of the average trading price of the A Shares in the 20 trading days immediately preceding the Pricing Base Date, i.e. RMB5.07 per A Share (the average trading price of the A Shares in the 20 trading days immediately preceding the Pricing Base Date = the total amount traded in the 20 trading days immediately preceding the Pricing Base Date of the A Shares/the total volume traded in the 20 trading days immediately preceding the Pricing Base Date of the A Shares). The exact issue price will be determined by the Board (pursuant to the authorization granted by the Shareholders' general meeting) after obtaining the approval of the CSRC for the Proposed Placing of A Shares with reference to bid prices offered by target subscribers. The issue price of the Proposed Placing of A Shares will be adjusted correspondingly in case of ex-rights or ex-dividend during the period from the Pricing Base Date to the issue date.

LETTER FROM THE BOARD

NEIIC will not participate in any price bidding process, and has agreed to accept the result of the price bidding process. The subscription price for A Shares applicable to NEIIC will be the same as the price applicable to other target subscribers.

The following safeguards have been adopted to ensure NEIIC and other connected persons of the Company will not participate in any price bidding process:

- (a) NEIIC has agreed in the NEIIC Subscription Agreement that it will not participate in any price bidding process of the Proposed Placing of A Shares, and that it will accept the result of the price bidding process.
- (b) According to Article 9 of the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC, in the event the controlling shareholders, ultimate controlling shareholders, or other controlling connected persons of a listed company shall participate in the subscription of its shares, the subscription price shall be determined by the board of directors of the listed company and approved by the shareholders in general meeting. Apart from NEIIC who has been identified as a target subscriber, no other connected persons of the Company shall participate in the subscription for the A Shares under the Proposed Placing of A Shares through the price bidding process.
- (c) According to the procedures for the dispatch of invitations to price bidding, neither the sponsor (lead underwriter) nor the Company shall dispatch invitations to price bidding to CEC and its associates, ensuring that CEC and its associates (including NEIIC) will not participate in the subscription for the A Shares under the Proposed Placing of A Shares.

LETTER FROM THE BOARD

- (d) In accordance with Article 25 of the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC, during the price bidding process, the Company and the sponsor (lead underwriter) shall ensure that none of the staff shall disclose the application bidding prices of the potential target subscribers. The application bidding process shall be witnessed by lawyers of the Company.
- (e) According to Article 27 of the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC, after the expiration of the period for price bidding, the Company and the sponsor (lead underwriter) shall determine the identities of the target subscribers, the subscription price and number of shares of the subscription applying the principle of higher priority to higher bidding prices to the valid subscription applications. The principle of higher priority to higher bidding prices ensures that the highest bidding potential target subscribers shall be issued the new A Shares under the Proposed Placing of A Shares, thus bidding by investors with no actual intent to subscribe will not affect the determination of the subscription price.
- (f) In accordance with Article 30 of the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC, the report of the sponsor (lead underwriter) on the issuance process and determination of subscription targets shall detail the process of the Proposed Placing of A Shares, the price bidding process and the determination of the identities of the target subscribers, and confirm whether the Proposed Placing of A Shares results are fair and just and in compliance with the relevant regulations.

LETTER FROM THE BOARD

In accordance with Article 31 of the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC, the report of the lawyers of the Company on the issuance process and determination of subscription targets shall detail the process of the Proposed Placing of A Shares, and provide their opinion on whether the process and results of the Proposed Placing of A Shares are fair, just and in compliance with relevant regulations. The lawyers of the Company shall witness the subscription invitations, application bidding process, execution of subscription agreements and other relevant legal documents, and confirm the effectiveness of such legal documents in their report.

8. Place of listing : After the expiration of the lock-up period, the A Shares issued pursuant to the Proposed Placing of A Shares will be listed and traded on the Shanghai Stock Exchange.
9. Use of proceeds : The proceeds raised will not exceed RMB1,320,000,000 through the Proposed Placing of A Shares. After deduction of the relevant expenses, the net proceeds will be used in the automation equipment industrialization project of Technology Development Company, communication equipment industrialization project of Technology Development Company, traffic electronic equipment industrialization project of Information Industry Company and R&D center project of Technology Development Company; and to supplement working capital, details of the project investments are as follows:

LETTER FROM THE BOARD

Unit: RMB0'000

No.	Project name	Entities to implement the project	Total investment in project	Proposed amount of proceeds to be applied
1	Automation equipment industrialization project	Technology Development Company	61,563	61,563
2	Communication equipment industrialization project	Technology Development Company	24,544	24,544
3	Traffic electronic equipment industrialization project	Information Industry Company	14,955	14,955
4	R&D center project	Technology Development Company	20,996	20,938
5	Supplement working capital	the Company	—	10,000
Total			—	132,000

If the net proceeds raised in the Proposed Placing of A Shares are less than the total proposed amount of proceeds to be applied above, the Company will make up the shortfall through internal resources. If the actual net proceeds raised in the Proposed Placing of A Shares are more than the amount proposed above, the excessive amount will be used to supplement working capital. Before the proceeds raised are available to the Company, the Company shall, in accordance with the actual progress of the projects, invest in such projects using other internal capital resources which will be replaced with the proceeds raised later. On the condition that these projects are not changed, the Board may make appropriate adjustments to the sequence and amount of proceeds for the above projects with reference to their actual financial requirements.

LETTER FROM THE BOARD

10. Arrangements : The new Shareholders after completion of the Proposed with regard to Placing of A Shares and existing Shareholders will share the undistributed profits cumulated prior to the Proposed Placing of A Shares.
11. Period of validity : 12 months from the date of the resolutions of the Proposed Placing of A Shares passed at the respective EGM, A Shareholders Class Meeting and H Shareholders Class Meeting of the Company.

3. SHAREHOLDERS' APPROVAL AND OTHER APPROVALS

The Proposed Placing of A Shares is subject to approval by Shareholders at the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting as well as the approval of the relevant authorities in the PRC.

The Directors (including the independent non-executive Directors) consider that the terms of the Proposed Placing of A Shares, including the subscription price, are on normal commercial terms and are fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

The Shareholders and potential investors should be aware that the Proposed Placing of A Shares is subject to the conditions set out above, and consequently the Proposed Placing of A Shares may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the Shares.

The proposal in relation to the Proposed Placing of A Shares will be put forward at the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting as a special resolution for consideration and approval by the Shareholders. PEGL and its associates, being connected Shareholders, will abstain from voting on this resolution.

4. DETAILED PLAN FOR THE PROPOSED PLACING OF A SHARES

In accordance with the Company Law, the Securities Law, the Measures for Administration of the Issue of Securities by Listed Companies and the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC and other related regulations in relation to the conditions of non-public issue of A shares by listed companies, the Company formulates the detailed plan for the Proposed Placing of A Shares, the major content of which has been included in relevant sections of this circular.

The proposal in relation to the detailed plan for the Proposed Placing of A Shares will be put forward at the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting as a special resolution for consideration and approval by the Shareholders. PEGL and its associates, being connected Shareholders, will abstain from voting on this resolution.

5. PROPOSAL IN RELATION TO SATISFACTION OF CONDITIONS FOR THE PROPOSED PLACING OF A SHARES

In accordance with the Company Law, the Securities Law, the Measures for Administration of the Issue of Securities by Listed Companies and the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC and other related regulations in relation to the conditions of non-public issue of A shares by listed companies, the Company conducted internal review and self-examination and considers that the Company has complied with the regulations of the prevailing laws and rules on non-public issue of A Shares, and satisfied the conditions for non-public issue of A Shares.

The proposal in relation to satisfaction of the conditions for the Proposed Placing of A Shares will be put forward at the EGM as a special resolution for consideration and approval by the Shareholders. No Shareholders will be required to abstain from voting on this resolution.

6. REPORT ON PREVIOUS USE OF PROCEEDS

According to the requirements of relevant laws and regulations and regulatory documents such as the Regulations for Reports on the Use of Proceeds from Previous Fund Raising issued by the CSRC, the Company has prepared the Report on Previous Use of Proceeds, a copy of which is set out in Appendix II to this circular.

LETTER FROM THE BOARD

According to the Report on Previous Use of Proceeds, the Company had issued 23,000,000 A Shares on the Shanghai Stock Exchange in November 1996. The Company received an aggregate subscription price in the amount of RMB117,300,000 from shareholders. After deduction of underwriting commission and other fees incurred in the issuance, the actual net proceeds raised from the A Share issue amounted to RMB111,993,000.

The Company had issued 242,000,000 H Shares on the Hong Kong Stock Exchange in April 1996. The Company received an aggregate subscription price in the amount of HK\$515,460,000 from shareholders, with interest in the amount of HK\$76,541.54. After deduction of underwriting commission and other fees incurred in the issuance, the actual net proceeds raised from the H Share issue amounted to HK\$470,000,000 (equivalent to RMB506,378,000)**.

** Such amount in HK\$ has been translated in RMB at the rate of HK\$1.00=RMB1.0774 for illustration purpose. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

The Company confirmed that the actual use of proceeds raised from the previous issuances of A Shares and H Shares in projects invested was consistent with the proposals of the use of proceeds as disclosed in the relevant A Shares prospectus and H Shares prospectus with respect to the initial public offering of the Company, periodic reports and other information disclosure documents.

After examining the use of proceeds from the last fund raising exercise of the Company, Baker Tilly China issued the Verification Report on the Use of Proceeds from the Last Fund Raising Exercise of the Company (TZ Hu QJ[2012] No.T119). Baker Tilly China was of the opinion that the Report on Previous Use of Proceeds was prepared by the Company in accordance with the Regulations for Reports on the Use of Proceeds from Previous Fund Raising promulgated by CSRC, and reflected in all material respects the use of proceeds from the last fund raising exercise of the Company.

