

**VIII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES
GENERALLY ACCEPTED IN HONG KONG) (UNAUDITED)**

**CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004
(Expressed in Renminbi thousands)**

	Note	Six months ended	
		30 June 2004 (unaudited) RMB'000	30 June 2003 (unaudited) RMB'000
Turnover	2	1,228,707	1,521,787
Cost of sales		<u>(1,093,331)</u>	<u>(1,372,813)</u>
Gross profit		135,376	148,974
Other revenue		13,824	21,320
Distribution costs		<u>(36,656)</u>	<u>(37,860)</u>
Administrative expenses		<u>(112,784)</u>	<u>(82,254)</u>
(Loss)/profit from operations		(240)	50,180
Finance costs		<u>(41,716)</u>	<u>(38,183)</u>
Share of results of associates		116,036	39,223
Gain on disposal of an associate		13,352	—
Profit before taxation		87,432	51,220
Income tax expenses	4(a)	<u>(28,623)</u>	<u>(8,918)</u>
Profit before minority interests		58,809	42,302
Minority interests		<u>(2,968)</u>	<u>(9,436)</u>
Profit for the period		<u>55,841</u>	<u>32,866</u>
Earnings per share (RMB)	6	<u>0.09</u>	<u>0.05</u>

CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2004

	Note	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Assets and liabilities			
Non-current assets			
Intangible assets		28,723	51,610
Property, plant and equipment	8	389,755	378,811
Construction in progress		8,068	5,938
Interests in associates	9	575,071	582,460
Investments		810	810
		<u>1,002,427</u>	<u>1,019,629</u>
Current assets			
Short term investments		—	105,175
Loan to a non-related company		—	50,000
Loans to related companies		711,408	—
Inventories		801,535	364,941
Bills receivable		177,292	176,336
Trade debtors	10	233,738	121,874
Other debtors, deposits and prepayments		215,306	202,404
Amounts due from fellow subsidiaries, associates and related companies		779,820	656,795
Amount due from ultimate holding company		326,735	13,444
Bank balances and cash		364,562	788,498
Taxation		—	16,284
		<u>3,610,396</u>	<u>2,495,751</u>
Current liabilities			
Borrowings	11	1,973,060	1,627,704
Trade creditors	10	926,398	233,607
Other creditors, customers' deposits and accrued charges		292,403	286,996
Amounts due from fellow subsidiaries, associates and related companies		79,764	51,056
Taxation		5,386	—
		<u>3,277,011</u>	<u>2,199,363</u>
Net current assets		333,385	296,388
Total assets less current liabilities		1,335,812	1,316,017
Non-current liabilities			
Long term borrowings	11	—	(38,000)
		<u>1,335,812</u>	<u>1,278,017</u>
Capital and reserves			
Share capital	12	655,015	655,015
Share premium and reserves		546,064	490,223
Shareholders' funds		1,201,079	1,145,238
Minority interests		134,733	132,779
		<u>1,335,812</u>	<u>1,278,017</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 30 June 2004

	Share capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common funds (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1 January 2003	655,015	389,338	5,110	189,850	38,132	(233,658)	1,043,787
Profit for the period	—	—	—	—	—	32,866	32,866
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—
Balance at 30 June 2003	<u>655,015</u>	<u>389,338</u>	<u>5,110</u>	<u>189,850</u>	<u>37,756</u>	<u>(200,416)</u>	<u>1,076,653</u>

	Share capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory common funds (unaudited) RMB'000	Asset revaluation reserve (unaudited) RMB'000	Deficit (unaudited) RMB'000	Total (unaudited) RMB'000
Balance at 1 January 2004	655,015	389,338	5,110	189,850	37,380	(131,455)	1,145,238
Profit for the period	—	—	—	—	—	55,841	55,841
Realised on amortisation of intangible assets	—	—	—	—	(376)	376	—
Balance at 30 June 2004	<u>655,015</u>	<u>389,338</u>	<u>5,110</u>	<u>189,850</u>	<u>37,004</u>	<u>(75,238)</u>	<u>1,201,079</u>

