

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in investment holding, the production, distribution and sale of beer and the operation of restaurants, pubs and other related services. There were no changes in the nature of the Group's activities during the year.

As at 1 January 2000, the Company was a 72%-owned subsidiary of Guangdong Investment Limited ("GDI"), a company incorporated and publicly listed in Hong Kong which, in the opinion of the Directors, was the ultimate holding company of the Company until 22 December 2000. As a result of the GDE Restructuring of GDI which took place during the year, further details of which are set out in note 2 "CORPORATE UPDATE" below, the ultimate holding company of the Company was changed to Guangdong Yue Gang Investment Holdings Company Limited, a company established by the Guangdong Provincial Government in Mainland China, with effect from 22 December 2000.

2. CORPORATE UPDATE

In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group in the light of its own resources and prospects, together with the current financial position of GDI (together with its subsidiaries referred to as the "GDI Group"), the Company's immediate holding company, to whom the Group owes an aggregate amount of HK\$97,856,000 as at 31 December 2000, of which HK\$72,531,000 is long term.

The Group has reported a net profit attributable to shareholders of HK\$10,242,000 and a net cash inflow from operating activities of HK\$255,048,000 in respect of the year ended 31 December 2000. The Group also reported net current assets of HK\$46,529,000 at the same date, which included substantial unrestricted cash and bank balances of HK\$176,059,000. Having regard to these results and financial position, and the Group's expected results and cash flows, the Directors consider that, in its own right, the Group has adequate resources available and can, in the ordinary course of business, reasonably expect its bankers to renew existing lines of credit on the basis of the Group's performance and financial position.

Notwithstanding the foregoing, the Group is part of a larger publicly listed group, the GDI Group. As has been publicised in a number of GDI's official announcements in 1999 and 2000, the GDI Group, excluding the Group, underwent a restructuring of the GDI Group's financial borrowings (excluding those of the Group and loans owing to any banks or financial institutions established in Mainland China by the GDI Group companies that were established in Mainland China) (the "Debts Restructuring"). A bankers' steering group was formed to negotiate with GDI Group, excluding the Group, for the terms of formal agreements relating to the Debts Restructuring, which was dependent on the completion of GDI's acquisition of Dongshen Water Supply Project as further explained below.

Year ended 31 December 2000

2. CORPORATE UPDATE (cont'd)

As part of the restructuring of Guangdong Enterprises (Holdings) Limited ("GDE", the then substantial shareholders of GDI) and its subsidiaries (the "GDE Group") (the "GDE Restructuring"), on 22 December 2000, GDI completed an acquisition of 81% equity interest in GH Water Supply (Holdings) Limited ("GH Water") (the "Acquisition") from GDH Limited which is a wholly owned subsidiary of Guangdong Yue Gang Investment Holdings Company Limited ("GDYG"), a company established by the Guangdong Provincial Government in Mainland China. GH Water holds 99% interest in the Dongshen Water Supply Project which generates revenue mainly from the provision of natural water supply to Hong Kong.

Upon GDI's completion of the Acquisition, GDI became a subsidiary of GDYG and the GDI Group's Debts Restructuring was completed. The GDE Restructuring was also completed on 22 December 2000.

In light of the completion of the GDE Restructuring, the Debts Restructuring (excluding the Group) and the Acquisition by GDI, the Directors believe that the Group's operations will be further enhanced as the increased stability and improved prospects of the GDI Group following the completion of the Restructurings are likely to be positive for the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries and associate acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the Directors, there have been permanent diminutions in values, when they are written down to values determined by the Directors.

Associate

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than temporary in nature, deemed necessary by the Directors.

Joint venture companies established in the mainland of the People's Republic of China ("Mainland China")

Joint venture companies comprise companies operating, directly or indirectly, in Mainland China as independent business entities. The joint venture agreements with the venturers stipulate the operating and control rights of the joint venture parties, the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the joint venture parties either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreements.

