

XI. FINANCIAL REPORT

Notes to the interim accounts in conformity with HKGAPP:

1) Accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of the Standard Accounting Practice 25 "Interim Financial Reporting" published by the Hong Kong Society of Accountants and Appendix 16 of Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

In accordance with the revised SSAP 9, the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 15, opening retained earnings at 1 January 2000 and 2001 have increased by RMB17,093,000 and RMB34,185,000. A corresponding decrease in current liabilities by RMB34,185,000 has been reflected in the comparative 31 December 2000 balance sheet.

2) Turnover

The Group is principally engaged in the development, production and sales of pharmaceutical products including bulk pharmaceuticals, preparations (e.g. tablets and injections), chemicals and other products. Its major place of operation is in the People's Republic of China.

Geographical location

	Total Turnover (RMB'000)	
	Six months ended 30 June 2001	Six months ended 30 June 2000
PRC (including Hong Kong)	361,864	355,565
Europe	74,983	78,348
Americas	69,264	69,116
Other	65,853	50,182
Total	<u>571,964</u>	<u>553,211</u>

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis was performed on the profit contributions from the above geographical locations.

3) Operating profit

The following items has been deducted and added to the operating profit:

	Six months ended 30 June	
	2001 RMB'000	2000 RMB'000
Crediting:		
Proceeds from disposal of fixed assets	<u>564</u>	<u>866</u>
Charging:		
Depreciation of owned fixed assets	33,224	33,808
Staff costs	47,891	47,189
Contributions to retirement scheme	<u>8,684</u>	<u>8,204</u>



4) Taxation

The amount of taxation charged in the condensed consolidated profit and loss account represents:

	Six months ended 30 June	
	2001	2000
	RMB'000	RMB'000
PRC enterprise income tax		
– Current	19,596	19,709
– Tax refunded	(10,689)	(10,751)
	<u>8,907</u>	<u>8,958</u>

The Group is subject to PRC Enterprise Income Tax at the rate of 33% on its taxable income.

Pursuant to approval documents from the People's Government of Shandong Province and the Shandong Province Zibo Municipal Finance Bureau, the Company is entitled to a preferential enterprise income tax refund treatment from Shandong Province Zibo Municipal Bureau. The refund is equal to 18% of their taxable income in respect of the enterprise income tax paid to the taxation bureau. The tax refunded represents financial subsidies received during the year. It is the directors' opinion that these refunds are received without recourse.

According to the State Council's notice numbered Guofa 2000 2 in respect of the rectification of "Levy First Refund Later" local taxation policy and Caishui 2000 99 notice from the Finance Bureau and the National Tax Bureau on the implementation of the rectification of "Levy First Refund Later" local taxation policy, the Company, as a company listed on The Stock Exchange of Hong Kong Limited, will continue to enjoy such preferential income tax refund treatment up to 31 December 2001.

No provision for Hong Kong profits tax had been made in the accounts, as the Company had no material income on which Hong Kong profits tax might be assessed for the six months ended 30 June 2001.

For the six months ended 30 June 2001, the Company did not have any significant deferred tax liabilities, which had not been provided for.

5) Earnings per share

Earnings per share are calculated based on the profit after taxation of RMB50,523,000 (2000: RMB43,309,000) and the weighted average number of 427,312,830 (2000: 427,312,830) shares in issue during the six months ended 30 June 2001.

6) Trade and bills receivables

At 30 June 2001, the ageing analysis of the trade and bills receivable were as follows:

	As at 30 June 2001	As at 31 December 2000
	RMB'000	RMB'000
Within 1 year	232,689	204,153
1 – 2 years	14,531	8,088
2 – 3 years	560	770
Total	<u>247,780</u>	<u>213,011</u>

The Group's turnover from export sales is on letter of credit or documents against payment. The remaining balances of turnover are on open account terms which are partially covered by customers' stand-by letters of credit or bank guarantees.



7) Trade and bills payables

At 30 June 2001, the ageing analysis of the trade and bills payables were as follows:

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Within 1 year	94,617	92,690
1 – 2 years	2,319	2,165
2 – 3 years	591	1,124
Over 3 years	2,517	2,661
Total	<u>100,044</u>	<u>98,640</u>

8) Short term Bank and other loans

At 30 June 2001, the Group's short term bank and other loans were repayable as follows:

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Within one year	<u>299,300</u>	<u>259,100</u>

The Group's bank loans totalling RMB299,300,000 were guaranteed by a fellow subsidiary.

9) Share capital

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
<i>Registered</i>		
277,312,830 A Shares of RMB1.00 each	277,313	277,313
150,000,000 H Shares of RMB1.00 each	150,000	150,000
	<u>427,313</u>	<u>427,313</u>
<i>Issued and fully paid</i>		
277,312,830 A Shares of RMB1.00 each divided into:		
State shares	217,440	217,440
Legal person shares	16,720	16,720
Individual shares	43,153	43,153
	<u>277,313</u>	<u>277,313</u>
150,000,000 H Shares of RMB1.00 each	150,000	150,000
	<u>427,313</u>	<u>427,313</u>



10) Commitments**Capital commitments:**

At 30 June 2001, the Group had the following capital commitments principally related to the construction-in-progress and purchase of fixed assets in respect of buildings and production facilities which were not provided for in the accounts:

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Contracted but not provided for	9,150	9,150
Authorised by the directors but not contracted for	127,700	127,700
	<u>136,850</u>	<u>136,850</u>

11) Related party transactions

The Group had the following material transactions with the following related companies in the normal course of business:

	Six months ended 30 June 2001 RMB'000	2000 RMB'000
Fellow subsidiaries of the ultimate holding company:		
- Sale of finished goods and raw materials	9,938	6,768
- Purchase of raw materials	36,989	28,279
- Rental income	1,002	465
- Payment of labour and other services	<u>6,078</u>	<u>6,078</u>

In the opinion, of the Directors the above transactions were carried out on normal commercial terms and in the ordinary course of business.

12) Interim dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2001. (2000: nil)

13) Contingent liabilities

The Group has no contingent liability during the six months ended 30 June 2001.

14) Events after Balance Sheet Date

No events occurred after the balance sheet date during the six months ended 30 June 2001.



15) Reserves movements

	<i>RMB'000</i>
1. At 1 January 2000 as previous reported	471,599
Effect of adopted SSAP 9 (revised)	<u>17,093</u>
At 1 January 2000 as restated	488,692
1999 Final dividend paid	(17,093)
Profit for the year 2000	67,826
Final Dividend proposed	<u>(34,185)</u>
As at 31 December 2000	<u>505,240</u>
As at 31 December 2000	
Retained earnings	157,990
Other reserves	<u>347,250</u>
	<u><u>505,240</u></u>
2. At 1 January 2001 as previous reported	505,240
Effect of adopted SSAP 9 (revised)	<u>34,185</u>
At 1 January 2001 as restated	539,425
2000 Final dividend paid	(34,185)
Profit for the period	<u>50,523</u>
At 30 June 2001	<u>555,763</u>
At 30 June 2001	
Retained earnings	208,407
Other reserves	<u>347,356</u>
	<u><u>555,763</u></u>

