

VIII. FINANCIAL REPORT (Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong) (Unaudited)

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(Expressed in Renminbi thousands)

	<i>Note</i>	Jan-Jun 2002 (unaudited) RMB'000	Jan-Jun 2001 (unaudited) RMB'000
Turnover	3	327,969	565,213
Cost of sales		<u>(288,846)</u>	<u>(514,008)</u>
Gross profit		39,123	51,205
Other revenue		25,263	2,719
Distribution costs		(7,197)	(22,504)
Administrative expenses		(41,566)	(49,493)
Provision for impairment in value of property, plant and equipment and construction in progress		<u>—</u>	<u>(36,587)</u>
Profit/(loss) from operations		15,623	(54,660)
Finance costs		(25,272)	(26,136)
Share of results of associates		<u>64,493</u>	<u>167,642</u>
Profit before taxation		54,844	86,846
Income tax expenses	5	<u>(12,641)</u>	<u>(28,684)</u>
Profit before minority interests		42,203	58,162
Minority interests		<u>(8,028)</u>	<u>2,996</u>
Profit for the period		<u><u>34,175</u></u>	<u><u>61,158</u></u>
Earnings per share (RMB)	7	<u><u>0.05</u></u>	<u><u>0.09</u></u>

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CONSOLIDATED BALANCE SHEET AT 30TH JUNE 2002

	Note	30 June 2002 (unaudited) RMB'000	31 December 2001 (unaudited) RMB'000
Assets and liabilities			
Non-current assets			
Intangible assets		90,273	90,273
Property, plant and equipment	9	354,460	362,501
Construction in progress		6,087	5,094
Interests in associates	10	880,125	866,032
Investments		300	3,000
		<u>1,331,245</u>	<u>1,326,900</u>
Current assets			
Short term investments		190,000	171,718
Inventories		145,501	106,837
Trade debtors	11	109,127	93,928
Other debtors, deposits and prepayments		99,631	51,899
Bills receivable		12,465	78,558
Amounts due from fellow subsidiaries and associates		74,149	105,858
Amount due from ultimate holding company		26,935	—
Bank balances and cash		426,809	165,070
		<u>1,084,617</u>	<u>773,868</u>
Current liabilities			
Borrowings	12	934,505	793,883
Trade creditors	11	78,476	50,438
Other creditors, customers' deposits and accrued charges		278,293	224,939
Amounts due to fellow subsidiaries and associates		22,968	18,801
Amount due to ultimate holding company		—	3,925
Taxation		1,399	2,533
		<u>1,315,641</u>	<u>1,094,519</u>
Net current liabilities		<u>(231,024)</u>	<u>(320,651)</u>
Total assets less current liabilities		1,100,221	1,006,249
Non-current liabilities			
Long term borrowings	12	(38,000)	(18,000)
		<u>1,062,221</u>	<u>988,249</u>
Capital and reserves			
Share capital	13	655,015	655,015
Share premium and reserves		344,657	310,482
Shareholders' funds		<u>999,672</u>	<u>965,497</u>
Minority interests		62,549	22,752
		<u>1,062,221</u>	<u>988,249</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common reserve (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Investment revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1st January 2001	389,338	5,110	189,850	39,500	(75)	(560,255)	63,468
Profit for the period	—	—	—	—	—	61,158	61,158
Movements on revaluation reserve	—	—	—	—	(89)	—	(89)
Balance at 30th June 2001	<u>389,338</u>	<u>5,110</u>	<u>189,850</u>	<u>39,500</u>	<u>(164)</u>	<u>(499,097)</u>	<u>124,537</u>

	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common reserve (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Investment revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1st January 2002	389,338	5,110	189,850	35,688	—	(309,504)	310,482
Profit for the period	—	—	—	—	—	34,175	34,175
Balance at 30th June 2002	<u>389,338</u>	<u>5,110</u>	<u>189,850</u>	<u>35,688</u>	<u>—</u>	<u>(275,329)</u>	<u>344,657</u>