Year ended 31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint venture companies established in the mainland of the People's Republic of China ("Mainland China") (cont'd)

A joint venture company is accounted for as:

- (a) a subsidiary, if the Group has effective control over the joint venture company; or
- (b) a jointly controlled entity, if neither the Group, nor its venture partners is in a position to exercise unilateral control over the economic activity of the joint venture company; or
- (c) an associate, if the Group holds between 20% and 50% of the joint venture company's registered capital for the long term and is in a position to exercise significant influence in its management; or
- (d) investment securities, if the Group holds less than 20% of the joint venture company's registered capital.

Goodwill/capital reserve on consolidation

Goodwill arising on consolidation of subsidiaries and on acquisition of an associate represents the excess of the purchase consideration paid for the subsidiaries/associate over the fair values ascribed to the net underlying assets acquired at the date of acquisition and is eliminated against reserves in the year of acquisition.

Capital reserve on consolidation represents the excess of the fair values ascribed to the acquired net underlying assets of the subsidiaries/associate at the date of acquisition over the purchase consideration for such investments.

Upon disposal of subsidiaries or the associate, the attributable amount of purchased goodwill or capital reserve on consolidation previously dealt with in reserves is realised and taken into account in arriving at the gain or loss on disposal of the investments. Where there is an impairment in value of goodwill, the balance is written down in the profit and loss account to its recoverable amount as estimated by the Directors.

Reusable packaging materials

Reusable packaging materials are stated at cost and amortised on a straight-line basis over a period of three years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land in Mainland China	Over the shorter of the lease terms or the life of the joint ventures
Buildings	4.5% – 20%
Plant, machinery and equipment	4.5% – 20%
Furniture and fixtures	18% – 20%
Leasehold improvements	Over the lease terms
Motor vehicles	18% – 20%

Construction in progress

Construction in progress represents buildings, machinery and equipment under construction and is stated at cost. Cost comprises direct costs of construction as well as interest charges on related borrowed funds during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment securities

Investment securities are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are included in the balance sheet at cost less provisions for impairments in values which are other than temporary. Such provisions are determined for each investment individually and are recognised as an expense.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an attributable proportion of production overheads.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and the associate operating in Mainland China are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. All translation differences arising on consolidation are included in the exchange fluctuation reserve.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Staff retirement scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contributions retirement benefits scheme for certain of their employees. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000 this scheme was terminated.

For certain subsidiaries of the Group in Mainland China, contributions to the government retirement benefit scheme are charged to the profit and loss account as incurred.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) income from the operation of restaurants, pubs and other related services, based on the period in which such services are rendered;
- (c) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) value-added tax refund, when the right to receive the refund is established.

Year ended 31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. PRIOR YEAR ADJUSTMENT

During the year, the Group changed its accounting policy with respect to the treatment of pre-operating expenses which represent expenses incurred before the commencement of commercial operations of a subsidiary in Mainland China. In order to conform with the provisions of SSAP 1, "Presentation of Financial Statements" as subsequently confirmed by Interpretation 9 "Accounting for Pre-operating Costs" issued by the Hong Kong Society of Accountants in April 2000, the Group now expenses rather than capitalises and amortises such pre-operating expenses.

This change in accounting policy has been made retrospectively and, accordingly, the comparative amounts for the year ended 31 December 1999, including earnings per share and retained profits brought forward as at 1 January 1999, have been restated. The effect of the change in respect of the year ended 31 December 1999 is a decrease in administrative expenses of HK\$4,266,000 and minority interests of HK\$555,000, and an increase in the net profit attributable to shareholders of HK\$3,711,000. The retained profits brought forward as at 1 January 1999 have been reduced by HK\$12,435,000 which is the amount of the adjustment in respect of the Group's share of pre-operating expenses capitalised relating to the years prior to 1 January 1999. There is no attributable tax effect in respect of the prior year adjustment.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

5. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of discounts, returns, value-added tax and consumption tax; and income earned from the operation of restaurants, pubs and other related services, net of business tax, after elimination of all significant intercompany transactions.