According to the requirements of the CSRC, the Report on Previous Use of Proceeds will be submitted to the Shareholders for their consideration and approval by way of a special resolution at the EGM. No Shareholders will be required to abstain from voting on this resolution.

7. FEASIBILITY ANALYSIS REPORT

The detailed use of proceeds from the Proposed Placing of A Shares are set out in paragraph 2(9) headed “Use of Proceeds” in Section II of this circular. Details in relation to the use of proceeds are further set out in the Feasibility Analysis Report, a copy of which is set out in Appendix III to this circular, and are summarized as follows:

(I) Automation equipment industrialization projects

It is one of the major missions of the PRC government to vigorously develop automation manufacturing equipment during the “Twelfth Five-Year” period, as automated and intelligent production is the major trend of the manufacturing industry upgrade in the future.

There is huge demand in the automation manufacturing equipment market in the PRC. However, domestic enterprises are relatively underdeveloped in this technology-, talent- and capital-intensive industry, as their American, Japanese and European peers have long dominated the markets of the related products. Since 1994, when the approval of the former State Economic and Trade Commission to establish the “national production technology development center” was obtained, the Company has long been engaged in the development, manufacturing and sales of industrial automation equipment, and possessed high-end core technologies in the sector of industrial robots and complete automation equipment in the PRC.

The Company intends to use proceeds from the Proposed Placing of A Shares towards the automation equipment industrialization projects to be implemented by Technology Development Company in Nanjing Economic and Technological Development Zone. The construction period of this project is expected to be 24 months.

The proceeds will be mainly used for such projects as industrial robots, automatic transmission equipment, and automatic filling equipment. The implementation of the above projects will enable the Company to expand its existing production capacity, further boost its business scale and core competitiveness, break the monopoly by its foreign rivals, and lay a solid foundation for its rapid and sustainable growth in both revenue and profit in the future.

The total investment for these projects is RMB615,630,000 and is intended to be funded out of the proceeds from the Proposed Placing of A Shares. The estimated annual profit growth of this project is RMB170,861,000, with promising economic benefits.

(II) Communication equipment industrialization projects

According to the Decision of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries (《國務院關於加快培育和發展戰略性新興產業的決定》) and the Twelfth Five-Year Development Plan for the Communication Industry (《通信業「十二五」發展規劃》) promulgated by the Ministry of Industry and Information Technology, furthering universal services in information communication and boosting capabilities in security and emergency guarantees will be focused on.

The Company's mobile satellite communications engineering research center is at the national level and the Company possesses strong research and development capabilities in respect of emergency satellite communications, satellite panel antenna communication systems and new-generation dedicated mobile communication systems. With the development of society and rising living conditions of the people, the need for communication guarantee in case of various emergencies has become increasingly urgent.

The Company intends to use proceeds from the Proposed Placing of A Shares towards the communication equipment industrialization projects to be implemented by Technology Development Company in Nanjing Economic and Technological Development Zone. The construction period of this project is expected to be 24 months.

The proceeds will be mainly used for such projects as emergency communication, satellite panel antenna communication systems and new-generation dedicated mobile communication systems. The implementation of the above projects will enable the Company to expand the production capacity of the above products, further strengthen its technological edges and rapidly increase market shares to pave the way for leapfrog development.

The total investment for these projects is RMB245,440,000, and is intended to be funded out of the proceeds from the Proposed Placing of A Shares. The estimated annual profit growth of this project is RMB79,604,000, with promising economic benefits.

(III) Traffic electronic equipment industrialization projects

China is now in the process of large-scale urbanization. With fast-rising car ownerships, and increasing supply-and-demand imbalance in urban public transport, there is an increasingly urgent need for construction of railway transit. On 5 September 2012, the National Development and Reform Commission revealed feasibility reports on 13 railway lines, with aggregated length of 396.39 kilometers and approved investments of RMB250.496 billion. The said railway lines are expected to be fully completed by 2017, and contribute additional investments of RMB50 billion per year to railway transit construction.

It is projected that China will have an average of 25-35 railway transit projects in respect of the automatic fare collection (AFC) system, the ticket clearance management center (ACC) system, and communication system integration in the coming five years. After eight years of development in the railway transit industry, the Company possesses complete project implementation capabilities in respect of AFC systems, ACC systems and communications systems integration, with fully proprietary intellectual property rights to the AFC systems, ACC systems and relevant terminal equipment, and has developed various product series to meet different users' demands. During recent years, with its expanding business scale and rising contract reserves, the Company has seen its demand for subsequent investment substantially increase in order to consolidate its leading position in the market.

The Company intends to use proceeds from the Proposed Placing of A Shares towards the traffic electronic equipment industrialization projects to be implemented by Information Industry Company in Nanjing Economic and Technological Development Zone. The construction period of this project is expected to be 24 months.

The proceeds from the Proposed Placing of A Shares will be mainly used towards AFC systems, ACC systems and dedicated railway transit communication systems. The implementation of these projects will enable the Company to further increase its technological edge, gain larger market shares and strengthen its leading position in the industry.

The total investment for these projects is RMB149,550,000, and is intended to be funded out of the proceeds from the Proposed Placing of A Shares. The estimated annual profit growth of this project is RMB44,502,000, with promising economic benefits.

(IV) R&D center project

The Company intends to use proceeds from the Proposed Placing of A Shares towards the R&D center project to be implemented by Technology Development Company in Nanjing Economic and Technological Development Zone. The construction period of this project is expected to be 24 months.

Upon completion, this project will be positioned as a technology, design and R&D center for high-end electronic equipment, which can provide strong technical support for the Company to maintain its technological edge and achieve sustainable growth.

Through implementing the R&D center project, the Company can build up its R&D strength, consolidate its technological resources, expand its research domains, further boost its technological edge in the industry, enhance product quality and its comprehensive competitiveness. The R&D center project will drive the continued growth and development of the Company.

The total investment for this project is RMB209,960,000, RMB209,380,000 of which is intended to be funded out of the proceeds from the Proposed Placing of A Shares.

(V) Replenishment of working capital

The high-end electronic equipment industry in which the Company operates is technology-, talent- and capital-intensive in nature. The Company has not engaged in equity financing activities since it raised funds through initial public offering in 1996. The Company funds its development mainly with its own accumulated profits and bank loans.

In recent years, the Company has been focused on the development of the high-end electronic equipment industry and achieved sustained and fast growth in principal businesses. With the expansion of business scales, the Company's needs for capital to fund its day-to-day operations and development have also been growing. After completion of the Proposed A Shares Placing, the production scales of the Company's automation equipment, communication equipment and electronic traffic equipment businesses will be further expanded and the Company's market shares will be larger, leading to stronger capital needs in future.

LETTER FROM THE BOARD

To supplement the working capital with part of the proceeds of the Proposed A Shares Placing will not only satisfy the Company's capital needs to support the sustainable development of its principal activities, but will help lower the Company's liquidity risk and strengthen its risk-resistant ability and competitiveness.

According to the requirements of the CSRC, the Feasibility Analysis Report will be submitted to the Shareholders for their consideration and approval by way of a special resolution at the EGM. No Shareholders will be required to abstain from voting on this resolution.

8. AUTHORIZATION TO THE BOARD

The Board also proposes that the Shareholders approve the authorizations to the Board to deal with, at its full discretion, specific matters relating to the Proposed Placing of A Shares, including but not limited to:

- (1) to formulate and implement the specific plan for the Proposed Placing of A Shares based on actual conditions pursuant to the resolutions approved at the Shareholders' general meetings, including but not limited to, determining the timing, number of shares to be issued, the commencement and the end of the issue period, issuance price, method of issuance, the target subscribers, subscription method, subscription proportion and all other matters relating to the price determination;
- (2) to approve and sign any significant contracts in implementation of the projects to be financed by the proceeds raised by the Proposed Placing of A Shares; and approve and sign any documents and agreements relating to the Proposed Placing of A Shares;
- (3) to determine and engage intermediaries such as sponsors (lead underwriter) to handle the reporting matters relating to the Proposed Placing of A Shares; to execute any agreement and documents relating to the Proposed Placing of A Shares and share subscription, including but not limited to underwriting agreement, sponsor agreement and the agreements for engagement of intermediaries, etc.;
- (4) to make appropriate adjustments to the sequence and amount of the application of raised proceeds according to the actual needs of the projects, provided that no change shall be made to the projects under this Proposed Placing of A Shares;

LETTER FROM THE BOARD

- (5) to make consequential amendments to all relevant provisions in the Articles of Association in relation to, among others, the registered capital and total number of issued shares based on the results of the Proposed Placing of A Shares, and to deal with relevant registration procedures with the industrial and commercial administration authorities;
- (6) to handle matters relating to the listing on the Shanghai Stock Exchange of the A Shares issued under the Proposed Placing of A Shares upon completion of the Proposed Placing of A Shares;
- (7) to decide on the extension of implementation period of the Proposed Placing of A Shares in the event of force majeure or other circumstances which may make it impractical to implement the Proposed Placing of A Shares or incur adverse impact on the Company should it be implemented, or in the event of any changes in relevant policies governing the Proposed Placing of A Shares, to revise the specific plan for the Proposed Placing of A Shares and proceed with the revised plan according to the new policies.
- (8) to deal with, at its absolute discretion, all other matters relating to the Proposed Placing of A Shares; and
- (9) these authorizations shall be valid for a period of 12 months from the date of passing of this resolution at the general meeting.

