

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 of properties and finance
- the manufacture and sale of watches and telecommunications products

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

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 'Interim Financial Reporting' issued by the Hong Kong Society of Accountants ("HKSA").

These condensed interim financial statements should be read in conjunction with the 2002 annual financial statements.

In the opinion of the Directors, the principal accounting policies adopted in preparing the condensed interim financial statements of the Group are consistent with those used in the annual financial statements for the year ended 31 December 2002, except that the Group has adopted the revised SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

Under the revised SSAP 12, deferred taxation must generally be provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities (i.e., amounts attributed to those assets and liabilities for taxation purposes) and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Tax rates enacted or substantially enacted by the balance sheet date are used to determine deferred tax assets and liabilities.

Prior to the adoption of the revised SSAP 12, the accounting policy of the Group was to account for deferred taxation at current taxation rates in respect of all significant timing differences, to the extent that it was probable that the liability will crystallize in the foreseeable future. A deferred tax asset was not recognized until its realization is assured beyond reasonable doubt.

The requirement for the Group to adopt the revised SSAP 12 for its current period results in a change in its accounting policy. In accordance with accounting standards in Hong Kong in respect of changes in accounting policy, the application of the revised SSAP 12 will be retrospective. As a result of the retrospective application of the revised SSAP 12, an additional provision of approximately HK\$1,339,908,000 has been made for the deferred tax liability as at 31 December 2002, of which approximately HK\$1,038,091,000, HK\$195,123,000, HK\$95,809,000 and HK\$10,885,000 have been charged against revaluation reserves, goodwill, minority interests and retained profits respectively. Shareholder's funds as at 31 December 2002 have been decreased from approximately HK\$7,106,901,000 to approximately HK\$6,057,925,000.

The profit attributable to shareholders for the six months ended 30 June 2002 has also been restated from approximately HK\$161,290,000 to approximately HK\$156,986,000. The adoption of the revised SSAP 12 resulted in a deferred tax charge of HK\$3,884,000 to the profit and loss account for the six months ended 30 June 2003 (2002: HK\$4,304,000).

The comparatives presented have been restated to conform to the change in accounting policy as a result of the adoption of the revised SSAP 12.

PACIFIC CONCORD HOLDING LIMITED

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3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(a) Business segments

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

	For the six months ended 30 June									
	Property		Consumer products		Corporate and other		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000
Segment revenue:										
Sale to external customers	395,404	549,377	6,093	6,859	-	-	-	-	401,497	556,236
Intersegment sales	-	-	-	-	-	-	-	-	-	-
Other revenue	8,693	18,299	5,154	332	18,975	24,081	(15,244)	(23,682)	17,578	19,030
Total	<u>404,097</u>	<u>567,676</u>	<u>11,247</u>	<u>7,191</u>	<u>18,975</u>	<u>24,081</u>	<u>(15,244)</u>	<u>(23,682)</u>	<u>419,075</u>	<u>575,266</u>
Segment results	<u>68,549</u>	<u>208,638</u>	<u>(773)</u>	<u>(2,167)</u>	<u>(4,531)</u>	<u>(15,490)</u>	<u>-</u>	<u>-</u>	<u>63,245</u>	<u>190,981</u>
Interest income									4,300	19,355
Dividend income									-	3,236
Profit from operating activities									67,545	213,572
Finance costs									(19,005)	(19,086)
Share of profits and losses of associates	3,692	348	(68)	(937)	-	-	-	-	3,624	(589)
Profit before tax									52,164	193,897
Tax									(30,153)	(20,076)
Profit before minority interests									22,011	173,821
Minority interests									(1,746)	(16,835)
Net profit from ordinary activities attributable to shareholders									<u>20,265</u>	<u>156,986</u>

(b) Geographical segments

The following table presents 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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000	(Unaudited) HK\$'000	(Restated) HK\$'000
Segment revenue:										
Sales to external customers	21,872	193,056	379,625	363,180	-	-	-	-	401,497	556,236
Segment results	<u>4,618</u>	<u>61,578</u>	<u>63,158</u>	<u>144,893</u>	<u>(4,531)</u>	<u>(15,490)</u>	<u>-</u>	<u>-</u>	<u>63,245</u>	<u>190,981</u>

4. PROFIT FROM OPERATING ACTIVITIES

	30 June 2003 (Unaudited) <i>HK\$'000</i>	30 June 2002 (Unaudited) <i>HK\$'000</i>
The Group's profit from operating activities is arrived at after crediting:		
Gross rental income	13,778	17,128
Write-back of provision for impairment of long term investments	4,549	–
Negative goodwill recognised as income	8,575	7,692
	<hr/>	<hr/>
And after charging:		
Depreciation	3,453	2,572
Less: Amount capitalised	(80)	–
	<hr/>	<hr/>
Net depreciation	3,373	2,572
	<hr/>	<hr/>
Exchange losses	152	272
Provision for doubtful debts	5,167	–
Amortisation of goodwill	2,139	–
Provision for properties under development held for sales	112,000	–
	<hr/>	<hr/>
Minimum lease payments under operating leases on land and buildings	1,990	2,169
Less: Amount capitalised	(1,733)	(915)
	<hr/>	<hr/>
Net minimum lease payments under operating leases on land and buildings	257	1,254
	<hr/>	<hr/>

