

Notes to the Condensed Financial Statements

For the Six Months ended 30th June, 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants except that, in this first year of implementation of the new SSAP, as permitted by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, no comparative amounts have been presented for the condensed consolidated cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2000, except as described below.

In the current period, the Group has adopted, for the first time, the following new or revised SSAPs issued by the Hong Kong Society of Accountants.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) “Events after the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the accumulated profits as at 1st January, 2000 by HK\$195,016,000 and as at 1st January, 2001 by HK\$269,756,000 respectively.

Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or joint venture, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary, associate or joint venture.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life i.e. over periods ranging between 5 and 20 years. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.



3. SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating profit by principal activity and geographical region is as follows:

	Turnover		Operating profit	
	Six months ended		Six months ended	
	30th June,		30th June,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segment				
Consumer products/Retailing	971,407	845,644	101,930	78,312
Less: Intra-segment sales	<u>(54,638)</u>	<u>(46,423)</u>	<u>(16,757)</u>	<u>(14,294)</u>
	916,769	799,221	85,173	64,018
SIIC MedTech	339,402	249,415	67,767	48,600
Infrastructure and Modern Logistics	<u>361,480</u>	<u>367,800</u>	<u>360,856</u>	<u>367,086</u>
	<u>1,617,651</u>	<u>1,416,436</u>	513,796	479,704
Less: Net central administrative expenses			(20,943)	(24,530)
Add: Interest income			<u>92,532</u>	<u>146,339</u>
Profit from operations			<u>585,385</u>	<u>601,513</u>
Geographical region				
Hong Kong	110,732	104,856	35,183	33,539
Less: Intra-segment sales	<u>(54,638)</u>	<u>(46,423)</u>	<u>(16,757)</u>	<u>(14,294)</u>
	56,094	58,433	18,426	19,245
Mainland China (the "PRC")	1,253,809	1,120,736	470,644	439,019
Other Asian countries	227,698	188,088	19,198	16,844
Other areas	<u>80,050</u>	<u>49,179</u>	<u>5,528</u>	<u>4,596</u>
	<u>1,617,651</u>	<u>1,416,436</u>	513,796	479,704
Less: Net central administrative expenses			(20,943)	(24,530)
Add: Interest income			<u>92,532</u>	<u>146,339</u>
Profit from operations			<u>585,385</u>	<u>601,513</u>

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Six months ended	
	30th June,	
	2001	2000
	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	44,853	43,255
Interest income	(92,532)	(146,339)
Gain on disposal of investments in securities	(40,119)	(3,000)
Dividend income from listed investments	(2,755)	(12,355)
Net unrealised gain on investments in securities	<u>(6,014)</u>	<u>(16,575)</u>

5. TAXATION

	Six months ended	
	30th June,	
	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Current period taxation of the Company and its subsidiaries:		
Hong Kong Profits Tax	7,379	4,413
PRC income tax	<u>26,624</u>	<u>13,666</u>
	34,003	18,079
Share of PRC income tax of jointly controlled entities	16,441	12,814
Share of PRC income tax of associates	<u>5,115</u>	<u>5,029</u>
	<u>55,559</u>	<u>35,922</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessment profit for the period. For the period ended 30th June, 2001, Chia Tai Qingchunbao Pharmaceutical Co., Ltd. 正大青春寶藥業有限公司 ("Hangzhou Qingchunbao") is subject to PRC income tax calculated at 24%. Hangzhou Qingchunbao was entitled to a preferential PRC income tax rate of 12% in prior periods.



6. DIVIDENDS

	Six months ended	
	30th June,	
	2001	2000
	HK\$'000	HK\$'000
2000 final dividend of HK30 cents (1999 final dividend: HK22 cents) per share	269,756	195,016
Overprovision of final dividend due to repurchase of shares	—	(351)
Additional final dividend due to exercise of share options/issue of new shares on subscription	<u>47</u>	<u>—</u>
	<u>269,803</u>	<u>194,665</u>

On 29th May, 2001, a dividend of HK30 cents (1999 final dividend: HK22 cents) per share was paid to shareholders as final dividend for 2000.