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH JUNE 2002

	Jan-Jun 2002 (unaudited) <i>RMB'000</i>	Jan-Jun 2001 (unaudited) <i>RMB'000</i>
Net cash inflow from operating activities	97,297	410,003
Returns on investments and servicing of finance		
Interest received	3,182	2,479
Interest paid	(25,233)	(25,905)
Dividends received from an associate	38,420	—
Dividends paid to minority shareholders	(752)	—
Net cash inflow/(outflow) from returns on investments and servicing of finance	15,617	(23,426)
Taxation		
Taxation paid	(1,795)	(300)
Investing activities		
Purchases of property, plant and equipment	(4,205)	(1,637)
Expenditure on construction in progress	(993)	(2,607)
Additional short term investment	(300)	—
Additional investment in securities	—	(30,675)
Additional investment in associates	—	(3,450)
Additional investment in treasury bonds	(85,001)	—
Proceeds on disposal of property, plant and equipment	147	215
Proceeds on disposal of securities	79,407	—
Decrease in/(placement of) pledged bank deposits	8,578	(279,381)
Decrease in bank deposits	—	27,512
Net cash of subsidiaries not consolidated	3,000	—
Net cash inflow/(outflow) from investing activities	633	(290,023)
Net cash inflow before financing	111,752	96,254
Financing		
New loans raised	768,650	651,556
Repayment of loans	(615,940)	(564,397)
Repayment to ultimate holding company	(26,935)	(34,643)
Shares subscribed by minority shareholders	32,790	2,953
Net cash inflow from financing	158,565	55,469
Increase in cash and cash equivalents	270,317	151,723
Cash and cash equivalents at the beginning of the period	145,059	87,405
Cash and cash equivalents at the end of the period	415,376	239,128
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	426,809	806,369
Less: Pledged bank balances	(11,433)	(562,407)
Bank deposits	—	(4,834)
	415,376	239,128

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi thousands)

1. Basis of preparation of interim financial statements

In preparing the interim financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately RMB231million as at 30th June, 2002. The Group is dependent upon its existing bank facilities which are of a short term nature. The directors consider that the Group will be able to maintain its existing bank facilities to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the interim financial statements have been prepared on a going concern basis.

2. Principal accounting policies

The interim financial statements have been prepared under the historical cost convention, and in accordance with generally accepted accounting principles in Hong Kong.

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("SSAP 25"). The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2001.

3. Turnover

Turnover represents the invoiced value of goods sold to outside customers, net of sales taxes.

4. Depreciation

During the period, depreciation of RMB11,222,000 (six months ended 30th June 2001 : RMB12,774,000) was charged in respect of the Group's property, plant and equipment.

5. Taxation

(a) Taxation charge comprises:-

	Jan-Jun 2002 (unaudited) <i>RMB'000</i>	Jan-Jun 2001 (unaudited) <i>RMB'000</i>
PRC income tax		
Company and its subsidiaries	661	1,057
Associates	11,980	27,627
	<u>12,641</u>	<u>28,684</u>

In 1995, the Company changed the place of its registration to Pukou, Nanjing, which is a High and New Technology Zone. On 29th August, 1995, the Company was recognised by the Jiangsu Science and Technology Commission as a High and New Technology Enterprise and such status has enabled the Company to pay income tax at the rate of 15 per cent of its assessable profit with effect from 1st January, 1995.

All subsidiaries of the Company pay income tax at the rates between 15 and 33 per cent.

The Company's principal associated company, namely Nanjing Ericsson Panda Communication Co., Ltd. ("Nanjing Ericsson"), is a Sino-foreign equity joint venture and is subject to income tax at a rate of 15 per cent.

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- (b) A deferred tax asset has not been recognised in the interim financial statements as it is not certain that the benefits of the deferred tax asset will be utilised in the foreseeable future.

6. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend (six months ended 30th June 2001 : Nil).

7. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders for the six months ended 30th June 2002 of RMB34,175,000 (six months ended 30th June 2001 : RMB61,158,000) and on 655,015,000 shares in issue throughout the period.