5. FINANCE COSTS

	30 June 2003 (Unaudited) <i>HK\$'000</i>	30 June 2002 (Unaudited) <i>HK\$'000</i>
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	113,240	85,216
Less: Interest capitalised	(94,235)	(66,130)
	19,005	19,086

6. TAX

Hong Kong profits tax has been calculated by applying the current rate of tax of 17.5% (2002: 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.

	30 June 2003 (Unaudited) <i>HK\$'000</i>	30 June 2002 (Restated) <i>HK\$'000</i>
Provision for profits tax in respect of the operating profit of the Company and its subsidiaries for the period:		
Hong Kong	85	—
Elsewhere		
Provision for the period	24,750	23,715
Deferred tax	3,743	(5,428)
	28,493	18,287
Associates:		
Hong Kong	58	350
Elsewhere	1,377	7
Deferred tax	140	1,432
	1,575	1,789
Tax charge for the period	30,153	20,076

7. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the period ended 30 June 2003 (2002: 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 2003 of approximately HK\$20,265,000 (2002 as restated: approximately HK\$156,986,000) and the weighted average number of 3,247,769,732 (2002: 3,218,585,732) ordinary shares in issue during the period.

There was no dilution arising from the outstanding share options granted by the Company for the six months ended 30 June 2003 as they did not have a dilutive effect during the period (2002: dilutive but the effect was immaterial). Accordingly, diluted earnings per share had not been shown.

9. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	30 June 2003	31 December 2002
	(Unaudited)	(Audited)
	HK\$'000	HK\$000
Within 3 months	159,123	158,777
Between 4 to 6 months	30,438	31,789
Between 7-12 months	34,732	17,374
Over 1 year	35,762	65,037
	260,055	272,977

Credit terms

The Group's trading terms with its customers are mainly 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 to minimize credit risk. Overdue balances are regularly reviewed by management.

10. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	30 June 2003 (Unaudited) <i>HK\$'000</i>	31 December 2002 (Audited) <i>HK\$'000</i>
Within 3 months	68,267	159,252
Between 4 to 6 months	42,107	15,571
Between 7 to 12 months	31,241	6,095
Over 1 year	17,764	15,118
	159,379	196,036

11. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	Amount <i>HK\$'000</i>
Authorised:		
Balance at beginning and end of period	6,000,000,000	600,000
Issued and fully paid:		
Balance at beginning and end of period	3,247,769,732	324,777

Share options

The Company operates a share option scheme (the "Scheme") for the purposes 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 unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 30 June 2003, the number of shares issuable under share options granted under the Scheme was 20,718,000, which represented approximately 0.64% of the Company's share in issue as at that date.

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.

11. SHARE CAPITAL *(continued)*

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.

Share options do not confer rights on the holders to dividend or to vote at shareholders' general meetings.

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** HK\$
	At 1	Granted	Exercised	Lapsed	At 30			
	January	during	during	during	June			
	2003	the period	the period	the period	2003			
Directors								
Wong Sai Wa	50,000	-	-	(50,000)	-	05-06-1999	05-06-2000 to 04-06-2003	0.74
	5,000,000	-	-	-	5,000,000	27-08-2000	27-08-2001 to 26-08-2004	0.86
	2,000,000	-	-	-	2,000,000	22-08-2001	22-08-2002 to 21-08-2005	0.51
	<u>7,050,000</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>7,000,000</u>			
Kwan Kai Cheong	16,000	-	-	(16,000)	-	01-06-1999	01-06-2000 to 31-05-2003	0.74
	5,000,000	-	-	-	5,000,000	24-08-2000	24-08-2001 to 23-08-2004	0.86
	2,000,000	-	-	-	2,000,000	22-08-2001	22-08-2002 to 21-08-2005	0.51
	<u>7,016,000</u>	<u>-</u>	<u>-</u>	<u>(16,000)</u>	<u>7,000,000</u>			

11. SHARE CAPITAL *(continued)*

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** HK\$
	At 1	Granted	Exercised	Lapsed	At 30			
	January	during	during	during	June			
	2003	the period	the period	the period	2003			
Zhang Liping	1,500,000	–	–	–	1,500,000	28-02-2001	28-02-2002 to 27-02-2005	0.68
Wong Siu Man	50,000	–	–	(50,000)	–	07-06-1999	07-06-2000 to 06-06-2003	0.74
	1,000,000	–	–	–	1,000,000	27-08-2000	27-08-2001 to 26-08-2004	0.86
	560,000	–	–	–	560,000	22-08-2001	22-08-2002 to 21-08-2005	0.51
	1,610,000	–	–	(50,000)	1,560,000			
Tam Wing Tak	1,000,000	–	–	–	1,000,000	27-08-2000	27-08-2001 to 26-08-2004	0.86
	540,000	–	–	–	540,000	22-08-2001	22-08-2002 to 21-08-2005	0.51
	1,540,000	–	–	–	1,540,000			

