

The Board of Directors (the "Directors") of China Pharmaceutical Enterprise and Investment Corporation Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2001.

## **CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended June 30, 2001*

		<b>For the six months ended 6.30.</b>	
		<b>2001</b>	<b>2000</b>
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	570,627	494,195
Cost of sales		(422,524)	(358,938)
Gross profit		148,103	135,257
Other revenue		8,063	4,967
Distribution costs		(12,170)	(10,559)
Administrative expenses		(54,865)	(34,843)
Other operating expenses		(5,765)	(1,451)
Profit from operations	4	83,366	93,371
Finance costs		(13,313)	(15,799)
Goodwill written off on impairment of an associate		(2,032)	–
Share of profit of a jointly controlled entity		2,843	3,171
Gain on disposal of subsidiaries		3,860	–
Profit before taxation		74,724	80,743
Taxation	5	(13,688)	(9,654)
Profit before minority interests		61,036	71,089
Minority interests		(644)	(459)
Profit attributable to shareholders		60,392	70,630
Earnings per share	6		
Basic		4.87 cents	5.69 cents
Diluted		4.82 cents	5.62 cents

There were no recognised gains or losses other than the profit attributable to shareholders.

# CONDENSED CONSOLIDATED BALANCE SHEET

At June 30, 2001

	NOTES	6.30.2001 HK\$'000	12.31.2000 HK\$'000
Non-current assets			
Property, plant and equipment	7	1,025,219	1,066,298
Deposits for acquisition of property, plant and equipment		22,254	1,548
Intangible assets	8	81,678	78,888
Investment in a jointly controlled entity		17,202	14,713
Investment in an associate		—	—
Loan receivable	9	3,835	3,835
		<u>1,150,188</u>	<u>1,165,282</u>
Current assets			
Inventories		109,381	140,243
Trade and other receivables	10	449,150	382,418
Loan receivables	11	12,352	18,960
Trade receivables due from related companies		118,695	115,133
Amount due from a jointly controlled entity		3,936	4,867
Bank balances and cash		149,182	123,300
		<u>842,696</u>	<u>784,921</u>
Current liabilities			
Trade and other payables	12	322,558	264,168
Taxation payable		13,252	8,039
Bank loans – due within one year	13	271,656	311,634
		<u>607,466</u>	<u>583,841</u>
Net current assets		<u>235,230</u>	<u>201,080</u>
Total assets less current liabilities		<u>1,385,418</u>	<u>1,366,362</u>
Minority interests		<u>8,844</u>	<u>9,050</u>
Non-current liabilities			
Subordinated loan from ultimate holding company		—	47,250
Bank loans – due after one year	13	134,355	131,652
		<u>134,355</u>	<u>178,902</u>
		<u>1,242,219</u>	<u>1,178,410</u>
Capital and reserves			
Share capital	14	124,045	124,045
Reserves	15	1,118,174	1,054,365
		<u>1,242,219</u>	<u>1,178,410</u>

## **CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended June 30, 2001*

**For the six months  
ended 6.30.2001**

*HK\$'000*

Net cash inflow from operating activities	109,187
Net cash outflow from returns on investments and servicing of finance	(13,421)
Net cash outflow from taxation	(8,121)
Net cash outflow from investing activities	(61,906)
Net cash inflow before financing activities	25,739
Net cash inflow from financing activities	143
Increase in cash and cash equivalents	25,882
Cash and cash equivalents brought forward	123,300
Cash and cash equivalents carried forward	149,182

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

### **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" ("SSAP 25"), except that, in this first year of implementation of SSAP 25, 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 consolidated financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2000.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. The adoption of these new or revised SSAPs does not have significant effect on the financial statements for the current or prior period.