This proposal will be submitted to the Shareholders for their consideration and approval by way of a special resolution at the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting. PEGE and its associates, being connected Shareholders, will abstain from voting on this resolution.

III. CONNECTED TRANSACTION: NEIIC SUBSCRIPTION

BACKGROUND INFORMATION

As disclosed in the announcement of the Company dated 8 November 2012, on 7 November 2012, the Company and NEIIC entered into the conditional NEIIC Subscription Agreement, pursuant to which, NEIIC has agreed to subscribe for the new A Shares at a total subscription price of RMB200 million, at a price of not less than RMB5.07 per share. The maximum number of new A Shares to be subscribed under the NEIIC Subscription Agreement is 39,447,732 A Shares. The subscription price for NEIIC will be the same as the subscription price for other investors under the Proposed Placing of A Shares.

1. Date : 7 November 2012
2. Parties : (a) the Company; and
(b) NEIIC
3. Subscription target and amount : Subscription for the A Shares under the Proposed Placing of A Shares at a cash consideration of RMB200 million.
4. Subscription price and pricing methods : The subscription price will be equal to the issue price of A Shares under the Proposed Placing of A Shares (i.e. the subscription price payable by other target subscribers other than NEIIC), and NEIIC shall not participate in the price bidding process for the Proposed Placing of A Shares and will accept the bidding results.
5. Lock-up period : The shares to be subscribed by NEIIC are not transferable within thirty six (36) months from the completion date of the Proposed Placing of A Shares.
6. Method and time for payment of subscription amount : Within 3 working days after obtaining by the Company the approval of the Proposed Placing of A Shares from CSRC and receipt by NEIIC of the payment notice on subscription amount from the Company, NEIIC shall transfer all the subscription amount in cash to the account for the Proposed Placing of A Shares specifically opened by the sponsor in lump sum, and then to the special savings account for fundraising of the issuer after deducting relevant charges upon completion of the capital verification.

LETTER FROM THE BOARD

7. Subscription conditions : The NEIIC Subscription Agreement is conditional upon fulfillment of the following conditions:
- (a) the official execution of the NEIIC Subscription Agreement by NEIIC and the Company;
 - (b) the consideration and approval of the NEIIC Subscription Agreement by the Board;
 - (c) the approval of the NEIIC Subscription Agreement at the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting;
 - (d) the approval of the Proposed Placing of A Shares by the relevant PRC authorities;
 - (e) the approval of the Proposed Placing of A Shares by the CSRC.

The NEIIC Subscription Agreement and the NEIIC Subscription will be put forward at the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting as a special resolution for consideration and approval by the Shareholders. PEGL and its associates, being connected Shareholders, will abstain from voting on this resolution.

LETTER FROM THE BOARD

EFFECT OF THE PROPOSED PLACING OF A SHARES AND THE NEIIC SUBSCRIPTION ON THE COMPANY'S SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date:

Name of Shareholder	Number of Shares held	As at the Latest Practicable Date	
		Approximate percentage of the total issued A Share capital of the Company (%)	Approximate percentage of the total issued share capital of the Company (%)
PEGL	334,715,000	81.04	51.10
Public holders of A Shares	78,300,000	18.96	11.95
Public holders of H Shares	242,000,000	—	36.95
Total	<u>655,015,000</u>	<u>100</u>	<u>100</u>

Immediately after the completion of the Proposed Placing of A Shares and the NEIIC Subscription, assuming the issue of the maximum of 260,500,000 additional A Shares:

Name of Shareholder	Number of Shares held	Upon completion of the Proposed Placing of A Shares and the NEIIC Subscription	
		Approximate percentage of the total issued A Share capital of the Company (%)	Approximate percentage of the total issued share capital of the Company (%)
NEIIC	39,447,732	5.86	4.31
PEGL	334,715,000	49.70	36.56
Public holders of A Shares	299,352,268	44.44	32.70
Public holders of H Shares	242,000,000	—	26.43
Total	<u>915,515,000</u>	<u>100</u>	<u>100</u>

LETTER FROM THE BOARD

As at the Latest Practicable Date, PEG L is a shareholder of the Company holding approximately 51.10% of the total issued share capital of the Company, while NEIIC holds 56.85% equity interest in PEG L, the controlling shareholder of the Company, and hence is the controlling shareholder of PEG L. Immediately after completion of the NEIIC Subscription, NEIIC will directly hold not more than 39,447,732 Shares, and its direct shareholding percentage will be changed from nil at present to 4.31% of the enlarged total issued share capital of the Company (assuming full subscription and issuance of the maximum 260,500,000 new A Shares that will be issued under the Proposed Placing of A Shares).

REASONS FOR AND BENEFITS OF ENTERING INTO THE PROPOSED PLACING OF A SHARES AND THE NEIIC SUBSCRIPTION

The Directors (including independent non-executive Directors) are of the view that the Proposed Placing of A Shares and the NEIIC Subscription will further enhance the comprehensive strength and core competitiveness of the Company, consolidate its position as the market leader, realize the Company's development strategy on integration and optimisation of the industrial chain, boost its results and bring higher returns to the Shareholders.

The implementation of the projects to be financed by the proceeds from the Proposed Placing of A Shares will further increase the Company's production capacities and market shares in key regions, further expand the Company's market influence, create new profit sources, enhance the Company's technology development strengths, improve product quality and reduce production costs, which will in turn enhance the Company's profitability and core competitiveness.

Furthermore, supplementing the working capital of the Company with the proceeds from the Proposed Placing of A Shares will help strengthen the Company's financial health and optimize its financial structure by directly improving the Company's cash flow status and reducing its finance expenses.

Taking into account the above, the Board (including the independent non-executive Directors) considers that it is in the interest of the Company to enter into the Proposed Placing of A Shares and the NEIIC Subscription and that the terms of the NEIIC Subscription Agreement have been negotiated at arm's length and on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

As a result of the Proposed Placing of A Shares, the Company has to make certain amendments to its Articles of Association, inter alia, the number of issued shares and amount of registered capital. The amendments will be based on the results of the Proposed Placing of A Shares. The Company will make further announcement to provide details on the proposed amendments to the Articles of Association and fully comply with the requirements of Rule 13.51(1) of the Listing Rules at the material time.

FUND RAISING IN THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activities involving the issue of equity shares within the 12 months immediately prior to the Latest Practicable Date.

REQUIREMENTS UNDER THE HONG KONG LISTING RULES

As stated above, PEGL is the controlling shareholder of the Company, holding approximately 51.10% of the total issued share capital of the Company, while NEIIC holds 56.85% equity interest in PEGL and hence is the controlling shareholder of PEGL. Pursuant to the Hong Kong Listing Rules, NEIIC, PEGL and their respective associates are connected persons of the Company and the transactions contemplated under the NEIIC Subscription Agreement constitute connected transactions of the Company.

As the applicable percentage ratios for the transactions contemplated under the NEIIC Subscription Agreement exceed 5% and the relevant consideration is more than HK\$10,000,000, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

PEGL and its associates will abstain from voting on the resolutions approving (i) the plan for the Proposed Placing of A Shares; (ii) the detailed plan for the Proposed Placing of A Shares, (iii) the NEIIC Subscription Agreement and the NEIIC Subscription, and (iv) the authorization to the Board to deal with matters relating to the Proposed Placing of A Shares, i.e. Special Resolution Nos.2, 3, 6 and 7 as set out in the notice convening the EGM of the Company and Special Resolution Nos.1, 2, 3 and 4 as set out in the notice convening the H Shareholders Class Meeting of the Company, both dated 8 November 2012.

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES

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

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

IV. THE EGM

A notice convening the EGM was despatched to the Shareholders on 9 November 2012. Please refer to the announcement of the Company dated 19 November 2012 for details of the venue of the EGM, which was changed to be held at Hall Charlie, 3/F, Grand Metropark Hotel, 319 Zhongshan Road East, Nanjing. The register of members relating to H-shares of the Company will be closed from 21 November 2012 to 24 December 2012, both days inclusive, during which period no transfer of H-shares of the Company will be registered. In order to attend the EGM, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Hong Kong Registrars Limited, at 46th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 20 November 2012.

Pursuant to Rule 14A.59(5) of the Hong Kong Listing Rules, any connected person with a material interest in the NEIIC Subscription, and any Shareholder with a material interest in the NEIIC Subscription and its associates will not vote on such transaction.

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

LETTER FROM THE BOARD

As disclosed in Appendix I to this circular, Mr. Lai holds offices in CEC and PEGL, Mr. Xu holds offices in NEIIC and PEGL, Mr. Zhu, Mr. Deng and Mr. Lu hold offices in PEGL, and Mr. Hsuan holds an office in TPV Technology, and are all therefore connected persons of the Company and had abstained from voting on the relevant resolutions of the Board approving the Proposed Placing of A Shares and the NEIIC Subscription. Directors who have material interests in the Proposed Placing of A Shares will abstain from voting in future board resolutions involving approval of the arrangements of the Proposed Placing of A Shares.