Revenue from the following activities has been included in turnover:

	2000	1999
	HK\$'000	HK\$'000
Sale of goods	603,278	671,264
Operation of restaurants, pubs and other related services	10,614	11,190
	<u>613,892</u>	<u>682,454</u>

An analysis of the Group's turnover by geographical location disclosed pursuant to the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") is as follows:

	2000	1999
	HK\$'000	HK\$'000
In Mainland China	595,802	676,453
In Hong Kong	18,090	6,001
	<u>613,892</u>	<u>682,454</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities, mainly derived from the production, distribution and sale of beer, is analysed by geographical location pursuant to the disclosure requirements of the Listing Rules on the Stock Exchange as follows:

	2000 HK\$'000	1999 HK\$'000
In Mainland China	100,484	116,635
In Hong Kong	(27,319)	(997)
	<u>73,165</u>	<u>115,638</u>

The Group's profit from operating activities is arrived at after charging:

	2000 HK\$'000	1999 HK\$'000
Depreciation	112,361	109,694
Operating lease rentals in respect of land and buildings	1,992	1,265
Staff costs (excluding directors' remuneration):		
Wages and salaries	49,517	49,855
Pension contributions	3,723	3,109
Less: forfeited contributions	-	-
Net pension contributions	<u>3,723</u>	<u>3,109</u>
	<u>53,240</u>	<u>52,964</u>
Provision for impairment in value of investment securities	1,000	-
Amortisation of reusable packaging materials	15,222	16,437
Auditors' remuneration	1,062	918
Loss on disposal of fixed assets	112	323
	<u>112,361</u>	<u>127,236</u>

and after crediting:

Interest income	3,698	4,865
Value-added tax exemption*	38,489	50,034
Exchange gains, net**	<u>12,234</u>	<u>19,411</u>

No forfeited pension scheme contributions were available at the current year to reduce contributions in future years (1999: Nil).

* The amount represents the exemption of net output value-added tax on those beer products that are both produced and sold in Shenzhen entitled by Shenzhen Kingway Brewery Co., Ltd. ("Shenzhen Brewery").

** Included in exchange gains is an amount of HK\$10,937,000 (1999: HK\$16,864,000) arising from the closing rate translation of DEM loans due to GDI.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

7. FINANCE COSTS

	2000	1999
	HK\$'000	HK\$'000
Interest on:		
Interest-bearing bank loans	14,754	26,696
Other loans wholly repayable:		
Within five years	15,729	1,511
Over five years	-	17,043
	30,483	45,250
	30,483	45,250

8. DIRECTORS' REMUNERATION

Details of Directors' remuneration charged to the Group's profit and loss account are set out below:

	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive	11	60
Non-executive	90	120
Other emoluments:		
Salaries, allowances and benefits in kind	1,499	2,062
Bonus paid and payable	32	180
Pension scheme contributions	49	68
	1,681	2,490
	1,681	2,490

Fees include HK\$90,000 (1999: HK\$90,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

The remuneration of all sixteen (1999: all fourteen) Directors fell within the band of "Not more than HK\$1,000,000" for the year ended 31 December 2000.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group included two (1999: two) Directors, details of whose remuneration are set out in note 8 to the financial statements. The remuneration of the other three (1999: three) individuals was as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries, allowances and benefits in kind	1,113	1,242
Bonus paid and payable	82	–
Pension scheme contributions	44	37
	<u>1,239</u>	<u>1,279</u>

The remuneration of the three (1999: three) highest paid individuals, other than Directors, all fell within the band of "Not more than HK\$1,000,000" for the year ended 31 December 2000.

10. TAX

	2000 HK\$'000	1999 HK\$'000
Group:		
Hong Kong	198	–
Mainland China	18,844	9,991
Tax charge for the year	<u>19,042</u>	<u>9,991</u>

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax was made in the prior year as the Group had no estimated assessable profits derived from or earned in Hong Kong during that year.

