

Shanxi Central Pharmaceutical International Limited

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 November 2001

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Company was incorporated in Bermuda on 4 November 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company had not carried on any business since the date of its incorporation save for the acquisition on 8 July 2000 of the entire issued share capital of Central Pharmaceutical Holdings (BVI) Limited ("CBVI"), the intermediate holding company of other subsidiaries within the Group, in preparation for the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "SEHK"). The unaudited condensed consolidated financial statements for the six months ended 30 November 2000 had been prepared using the merger basis of accounting. On this basis, the Company had been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of their acquisition. Accordingly, the combined results of the Group for the period ended 30 November 2000 included the results of the Company and its subsidiaries with effect from 1 June 2000 or since their respective dates of incorporation, where this was a shorter period.

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting". The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31 May 2001. Figures as at 31 May 2001 are extracted from the Group's annual financial statements for the year then ended.

The Group has adopted the following revised or new SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January 2001, except for SSAP 14 which are effective for accounting period commencing on or after 1 July 2000:

- SSAP 14: (Revised) leases
- SSAP 28: Provisions, contingent liabilities and contingent assets
- SSAP 29: Intangible assets
- SSAP 31: Impairment of assets
- SSAP 32: Consolidated financial statements and accounting for investments in subsidiaries

SSAP 14 (revised) prescribes the accounting treatment and disclosure for finance and operating leases. This has no major impact on these financial statements save for the changes in disclosures for commitments under non-cancellable operating leases. In prior years, operating lease commitments were disclosed as payments committed to be made during the next year, analysed between those in which the commitments would expire within that year, in the second to fifth years, inclusive; and over five years. In the current period, the disclosure has been changed to the total of the future minimum lease payments under non-cancellable operating leases analysed into those not later than one year; later than one year but not later than five years; and later than five years.

There is no material impact on the financial results and the financial positions of the Group by the adoption of the revised or new SSAPs mentioned above.



2. SEGMENT INFORMATION

The principal activities of the Group consisted of the development, manufacturing and provision of Chinese pharmaceutical products which are predominantly medicinal preparations and anti-rheumatoid capsules primarily for the treatment of rheumatoid and/or arthritic conditions; the operation of Taiyuan City Rheumatoid Hospital (“Taiyuan Hospital”); and wholesale and retail of Chinese and Western pharmaceutical products and health care products in the People’s Republic of China (the “PRC”). The results of operations by principal activity for the six months ended 30 November 2001 are summarised as follows:

	Turnover		Contribution to profit before tax	
	Six months ended 30 November		Six months ended 30 November	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
By principal activity:				
Manufacturing business	135,635	84,682	35,563	13,093
Trading business	9,574	15,721	(74)	(363)
Operation of Taiyuan Hospital	3,333	3,812	(52)	(355)
	148,542	104,215	35,437	12,375

The principal activities of the Group are carried out in the PRC.

3. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and services provided. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

4. PROFIT BEFORE TAX

The Group’s profit before tax is arrived at after charging/(crediting):

	Six months ended 30 November	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Amortisation of deferred development costs	1,163	–
Cost of inventories sold	84,671	49,650
Cost of services provided	2,416	3,329
Depreciation	1,170	534
Provision for deferred development costs	2,700	–
Research and development expenses	–	16,169
Interest income	(409)	–

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5. TAX

	Six months ended 30 November	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Outside Hong Kong	6,419	2,194

Hong Kong profits tax has not been provided (2000: Nil) as the Group has no assessable profits arising in Hong Kong for the period.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of taxation prevailing in the jurisdictions in which the subsidiaries operated during the period based on existing legislation, interpretation and practices in respect thereof.

PRC income tax for all of the subsidiaries operating in the PRC is calculated at a unified tax rate of 33% (2000: 33%) on their taxable profits unless waivers are granted by relevant tax authorities during the period.

Shanxi Zhengzhong Pharmaceutical Co., Ltd. was exempted from PRC income tax for two years from its first profit-making year of operations, which was the year ended 31 December 1998, and thereafter is eligible for a 50% relief from PRC income tax for the following three years under the Income Tax Law of the PRC.

Deferred tax has not been provided (31 May 2001: Nil) as the Group had no significant timing differences at 30 November 2001.

6. EARNINGS PER SHARE

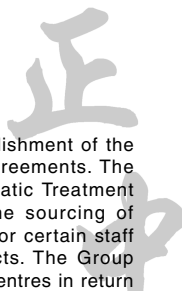
The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the six months ended 30 November 2001 of HK\$28,692,000 (2000: HK\$10,045,000), and the weighted average number of 2,100,000,000 (2000: 1,861,643,835) ordinary shares, adjusted for the subdivision of ordinary shares of the Company pursuant to an ordinary resolution passed in the special general meeting of the Company on 25 July 2001. The subdivision of ordinary shares became effective on 26 July 2001.

Diluted earnings per share of the periods ended 30 November 2000 and 2001 have not been calculated as no dilutive events existed during the respective periods.

7. LONG TERM DEPOSITS

The balances represent a deposit of HK\$4,545,000 paid in respect of the acquisition of a factory located in the PRC and payments of a total of HK\$164,555,000 in respect of investment in certain hospitals in the PRC.