Mr. Xu (an executive Director), Mr. Zhu (a non-executive Director) and Ms. Zhang (a supervisor of the Company), who hold approximately 0.00039%, 0.00071% and 0.00067% respectively of the total issued share capital of the Company, are connected persons of the Company. Therefore, PEGL and its associates, Mr. Xu, Mr. Zhu and Ms. Zhang will be required to abstain from voting in respect of the resolutions approving (i) the plan for the Proposed Placing of A Shares; (ii) the detailed plan for the Proposed Placing of A Shares, (iii) the NEIIC Subscription Agreement and the NEIIC Subscription, and (iv) the authorization to the Board to deal with matters relating to the Proposed Placing of A Shares, i.e. Special Resolution Nos.2, 3, 6 and 7 as set out in the notice convening the EGM of the Company and Special Resolution Nos.1, 2, 3 and 4 as set out in the notice convening the H Shareholders Class Meeting of the Company, both dated 8 November 2012. Save as disclosed above, no other associates of NEIIC or PEGL holds any shares in the Company and will be required to abstain from voting in respect of the resolutions approving the Proposed Placing of A Shares and the NEIIC Subscription.

V. PROXY ARRANGEMENT

The Proxy Forms were despatched to the Shareholders on 9 November 2012. Whether or not you intend to attend the EGM, you are requested to complete the Proxy Form in accordance with the instructions printed thereon and return the same to the office of the Company as soon as possible but in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the Proxy Form will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

VI. VOTING BY POLL

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

LETTER FROM THE BOARD

VII. RECOMMENDATION

The Directors who do not have material interests in the Proposed Placing of A Shares (“the non-interested Directors”) are of the opinion that the Proposed Placing of A Shares and the NEIC Subscription are all in the interests of the Company and the Shareholders. Accordingly, the non-interested Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

The text of the letter from the Independent Board Committee is set out on page 27 of this circular. The text of the letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 39 of this circular. Independent Shareholders are strongly recommended to read carefully these two letters for details of the advice.

VIII. GENERAL

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

IX. ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



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

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

(Stock Code: 0553)

7 December 2012

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION: NEIIC SUBSCRIPTION

We have been appointed as members of the Independent Board Committee to advise you in connection with the NEIIC Subscription contemplated under the NEIIC Subscription Agreement, details of which are set out in the Letter from the Board contained in the circular dated 7 December 2012 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Unless specified otherwise, capitalized terms used herein shall have the same meanings as those defined in the Circular.

Having considered the terms of the NEIIC Subscription Agreement and the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned and having considered the advice of Guangdong Securities and the principal factors and reasons taken into consideration by it in arriving at its advice as set out on pages 28 to 39 of the Circular, we are of the opinion that the terms of the NEIIC Subscription Agreement are fair and reasonable and the NEIIC Subscription is in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant special resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of the
Independent Board Committee

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

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the NEIC Subscription Agreement and the transactions contemplated thereunder for the purpose of inclusion in this circular.



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

7 December 2012

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

Dear Sirs,

CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION OF NEW A SHARES BY NEIC

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the NEIC Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 7 December 2012 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 7 November 2012, the Board passed written resolutions pursuant to which it was resolved that, among other things, subject to Shareholders' approval, the Company will apply to the CSRC for the non-public issuance of no more than 260,500,000 additional A Shares, representing approximately 63.07% of all the A Shares currently in issue or 38.68% of the total issued A Shares as enlarged by the Proposed Placing of A Shares, at a subscription price of not less than RMB5.07 (approximately HK\$6.24) per A Share. It is proposed that the A Shares under the Proposed Placing of A Shares will be issued to no more than ten investors including NEIC.

LETTER FROM GUANGDONG SECURITIES

On the even date, the Company and NEIIC entered into the conditional NEIIC Subscription Agreement, pursuant to which, NEIIC has agreed to subscribe for the new A Shares at a total subscription price of RMB200 million (approximately HK\$246 million), at a price of not less than RMB5.07 per share. The maximum number of new A Shares to be subscribed under the NEIIC Subscription Agreement is 39,447,732 A Shares. The subscription price for NEIIC will be the same as the subscription price for other investors under the Proposed Placing of A Shares.

According to the Board Letter, NEIIC is a connected person of the Company and the NEIIC Subscription therefore constitutes a connected transaction for the Company under the Hong Kong Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements. NEIIC and its associates, Mr. Xu, Mr. Zhu and Ms. Zhang will abstain from voting on resolution to approve the NEIIC Subscription Agreement and transactions contemplated thereunder at the EGM.

An Independent Board Committee comprising Ms. Zhang Xiuhua, Ms. Liu Danping and Mr. Chu Wai Tsun, Vincent (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the NEIIC Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the NEIIC Subscription is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the NEIIC Subscription Agreement and the transactions contemplated thereunder at the EGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

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

LETTER FROM GUANGDONG SECURITIES

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

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the NEIIC Subscription, we have taken into consideration the following principal factors and reasons:

(1) Background of the Placing

Information on the Group

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

LETTER FROM GUANGDONG SECURITIES

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

	For the six months ended 30 June 2012	For the year ended 31 December 2011	For the year ended 31 December 2010	% growth from 2010 to 2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Turnover	1,041,745	2,115,641	1,664,885	27.07
Profit and total comprehensive income for the period/year	54,767	116,095	7,744	1,399.16

	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	% growth from 2010 to 2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Total assets	2,946,051	2,713,131	2,574,847	5.37
Total liabilities	1,330,933	1,117,689	1,087,789	2.75
Net assets	1,615,118	1,595,442	1,487,058	7.29
Cash and cash equivalents	329,511	343,783	392,370	(12.38)
Bank borrowings	558,534	427,368	520,574	(17.90)

As depicted by the above table, the Group's turnover improved significantly from 2010 to 2011. The Group's profit and total comprehensive income for the period also increased significantly by approximately fourteen times from approximately RMB7.7 million in 2010 to approximately RMB116.1 million in 2011. As advised by the Directors, such increase was due to the great strides in principal businesses such as electronic manufacturing products, electronic intelligent products, electronic equipment products and the increase in share of profits of associates.

From the above table, we also noted that the Group's cash and cash equivalents has decreased in the past two financial years. In addition, the Group's total liabilities and bank borrowings as at 30 June 2012 increased as compared to the same as at 31 December 2010.

With reference to the 2012 Interim Report and as advised by the Directors, in the second half of the year, the Company will steadily push forward the adjustment to business structure, corporate structure, assets structure and personnel structure, proceed with the reorganization and integration of the specialized subsidiaries of the Company, so as to rationalize equity relationship, optimize business layout, consolidate the business segment centering on electronic equipment and electronic manufacturing and expand the consumer electronics business. The Company will continue to increase research investment to enhance independent innovation capability and improve the technical added value of products to raise the competitiveness of its products.

Information on NEIIC

With reference to the Board Letter, NEIIC is principally engaged in the research and development, services and transfer of electronic information technologies; research and development, manufacture, sale and relevant services of electronic products; design, construction and relevant services of electronic engineering; investment in real estate; property management; industrial investment and assets operation and management services.

Financing alternatives available to the Group

As referred to in the Board Letter, the Company had not conducted any fund raising activities in the past 12 months immediately prior to the Latest Practicable Date.

Upon our enquiry with the Directors in this respect, we understand that the Directors have considered both debt and equity financing as fund raising methods for the Group from Hong Kong capital market and/or PRC capital market. In relation to debt financing, the Directors advised us that in light of that (i) the debt financing may incur interest expenses as compared to equity financing; and (ii) the Company does not prefer to increase the Group's gearing level and create additional debt liabilities to the Group, debt financing is considered to be less preferable for the Group at present.

The Directors advised us that having considered the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB and the funding requirement of the Group in RMB to finance the Projects, it will be in the interest of the Company to issue new A Shares to obtain the funding directly in RMB. In the event that, the Company conducts fund raising activities by issuance of new H Shares in Hong Kong, the Company is required to convert the foreign currencies raised from such issue to RMB, as well as to go through relevant procedures and approvals as required by the relevant PRC rules and regulations to transfer the proceeds back to the PRC for the Group's uses.

Furthermore, according to the Measures for Administration of the Issue of Securities by Listed Companies and the Implementation Rules for the Non-Public Issuance of Shares by Listed Companies issued by the CSRC (the “**Measures**”), the non-public issuance of new A shares is generally subject to a lock-up period of not less than (i) 36 months period for (a) the controlling shareholders, their beneficial owners, or their associates; (b) investors who obtain the control power upon the completion of the issuance; and (c) strategic investors as introduced by the board of the company; or (ii) 12 months period for the other investors from the date of the completion of the issuance. With reference to the Board Letter, the A Shares to be subscribed by NEIIC shall not be transferable for a period of 36 months from the date of completion of the Proposed Placing of A Shares. The A Shares to be subscribed by other target subscribers apart from NEIIC are not transferable for a period of 12 months from the date of completion of the Proposed Placing of A Shares. However, there is no similar compulsory regulatory requirement in relation to lock-up for H shares listed in Hong Kong. In light of the aforementioned, the Directors are of the view that the issuance of new A shares has limited the negative impact to the A Share market price of the Company with a lock-up period.

With regard to equity financing, the Directors advised us that although both open offer and rights issue would allow Shareholders to maintain their respective pro-rata shareholdings in the Company and at the same time strengthening the capital base of the Company, such fund raising exercises (i) require the Company to procure commercial underwriting; and (ii) in general, are relatively more time consuming as compared with any placing and/or subscription of new Shares.

Having considered the above, the Directors are of the opinion that the Proposed Placing of A Shares is the most appropriate fund raising method currently available for the Group.

Reasons for the Proposed Placing of A Shares and use of proceeds

With reference to the Board Letter, the Directors are of the view that the Proposed Placing of A Shares and the NEIIC Subscription will further enhance the comprehensive strength and core competitiveness of the Company, consolidate its position as the market leader, realize the Company’s development strategy on integration and optimisation of the industrial chain, boost its results and bring higher returns to the Shareholders.

