

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

During the period, the Group was involved in:

- property investment
- property development
- strategic investments, rental and finance
- the manufacture and sale of telecommunications products
- the manufacture and sale of watches

In the opinion of the Directors, the ultimate holding company is U.S. Concord (Holding) Limited, which is incorporated in Hong Kong.

### 2. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

In the opinion of the Directors, the principal accounting policies adopted in preparing the interim financial statements of the Group are the same as those adopted in the preparation of the annual financial statements as at and for the year ended 31st December 2001.

### 3. SEGMENT INFORMATION

Segment Information is presented in respect of the Group's primary business and secondary geographical segment in accordance with the Group's internal financial reporting.

#### (a) Business segments

The following tables present revenue and profit/(loss) for the Group's business segments.

#### Group

	Telecommunications		Property		Consumer products		Corporate and Other		Eliminations		Consolidated	
	2002		2002		2002		2002		2002		2002	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	229	1,610	549,377	199,860	6,630	7,466	-	-	-	-	556,236	208,936
Intersegment sales	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	(212)	-	18,299	32,284	544	-	24,081	350	(23,682)	-	19,030	32,634
<b>Total</b>	<b>17</b>	<b>1,610</b>	<b>567,676</b>	<b>232,144</b>	<b>7,174</b>	<b>7,466</b>	<b>24,081</b>	<b>350</b>	<b>(23,682)</b>	<b>-</b>	<b>575,266</b>	<b>241,570</b>
Segment results	(1,360)	(7,420)	208,638	131,755	(806)	(890)	(15,490)	(24,016)	-	-	190,981	99,429
Interest income											19,355	19,905
Dividend income											3,236	-
Profit from operating activities											213,572	119,334
Finance costs											(19,086)	(19,687)
Share of profits less losses of Associates	-	-	348	-	(937)	515	-	-	-	-	(589)	515
<b>Profit before tax</b>											<b>193,897</b>	<b>100,162</b>
Tax											(15,772)	9,177
<b>Profit before minority interests</b>											<b>178,125</b>	<b>109,339</b>
Minority interests											(16,835)	856
<b>Net profit from ordinary activities attributable to shareholders</b>											<b>161,290</b>	<b>110,195</b>

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### 3. SEGMENT INFORMATION (continued)

#### (b) Geographical segments

The following tables present revenue and profit/(loss) for the Group's geographical segments.

	For the six months ended 30 June									
	Hong Kong		Elsewhere in the PRC		Corporate and Other		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external										
customers	193,056	7,893	363,180	201,043	-	-	-	-	556,236	208,936
Segment results	44,022	3,415	92,828	129,407	54,131	(33,393)	-	-	190,981	99,429

### 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after crediting:

	Group	
	30 June 2002	30 June 2001
	(Unaudited)	(Unaudited)
	2002	2001
	HK\$'000	HK\$'000
Gross rental income	17,128	12,234
Negative goodwill recognised as income	7,692	-
Gain on disposal of subsidiary	-	99,509
And after charging:		
Depreciation	2,572	2,450
Less: Amount capitalised	-	(1,050)
Net depreciation	2,572	1,400
Exchange losses	272	316
Less: Amount capitalised	-	(95)
Net exchange losses	272	221
Minimum lease payments under operating leases		
on land and buildings	2,169	1,737
Less: Amount capitalised	(915)	(163)
Net minimum lease payments under operating leases	1,254	1,574

**5. FINANCE COSTS**

	<b>Group</b>	
	<b>30 June 2002</b>	30 June 2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	<b>85,216</b>	110,436
Less: Interest Capitalised	<b>(66,130)</b>	(90,749)
	<b>19,086</b>	19,687

**6. TAX**

Hong Kong profits tax has been calculated by applying the current rate of tax of 16% (2001: 16%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period. Taxes on the profits of subsidiaries operating outside Hong Kong have been calculated at the rates applicable in their respective jurisdictions based on existing legislation, interpretations and practices in respect thereof.

	<b>Group</b>	
	<b>30 June 2002</b>	30 June 2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Provision for profits tax in respect of the operating profit of the Company and its subsidiaries for the period:		
Hong Kong	—	—
Elsewhere		
Provision for the period	<b>23,715</b>	—
Deferred tax	<b>(8,300)</b>	(9,724)
	<b>15,415</b>	(9,724)
Associates:		
Hong Kong	<b>350</b>	377
Elsewhere	<b>7</b>	170
	<b>357</b>	547
Tax charge for the period	<b>15,772</b>	(9,177)

**7. DIVIDENDS**

The Directors do not recommend the payment of any interim dividend for the period ended 30 June 2002 (2001: Nil).