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Six months ended	
	30 June 2004 (unaudited) RMB'000	30 June 2003 (unaudited) RMB'000
Net cash generated from/(used in) operating activities	536,719	(357,299)
Investing activities		
Purchases of property, plant and equipment	(21,671)	(5,801)
Expenditure on construction in progress	(2,144)	(5,275)
Additional investment in treasury bonds	—	(200,000)
Proceeds on disposal of property, plant and equipment	1,895	105
Proceeds on disposal of an associate	80,339	—
Proceeds on disposal of short term investments	105,870	—
Loan repayment from a non-related party	50,000	—
Placement of pledged bank deposits	(108,230)	(175,112)
Interest received	5,348	2,718
Dividends received from an associate	20,000	—
Net cash generated from/(used in) investing activities	131,407	(383,365)
Financing		
Increase in loans	90,877	302,165
Increase in loans to related companies	(711,408)	—
Increase/(decrease) in amount due from ultimate holding company	(313,291)	6,262
Dividends paid to minority shareholders	—	(806)
Net cash (used in)/generated from financing activities	(933,822)	307,621
Decrease in cash and cash equivalents	(265,696)	(433,043)
Cash and cash equivalents at beginning of the period	340,118	678,210
Cash and cash equivalents at end of the period	<u>74,422</u>	<u>245,167</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	364,562	427,077
Less: Pledged bank balances	(290,140)	(181,910)
	<u>74,422</u>	<u>245,167</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. 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 31 December 2003.

2. Turnover

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

3. Depreciation

During the period, depreciation of RMB9,412,000 (six months ended 30 June 2003 : RMB17,191,000) was charged in respect of the Group's property, plant and equipment.

4. Taxation

(a) Taxation charge comprises:—

	Six months ended	
	30 June 2004 (unaudited) RMB '000	30 June 2003 (unaudited) RMB '000
PRC income tax	6,325	3,267
Company and its subsidiaries	22,298	5,651
Associates		
	28,623	8,918

In 1995, the Company changed the place of its registration to Pukou, Nanjing, which is a High and New Technology Development 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 1 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.

(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.

5. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 June 2003 : Nil).

6. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders for the six months ended 30 June 2004 of RMB55,841,000 (six months ended 30 June 2003 : RMB32,866,000) and on 655,015,000 shares in issue throughout the period.

7. Segment reporting

(a) Business segment

Mobile telecommunication products: Development, production and sale of mobile telephones and telecommunication products.

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

Satellite telecommunication products : Development, manufacture and sale of satellite telecommunication products.

	Mobile telecommunication products		Electromechanical products		Satellite telecommunication products		Other operations		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30/6/2004 (unaudited) RMB'000	30/6/2003 (unaudited) RMB'000	30/6/2004 (unaudited) RMB'000	30/6/2003 (unaudited) RMB'000	30/6/2004 (unaudited) RMB'000	30/6/2003 (unaudited) RMB'000	30/6/2004 (unaudited) RMB'000	30/6/2003 (unaudited) RMB'000	30/6/2004 (unaudited) RMB'000	30/6/2003 (unaudited) RMB'000
Revenue										
External sales	943,587	1,306,694	85,614	72,078	—	19,362	199,506	123,753	1,228,707	1,521,787
Results										
Segment results	27,758	61,483	5,113	1,926	(165)	1,287	(31,042)	(27,947)	1,664	36,749
Unallocated corporate expenses									(8,207)	(8,207)
Operating (loss)/ Profit									(6,543)	28,542
Other revenue									250	18,429
Interest expenses									(41,011)	(37,692)
Interest income									5,348	2,718
Share of results of associates	106,204	34,046					9,832	5,177	116,036	39,223
Gain on disposal Of an associate									13,352	—
Income tax expenses									(28,623)	(8,918)
Profit before minority interest									58,809	42,302
Minority interest									(2,968)	(9,436)
Net profit									55,841	32,866
									305/6/2004 (unaudited) RMB'000	31/12/2003 (unaudited) RMB'000
	30/6/2004 (unaudited) RMB'000	31/12/2003 (audited) RMB'000	30/6/2004 (unaudited) RMB'000	31/12/2003 (audited) RMB'000	30/6/2004 (unaudited) RMB'000	31/12/2003 (audited) RMB'000	30/6/2004 (unaudited) RMB'000	31/12/2003 (audited) RMB'000	30/6/2004 (unaudited) RMB'000	31/12/2003 (audited) RMB'000
Assets										
Segment assets	3,022,277	1,718,763	134,085	176,219	72,279	49,169	780,388	796,664	4,009,029	2,740,815
Investments in associates under equity accounting	411,992	348,273					163,079	234,187	575,071	582,460
Unallocated corporate assets									28,723	192,105
									4,612,823	3,515,380
Liabilities										
Segment liabilities	1,936,432	996,226	34,111	63,761	44,493	11,336	361,975	286,040	2,377,011	1,369,363
Unallocated corporate liabilities									900,000	868,000
									3,277,011	2,237,363
Other information										
Depreciation	971	6,028	1,717	1,160	—	—	6,724	10,003		

(b) Geographical segment

For the six months ended 30 June 2004, over 90% of sales of the Group is generated from sales in the PRC.