### 3. SEGMENT INFORMATION

	<b>Turnover for the six months ended 6.30.</b>		<b>Contributions to profit from operations for the six months ended 6.30.</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Geographical segment				
The People's Republic of China ("the PRC")				
Northern	184,388	178,355	45,189	41,220
Northeast	33,821	25,641	5,563	3,789
Central South	27,859	40,185	3,387	7,279
Eastern	128,029	73,476	17,606	10,959
Southwestern	32,376	24,495	4,374	3,418
Northwestern	5,560	5,623	474	801
Overseas				
Asia	78,630	58,189	8,311	8,542
America	29,994	38,551	(746)	7,186
Europe	43,974	44,147	(923)	9,044
Australia	5,231	3,804	125	779
Africa	765	1,729	6	354
	<u>570,627</u>	<u>494,195</u>	<u>83,366</u>	<u>93,371</u>

The Group has only one principal activity, namely sales of pharmaceutical products. Accordingly, no segmental analysis by activity is presented.

### 4. PROFIT FROM OPERATIONS

	<b>For the six months ended 6.30.</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Amortisation of intangible assets	7,032	7,003
Depreciation and amortisation	44,795	40,057
Provision for bad and doubtful debts	4,027	—
Provision for impairment loss on property, plant and equipment	1,000	—
Bank interest income	<u>(622)</u>	<u>(3,083)</u>

## 5. TAXATION

### For the six months ended 6.30.

2001	2000
HK\$'000	HK\$'000

The charge comprises:

PRC income tax	13,334	7,647
Share of taxation of a jointly controlled entity	354	2,007
	<u>13,688</u>	<u>9,654</u>

No Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiaries since they had no assessable profit for the period.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The taxation charge for the period represents provision for PRC income tax for the PRC subsidiaries taking account of these tax incentives.

The jointly controlled entity, which was established in the PRC, is also entitled to similar PRC tax relief as the above subsidiaries.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

## 6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

### For the six months ended 6.30.

	2001	2000
Profit attributable to shareholders	<u>HK\$60,392,000</u>	<u>HK\$70,630,000</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,240,447,279	1,240,411,126
Effect of dilutive potential ordinary share in respect of share options	<u>13,068,182</u>	<u>15,295,455</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,253,515,461</u>	<u>1,255,706,581</u>

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding warrants as the exercise price is higher than the fair value per share during the period.

## 7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$75,595,000 (12.31.2000: HK\$133,497,000) on the acquisition of property, plant and equipment. Upon disposal of a subsidiary, property, plant and equipment with a net book value of approximately HK\$70,335,000 were disposed of during the period.

## 8. ADDITIONS TO INTANGIBLE ASSETS

During the period, the Group spent approximately HK\$9,822,000 (12.31.2000: HK\$10,804,000) on the acquisition of intangible assets.

## 9. LOAN RECEIVABLE

The loan receivable is unsecured, carries interest at 6.435% per annum and is repayable as follows:

	<b>6.30.2001</b> <i>HK\$'000</i>	<b>12.31.2000</b> <i>HK\$'000</i>
Within one year	795	795
Between one to two years	795	795
Between two to five years	2,385	2,385
Over five years	655	655
	<hr/>	<hr/>
	4,630	4,630
Less: Amount receivable within one year shown under current assets	(795)	(795)
	<hr/>	<hr/>
Amount receivable after one year	<u>3,835</u>	<u>3,835</u>

## 10. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with each of its trade customers.

The aged analysis of trade receivables is as follows:

	<b>6.30.2001</b> <i>HK\$'000</i>	<b>12.31.2000</b> <i>HK\$'000</i>
0 to 90 days	206,591	199,808
91 to 180 days	72,822	66,154
181 to 365 days	48,905	45,020
	<hr/>	<hr/>
	328,318	310,982
Other receivables	120,832	71,436
	<hr/>	<hr/>
	<u>449,150</u>	<u>382,418</u>

## 11. LOAN RECEIVABLES

Other than the current portion of loan receivable as disclosed in note 9, the remaining loan receivable carries interest at commercial rates and is secured by a guarantee from The Industrial and Commercial Bank of China – Shijiazhuang Branch. In the opinion of the directors, this loan receivable is repayable within one year.