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share was based on the net profit from ordinary activities attributable to shareholders for the period ended 30 June 2002 of approximately HK\$161,290,000 (2001: HK\$110,195,000) and the weighted average number of 3,218,585,732 (2001: 2,645,916,561) ordinary shares in issue during the period.

The calculation of the diluted earnings per share was based on the net profit from ordinary activities attributable to shareholders for the period ended 30 June 2002 of approximately HK\$161,290,000 (2001: HK\$110,195,000) and the weighted average number of 3,218,585,732 (2001: 2,645,916,561) ordinary shares in issue during the period plus the weighted average of 183,459 (2001: Nil) ordinary shares assumed to be issued at no consideration on deemed exercise of all share options outstanding for this period.

**9. NEGATIVE GOODWILL**

The amount of negative goodwill, which arose from the privatisation of Concord Land Development Company Limited, is the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition as at the date of the exchange transaction.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis.

**10. TRADE RECEIVABLES**

The aged analysis of trade receivables is as follows:

	<b>Group</b>	
	<b>30 June 2002</b>	31 Dec 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Within 3 months	85,479	34,529
Between 4 to 6 months	104,689	1,423
Between 7 to 12 months	3,672	3,506
Over 1 year	102,230	135,697
	296,070	175,155
	296,070	175,155

**Credit Terms**

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well established customers, where the terms are extended to 90 days or more. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and its credit control teams serve to minimise credit risk. Overdue balances are regularly reviewed by management.

**11. TRADE PAYABLES**

The aged analysis of trade payables is as follows:

	<b>Group</b>	
	<b>30 June 2002</b>	31 Dec 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Within 3 months	62,236	110,121
Between 4 to 6 months	46,970	–
Between 7 to 12 months	20,819	8,819
Over 1 year	11,158	1,191
	141,183	120,131
	141,183	120,131

**12. SHARE CAPITAL**

	<b>Group and Company</b>	
	<b>Number of</b>	
	<b>ordinary shares</b>	
	<b>of HK\$0.10 each</b>	<b>Amount</b>
		<i>HK\$'000</i>
Authorised:		
Balance at beginning and end of period	<u>6,000,000,000</u>	<u>600,000</u>
Issued and fully paid:		
Balance at beginning and end of period	<u>3,218,585,732</u>	<u>321,858</u>

**Share option scheme**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employees, including executive Directors of the Company or any of its subsidiaries other than joint venture companies registered in the People's Republic of China. The Scheme became effective on 28 February 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the number of issued shares of the Company from time to time excluding the aggregate number of shares which were issued pursuant to the Scheme. In addition, the maximum number of shares in respect of which options may be granted under the Scheme to any grantee shall not exceed 25% of the number of shares issued and issuable under the Scheme at the time of grant.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and in any event such period of time shall not exceed a period of 3 years commencing on the expiry of 1 year after the date of the acceptance of the offer and expiring on the last day of such period, or 28 February 2007, whichever is the earlier.

The exercise price of the share options is determinable by the Directors, but shall be the higher of (i) a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the share.

**12. SHARE CAPITAL** *(continued)*

The following share options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares ***	
	At 1	Granted	Exercised	Lapsed	At 30				At grant	At exercise
	January	during	during	during	June				date of	date of
	2002	the period	the period	the period	2002				options	options
								HK\$	HK\$	HK\$
<b>Directors</b>										
Wong Sai Wa	1,000,000	-	-	-	1,000,000	19-10-1998	19-10-1999 to 18-10-2002	1.09	1.20	-
	50,000	-	-	-	50,000	05-06-1999	05-06-2000 to 04-06-2003	0.74	0.82	-
	5,000,000	-	-	-	5,000,000	27-08-2000	27-08-2001 to 26-08-2004	0.86	0.86	-
	2,000,000	-	-	-	2,000,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	-
	<u>8,050,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,050,000</u>					
Kwan Kai Cheong	1,000,000	-	-	-	1,000,000	19-10-1998	19-10-1999 to 18-10-2002	1.09	1.20	-
	16,000	-	-	-	16,000	01-06-1999	01-06-2000 to 31-05-2003	0.74	0.82	-
	5,000,000	-	-	-	5,000,000	24-08-2000	24-08-2001 to 23-08-2004	0.86	0.86	-
	2,000,000	-	-	-	2,000,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	-
	<u>8,016,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,016,000</u>					