8. Additions to property, plant and equipment

During the period, the Group spent approximately RMB21,671,000 (six months ended 30 June 2003 : RMB14,911,000) on acquisition of property, plant and equipment.

9. Interests in associates

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Share of net assets	569,564	574,889
Premium on acquisition	5,507	7,571
	575,071	582,460

10. 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 2004:—

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Within 1 year	222,022	108,822
1 to 2 years	6,101	5,841
2 to 3 years	3,381	4,810
Over 3 years	2,234	2,401
	<u>233,738</u>	<u>121,874</u>

The following is an aged analysis of trade creditors at 30 June 2004:—

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Within 1 year	912,737	215,817
1 to 2 years	6,410	7,263
2 to 3 years	4,296	973
Over 3 years	2,955	9,554
	<u>926,398</u>	<u>233,607</u>

11. Borrowings

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Bank borrowings		
Short term loans		
— unsecured	1,012,377	963,500
— secured	334,000	254,000
Bills payable	626,683	410,204
Other loan, unsecured	—	38,000
	<u>1,973,060</u>	<u>1,665,704</u>
Less : Amount due within 1 year shown under current liabilities	<u>(1,973,060)</u>	<u>(1,627,704)</u>
Borrowings repayable in the 2nd to 5th year	<u>—</u>	<u>38,000</u>

12. Share capital

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

13. Related party transactions

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

	Fellow subsidiaries, associates and related companies		Ultimate holding company	
	Six months ended		Six months ended	
	30 June 2004 (unaudited) RMB'000	30 June 2003 (unaudited) RMB'000	30 June 2004 (unaudited) RMB'000	30 June 2003 (unaudited) RMB'000
Sales of components and parts	516,358	843,289	—	3,202
Purchases of components and parts	16,429	63,594	—	—
Fees paid for welfare, support and sub- contracting services	1,099	—	295	—
Income for welfare, support and sub- contracting services provided	809	365	—	—
Fees paid for import services	482	3,331	—	—
Rental income	3,985	1,182	—	537

14. Contingent liabilities

As at 30 June, 2004, the Group had the following outstanding contingent liabilities not provided for in the interim financial statements in respect of:—

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Discounted bills with recourse	227,000	189,400
Guarantees given in respect of banking facilities made available to an associate	18,100	—
Guarantees given in respect of banking facilities made available to related companies	426,915	1,615
Guarantees given in respect of banking facilities made available to third parties	50,000	50,000
	<u>722,015</u>	<u>241,015</u>

15. Capital commitments

As at 30 June 2004, the Group had the following capital commitments in respect of:—

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Contracted but not provided for		
— Property, plant and equipment	58,045	58,045
— Investments in subsidiaries and an associate	1,750	1,750
	<u>59,795</u>	<u>59,795</u>

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

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

Impact on the consolidated income statement

	Six months ended 30 June 2004 (unaudited) RMB'000	30 June 2003 (unaudited) RMB'000
Profit attributable to shareholders as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	55,841	32,866
Income and expenditure taken directly to reserves	(19)	(174)
Minority interest	932	80
Amortisation of revaluation surplus on trademarks	450	450
Amortisation of unrecognised intangible assets	(108)	(672)
Other assets previously written off	(571)	(2,757)
Share of profits of associates	1,517	3,110
Others	(40)	(50)
Profit attributable to shareholders as per interim financial statements prepared under PRC accounting system	<u>58,002</u>	<u>32,853</u>

Impact on the consolidated balance sheet

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Net assets as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	1,201,079	1,145,238
Revaluation surplus on trademark	(1,574)	(2,023)
Unrecognised intangible assets	1,220	1,328
Other assets written off	1,418	1,988
Goodwill	(2,913)	(4,425)
Share of reserve of associates	(14,346)	(14,349)
Minority interests	827	(96)
Others	1,265	1,313
Net assets as per interim financial statements prepared under PRC accounting system	<u>1,186,976</u>	<u>1,128,974</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 system.