8. Segment reporting

- (a) Business segment

Mobile telecommunication products: Sale and distribution of mobile telephones and telecommunication products

Electromechanical products: Development, production and sale of electronic testing devices, equipment and appliances

	Mobile telecommunication products		Electromechanical products		Other operations		Consolidated	
	Jan-Jun 2002 (unaudited)	Jan-Jun 2001 (unaudited)	Jan-Jun 2002 (unaudited)	Jan-Jun 2001 (unaudited)	Jan-Jun 2002 (unaudited)	Jan-Jun 2001 (unaudited)	Jan-Jun 2002 (unaudited)	Jan-Jun 2001 (unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue								
External sales	170,354	406,190	66,375	56,652	91,240	102,371		
Inter-segment sales	—	—	—	—	—	—		
Total revenue	<u>170,354</u>	<u>406,190</u>	<u>66,375</u>	<u>56,652</u>	<u>91,240</u>	<u>102,371</u>	<u>327,969</u>	<u>565,213</u>
Result								
Segment result	<u>9,682</u>	<u>6,592</u>	<u>3,308</u>	<u>9,312</u>	<u>(13,276)</u>	<u>(36,687)</u>	<u>(286)</u>	<u>(20,783)</u>
Unallocated corporate expenses							<u>—</u>	<u>(36,587)</u>
Operating loss							<u>(286)</u>	<u>(57,370)</u>
Other revenue							<u>12,688</u>	<u>—</u>
Interest expenses							<u>(25,233)</u>	<u>(25,905)</u>
Interest income							<u>3,182</u>	<u>2,479</u>
Share of net profit of associates	60,328	163,335			4,165	4,307	<u>64,493</u>	<u>167,642</u>
Income tax expenses							<u>(12,641)</u>	<u>(28,684)</u>
Profit before minority interest							<u>42,203</u>	<u>58,162</u>
Minority interest							<u>(8,028)</u>	<u>2,996</u>
Net profit							<u>34,175</u>	<u>61,158</u>

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	Mobile		Electromechanical		Other		Consolidated	
	Telecommunication							
	products		products		operations			
	31 December		31 December		31 December		31 December	
30 June 2002	2001	30 June 2002	2001	30 June 2002	2001	30 June 2002	2001	
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Assets								
Segment assets	363,051	152,076	155,945	120,692	779,907	699,977	1,298,903	972,745
Investment in associates under equity accounting	638,137	715,067	—	—	241,988	150,965	880,125	866,032
Unallocated corporate assets							280,573	261,991
							2,459,601	2,100,768
Liabilities								
Segment liabilities	278,288	213,405	115,528	74,950	304,284	236,064	698,100	524,419
Unallocated corporate liabilities							699,280	588,100
							1,397,380	1,112,519
Other information								
Depreciation	668	612	832	1,194	9,722	10,968		
Impairment loss	—	—	—	—	—	40,952		
	—	—	—	—	—	40,952		

(b) **Geographical segment**

For the six months ended 30 June 2002 and 2001, over 90% of sales of the Group is generated from sales in the PRC.

9. Additions to property, plant and equipment

During the period, the Group spent approximately RMB4,205,000 (six months ended 30th June 2001 : RMB1,637,000) on acquisition of property, plant and equipment.

10. Interests in associates

	30 June 2002 (unaudited) RMB'000	31 December 2001 (audited) RMB'000
Share of net assets	879,561	865,468
Premium on acquisition	564	564
	880,125	866,032

11. Trade debtors and creditors

The Group allows a credit period of ranging from 30 to 180 days to its trade customers.

The following is an aged analysis of trade debtors net of allowances for bad and doubtful debts at 30 June 2002:-

	30 June 2002 (unaudited) <i>RMB'000</i>	31 December 2001 (audited) <i>RMB'000</i>
Within 1 year	94,947	84,610
1 to 2 years	11,541	6,206
2 to 3 years	2,505	2,154
Over 3 years	134	958
	<u>109,127</u>	<u>93,928</u>

The following is an aged analysis of trade creditors at 30 June 2002:—

	30 June 2002 (unaudited) <i>RMB'000</i>	31 December 2001 (audited) <i>RMB'000</i>
Within 1 year	60,009	45,026
1 to 2 years	11,524	3,388
2 to 3 years	4,115	1,267
Over 3 years	2,828	757
	<u>78,476</u>	<u>50,438</u>