## 12. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	<b>6.30.2001</b> <i>HK\$'000</i>	<b>12.31.2000</b> <i>HK\$'000</i>
0 to 90 days	145,738	72,908
91 to 180 days	41,627	47,108
181 to 365 days	12,631	10,813
More than 365 days	17,457	23,377
	<hr/>	<hr/>
Other payables	217,453	154,206
	105,105	109,962
	<hr/>	<hr/>
	<u>322,558</u>	<u>264,168</u>

## 13. BORROWINGS

During the period, the Group obtained new bank loans in the amount of approximately HK\$134,354,000. The loans bear interest at market rates and are repayable in installments. The proceeds were used to prepay a syndicated bank loan which was to be fully repayable by November 2002 and for general working capital of the Group.

## 14. SHARE CAPITAL

	<b>No. of shares</b>	<b>Value</b> <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At January 1, 2000, December 31, 2000 and June 30, 2000	<u>1,500,000,000</u>	<u>15,000</u>
Issued and fully paid:		
– balance at January 1, 2000	1,240,407,879	124,041
– exercise of warrants	39,400	4
	<hr/>	<hr/>
– balance at June 30, 2001	<u>1,240,447,279</u>	<u>124,045</u>

## 15. RESERVES

	Share premium HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Non- distributable reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP						
At January 1, 2000	836,225	(169,047)	2,883	30,767	274,621	975,449
Premium arising on exercise of warrants	67	-	-	-	-	67
Goodwill arising on acquisition of an associate	-	(2,032)	-	-	-	(2,032)
Goodwill realised on dissolution of a subsidiary	-	408	-	-	-	408
Transfers, net of minority interests' share	-	-	-	33,788	(33,788)	-
Profit attributable to shareholders	-	-	-	-	80,473	80,473
	<u>836,292</u>	<u>(170,671)</u>	<u>2,883</u>	<u>64,555</u>	<u>321,306</u>	<u>1,054,365</u>
At December 31, 2000	836,292	(170,671)	2,883	64,555	321,306	1,054,365
Goodwill written off on impairment of an associate	-	2,032	-	-	-	2,032
Goodwill/reserve realised on disposal of a subsidiary	-	1,385	(191)	(817)	1,008	1,385
Profit attributable to shareholders	-	-	-	-	60,392	60,392
	<u>836,292</u>	<u>(167,254)</u>	<u>2,692</u>	<u>63,738</u>	<u>382,706</u>	<u>1,118,174</u>
At June 30, 2001	836,292	(167,254)	2,692	63,738	382,706	1,118,174
Reserves attributable to:						
- Company and subsidiaries	836,292	(160,130)	2,585	63,738	367,086	1,109,571
- Associate	-	-	-	-	(290)	(290)
- Jointly controlled equity	-	(7,124)	107	-	15,910	8,893
	<u>836,292</u>	<u>(167,254)</u>	<u>2,692</u>	<u>63,738</u>	<u>382,706</u>	<u>1,118,174</u>

## 16. CAPITAL COMMITMENTS

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

	6.30.2001 HK\$'000	12.31.2000 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>141,092</u>	<u>53,739</u>

## 17. PLEDGE OF ASSETS

The Group has pledged all the equity interests of its subsidiary, Weisheng Pharmaceutical (Shijiazhuang) Co., Limited to a bank to secure bank loan granted to the Company during the period.



## 18. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the period, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with these companies during the period, and balances with them at the balance sheet date, are as follows:

Name of company	Nature of transactions/ balances	For the six months ended 6.30.	
		2001 HK\$'000	2000 HK\$'000
<b>(I) CONNECTED PARTIES</b>			
Shijiazhuang Pharmaceutical Group Company Limited, the substantial shareholder of the Company and its subsidiaries other than members of the Group ("SPG Group")	Sale of finished goods (note a)	92,765	83,131
	Purchase of raw materials (note a)	12,125	414
	Service charges payable relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note b)	2,607	4,029
		<b>6.30. 2001</b> HK\$'000	<b>12.31. 2000</b> HK\$'000
	Guarantee given by SPG Group (note c)	30,870	95,416
	Balance due from (to) the SPG Group		
	– trade receivable	118,695	115,133
	– subordinated loan (note d)	–	(47,250)
		<u>          </u>	<u>          </u>
<b>(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES</b>			
Huarong, a jointly controlled entity of the Group	Balance due from (to) Huarong		
	– dividend receivable	–	2,747
	– non-trade receivable (note e)	5,401	5,117
	– trade payable	(1,465)	(2,997)
		<u>          </u>	<u>          </u>

