

## VII Financial Statement (Prepared under generally accepted accounting principles in Hong Kong)

### CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	<i>Notes</i>	<b>Jan-Jun 2001</b> <b>(unaudited)</b> <i>RMB'000</i>	<b>Jan-Jun 2000</b> <b>(unaudited)</b> <i>RMB'000</i>
Turnover	3	565,213	595,806
Cost of sales		(514,008)	(500,200)
Gross profit		51,205	95,606
Other revenue		2,719	36,769
Distribution costs		(22,504)	(46,506)
Administrative expenses		(49,493)	(41,180)
Provision for impairment in value of property, plant and equipment and construction in progress	4	(36,587)	-
(Loss)/profit from operations		(54,660)	44,689
Finance costs		(26,136)	(16,356)
Share of results of associates		167,642	61,576
Profit before taxation		86,846	89,909
Income tax expenses	6	(28,684)	(13,225)
Profit before minority interests		58,162	76,684
Minority interests		2,996	(4,310)
Profit for the period		61,158	72,374

Earnings per share (RMB)	8	0.09	0.11
--------------------------	---	------	------

**CONSOLIDATED BALANCE SHEET**  
AT 30TH JUNE 2001

		<b>30th June</b>	<b>31st December</b>
		<b>2001</b>	<b>2000</b>
		<b>(unaudited)</b>	<b>(audited)</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets and liabilities			
Non-current assets			
Intangible assets		90,273	90,273
Property, plant and equipment	9	369,361	399,800
Construction in progress		3,166	20,605
Interests in associates	10	788,981	644,816
Investments		6,026	6,815
		1,257,807	1,162,309
Current assets			
Short term investments		151,181	120,987
Inventories		100,480	140,968
Bills receivable		7,264	3,616
Trade debtors	11	80,852	95,483
Other debtors, deposits and prepayments		67,443	56,999
Amounts due from fellow subsidiaries and associates		106,103	389,911
Bank balances and cash		806,369	402,777
		1,319,692	1,210,741
Current liabilities			
Borrowings	12	1,390,096	1,255,871
Trade creditors	11	48,879	58,694
Other creditors, customers' deposits and accrued charges		213,770	169,268
Amounts due to fellow subsidiaries and associates		76,033	67,396
Amount due to ultimate holding company		45,590	80,233
Taxation		5,607	4,850

		1,779,975	1,636,312
Net current liabilities		(460,283)	(425,571)
		797,524	736,738
Capital and reserves			
Share capital	13	655,015	655,015
Share premium and reserves		124,537	63,468
Shareholders' funds		779,552	718,483
Minority interests		17,972	18,255
		797,524	736,738

**CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**  
FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	<b>Jan-Jun 2001</b> <b>(unaudited)</b> <i>RMB'000</i>	<b>Jan-Jun 2000</b> <b>(unaudited)</b> <i>RMB'000</i>
Revaluation deficit on investments not recognised in the income statement during the period	(89)	-
Net profit for the period	61,158	72,374
Total recognised gains and losses	61,069	72,374

**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 30TH JUNE 2001

	<b>Jan-Jun 2001</b> <b>(unaudited)</b>	<b>Jan-Jun 2000</b> <b>(unaudited)</b>
--	-------------------------------------------	-------------------------------------------

	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	410,003	(53,798)
Returns on investments and servicing of finance		
Interest received	2,479	3,716
Interest paid	(25,905)	(15,097)
Dividends received from an associate	-	95,236
Net cash (outflow)/inflow from returns on investments and servicing of finance	(23,426)	83,855
Taxation		
Taxation paid	(300)	(331)
Investing activities		
Purchases of property, plant and equipment	(1,637)	(1,450)
Expenditure on construction in progress	(2,607)	(1,050)
Additional short term investment	-	(150,150)
Additional investment in securities	(30,675)	-
Additional investment in associates	(3,450)	-
Proceeds on disposal of property, plant and equipment	215	13
Proceeds on disposal of an investment	-	1,984
Placement of pledged bank deposits	(279,381)	6,591
Decrease/(increase) in bank deposits	27,512	(25,029)
Net cash of subsidiaries not consolidated	-	(1,976)
Net cash outflow from investing activities	(290,023)	(171,067)
Net cash inflow/(outflow) before financing	96,254	(141,341)
Financing		
New loans raised	651,556	490,661
Repayment of loans	(564,397)	(374,477)
Repayment to ultimate holding company	(34,643)	-
Shares subscribed by minority shareholders	2,953	-
Net cash inflow from financing	55,469	116,184
Increase/(decrease) in cash and cash equivalents	151,723	(25,157)

Cash and cash equivalents at the beginning of the period	87,405	175,692
Cash and cash equivalents at the end of the period	239,128	150,535
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	806,369	524,969
Less:Pledged bank balances	(562,407)	(242,934)
Bank deposits	(4,834)	(131,500)
	239,128	150,535

## **NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Hong Kong dollars)

### 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 RMB460 million as at 30th June, 2001. 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 2000

### 3. Turnover

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

4. Provision for impairment in value of property, plant and equipment and construction in progress

During the period, management carried out a major review of the tangible assets portfolio in assessing the validity of their book values. Based on the results of the review, the Directors decided to make a provision for impairment in value of a construction project and various plant and machinery of RMB15,654,000 and RMB20,933,000 respectively.