The implementation of the projects to be financed by the proceeds from the Proposed Placing of A Shares will further increase the Company’s production capacity and market shares in key regions, further expand the Company’s market influence, create new profit sources, enhance the Company’s technology development strengths, improve product quality and reduce production costs, which will in turn enhance the Company’s profitability and core competitiveness.

Furthermore, supplementing the working capital of the Company with the proceeds from the Proposed Placing of A Shares will help strengthen the Company's financial health and optimize its financial structure by directly improving the Company's cash flow status and reducing its finance expenses.

The proceeds raised will not exceed RMB1,320 million through the Proposed Placing of A Shares. After deduction of the relevant expenses, the net proceeds will be used in the automation equipment industrialization project of Technology Development Company, communication equipment industrialization project of Technology Development Company, traffic electronic equipment industrialization project of Information Industry Company and R&D center project of Technology Development Company (the “**Projects**”); and to supplement working capital as set forth under the sub-section headed “use of proceeds” in the Board Letter. Details of the Projects are set out in the section headed “Feasibility analysis report” of the Board Letter.

Having considered the above, we consider that the Proposed Placing of A Shares (including the NEIIC Subscription) is in the interests of the Company and the Shareholders as a whole.

(2) The NEIIC Subscription Agreement

On 7 November 2012, the Board passed written resolutions pursuant to which it was resolved that, among other things, subject to Shareholders' approval, the Company will apply to the CSRC for the non-public issuance of no more than 260,500,000 additional A Shares, representing approximately 63.07% of all the A Shares currently in issue or 38.68% of the total issued A Shares as enlarged by the Proposed Placing of A Shares, at a subscription price of not less than RMB5.07 (approximately HK\$6.24) per A Share. It is proposed that the A Shares under the Proposed Placing of A Shares will be issued to no more than ten investors including NEIIC.

On the even date, the Company and NEIIC entered into the conditional NEIIC Subscription Agreement, pursuant to which, NEIIC has agreed to subscribe for the new A Shares at a total subscription price of RMB200 million (approximately HK\$246 million), at a price of not less than RMB5.07 per share. The maximum number of new A Shares to be subscribed under the NEIIC Subscription Agreement is 39,447,732 A Shares. The subscription price for NEIIC will be the same as the subscription price for other investors under the Proposed Placing of A Shares.

The Minimum Issue Price

As stated in the Board Letter, the issue price per A Share will not be less than 90% of the average trading price of the A Shares in the 20 trading days immediately preceding the Pricing Base Date (the “**Pricing Basis**”), i.e. RMB5.07 per A Share (the “**Minimum Issue Price**”) (the average trading price of the A Shares in the 20 trading days immediately preceding the Pricing Base Date = the total amount traded in the 20 trading days immediately preceding the Pricing Base Date of the A Shares/the total volume traded in the 20 trading days immediately preceding the Pricing Base Date of the A Shares). The exact issue price will be determined by the Board (pursuant to the authorization granted by the Shareholders’ general meeting) after obtaining the approval of the CSRC for the Proposed Placing of A Shares with reference to bid prices offered by target subscribers. The issue price of the Proposed Placing of A Shares will be adjusted correspondingly in case of ex-rights or ex-dividend during the period from the Pricing Base Date to the issue date.

The Minimum Issue Price represents:

- (a) a premium of approximately 7.64% over the closing price of RMB4.71 per A Share as at the Latest Practicable Date;
- (b) a discount of approximately 7.65% to the closing price of RMB5.49 per A Share as quoted on from the Bloomberg on the Pricing Base Day;
- (c) a discount of approximately 8.32% to the average closing price of RMB5.53 per A Share as quoted from Bloomberg for the last five trading days up to and including the Pricing Base Day; and
- (d) a discount of approximately 7.82% to the average closing price of RMB5.50 per A Share as quoted from Bloomberg for the last ten trading days up to and including the Pricing Base Day.

We noted that the pricing basis for the Proposed Placing of A Shares complies with the the Measures issued by the CSRC, which requires the A share issue price to be not less than 90% of the average trading price of A shares during the period of 20 trading days prior to the pricing base day, being (i) the announcement date of the board resolution(s) in relation to the issue of A shares; or (ii) the announcement date of the resolution(s) in the shareholders’ meeting in relation to the issue of A shares; or (iii) the first day of the issue period.

LETTER FROM GUANGDONG SECURITIES

In addition, we have searched through the website of the Stock Exchange regarding the pricing of the announced placing/subscription of new A shares by the companies with H shares listed on main board of the Stock Exchange and A shares listed on the stock exchange in the PRC (the “**Comparable Pricing**”) and identified to the best of our knowledge and as far as we are aware of, during the period from 1 January 2012 to the date of announcement in relation to the Proposed Placing of A Shares, 6 relevant transactions as set out below (Shareholders should note that the businesses, operations and prospects of the Company are not the same as the companies listed below. However, for the purpose of providing Shareholders with a general reference for common recent market practice of companies with H shares listed on main board of the Stock Exchange and A shares listed on the stock exchange in the PRC in transactions which involved placing/subscription of new A shares, we consider the Comparable Pricing to be exhaustive and fair and representative samples):

Company name	Stock code	Date of announcement
Aluminum Corporation of China Limited	2600	8 March 2012
Bank of Communications Company Limited	3328	15 March 2012
Jingwei Textile Machinery Company Limited	350	12 April 2012
Air China Limited	753	27 April 2012
China Southern Airlines Company Limited	1055	11 June 2012
China Eastern Airlines Corporation Limited	670	11 September 2012

We noted that the Comparable Pricing are also complied with the Measures and the Pricing Basis is in line with the market practice, i.e. the issue price per A Share would not be less than 90% of the average trading price of the A shares in the 20 trading days immediately preceding the pricing base date.

In addition, NEIIC will not participate in any price bidding process, and has agreed to accept the result of the price bidding process. The subscription price for A Shares applicable to NEIIC will be the same as the price applicable to other target subscribers. Details of the safeguards to prevent NEIIC participating in any price bidding process (the “**Safeguards**”) is set out in the section headed “2. Structure of the proposed placing of A Shares” of the Board Letter. We consider that should the Safeguards be strictly followed and executed, NEIIC would likely to be prevented from participating in any price bidding process.

Having taken into account that (i) the Pricing Basis complies with the Measures and is in line with the market practice; and (ii) the subscription price to NEIIC will be the same as the price applicable to other target subscribers, we consider that the Pricing Basis is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM GUANGDONG SECURITIES

Lock-up period

The shares to be subscribed by NEIIC are not transferable within 36 months from the completion date of the Proposed Placing of A Shares. As aforementioned, the Directors are of the view that the issuance of new A shares has limited negative impact to the A Share market price of the Company with a lock-up period.

Having considered the above, we are of the view that the terms of the NEIIC Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Dilution effect on the shareholding interests of the existing public Shareholders

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon completion of the Proposed Placing of A Shares and the NEIIC Subscription:

Name of Shareholder	As at the Latest Practicable Date		Upon completion of the Proposed Placing of A Shares and the NEIIC Subscription	
	Number of Shares held	Approximate percentage of the total issued share capital of the Company (%)	Number of Shares held	Approximate percentage of the total issued share capital of the Company (%)
NEIIC	—	—	39,447,732	4.31
PEGL	334,715,000	51.10	334,715,000	36.56
Investors (other than NEIIC)	—	—	221,052,268	24.15
Public holders of A Shares	78,300,000	11.95	78,300,000	8.55
Public holders of H Shares	242,000,000	36.95	242,000,000	26.43
Total A Shares and H Shares	<u>655,015,000</u>	<u>100.00</u>	<u>915,515,000</u>	<u>100.00</u>

As depicted by the table above, the shareholding interests of the existing public Shareholders in the Company would be diluted by approximately 13.92 percent point immediately after completion of the Proposed Placing of A Shares. Taking into account (i) the reasons for and benefits of the Proposed Placing of A Shares; and (ii) that the terms of the NEIIC Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

(4) Financial effects of the NEIIC Subscription

Effect on net asset value and gearing

With reference to the 2012 Interim Reports, the unaudited consolidated net asset value and the gearing ratio (the ratio of total liabilities to total assets) of the Group as at 30 June 2012 were approximately RMB1,615.1 million and 45.2% respectively. As confirmed by the Directors, the NEIIC Subscription would increase the total assets and net asset value of the Group.

Since the total assets of the Group is expected to increase while the Group total liabilities would remain unchanged as a result of the NEIIC Subscription, the Directors expected that the NEIIC Subscription would improve the Group's gearing position.

Effect on working capital

As confirmed by the Directors and aforementioned, part of the net proceeds from the NEIIC Subscription will be applied as replenishment of working capital of the Company. As such, the Directors expected that the NEIIC Subscription would increase the working capital of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the NEIIC Subscription.