During the period, the Group signed various agreements (the "Agreements") with certain hospitals for the establishment of centres for the treatment of rheumatoid and/or arthritic conditions (the "Rheumatic Treatment Centres") in the PRC for a period of 12 years.



Pursuant to the Agreements, the hospitals are responsible for the establishment of the Rheumatic Treatment Centres within a time frame prescribed in the Agreements. The ownership and day to day responsibility for the running of the Rheumatic Treatment Centres remains with the hospitals. The Group is responsible for the sourcing of appropriate medical equipment, providing group medical products, and for certain staff technical training relating to the equipment and group medical products. The Group funds part of the initial establishment costs of the Rheumatic Treatment Centres in return for which it receives a participating right in the Rheumatic Treatment Centres profits for the duration of the periods specified in the Agreements, generally 12 years. Pursuant to the Agreements, the Group can share 50% of the profit generated from the operation of the Rheumatic Treatment Centres after a 10% appropriation for future development of the Rheumatic Treatment Centres.

As at the balance sheet date, pursuant to some 94 Agreements, the Group had made advance payments of HK\$164,555,000. The completion of the Agreements are still pending the establishment of the Rheumatic Treatment Centres at the balance sheet date. Therefore, the total amounts so paid have been classified under long term deposits.

In the opinion of the directors, there is no indication of impairment for the long term deposits paid. Accordingly, the balances are stated at cost and no provision for impairment has been made in respect thereof at the balance sheet date. When there is any impairment in the long term deposits paid, they are written down to their estimated recoverable amount.

8. ACCOUNTS RECEIVABLE

	30 November 2001 (Unaudited) HK\$'000	31 May 2001 (Audited) HK\$'000
Less than 90 days	58,830	42,384
91 – 180 days	1,142	1,153
Over 180 days	800	236
Total	60,772	43,773

The Group allows an average credit period of 90 days to its trade customers.

9. ACCOUNTS PAYABLE

	30 November 2001 (Unaudited) HK\$'000	31 May 2001 (Audited) HK\$'000
Current to 90 days	20,954	13,280
91 – 180 days	561	2,193
Over 180 days	5,339	6,708
Total	26,854	22,181

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10. BANKING FACILITIES

	30 November 2001 (Unaudited) HK\$'000	31 May 2001 (Audited) HK\$'000
Unsecured bank loan repayable:		
Within one year	6,000	–
In the second year	12,000	–
In the third to fifth years, inclusive	12,000	–
	30,000	–
Portion classified as current liabilities	(6,000)	–
Long term portion	24,000	–

At 30 November 2001, the banking facilities of the Group were supported by:

- (i) corporate guarantees executed by the Company and a subsidiary of the Company; and
- (ii) personal guarantees executed by two directors of the Company.

11. SHARE CAPITAL

	30 November 2001 (Unaudited) HK\$'000	31 May 2001 (Audited) HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.02 each (31 May 2001: 2,000,000,000 ordinary shares of HK\$0.1 each)	200,000	200,000
<i>Issued and fully paid:</i>		
2,100,000,000 ordinary shares of HK\$0.02 each (31 May 2001: 420,000,000 ordinary shares of HK\$0.1 each)	42,000	42,000

Pursuant to an ordinary resolution passed in the special general meeting of the Company, on 25 July 2001, each of the shares of HK\$0.10 each in the issued and unissued share capital of the Company was sub-divided into 5 shares of HK\$0.02 each. The subdivision of ordinary shares became effective on 26 July 2001. As a result, the Company's authorised share capital was changed from 2,000,000,000 shares of HK\$0.10 each to 10,000,000,000 shares of HK\$0.02 each, while the Company's issued share capital was changed from 420,000,000 shares of HK\$0.10 each to 2,100,000,000 shares of HK\$0.02 each. All the shares after adjustment for the sub-division rank pari passu with each other in all respects.



12. RESERVES

	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Contributed# surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 June 2001 (Audited)	6,139	8,966	4,500	112,346	131,951
Net profit for the period (Unaudited)	-	-	-	28,692	28,692
At 30 November 2001 (Unaudited)	6,139	8,966	4,500	141,038	160,643

The contributed surplus arose as a result of the Group reorganisation (note 1) and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share/registered capital of the subsidiaries acquired.

13. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Guarantees executed by two directors of the Company in respect of the Group's banking facilities are included in note 10.

14. CONTINGENT LIABILITIES

At the balance sheet date, the Group had no significant contingent liabilities (31 May 2001: Nil).

15. COMMITMENTS

- (a) The Group had a capital commitment of approximately HK\$4,400,000 (31 May 2001: HK\$4,400,000) in respect of the acquisition of a factory located in the PRC.
- (b) The total future minimum lease payment, in respect of non-cancellable operating leases committed at the balance sheet date to be made by the Group was as follows:

	30 November 2001 (Unaudited) HK\$'000	31 May 2001 (Audited) HK\$'000
Within one year	1,384	1,391
In the second to fifth year, inclusive	1,436	2,088
	2,820	3,479

16. COMPARATIVE FIGURES

As a result of the adoption of the revised SSAP 14, certain comparatives have been reclassified to conform with the current period presentation.