### Notes:

- The transactions were carried out with reference to market prices.
- Pursuant to service agreements entered into by the Group and the SPG Group, the Group paid service charges to the SPG Group based on the nature and the actual amount incurred on services provided by the SPG Group to the Group.
- The SPG Group has given corporate guarantee of approximately HK\$30,870,000 (12.31.2000: HK\$95,416,000) to banks to secure bank loans granted to subsidiaries of the Group.
- The loan was unsecured and interest-free. During the period, an amount of HK\$24,325,000 was disposed of upon disposal of subsidiary and the remaining balance of HK\$22,925,000 was fully repaid.
- The amount is unsecured, interest-free and repayable on demand.

## **INTERIM DIVIDEND**

The Directors resolved not to pay an interim dividend for the six months ended June 30, 2001 (6.30.2000: Nil).

## **BUSINESS REVIEW AND PROSPECTS**

### **Results**

The Group reported turnover of HK\$570,627,000 for the first half of the year, representing an increase of 15% over the same period in 2000. The increase was mainly attributable to the expanded output and increased sales of the 7-ACA series. Profit for the period amounted to HK\$60,392,000, a decrease of 14% as compared with the same period in 2000. The decrease was mainly attributable to the substantial drop in the selling prices of the vitamin C products.

### **Production and sales**

During the period, all product lines of the Group were run at full capacity, and we were able to maintain a fine balance between production and sales.

#### *Penicillin series*

The output of the penicillin series increased by 7% over the same period in 2000, among which ampicillin, a high value-added product, increased by 70%. The prices of the products were more or less the same as the same period in 2000, except that the price of industrial salt increased by 15% as a result of an upsurge in demand in the world market. The sales of this series increased by 13% over the same period in 2000, and we believe the favourable market condition will sustain in the second half of the year.

#### *7-ACA series*

The output of the 7-ACA series increased considerably over the same period in 2000, among which 7-ACA and cefazoline increased by 100% and 41% respectively. In terms of production scale, the Group has become one of the major manufacturers in the world, taking a notable position in the international and domestic market. Product prices of this series were relatively stable during the period, and the sales for the period increased by 65% over the same period in 2000. However, we are aware that other domestic manufacturers are establishing the same kind of production line. The Company will monitor the development closely, and will respond to the situation in a timely manner to maintain the leading position of our products in the international market.

#### *Vitamin C series*

The output of the vitamin C series increased by 19% over the same period in 2000. With the output of the downstream products increased by 123%, a more enhanced product mix was achieved. However, the significant drop in selling

prices has caused the sales of vitamin C series to fall by 6% as compared with the same period in 2000. Although the sales of the downstream products have managed to increase by 52%, the negative effect brought by the overall drop in selling prices could not be outweighed. In face of the further expansion of production capacity among the domestic and overseas manufacturers, it is anticipated that the product prices of this series will linger at the current low level for a certain period of time.

### **Cost control and profit margin**

The Group manages to control costs through technological improvement and the enhancement of product mix. Although the gross profit margin of our vitamin C products dropped from 33% in the same period last year to 14% in the current period, the gross profit margin of the other series increased by different degrees. Thus the Group was able to achieve an overall profit margin of 26% as compared to 27% in the same period last year. The Company believes that the overall gross profit margin in the second half of the year will maintain at the same level as the current period.

### **Disposal of non-profit making business**

Following the relocation of the theobromine production line, the production capacity of the product exceeds the actual demand from the market, resulting in a loss situation. In order to curb further loss, the Company has disposed of this business during the period.