LETTER FROM GUANGDONG SECURITIES

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the NEIC Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the NEIC Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the NEIC Subscription Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(A) Interests of Directors

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

Interests in domestic shares of the Company:

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

(B) Interests of Substantial Shareholders

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

(i) Interests in the shares of the Company

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

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

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

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

Name of Director/ Supervisor	Position held in NEIIC
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Xu Guofei	General Manager
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As at the Latest Practicable Date, so far as is known to the Directors, the following Directors and supervisors hold offices as Directors or employees in PEGL, the controlling Shareholder of the Company as shown above:

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

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

Name of Director/ Supervisor	Position held in TPV Technology
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Jason Hsuan	Chairman
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(ii) *Interests in non-wholly owned subsidiaries of the Company*

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

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

3. LITIGATION

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

4. SERVICE CONTRACTS

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

5. COMPETING INTERESTS

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

6. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As disclosed above, Mr. Lai holds offices in CEC and PEG L, Mr. Xu holds an office in PEG L and holds approximately 0.00039% of the total issued share capital of the Company, Mr. Zhu holds offices in NEIIC and PEG L and holds approximately 0.00071% of the total issued share capital of the Company, and Mr. Deng and Mr. Lu hold offices in PEG L, and are all therefore considered to be interested in the transactions contemplated under the Proposed Placing of A Shares and the NEIIC Subscription and had abstained from voting on the relevant resolutions of the Board approving the Proposed Placing of A Shares and the NEIIC Subscription.

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

Mr. Hsuan, by virtue of his office held TPV Technology as disclosed above, is also a connected person of the Company and had abstained from voting on the relevant resolutions of the Board approving the Proposed Placing of A Shares and the NEIIC Subscription.

Save as aforesaid, the Board confirms that none of the other Directors abstained from voting on the relevant resolutions of the Board approving the Proposed Placing of A Shares and the NEIIC Subscription.

7. MATERIAL ADVERSE CHANGE

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

8. QUALIFICATIONS AND CONSENT OF EXPERT

The followings are the qualifications of the expert who has been named in this circular or has given an opinion or advice in this circular:

Name	Qualifications
Guangdong Securities	A licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO

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

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

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company at 301 Zhongshan Road East, Nanjing, Jiangsu Province, the PRC and the Company's solicitors at 23rd Floor, Admiralty Centre, Tower II, 18 Harcourt Road, Hong Kong, during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 21 December 2012:

- (a) the NEIC Subscription Agreement;
- (b) the Report on Previous Use of Proceeds;
- (c) the Feasibility Analysis Report;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;

- (e) the letter from Guangdong Securities, the text of which is set out in this circular; and
- (f) the written consent referred to in the section headed “Qualifications and Consent of Expert” in this Appendix.

10. GENERAL

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

I. BASIS OF PREPARATION

This report of use of proceeds from the last fundraising exercise has been prepared in accordance with the “Regulations for the Report on the Use of the Proceeds from Previous Fundraising” (Zheng Jian Fa Xing Zi [2007] No.500) issued by the China Securities Regulatory Commission (“CSRC”).

II. AMOUNT OF PROCEEDS FROM PREVIOUS FUNDRAISING EXERCISE AND STATUS OF RECEIPT OF FUNDS**(I) Basic information on the proceeds raised from A share issue**

As approved by the CSRC in Zheng Jian Fa Shen Zi [1996] No.304 and No. 305, Nanjing Panda Electronics Company Limited (the “Company”) issued to the public 23,000,000 RMB-denominated ordinary shares (A shares) with a par value of RMB1.00 each, at the issue price of RMB5.1 per share on 7 November 1996. The proceeds raised totalled RMB117,300,000 and the issuance costs amounted to RMB5,307,000. After deduction of relevant issuance costs, the actual net proceeds raised from the issue amounted to RMB111,993,000. The shares issued were listed and traded on the Shanghai Stock Exchange on 18 November 1996 as approved by the Shanghai Stock Exchange in Shang Zheng Shang (1996) Zi No.100.

After deducting sponsorship and underwriting fees, the net proceeds of RMB111,993,000 was deposited into the bank account (account number: 0217722101076) opened by the Company at the Industrial and Commercial Bank of China, Nanjing Branch, Junfen sub-branch (中國工商銀行南京分行軍分處) on 14 November 1996. The receipt of the proceeds mentioned above was verified by Nanjing Certified Public Accountants (南京會計師事務所) by issuing Zhong Kuai Yan (96) No. 0170 capital verification report on 14 November 1996. As of 30 September 2012, the proceeds raised have been fully utilized and the account No.0217722101076 has been closed.

(II) Basic information on the receipt of the proceeds raised from H share issue

As approved by the CSRC in Zheng Jian Fa [1996] No.6, the Company issued 242,000,000 H shares with a par value of RMB1.00 each, at the issue price of HK\$2.13 per share in April 1996. The Company received an aggregate subscription price in the amount of HK\$515,460,000.00 with interest in the amount of HK\$76,541.54. After deduction of the issuance costs of HK\$30,000,000.00 paid by the Company overseas, the actual proceeds raised from the issue amounted to HK\$485,536,541.54, which was deposited into the bank account opened by the Company at the Bank of China, Hong Kong Branch (China Construction Finance (Hong Kong) Limited) on 30 April 1996. After deduction of the issuance costs of HK\$15,536,541.54 paid by the Company in Mainland China, the net proceeds raised from the issue amounted to HK\$470,000,000.00 (equivalent to RMB506,378,000.00). The receipt of the proceeds as mentioned above was audited by Nanjing Certified Public Accountants (南京會計師事務所) which issued Ning Kuai Yan (96) No.0068 capital verification report on 13 June 1996.

The H shares issued were officially listed and traded on The Stock Exchange of Hong Kong Limited on 2 May 1996.

As of 30 June 2012, the proceeds raised have been fully utilized and the account opened by the Company at the Bank of China, Hong Kong Branch (China Construction Finance (Hong Kong) Limited) has been closed.

III. STATUS OF ACTUAL UTILIZATION OF THE PROCEEDS RAISED FROM PREVIOUS FUNDRAISING EXERCISE**(I) Comparison for the actual utilisation status of proceeds from previous fundraising exercise**

Please refer to the attachment 1 for the comparison table on status of utilisation of proceeds from previous fundraising exercise.

(II) Changes to utilisation of proceeds from previous fundraising exercise in actual investment projects

As of 31 December 2000, an aggregate amount of RMB10,720,100 was invested in the hybrid fiber cable telecommunication project (“HFC Project”), and the remaining RMB21,601,900 had not been invested in this project; and an aggregate amount of RMB10,660,000 was invested in the digital laser video disc player project (“DVD Project”) (RMB460,000, RMB5,000,000 and RMB5,200,000 were invested in the project in 1997, 1998 and 1999 respectively), and the remaining RMB19,140,000 had not been invested in this project. As the HFC Project was liquidated in 2000 and the DVD Project was transferred to Panda Electronics Group Limited during the assets restructuring of the Company in 2000, these two projects required no further investment from the Company and the plan for use of the proceeds required change accordingly.

As considered and approved by the 16th meeting of the third board of directors of the Company and the third supervisory committee of the Company and approved by the 2000 annual general meeting of the Company, the Company changed the use of proceeds of RMB21,601,900 raised from H share issue (originally intended for the HFC Project) and RMB19,140,000 raised from A share issue (originally intended for the DVD Project), by investing RMB4,200,000 in MPower Batteries (Nanjing) Co., Ltd and using the balance of RMB36,541,900 to supplement working capital. Jiangsu Nanjing Yongheng Law Firm expressed an opinion on the legitimacy of the voting results of the 2000 annual general meeting of the Company and issued the Ning Yong Lv Gu Zi (2001) No.10 report.

The resolutions of the board of directors, the supervisory committee and the annual general meeting of the Company in relation to the change to use of the proceeds raised were published on Shanghai Securities News, China Securities Journal, Wen Wei Po and Hong Kong iMail as designated by the securities regulatory authorities.

(III) Status of actual utilisation of proceeds from previous fundraising exercise

The Company used RMB618.371 million of previously-raised funds, which had been fully utilized. Please refer to attachment 1 of this report for the amount invested in investment projects.

(IV) Status of transfer or replacement of investment projects utilising proceeds from previous fundraising exercise

1. According to the Prospectus, RMB64,644,000 of the proceeds was used for “establishment of the joint venture by the Company and Japan Sharp”. Nanjing Sharp Electronics Co., Ltd. (“NSEC”) was jointly established in 1996 by the Company and Japan Sharp Co., Ltd. (“Japan Sharp”). It is principally engaged in the consumable electronics industry, namely, production and sale of liquid crystal televisions, projecting televisions, large-screen colour televisions and sound equipment and provision of related after-sale services. However, since there was very keen competition and high risks in the consumable electronics industry in which NSEC was engaged, the Company entered into an agreement with Japan Sharp, pursuant to the approval by the 2005 first extraordinary general meeting, to transfer its 8.72% equity interests in NSEC for a consideration determined on the basis of the appraised value in the Valuation Report through arms’ length negotiation between the Company and Japan Sharp. Pursuant to the agreement, the Company recovered the investment of RMB82,282,000 and realised a gain on disposal of investment totalling RMB6,366,300 on 28 October 2005.

According to the resolution passed at the 2005 first extraordinary general meeting, the capital recovered from this equity transfer was used for development of the Company’s principal operations. The equity transfer transaction was disclosed on 17 October 2005 in China Securities Journal, Shanghai Securities News and Hong Kong Ta Kung Pao and The Standard.

2. RMB28,800,000 of the proceeds was used for the “multi-media colour television and digital colour television” project. According to resolutions passed at the Company’s 2000 extraordinary general meeting, the Company transferred equity interests relating to television business of eight independent legal persons to Nanjing Panda Group Co. Ltd. at a price of RMB121.97 million and realised a gain of RMB18,039,200.

(v) Status of idle proceeds

As at 30 September 2012, there are no uses of temporary idle funds comprising proceeds raised from the previous fundraising exercise for other purposes.

IV. STATUS OF INCOME FROM PREVIOUSLY RAISED PROCEEDS

The status of actual income from investment projects utilising proceeds from previous fundraising exercise for each year up to 30 September 2012 is set out in attachment 2 to this report.