5. Depreciation

During the period, depreciation of RMB12,774,000 (six months ended 30th June 2000: RMB8,997,000) was charged in respect of the Group's property, plant and equipment.

6. Taxation

(a) Taxation charge comprises:-

	<b>Jan-Jun 2001</b> <b>(unaudited)</b> <i>RMB'000</i>	<b>Jan-Jun 2000</b> <b>(unaudited)</b> <i>RMB'000</i>
PRC income tax		
Company and its subsidiaries	1,057	323
Associates	27,627	12,902
	28,684	13,225

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 Communication Co., Ltd. ("Nanjing Ericsson"), is a Sino-foreign equity joint venture and is subject to income tax at a rate of 10 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.

#### 7. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend (six months ended 30th June 2000 : Nil).

#### 8. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders for the six months ended 30th June 2001 of RMB61,158,000 (six months ended 30th June 2000 : RMB72,374,000) and on 655,015,000 shares in issue throughout the period.

#### 9. Additions to property, plant and equipment

During the period, the Group spent approximately RMB1,637,000 (six months ended 30th June 2000: RMB1,450,000) on acquisition of property, plant and equipment.

#### 10. Interests in associates

	<b>30th June 2001 (unaudited) RMB'000</b>	<b>31st December 2000 (audited) RMB'000</b>
Share of net assets	788,363	644,198
Premium on acquisition	618	618
	788,981	644,816

#### 11. Trade debtors and creditors

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

As at 30th June 2001, 80% of debtors (89% as at 31st December 2000) and 80% of creditors (81% as at 31st December 2000) were aged under six months.

#### 12. Borrowings

	<b>30th June 2001 (unaudited) <i>RMB'000</i></b>	<b>31st December 2000 (audited) <i>RMB'000</i></b>
Bank borrowings		
Short term loans		
- unsecured	495,569	439,030
- secured	92,020	91,400
Bills payable	799,507	722,441
Other loan, unsecured	3,000	3,000
	1,390,096	1,255,871

### 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. Contingent liabilities

As at 30th June, 2001, the Group had the following outstanding contingent liabilities not provided for in the interim financial statements in respect of:

	<b>30th June 2001 (unaudited) <i>RMB'000</i></b>	<b>31st December 2000 (audited) <i>RMB'000</i></b>
Discounted bills with recourse	-	15,500
Guarantees given in respect of banking facilities made available to fellow subsidiaries	-	170,380
Guarantees given in respect of banking facilities made available to third parties	130,000	175,000
	130,000	360,880

### 15. Capital commitments



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

	<b>30th June 2001 (unaudited) <i>RMB'000</i></b>	<b>31st December 2000 (audited) <i>RMB'000</i></b>
Contracted but provided not for		
Property, plant and equipment	60,045	60,045
Investments in subsidiaries and an associate	101,313	100,563
Short term investment	-	30,000
	161,358	190,608

#### 16. 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

	<b>Jan-Jun 2001 (unaudited) <i>RMB'000</i></b>	<b>Jan-Jun 2000 (unaudited) <i>RMB'000</i></b>
Profit attributable to shareholders as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	61,158	72,374
Add: Provision for impairment in value of property, plant and machinery and construction in progress	36,587	-
Provision for bad and doubtful debts	4,846	8,947
Less: Reverse of provision for inventories	(2,880)	-
Amortisation on trademarks	(7,812)	(7,802)
Amortisation of unrecognised intangible		

assets	(55)	-
Other assets previously written off	(6,889)	(571)
Share of profits of associates	(965)	-
Share of loss of other investments	(89)	-
Minority interest	(3,991)	-
Others	(800)	-

Profit attributable to shareholders as per interim financial statements prepared under PRC accounting standards	79,110	72,948
-----------------------------------------------------------------------------------------------------------------	--------	--------

16. Differences between accounting principles generally accepted in Hong Kong and PRC accounting standards as applicable to the Group (continued)

Impact on the consolidated balance sheets

	<b>30th June 2001 (unaudited) RMB'000</b>	<b>31st December 2000 (audited) RMB'000</b>
Net assets as per interim financial statements prepared under the accounting principles generally accepted in Hong Kong	779,552	714,483
Add: Provision for impairment in value of trademarks	64,867	64,867
Provision for bad and doubtful debts	16,885	12,039
Provision for obsolete inventories	19,472	22,353
Share of net assets of associates	3,168	13,322
Unrecognised intangible assets	863	918
Other assets written off	24,719	29,001
Others	18,957	16,805
Less: Amortisation on trademarks	(81,449)	(73,692)
Minority interest	(8,231)	(3,930)
Net assets as per interim financial statements prepared under PRC accounting standards	838,803	796,166

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.