

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2002

### 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China Resources National Corp., a company established in the People's Republic of China, excluding Hong Kong (the "mainland China").

### 2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

### 3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its financial statements for the year ended 31st December, 2001 except as described below. The Group has adopted the following revised or new SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

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**3. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***Foreign Currencies**

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of operations outside Hong Kong at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

**Cash Flow Statements**

In the current period, the Group has adopted SSAP 15 (Revised) “Cash flow statements”. Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing activities. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of operations outside Hong Kong have been translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2002

## 4. SEGMENT INFORMATION

## Business Segments

For the six months ended 30th June, 2002

	Compressor business HK\$'000	Semi- conductor business HK\$'000	Furniture business HK\$'000	Information technology business HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<i>REVENUE</i>						
External sales	540,960	118,228	62,512	20,697	—	742,397
Inter-segment sales	—	—	—	322	(322)	—
Total revenue	540,960	118,228	62,512	21,019	(322)	742,397
<i>SEGMENT RESULT</i>	163,084	12,594	834	107	—	176,619
Unallocated corporate expenses						(21,418)
Profit from operations						155,201

For the six months ended 30th June, 2001

	Compressor business HK\$'000	Semi- conductor business HK\$'000	Furniture business HK\$'000	Information technology business HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<i>REVENUE</i>						
External sales	438,364	85,289	75,389	20,864	—	619,906
Inter-segment sales	—	42	—	531	(573)	—
Total revenue	438,364	85,331	75,389	21,395	(573)	619,906
<i>SEGMENT RESULT</i>	129,048	14,511	4,880	1,861	—	150,300
Unallocated corporate expenses						(8,754)
Profit from operations						141,546

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2002

**4. SEGMENT INFORMATION (Continued)****Geographical Segments***For the six months ended 30th June, 2002*

	Mainland China HK\$'000	Hong Kong HK\$'000	Malaysia HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<i>REVENUE</i>						
External sales	658,430	50,186	29,199	4,582	—	742,397
Inter-segment sales	—	322	—	—	(322)	—
Total revenue	658,430	50,508	29,199	4,582	(322)	742,397
<i>SEGMENT RESULT</i>	169,911	3,023	3,185	500	—	176,619
Unallocated corporate expenses						(21,418)
Profit from operations						155,201

*For the six months ended 30th June, 2001*

	Mainland China HK\$'000	Hong Kong HK\$'000	Malaysia HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<i>REVENUE</i>						
External sales	534,553	53,167	24,923	7,263	—	619,906
Inter-segment sales	—	573	—	—	(573)	—
Total revenue	534,553	53,740	24,923	7,263	(573)	619,906
<i>SEGMENT RESULT</i>	136,049	7,623	4,898	1,730	—	150,300
Unallocated corporate expenses						(8,754)
Profit from operations						141,546

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2002

**5. PROFIT FROM OPERATIONS**

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

	<b>Six months ended</b>	
	<b>30th June,</b>	<b>30th June,</b>
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation and amortisation (other than goodwill):		
— property, plant and equipment	<b>41,984</b>	22,909
— technical know-how	<b>1,390</b>	309
Bank interest income	<b>(1,668)</b>	(3,846)

**6. TAXATION**

	<b>Six months ended</b>	
	<b>30th June,</b>	<b>30th June,</b>
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong Profits Tax	<b>883</b>	3,008
Profits tax outside Hong Kong	<b>20,101</b>	8,127
	<b>20,984</b>	11,135

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits for the period.

Profits tax outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

**7. DIVIDEND**

The Directors do not declare an interim dividend for the period and there was no dividend paid during either periods.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2002

**8. EARNINGS PER SHARE**

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

	<b>Six months ended</b>	
	<b>30th June, 2002</b>	<b>30th June, 2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Earnings:		
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	<b>70,595</b>	65,170
Effect of dilutive potential shares:		
Interest on convertible bonds	<b>6,226</b>	17,744
	<b>76,821</b>	82,914
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	<b>1,789,519,576</b>	1,508,832,261
Effect of dilutive convertible bonds	<b>692,305,047</b>	774,968,335
Effect of dilutive share options	<b>18,091,141</b>	8,852,242
Weighted average number of shares for the purposes of diluted earnings per share	<b>2,499,915,764</b>	2,292,652,838

**9. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group disposed of all the investment properties with a carrying amount of HK\$4,200,000. There was no significant gain or loss arising from the disposal.