V. DETAILS OF OTHER DIFFERENCES

The status of the Company's actual utilization of proceeds is basically consistent with disclosures made in the prospectuses, regular reports and other documentation of the Company.

Nanjing Panda Electronics Company Limited

7 November 2012

ATTACHMENT 1

Comparison table on status of utilisation of proceeds from previous fundraising exercise

Unit: RMB0'000

			A shares	H shares	Total	Total cumulative amount of proceeds used			61,837.10	
Total amount of proceeds raised			11,199.30	50,637.80	61,837.10	Total proceeds used for each year			61,837.10	
Total amount of proceeds with change in usage			1,914.00	2,041.67	3,955.67	1996	1997	1998	1999	2001
Percentage of total amount of proceeds with change in usage			17.09%	4.03%	6.40%	34,459.02	9,397.00	7,347.08	6,715.00	3,919.00
Investment project			Total amount of proceeds invested			Aggregate proceeds invested as at cut-off date				Project completion status as at cut-off date
No.	Investment project undertaken	Investment project actually carried out	Investment amount undertaken prior to fund raising	Investment amount undertaken after fund raising	Actual investment amount	Investment amount undertaken prior to fund raising	Investment amount undertaken after fund raising	Actual investment amount	Difference between actual investment amount and investment amount undertaken after fund raising	
1	Multimedia color TV and digital color TV	Multimedia color TV and digital color TV	2,880	2,880	2,880	2,880	2,880	2,880		
2	Digital laser video disc (DVD)	Digital laser video disc (DVD)	2,980	2,980	1,066	2,980	2,980	1,066	-1,914.00 <i>Note (1)</i>	
3	Supplementing working capital	Supplementing working capital	5,339.30	5,339.30	7,253.30	5,339.30	5,339.30	7,253.30	1,914.00	
Total of A shares			11,199.30	11,199.30	11,199.30	11,199.30	11,199.30	11,199.30		
4	Introduction of mobile and health communication facilities, technologies and establishment of engineering and technological research center	Introduction of mobile and health communication facilities, technologies and establishment of engineering and technological research center	8,619.20	8,619.20	8,619.20	8,619.20	8,619.20	8,619.20		
5	Establishment of two joint ventures with Japan Sharp	Establishment of two joint ventures with Japan Sharp	6,464.40	6,464.40	6,615.24	6,464.40	6,464.40	6,615.24	150.84 <i>Note (2)</i>	

APPENDIX II

REPORT ON PREVIOUS USE OF PROCEEDS

Investment project		Total amount of proceeds invested			Aggregate proceeds invested as at cut-off date				Difference between actual investment amount and investment amount undertaken after fund raising	Project completion status as at cut-off date
No.	Investment project undertaken	Investment project actually carried out	Investment amount undertaken prior to fund raising	Investment amount undertaken after fund raising	Actual investment amount	Investment amount undertaken prior to fund raising	Investment amount undertaken after fund raising	Actual investment amount		
6	Renovation of R&D center and production facilities	Renovation of R&D center and production facilities	5,387.00	5,387.00	5,387.00	5,387.00	5,387.00	5,387.00		
7	Development and production of multimedia computers and displays	Development and production of multimedia computers and displays	3,878.64	3,878.64	3,878.64	3,878.64	3,878.64	3,878.64		
8	Repayment of short-term loans to a joint venture, Nanjing Shuangqiang (南京雙強)	Repayment of short-term loans to a joint venture, Nanjing Shuangqiang (南京雙強)	2,908.98	2,908.98	2,876.66	2,908.98	2,908.98	2,876.66	-32.32 <i>Note (2)</i>	
9	Establishment of engineering and technological center for digital audio-visual technology and products	Establishment of engineering and technological center for digital audio-visual technology and products	1,831.58	1,831.58	1,831.58	1,831.58	1,831.58	1,831.58		
10	Hybrid fiber cable (HFC) telecommunication	Hybrid fiber cable (HFC) telecommunication	3,232.20	3,232.20	1,072.01	3,232.20	1,072.01	1,072.01	-2,160.19 <i>Note (1)</i>	
11	Supplementing working capital	Supplementing working capital	18,315.80	18,315.80	20,357.47	18,315.80	18,315.80	20,357.47	2,041.67	
Total of H shares			50,637.80	50,637.80	50,637.80	50,637.80	50,637.80	50,637.80		
Total			61,837.10	61,837.10	61,837.10	61,837.10	61,837.10	61,837.10		

Note (1): In 2000, the Company changed the use of proceeds of RMB40,741,900 originally intended for the “HFC Project” and the “DVD Project” by investing RMB4.2 million into MPower Batteries (Nanjing) Co., Ltd. and using the balance of RMB36,541,900 to supplement working capital. For details, please refer to III(II);

Note (2): The difference between the actual investment amount and the investment amount undertaken of the Company was used to supplement working capital as undertaken in the Company’s prospectuses, and therefore the actual investment amount is consistent with the total investment amount undertaken.

ATTACHMENT 2

Comparison table on realised benefits of investment projects utilising proceeds from previous fundraising exercise

Unit: RMB0'000

Actual investment project		Guaranteed benefits (average per year)	Actual benefits during the recent three years <i>Note (1)</i>			Accumulated realised benefits as at cut-off date	Whether expected benefits have been achieved
No.	Project name		2009	2010	2011		
1	Multimedia color TV and digital color TV	60,000					Not applicable <i>Note (2)</i>
2	Digital laser video disc (DVD)	100,000					
3	Introduction of mobile and health communication facilities, technologies and establishment of engineering and technological research center						Not applicable <i>Note (3)</i>
4	Establishment of two joint ventures with Japan Sharp						
5	Renovation of R&D center and production facilities						
6	Development and production of multimedia computers and displays						
7	Repayment of short-term loans to a joint venture, Nanjing Shuangqiang (南京雙強)						
8	Establishment of engineering and technological center for digital audio-visual technology and products						
9	Hybrid fiber cable (HFC) telecommunication						

- Notes:* (1) It has been a long time since the Company's previous fundraising exercise, and relevant projects have been split off or disposed, there is no data on the actual benefits realized during the recent three years;
- (2) The "multimedia color TV and digital color TV" project and the "DVD Project" have been transferred to Panda Electronics Group Company in 2000;
- (3) The Company made no undertaking for the return ratio of these projects in its prospectuses of the previous fundraising exercise, so no comparison can be made with the expected benefits.

**Feasibility Analysis Report On the Use of Proceeds to be Raised from Non-public Issuance of
A Shares of Nanjing Panda Electronics Company Limited**

November 2012

Nanjing Panda Electronics Company Limited (“Nanjing Panda” or “Company”) intends to issue a maximum of 260,500,000 shares to no more than ten specific investors (including Nanjing Electronics Information Industrial Corporation (“NEIIC”)) by way of non-public issuance. All the specific investors shall subscribe for the shares to be issued in cash, and NEIIC proposes to subscribe for the shares to be issued with cash of RMB200 million. The proceeds to be raised from the non-public issuance will be used in the four projects (including the automation equipment industrialization project) implemented by Nanjing Panda Electronic Technology Development Co., Ltd. (“Technology Development Company”) and Nanjing Panda Information Industry Co., Ltd. (“Information Industry Company”), both being subsidiaries of the Company, as well as to supplement the Company’s working capital. The feasibility analysis on the use of the proceeds is set out as follows:

I. PLAN FOR USE OF THE PROCEEDS

The total proceeds to be raised from the non-public issuance will not exceed RMB1,320,000,000. After deduction of the relevant expenses, the net proceeds will be used in the following projects:

Unit: RMB0’000

No.	Project name	Entities to implement the project	Total investment in project	Proposed amount of proceeds to be applied
1	Automation equipment industrialization project	Technology Development Company <i>Note 1</i>	61,563	61,563
2	Communication equipment industrialization project	Technology Development Company	24,544	24,544
3	Traffic electronic equipment industrialization project	Information Industry Company <i>Note 2</i>	14,955	14,955
4	R&D center project	Technology Development Company	20,996	20,938
5	Supplement working capital	Nanjing Panda	—	10,000
Total			—	132,000

Note 1: Nanjing Panda directly holds 99% equity interest in Technology Development Company and indirectly holds 1% equity interest in Technology Development Company through its wholly-owned subsidiary, Nanjing Panda Electronics Equipment Co., Ltd.;

Note 2: Nanjing Panda directly holds 75% equity interest in Information Industry Company and indirectly holds 25% equity interest in Information Industry Company through its wholly-owned subsidiary, Galant Limited.

If the net proceeds raised from the non-public issuance are less than the total proposed amount of proceeds to be applied above, the Company will make up the shortfall through internal resources. If the actual net proceeds raised from the non-public issuance are more than the amount proposed above, the excessive amount will be used to supplement working capital. Before the proceeds raised are available to the Company, the Company shall, in accordance with the actual progress of the projects, invest in such projects using other internal capital resources which will be replaced with the proceeds raised later. On the condition that these projects are not changed, the Board may make appropriate adjustments to the sequence and amount of proceeds for the above projects with reference to their actual financial requirements.