### **Development of new product**

The development of the new product, butylphthalide, was less than satisfactory as expected. The second and third phase of clinical study have been completed, while application for approval has been submitted to the State Drug Administration. Due to the stringent requirement for the approval of category one new drug in the PRC, it is anticipated that approval for production could only be obtained in the first half of next year.

At present the Group is working on the marketing plan of the products, while preparation work for establishing the production line has started, so that the product could be introduced to the market once approval is obtained.

## **FINANCIAL REVIEW**

During the period, the Group has arranged a banking facility in the amount of HK\$150,000,000. As at June 30, 2001, HK\$125,000,000 of which has been drawn down for the purpose of prepaying the outstanding balance of a syndicated loan and for general working capital requirements.

At the interim period end date, the Group's total bank borrowings was approximately HK\$406,000,000, a decrease of HK\$37,000,000 as compared to HK\$443,000,000 at the last year end date, and the maturity profile spread over a period of four years with HK\$272,000,000 repayable within 1 year and HK\$134,000,000 within 2 to 4 years.

Gearing ratio was 21%, which was calculated on the basis of the Group's net borrowings (after deducting bank balances and cash of HK\$149,000,000) over shareholders' funds at the interim period end date.

The majority of the Group's bank borrowings, approximately 69% at the interim period end date, was in Renminbi with the balance in Hong Kong dollars. As the Group derives its revenue mainly in Renminbi, its exposure to foreign exchange rate fluctuations is not significant.

## EMPLOYEES

At the interim period end date, the Group has approximately 4,350 employees, the majority of them are employed in the PRC. They are remunerated at market level with benefits such as medical, retirement benefit and share option scheme.

## DIRECTORS' INTERESTS IN SECURITIES

- (i) As at June 30, 2001, none of the directors or their associates had any personal, family, corporate or other interest in the ordinary shares of the Company as defined in the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").
- (ii) A summary of the movements of share options during the period, insofar as the Company's directors are concerned, is as follows:

Director	Exercisable period	Exercise price	Number of share options		
			Outstanding at 1.1.2001	Lapsed during the period	Outstanding at 6.30.2001
Cai Dong Chen	5.1.1998 – 4.30.2001	HK\$0.81	1,450,000	1,450,000	–
	9.28.2000 – 9.27.2003	HK\$0.62	10,000,000	–	10,000,000
Ding Er Gang	5.1.1998 – 4.30.2001	HK\$0.81	1,450,000	1,450,000	–
	9.28.2000 – 9.27.2003	HK\$0.62	5,000,000	–	5,000,000
Liu Yi	8.20.2000 – 8.19.2003	HK\$0.67	1,306,000	–	1,306,000
Qu Ji Guang	8.20.2000 – 8.19.2003	HK\$0.67	1,304,000	–	1,304,000
Yue Jin	8.20.2000 – 8.19.2003	HK\$0.67	1,304,000	–	1,304,000
Wang Xian Jun	9.28.2000 – 9.27.2003	HK\$0.62	5,000,000	–	5,000,000

Other than as disclosed above, as at June 30, 2001, none of the directors, the chief executives or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance and none of the directors or their spouses, or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## **SUBSTANTIAL SHAREHOLDER**

As at June 30, 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholder had an interest of 10% or more in the issued share capital of the Company:

<b>Name of shareholder</b>	<b>Number of shares held</b>
Shijiazhuang Pharmaceutical Group Company Limited ("SPG")	651,054,779

## **DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES**

Pursuant to Practice Note 19 ("PN 19") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, disclosure is required in respect of a loan agreement of HK\$150,000,000 entered into by the Company during the period. The outstanding principal at June 30, 2001 was HK\$125,000,000 and the last instalment repayment is due on May 21, 2005.

It will be an event of default under the loan agreement if SPG ceases to own more than 40% of the issued share capital of the Company.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under PN 19.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied throughout the six months ended June 30, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board

**WANG XIAN JUN**

*Executive Director*

Hong Kong, September 21, 2001