The directors have determined that an interim dividend of HK14 cents (2000 interim dividend: HK11 cents) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 5th October, 2001.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30th June, 2001 is based on the following data:

	Six months ended 30th June,	
	2001	2000
Earnings:		
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	<u>HK\$690,517,000</u>	<u>HK\$584,296,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	899,328,972	886,551,846
Effect of dilutive potential ordinary shares — share options	<u>13,290,581</u>	<u>19,390,081</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>912,619,553</u>	<u>905,941,927</u>

8. MOVEMENTS IN INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

In the opinion of the directors, there is no material difference between the carrying amount and the market value of investment property as at 30th June, 2001.

During the period, the Group incurred costs for construction in progress of approximately HK\$75 million and acquired plant and machinery at a cost of approximately HK\$3 million, furniture, fixtures and equipment at a cost of approximately HK\$5 million and other assets at a cost of approximately HK\$11 million for the purpose of expanding the Group's business.



9. MOVEMENTS IN INVESTMENTS IN SECURITIES

During the period, the Group acquired certain investments of approximately HK\$867 million and certain investments of approximately HK\$364 million were disposed of. Included in the total investments is an amount of approximately HK\$548 million which represents part of the consideration paid for the acquisition of approximately 11% interest in Semiconductor Manufacturing International Corporation ("SMIC"). The total consideration for the acquisition of SMIC is approximately US\$110 million (approximately HK\$858 million). The unpaid portion of consideration is included in note 16.

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$206,845,000 (31st December, 2000: HK\$184,053,000) and their aging analysis is as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Trade receivables:		
Within 30 days	89,864	86,505
Within 31–60 days	47,435	40,347
Within 61–90 days	35,800	29,806
Within 91–180 days	25,866	27,395
Within 181–360 days	7,880	—
	<u>206,845</u>	<u>184,053</u>

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$85,744,000 (31st December, 2000: HK\$91,860,000) and their aging analysis is as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Trade payables:		
Within 30 days	52,442	63,092
Within 31-60 days	16,696	11,901
Within 61-90 days	5,742	4,465
Within 91-180 days	4,431	4,581
Within 181-360 days	4,006	4,876
Over 360 days	<u>2,427</u>	<u>2,945</u>
	<u><u>85,744</u></u>	<u><u>91,860</u></u>

12. BORROWINGS

During the period, the Group obtained new short-term bank loans in the amount of approximately HK\$32,858,000. The loans bear interest at market rates and are repayable within 1 year. The proceeds were used for general working capital purposes. The Group also repaid bank loans of approximately HK\$618 million.

13. ISSUED CAPITAL

	Number of ordinary shares	Amount HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
— balance at 1st January, 2001	897,856,000	89,786
— exercise of share options	3,056,000	305
— shares repurchased and cancelled	<u>(1,571,000)</u>	<u>(157)</u>
	<u><u>899,341,000</u></u>	<u><u>89,934</u></u>



14. ACCUMULATED PROFITS

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
At beginning of the period/year		
— as originally stated	2,779,145	2,082,180
— prior period adjustment in respect of change in accounting policy for dividend recognition	<u>269,756</u>	<u>195,016</u>
— as restated	3,048,901	2,277,196
Profit for the period/year	690,517	1,134,669
Transfers, net of minority interests' share (note 15)	(815)	(49,196)
Dividends	(269,803)	(293,255)
Shares repurchased and cancelled:		
Premium on shares	(19,954)	(20,354)
Transfers (note 15)	<u>(157)</u>	<u>(159)</u>
At end of the period/year	<u><u>3,448,689</u></u>	<u><u>3,048,901</u></u>