The significant increase in property, plant and equipment is mainly attributable to the acquisition of production lines for the expansion of compressor business.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2002

**10. GOODWILL**

During the period, goodwill arising on the acquisition of subsidiary amounted to HK\$14,868,000.

The amortisation periods adopted for goodwill ranging from 1.5 to 20 years.

**11. DEBTORS, DEPOSITS AND PREPAYMENTS**

The Group generally allows credit periods ranging from 30 to 180 days to its trade customers. The aged analysis of trade debtors, including notes receivable, of HK\$525,677,000 (31st December, 2001: HK\$323,641,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	<b>30th June, 2002 HK\$'000</b>	31st December, 2001 HK\$'000
0 – 60 days	427,375	289,955
61 – 90 days	85,904	11,525
Over 90 days	12,398	22,161
	<b>525,677</b>	323,641

**12. CREDITORS AND ACCRUED CHARGES**

The aged analysis of trade creditors of HK\$280,063,000 (31st December, 2001: HK\$172,541,000) which are included in the Group's creditors and accrued charges are as follows:

	<b>30th June, 2002 HK\$'000</b>	31st December, 2001 HK\$'000
0 – 60 days	164,825	132,379
61 – 90 days	47,484	4,629
Over 90 days	67,754	35,533
	<b>280,063</b>	172,541

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2002

**13. BORROWINGS**

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Convertible bonds ( <i>Notes below and 14.a.</i> )	—	851,715
Bank loans	<b>186,967</b>	178,019
	<b>186,967</b>	1,029,734
Less: Amount due within one year shown under current liabilities	<b>(149,291)</b>	(178,019)
Amount due after one year	<b>37,676</b>	851,715
Secured	—	40,502
Unsecured	<b>186,967</b>	989,232
	<b>186,967</b>	1,029,734

*Note:* The convertible bonds were issued by the Company to China Resources (Holdings) Company Limited ("CRH"), an intermediate holding company of the Company, on 1st February, 2001. Details of the terms of the convertible bonds have been set out in a listing document of the Company dated 30th December, 2000 issued to the shareholders.



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## 14. SHARE CAPITAL

	Number of shares		Amount	
	30th June, 2002	31st December, 2001	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Shares of HK\$0.10 each				
Authorised:				
At beginning of the period/year	6,000,000,000	2,500,000,000	600,000	250,000
Increase during the period/year	—	3,500,000,000	—	350,000
At end of the period/year	6,000,000,000	6,000,000,000	600,000	600,000
Issued and fully paid:				
At beginning of the period/year	1,508,832,261	1,508,832,261	150,883	150,883
Shares issued upon conversion of convertible bonds (Note a)	939,688,810	—	93,969	—
Shares issued upon Subscription (Note b)	170,000,000	—	17,000	—
Shares issued upon exercise of share options	430,000	—	43	—
At end of the period/year	2,618,951,071	1,508,832,261	261,895	150,883

## Notes:

- On 15th May, 2002, the entire principal amount of the convertible bonds of HK\$851,715,000 (note 13), together with the accrued interest thereon of HK\$4,154,000, were converted into shares of HK\$0.10 each in the Company at the conversion price of HK\$0.9108 per share upon the exercise of the conversion rights attached to the convertible bonds by CRH, resulting in the issue of 939,688,810 new shares of HK\$0.10 each in the Company to CRH.
- Pursuant to a subscription agreement dated 9th May, 2002 (the "Subscription") entered into between the Company and CRH, a total of 170,000,000 new shares of HK\$0.10 each in the Company were issued on 23rd May, 2002 to CRH at a subscription price of HK\$0.94 per share in cash.

All the new shares issued during the period rank pari passu in all respects with the existing shares.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

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**15. PLEDGE OF ASSETS**

At 30th June, 2002, notes receivable of HK\$52,464,000 (31st December, 2001: HK\$18,555,000) and bank deposits of HK\$32,258,000 (31st December, 2001: HK\$118,256,000) were pledged to secure general banking facilities granted to subsidiaries of the Company.