11. SHARE CAPITAL *(continued)*

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** HK\$
	At 1	Granted	Exercised	Lapsed	At 30			
	January	during	during	during	June			
	2003	the period	the period	the period	2003			
Other employees								
In aggregate	322,000	–	–	(322,000)	–	05-06-1999	05-06-2000 to 04-06-2003	0.74
	1,850,000	–	–	(700,000)	1,150,000	27-08-2000	27-08-2001 to 26-08-2004	0.86
	978,000	–	–	(10,000)	968,000	22-08-2001	22-08-2001 to 21-08-2005	0.51
	<u>3,150,000</u>	<u>–</u>	<u>–</u>	<u>(1,032,000)</u>	<u>2,118,000</u>			
	<u>21,866,000</u>	<u>–</u>	<u>–</u>	<u>(1,148,000)</u>	<u>20,718,000</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 similar changes in the Company's share capital.

11. SHARE CAPITAL *(continued)*

As at 30 June 2003, the Company had 20,718,000 share options outstanding under the Scheme, with exercise periods ranging from 1 June 2000 to 21 August 2005 and exercise prices ranging from HK\$0.51 to HK\$0.86. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 20,718,000 additional shares of HK\$0.10 each and proceeds of approximately HK\$15,423,680.

12. RELATED PARTY TRANSACTIONS

During the period, the Group had transactions with the following related parties:

		30 June 2003	30 June 2002
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Various income and expenses			
Interest paid to Fine Tower Associates Limited	(a)	—	6,785
Interest paid to Gain Time Holdings Limited	(b)	8,078	10,310
Interest payable to Concord Bank	(c)	393	2,839

- (a) The interest paid relates to a long term loan of HK\$224 million borrowed from Fine Tower Associates Limited, a related company. This loan was fully repaid in 2002. 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\$15 million (2002: 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.

13. 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 10 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 2003, the Group had total future minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	30 June 2003	31 December 2002
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	13,967	15,619
In the second to fifth years, inclusive	35,331	24,761
After five year	30,247	4,816
	<u>79,545</u>	<u>45,196</u>

(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 2003, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	30 June 2003	31 December 2002
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,448	2,448
In the second to fifth years, inclusive	2,651	3,875
	<u>5,099</u>	<u>6,323</u>

14. COMMITMENTS

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

	30 June 2003	31 December 2002
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within one year	330	660
In the second to fifth years, inclusive	—	—
	330	660

- (b) The Company had no other commitments as at 30 June 2003 (2002: Nil).

15. CONTINGENT LIABILITIES

	30 June 2003	31 December 2002
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to:		
Associates	1,332	6,600
Third party	56,630	41,825
	57,962	48,425

16. POST BALANCE SHEET EVENTS

On 26 May 2003, it was announced jointly by the Majority Shareholders and the Company that, on 20 May 2003 Max Asialines Limited, Sanote Investments Limited, Cebu Blue Limited, Skypoint Investments Limited, Beaujet Development Limited and Gain Time Holdings Limited (the "Majority Shareholders"), who are beneficially interested in 57.02% shareholdings in the Company, requested the Board to put forward a proposed privatisation of the Company by way of a scheme of arrangement (the "Scheme"), upon the successful completion of which the remaining 42.98% shareholding in the Company will be cancelled at a cancellation price of HK\$0.65 and the Company will become wholly-owned by the Majority Shareholders. At a meeting of the independent shareholders convened at the direction of the High Court ("Court Meeting") held on 26 September 2003, the Scheme was duly approved by a majority in number of the independent shareholders present and voting either in person or by proxy representing not less than three-fourths in value of the shares that were voted either in person or by proxy at the Court Meeting (and not disapproved by independent shareholders holding more than 10 per cent. in value of all the shares held by the independent shareholders). Furthermore, at the Extraordinary General Meeting of the Company ("EGM") held on the same date. A special resolution was duly passed by a majority of not less than three-fourths of votes cast by the shareholders of the Company present and voting, in person or by proxy at the EGM. It is expected that the Scheme will be effective and the shares of the Company will be withdrawn from listing on The Stock Exchange of Hong Kong Limited on 22 October 2003.

17. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements were approved by the Board of Directors on 29 September 2003.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified on the face of the consolidated profit and loss account and the consolidated balance sheet due to the adoption of the new requirements under the revised Statement of the Standard Accounting Practice ("SSAP") 12 "Income Taxes".