15. OTHER RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill H\$'000	PRC statutory reserves HK\$'000	Total HK\$'000
THE GROUP							
At 1st January, 2000	9,196,261	—	299	8,519	(89,913)	129,782	9,244,948
Premium arising on issue of shares	120,275	—	—	—	—	—	120,275
Expenses incurred in connection with the issue of shares	(90)	—	—	—	—	—	(90)
Transfer arising on shares repurchased and cancelled (note 14)	—	159	—	—	—	—	159
Exchange difference arising from translation of financial statements of PRC operations	—	—	—	(141)	—	—	(141)
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	—	—	—	(213)	—	—	(213)
Share of PRC statutory reserves of an associate	—	—	—	—	—	(130)	(130)
Share of goodwill arising on acquisition of subsidiaries by jointly controlled entities	—	—	—	—	(23,394)	—	(23,394)
Goodwill arising on acquisition of subsidiaries/additional interests in a subsidiary	—	—	—	—	(414,901)	—	(414,901)
Goodwill arising on acquisition of jointly controlled entities	—	—	—	—	(482,661)	—	(482,661)
Capital reserve arising on acquisition of an associate	—	—	—	—	6,169	—	6,169
Realised on disposal and partial disposal of a jointly controlled entity	—	—	—	(90)	684	(1,368)	(774)
Realised on disposal and partial disposal of interests in subsidiaries	—	—	—	—	2,112	—	2,112
Transfers, net of minority interests' share (note 14)	—	—	—	—	—	49,196	49,196
At 31st December, 2000	9,316,446	159	299	8,075	(1,001,904)	177,480	8,500,555
Premium arising on issue of shares	30,711	—	—	—	—	—	30,711
Expenses incurred in connection with the issue of shares	(44)	—	—	—	—	—	(44)
Exchange difference arising from translation of financial statements of PRC operations	—	—	—	130	—	—	130
Realised on deemed disposal of a jointly controlled entity	—	—	—	—	648	(454)	194
Transfer arising on shares repurchased and cancelled (note 14)	—	157	—	—	—	—	157
Share of PRC statutory reserves of an associates	—	—	—	—	—	(371)	(371)
Transfers, net of minority interests' share (note 14)	—	—	—	—	—	815	815
At 30th June, 2001	9,347,113	316	299	8,205	(1,001,256)	177,470	8,532,147



16. CAPITAL COMMITMENTS

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— investments in securities	321,750	—
— investments in PRC subsidiaries and jointly controlled entities	14,430	45,480
— acquisition of property, plant and equipment	<u>125,704</u>	<u>160,340</u>
	<u><u>461,884</u></u>	<u><u>205,820</u></u>
Capital expenditure authorised but not contracted for in respect of		
— investments in the PRC	186,916	186,916
— acquisition of property, plant and equipment	<u>44,942</u>	<u>—</u>
	<u><u>231,858</u></u>	<u><u>186,916</u></u>

In addition to the above, the Group's share of capital commitments of the jointly controlled entities are as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— investments in PRC subsidiaries and jointly controlled entities	15,910	9,202
— acquisition of property, plant and equipment	<u>2,411</u>	<u>128,173</u>
	<u>18,321</u>	<u>137,375</u>
Capital expenditure authorised but not contracted for in respect of		
— investments in PRC jointly controlled entities	10,103	—
— acquisition of property, plant and equipment	<u>11,317</u>	<u>22,959</u>
	<u>21,420</u>	<u>22,959</u>

17. OTHER COMMITMENTS

At 30th June, 2001, there were outstanding interest rate hedging contracts entered into by the Company with certain financial institutions to hedge the floating interest rate risk of the Company's bank loans of US\$150 million (31st December, 2000: US\$225 million).

18. CONTINGENT LIABILITIES

At the balance sheet date, the guarantees given to banks by the Group in respect of banking facilities granted to a third party amounted to approximately HK\$28 million (31st December, 2000: nil). In addition, the Group's share of contingent liabilities of Shanghai Information Investment Inc. ("SII"), a jointly controlled entity of the Group, in respect of banking facilities granted by SII to its major shareholder amounted to a further HK\$28 million (31st December, 2000: nil).