12. Borrowings

	30 June 2002 (unaudited) <i>RMB'000</i>	31 December 2001 (audited) <i>RMB'000</i>
Bank borrowings		
Short term loans		
– unsecured	444,180	401,450
– secured	397,100	304,120
Bills payable	93,225	85,313
Other loan, unsecured	38,000	21,000
	<u>972,505</u>	<u>811,883</u>
Less: Amount due within 1 year shown under current liabilities	<u>(934,505)</u>	<u>(793,883)</u>
Borrowings repayable in the 3rd to 5th year	<u>38,000</u>	<u>18,000</u>

13. Share capital

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

14. Related party transactions

During the period, the Group entered into the following transactions with related parties:-

	Fellow subsidiaries and associated companies		Ultimate holding company	
	Jan-Jun 2002 (unaudited) <i>RMB'000</i>	Jan-Jun 2001 (unaudited) <i>RMB'000</i>	Jan-Jun 2002 (unaudited) <i>RMB'000</i>	Jan-Jun 2001 (unaudited) <i>RMB'000</i>
Sales of components and parts	30,128	173,514	—	—
Purchases of components and parts	34,102	371,355	—	—
Fees paid for welfare, support and sub-contracting services	—	—	2,993	5,464
Income for welfare, support and sub-contracting services provided	6,515	3,925	—	—
Fees paid for import services	424	—	—	—
Rental income	12,102	2,548	596	596

15. Contingent liabilities

As at 30th June, 2002, the Group had the following outstanding contingent liabilities not provided for in the interim financial statements in respect of:-

	30 June 2002 (unaudited) <i>RMB'000</i>	31 December 2001 (audited) <i>RMB'000</i>
Discounted bills with recourse	—	2,500
Guarantees given in respect of banking facilities made available to subsidiaries	80,000	—
Guarantees given in respect of banking facilities made available to third parties	138,500	138,500
	<u>218,500</u>	<u>141,000</u>

16. Capital commitments

At the balance sheet date, the Group had the following capital commitments in respect of:-

	30 June 2002 (unaudited) <i>RMB'000</i>	31 December 2001 (audited) <i>RMB'000</i>
Contracted but provided not for		
Property, plant and equipment	58,045	58,045
Investments in subsidiaries and an associate	<u>3,550</u>	<u>3,550</u>
	<u>61,595</u>	<u>61,595</u>

17. Differences between accounting principles generally accepted in Hong Kong and PRC accounting standards as applicable to the Group

The interim financial statements prepared under accounting principles generally accepted in Hong Kong and those prepared under PRC accounting standards have the following major differences:

Impact on the consolidated income statement

	Jan-Jun 2002 (unaudited) <i>RMB'000</i>	Jan-Jun 2001 (unaudited) <i>RMB'000</i>
Profit attributable to shareholders as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	34,175	61,158
Add: Provision for impairment in value of property, plant and machinery and construction in progress	—	36,587
Unrecognised intangible assets	100	—
Provision for bad and doubtful debts	—	4,846
Minority interest	415	—
Less: Reverse of provision for inventories	—	(2,880)
Amortisation on trademarks	(7,757)	(7,812)
Amortisation of unrecognised intangible assets	(80)	(55)
Other assets previously written off	(4,302)	(6,889)
Share of profits of associates	(1,573)	(965)
Share of loss of other investments	—	(89)
Minority interest	—	(3,991)
Others	<u>(692)</u>	<u>(800)</u>
Profit attributable to shareholders as per interim financial statements prepared under PRC accounting standards	<u>20,286</u>	<u>79,110</u>

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Impact on the consolidated balance sheets

	30 June 2002 (unaudited) <i>RMB'000</i>	31 December 2001 (audited) <i>RMB'000</i>
Net assets as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	999,672	965,497
Add: Provision for impairment in value of trademarks	64,867	64,867
Unrecognised intangible assets	5,003	5,554
Other assets written off	9,255	12,976
Goodwill	1,773	2,206
Others	6,785	6,885
Less: Amortisation on trademarks	(96,963)	(89,206)
Share of net assets of associates	(30,678)	(29,041)
Minority interest	(276)	(661)
	<u>959,438</u>	<u>939,077</u>
Net assets as per interim financial statements prepared under PRC accounting standards	<u>959,438</u>	<u>939,077</u>

There are also differences in balance sheet items due to differences in classification between accounting principles generally accepted in Hong Kong and PRC accounting standards.