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### 12. SHARE CAPITAL (continued)

										Price of	
										Company's shares ***	
Number of share options											



**12. SHARE CAPITAL** *(continued)*

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Price of Company's shares ***		
	At 1	Granted	Exercised	Lapsed	At 30			Exercise	At grant	At exer cise
	January	during	during	during	June			price	date of	date of
	2002	the period	the period	the period	2002			options**	options	options
								HK\$	HK\$	HK\$
<b>Other employees</b>										
In aggregate	322,000	-	-	-	322,000	05-06-1999	05-06-2000 to 04-06-2003	0.74	0.82	-
	1,850,000	-	-	-	1,850,000	27-08-2000	27-08-2001 to 26-08-2004	0.86	0.86	-
	978,000	-	-	-	978,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	-
	<u>3,150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,150,000</u>					
	<u>23,866,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,866,000</u>					

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

As at 30 June 2002, the Company had 23,866,000 share options outstanding under the Scheme, with exercise periods ranging from 19 October 1999 to 21 August 2005 and exercise prices ranging from HK\$0.51 to HK\$1.09. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 23,866,000 additional shares of HK\$0.10 each and proceeds of approximately HK\$18,534,900.

**13. RELATED PARTY TRANSACTIONS**

Other than disclosed elsewhere in the financial statements, during the period, the Group had transactions with the following related parties:

		<b>Group</b>	
		<b>30 June 2002</b>	30 June 2001
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Various income and expenses			
Interest paid to Fine Tower Associates Limited	(a)	<b>6,785</b>	12,626
Interest paid to Gain Time Holdings Limited	(b)	<b>10,310</b>	12,142
Interest income from Concord Bank		–	39
Interest payable to a Concord Bank	(c)	<b>2,839</b>	394
Management fee receivable from China Medical Science Limited	(d)	<b>300</b>	–

- (a) The interest paid relates to a long term loan of HK\$224 million borrowed from Fine Tower Associates Limited, a related company. Mr. Wong Sai Chung, a Director of the Company, is a director and controlling shareholder of the related company. The interest is charged based on the prevailing market interest rates.
- (b) The interest paid relates to a loan of HK\$113.5 million borrowed from Gain Time Holdings Limited, a related company. Mr. Wong Sai Chung, a Director of the Company, is a Director and controlling shareholder of the related company. The interest is charged at a rate of 18% per annum.
- (c) The interest was derived from loans granted by a related company, which is a bank. The interest rate is similar to that charged to other customers of the bank.
- (d) The management fee income relates to the use of a certain portion of the Company's premises located at 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong by China Medical Science Limited, a related company. Mr. Wong Sai Chung, a Director of the Company, is a Director and controlling shareholder of the related company. The management fee was charged at HK\$50,000 per month.

**14. COMMITMENTS**

- (a) Commitments under sub-contracting fees payable to Chinese joint venture parties:

	<b>Group</b>	
	<b>30 June 2002</b>	31 Dec 2001
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>660</b>	660
In the second to fifth years, inclusive	<b>330</b>	660
After five years	—	—
	<b>990</b>	1,320

- (b) The Company had no commitments as at 30 June 2002 (2001: Nil).

**15. OPERATING LEASE ARRANGEMENTS**

- (a) *As lessor*

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 8 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>30 June 2002</b>	31 Dec 2001
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>18,552</b>	22,461
In the second to fifth years, inclusive	<b>39,460</b>	45,237
After five years	<b>8,251</b>	13,901
	<b>66,263</b>	81,599

**15. OPERATING LEASE ARRANGEMENTS** *(continued)*

*(b) As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for 3 years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>30 June 2002</b>	<b>31 Dec 2001</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>1,632</b>	1,161
In the second to fifth years, inclusive	<b>5,099</b>	—
	<b>6,731</b>	1,161

**16. CONTINGENT LIABILITIES**

	<b>Group</b>	
	<b>30 June 2002</b>	<b>31 Dec 2001</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank guarantees in lieu of government rent	<b>1,739</b>	—
Guarantees given to banks in connection with facilities granted to:		
Associates	<b>9,552</b>	13,267
Other creditors	<b>116,182</b>	—
Guarantee of purchases granted to:		
Associates	—	12,943
	<b>127,473</b>	26,210

**17. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS**

The unaudited condensed interim financial statements were approved by the Board of Directors on 20 August 2002.