At 31st December, 2001, in addition to notes receivable and bank deposits, leasehold properties with an aggregate carrying value of HK\$4,845,000 and machinery and equipment with an aggregate net book value of HK\$68,787,000 were also pledged to secure general banking facilities granted to subsidiaries of the Company.

**16. COMMITMENTS**

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Capital expenditure authorised but not contracted for in respect of:		
— property, plant and equipment	155,194	175,149
— technical know-how	30,781	30,781
	<b>185,975</b>	205,930
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— property, plant and equipment	82,140	175,090
— technical know-how	7,748	11,295
	<b>89,888</b>	186,385

**17. ACQUISITION OF SUBSIDIARIES**

During the period, the Group completed the acquisition of the entire issued share capital of Semico Microelectronics (BVI) Limited ("Semico Microelectronics"), whose sole asset is a 55% equity interest in Wuxi China Resources Semico Company Limited ("Wuxi Semico"), for a cash consideration of HK\$26,938,000 to enhance the Group's semiconductor business in the mainland China.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2002

**17. ACQUISITION OF SUBSIDIARIES** *(Continued)*

The effect of the acquisition is summarised as follows:

	<b>Six months ended</b>	
	<b>30th June, 2002</b>	<b>30th June, 2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net assets acquired:		
Property, plant and equipment	<b>7,007</b>	544,906
Technical know-how	—	6,988
Inventories	<b>25,842</b>	265,502
Debtors, deposits and prepayments	<b>16,023</b>	247,773
Pledged bank deposits	<b>3,297</b>	5,000
Bank balances and cash	<b>27,410</b>	300,633
Creditors and accrued charges	<b>(39,873)</b>	(152,292)
Taxation	<b>(145)</b>	(4,568)
Bank borrowings	<b>(17,423)</b>	(228,449)
Minority interests	<b>(10,068)</b>	(291,561)
Net assets acquired	<b>12,070</b>	693,932
Goodwill arising on acquisition	<b>14,868</b>	181,500
Consideration	<b>26,938</b>	875,432
Satisfied by:		
Convertible bonds	—	851,715
Cash	<b>26,938</b>	23,717
	<b>26,938</b>	875,432

The subsidiaries acquired during the current period contributed HK\$37,712,000 to the Group's turnover, and HK\$3,714,000 to the Group's profit from operations.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2002

**17. ACQUISITION OF SUBSIDIARIES** *(Continued)*

The subsidiaries acquired during the six months ended 30th June, 2001 contributed HK\$544,517,000 to the Group's turnover, and HK\$145,420,000 to the Group's profit from operations.

**18. OTHER PAYABLE**

The amount mainly represents the outstanding consideration payable for the acquisition of a subsidiary during the current period.

**19. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions set out in note 14, during the period, the Group also entered into the following significant transactions with related parties:

	<b>Six months ended</b>	
	<b>30th June, 2002</b>	<b>30th June, 2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on convertible bonds and redemption premium paid and payable to CRH	<b>6,226</b>	17,744
Purchases from a CRH's associate	<b>860</b>	4,351
Purchases from a minority shareholder of a subsidiary	<b>4,670</b>	—
Purchases from an associate of a minority shareholder of a subsidiary	<b>23,087</b>	—
Rental expenses paid to a fellow subsidiary	<b>1,558</b>	1,978
Sales to an intermediate holding company	<b>12,473</b>	14,345
Sales to fellow subsidiaries	<b>6,577</b>	5,291
Sales to a CRH's associate	<b>296</b>	282
Sales to a subsidiary of a minority shareholder of a subsidiary	<b>23,182</b>	—

*Note:* The transactions were carried out on terms similar to those applicable to transactions with unrelated parties, except that the interest on convertible bonds and redemption premium are calculated pursuant to the relevant agreement.

The balances with related parties arising from the above transactions are disclosed in the condensed consolidated balance sheet on page 28.

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For the six months ended 30th June, 2002

### 20. POST BALANCE SHEET EVENTS

On 29th August, 2002, the Company, through Semico Microelectronics, entered into a conditional agreement with the minority shareholder of Wuxi Semico to acquire an additional 45% equity interest in Wuxi Semico for a cash consideration of RMB13,083,750 (equivalent to approximately HK\$12,343,000) with the result that Wuxi Semico will become the Company's wholly-owned subsidiary upon completion, which is expected to be on or before 29th November, 2002.