II. BASIC INFORMATION ON THE INVESTMENT PROJECTS TO BE FINANCED BY THE PROCEEDS

(I) Automation equipment industrialization project

1. Basic information on the investment project

Total investment: RMB615.63 million

Entity to implement the project: Technology Development Company

Project construction period: 24 months

Location for project implementation: Nanjing Economic and Technological Development Zone

2. Necessity of project construction and development prospect

It is one of the major missions of the PRC government to vigorously develop automation manufacturing equipment during the “Twelfth Five-Year” period, as automated and intelligent production is the major trend of the manufacturing industry upgrade in the future. At present, an industrial system for automation equipment mainly involving new types of sensors, intelligent control systems, industrial robots and complete automatic production lines has basically taken shape. In 2010, as part of the automation manufacturing equipment industry, industrial automation control systems and instruments and apparatus, CNC machine tools, industrial robots and their systems posted sales revenue of over RMB300 billion. According to the state’s Twelfth Five-Year Development Plan for the High-end Equipment Manufacturing Industry (《高端裝備製造業「十二五」發展規劃》) and Special Twelfth Five-Year Plan for the Development of Intelligent Manufacturing Technology (《智能製造科技發展「十二五」專項規劃》), the automation manufacturing equipment industry will generate sales revenue of more than RMB1,000 billion by 2015, with an average annual growth rate of over 25% and industrial added value rate of 35%. By 2020, the automation manufacturing equipment industry in the PRC will become a leading industry with international competitiveness, whose sales revenue will exceed RMB3,000 billion and automation will be realized throughout the manufacturing process. Meanwhile, production efficiency, technological level and quality of products will be remarkably enhanced, and consumption of energy and resources as well as emission of pollutants will be notably reduced.

There is huge demand in the automation manufacturing equipment market in the PRC; however, domestic enterprises are relatively underdeveloped in this technology-, talent- and capital-intensive industry, as their American, Japanese and European peers have long dominated the market of the related products. Since 1994 when obtaining the approval of the former State Economic and Trade Commission to establish the “national production technology development center”, the Company has long been engaged in the development, manufacturing and sales of industrial automation equipment, and possessed high-end core technologies in the sector of industrial robots and complete automation equipment in China.

The proceeds will be mainly used for such projects as industrial robots, automatic transmission equipment, and automatic filling equipment. The implementation of the above projects will enable the Company to expand its existing production capacity, further boost its business scale and core competitiveness, break the monopoly by its foreign rivals, and lay a solid foundation for its rapid and sustainable growth in both revenue and profit in the future.

3. Economic evaluation

According to the feasibility study report on the automation equipment industrialization project, the estimated annual profit growth of such project totals RMB170,861,000, which promises favorable economic benefits.

4. Approvals relating to project initiation, land and environmental protection and the progress thereof

All the relevant procedures relating to the filing, environmental impact assessment and land associated with the project are being applied for and handled.

(II) Communication equipment industrialization project

1. Basic information on the investment project

Total investment: RMB245.44 million

Entity to implement the project: Technology Development Company

Project construction period: 24 months

Location for project implementation: Nanjing Economic and Technological Development Zone

2. Necessity of project construction and development prospect

The communications industry is a strategic, fundamental and leading industry which fully props up the economic and social development. Characterized by high technological threshold, strong penetration and notable guiding effect, the communication industry is a key driver of the transformation and upgrade of traditional industries, strategic adjustment to the economic structure, and enhancement of the state's informatization level. According to the Decision of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries (《國務院關於加快培育和發展戰略性新興產業的決定》) and the Twelfth Five-Year Development Plan for the Communication Industry (《通信業「十二五」發展規劃》) promulgated by the Ministry of Industry and Information Technology, the focus will be placed on furthering universal services in information communication and boosting capabilities in security and emergency guarantees.

The Company's mobile satellite communications engineering research center is at the national level and the Company possesses strong research and development capabilities in respect of emergency satellite communications, satellite panel antenna communication systems and new-generation dedicated mobile communication systems. With the development of society and rising living conditions of the people, the need for communication guarantee in case of various emergencies has become increasingly urgent. Having been tested by a number of significant emergencies in recent years, the central government and local authorities at all levels have continuously stepped up efforts in construction of the emergency communication system, establishing provincial- and municipal-level emergency command platforms in civil air defense and public security, and achieving admirable effects, with promising market prospects.

The proceeds will be mainly used for such projects as emergency communication, satellite panel antenna communication systems and new-generation dedicated mobile communication systems. The implementation of the above projects will enable the Company to expand the production capacity of the above products, further strengthen its technological edges and rapidly increase market shares to pave the way for leapfrog development.

3. Economic evaluation

According to the feasibility study report on the communication equipment industrialization project, the estimated annual profit growth of such project totals RMB79,604,000, which promises favorable economic benefits.

4. Approvals relating to project initiation, land and environmental protection and the progress thereof

All the relevant procedures relating to the filing, environmental impact assessment and land associated with the project are being applied for and handled.

(III) Traffic electronic equipment industrialization project**1. Basic information on the investment project**

Total investment: RMB149.55 million

Entity to implement the project: Information Industry Company

Project construction period: 24 months

Location for project implementation: Nanjing Economic and Technological Development Zone

2. Necessity of project construction and development prospect

China is now in the process of large-scale urbanization. With fast-rising car ownerships, and increasing supply-and-demand imbalance in urban public transport, there is an increasingly urgent need for construction of railway transit. So far, there are 13 cities in total running railway transits, with length of railways in operation amounting to 1,677 kilometers and 1,102 operational stations. As of September 2012, 33 cities nationwide had urban railway projects under construction, involving a total length of 2,200 kilometers. On 5 September 2012, the National Development and Reform Commission revealed the feasibility reports on 13 railway lines, with aggregated length of 396.39 kilometers and approved investments of RMB250.496 billion. The said railway lines are expected to be fully completed by 2017, and contribute additional investments of RMB50 billion per year to railway transit construction.

It is projected that China will have an average of 25-35 railway transit projects in respect of the automatic fare collection (AFC) system, the ticket clearance management center (ACC) system, and communication system integration in the coming five years. After eight years of development in the railway transit industry, the Company possesses complete project implementation capabilities in respect of AFC systems, ACC systems and communications systems integration, with fully proprietary intellectual property rights to the AFC systems, ACC systems and relevant terminal equipment, and developed various product series to meet different user demands.

In recent years, with expanding business scale and rising contract reserves, the Company has seen its demand for subsequent investment substantially increase in order to consolidate its leading position in the market. The proceeds will be mainly used for the AFC systems, ACC systems and dedicated railway transit communication systems. The implementation of the above project will enable the Company to further expand its technological edges, gain larger market shares and strengthen its leading position in the industry.

3. Economic evaluation

According to the feasibility study report on the traffic electronic equipment industrialization project, the estimated annual profit growth of such project totals RMB44,502,000, with promising economic benefits.

4. Approvals relating to project initiation, land and environmental protection and the progress thereof

All the relevant procedures relating to the filing, environmental protection and land associated with the project are being applied for and handled.

(IV) R&D center project

Total investment: RMB209.96 million

Entity to implement the project: Technology Development Company

Project construction period: 24 months

Location for project implementation: Nanjing Economic and Technological Development Zone

Project construction objective: Upon completion, this project will be positioned as a technology, design and R&D center for high-end electronic equipment, which can provide strong technical support and guarantee for the Company to maintain its technological edge and achieve sustainable growth.

All the relevant procedures relating to the filing, land and environmental protection associated with the project are being applied for and handled.

This project, instead of generating direct economic benefits, can build up the Company's R&D strength, consolidate technological resources, expand research domains, further boost the Company's technological edge in the industry, enhance product quality and its comprehensive competitiveness, and serve as a driver for the continued growth and development of the Company.

(V) Supplementing working capital

The high-end electronic equipment industry in which the Company operates is technology-, talent- and capital-intensive in nature. So far, the Company has not engaged in equity financing activities since it raised funds through initial public offering in 1996. The Company funds its development mainly with its own accumulated profits and bank loans.

In recent years, the Company has been focused on the development of the high-end electronic equipment industry and achieved sustained and fast growth in principal businesses. With the expansion of business scales, the Company's needs for capital to fund its day-to-day operation and development have also been growing. After the non-public issuance is completed, the production scales of the Company's automation equipment, communication equipment and traffic electronic equipment businesses will be further expanded and market shares will be larger, leading to stronger capital needs in future.

To supplement the working capital with part of the proceeds will not only satisfy the Company's capital needs to support the sustainable development of its principal activities, but will help lower the Company's liquidity risk and strengthen its risk-resistant ability and competitiveness.

III. IMPACT OF THE NON-PUBLIC ISSUANCE ON THE COMPANY'S OPERATIONAL AND FINANCIAL SITUATIONS

(I) Impact on the Company's operation and management

The proceeds from the fundraising will be used in the automation equipment industrialization project, communication equipment industrialization project, traffic electronic equipment industrialization project and R&D center project and to supplement working capital. The implementation of the project to be financed by the proceeds may further increase the Company's production capacities and market shares in key regions, further expand the Company's market influence, create new profit sources, enhance its technology development strengths, improve product quality and reduce production costs, which will in turn enhance the Company's profitability and core competitiveness.

(II) Impact on the Company's financial position

Upon receipt of the proceeds from the issuance, the Company's net assets will increase and the gearing ratio will fall. As it takes time for the projects to be financed by the proceeds to be implemented, the Company's return on net assets will be diluted during the construction period of such projects. After the projects commence production, favourable cash flow and profits will be generated, which will improve the Company's financial structure and enhance the Company's abilities to prevent financial risks and raise capital indirectly. Furthermore, supplementing the working capital will help strengthen the Company's financial health and optimize its financial structure by directly improving the Company's cash flow status and reducing finance expenses.

Nanjing Panda Electronics Company Limited

7 November 2012