Provision has been made for tax in Mainland China based on existing legislation, interpretations and practices at the prevailing rates of tax.

Year ended 31 December 2000

10. TAX (cont'd)

A Group subsidiary, Shenzhen Brewery, is a sino-foreign equity joint venture established in one of the special economic zones of Mainland China. According to the tax regulations in Mainland China, the subsidiary is subject to a tax rate of 15% on the taxable profits for each year calculated on a calendar year basis.

Shenzhen Brewery is entitled to tax exemption for its first two profit-making years and a tax relief of 50% in the next six years. As 1999 is the eighth profitable year, enterprise income tax was provided at the reduced rate of 7.5% on the profits for that year. Starting from the year 2000, enterprise income tax is provided at the standard rate of 15% on the profits for the year.

All the other subsidiaries of the Group established in Mainland China have not generated any assessable profits for the year (1999: Nil).

No provision for tax is required for the associate as no assessable profits was earned by the associate during the year.

There were no material unprovided deferred tax liabilities at the year end (1999: Nil).

11. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2000 is HK\$25,123,000 (1999: profit of HK\$19,193,000).

	2000	1999
	HK\$'000	HK\$'000
Profit/(loss) for the year attributable to:		
The Company and subsidiaries	24,738	61,113
Associate	(14,496)	(8,401)
	<u>10,242</u>	<u>52,712</u>

12. DIVIDENDS

	2000	1999
	HK\$'000	HK\$'000
Final dividend – 1.0 (1999: 1.0) HK cent per share	<u>12,500</u>	<u>12,500</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$10,242,000 (1999: HK\$52,712,000) and on the weighted average number of 1,250,000,000 (1999: 1,250,000,000) shares in issue during the year.

Diluted earnings per share for the year and prior year reflecting the exercise of all outstanding share options is not presented because the impact is anti-dilutive.

14. FIXED ASSETS

Group

	Land and buildings HK\$'000	Plant, machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At beginning of year	409,836	1,195,619	7,836	2,722	44,620	35,039	1,695,672
Additions	3,578	1,530	648	-	2,895	15,096	23,747
Disposals	-	(1,041)	(1,789)	(2,722)	(4,209)	-	(9,761)
Reclassifications	24,639	6,129	-	-	-	(30,768)	-
Exchange adjustments	1,522	4,524	21	-	168	132	6,367
At 31 December 2000	<u>439,575</u>	<u>1,206,761</u>	<u>6,716</u>	<u>-</u>	<u>43,474</u>	<u>19,499</u>	<u>1,716,025</u>
Accumulated depreciation:							
At beginning of year	53,551	312,008	3,886	1,262	15,921	-	386,628
Provided during the year	18,669	85,624	554	438	7,076	-	112,361
Disposals	-	(462)	(1,039)	(1,700)	(3,000)	-	(6,201)
Exchange adjustments	198	1,180	11	-	60	-	1,449
At 31 December 2000	<u>72,418</u>	<u>398,350</u>	<u>3,412</u>	<u>-</u>	<u>20,057</u>	<u>-</u>	<u>494,237</u>
Net book value:							
At 31 December 2000	<u>367,157</u>	<u>808,411</u>	<u>3,304</u>	<u>-</u>	<u>23,417</u>	<u>19,499</u>	<u>1,221,788</u>
At 31 December 1999	<u>356,285</u>	<u>883,611</u>	<u>3,950</u>	<u>1,460</u>	<u>28,699</u>	<u>35,039</u>	<u>1,309,044</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

14. FIXED ASSETS (cont'd)

Company

	Furniture and fixtures	Leasehold improvements	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At beginning of year	2,147	2,722	4,869
Additions	625	-	625
Disposals	(1,789)	(2,722)	(4,511)
	<u>983</u>	<u>-</u>	<u>983</u>
At 31 December 2000	<u>983</u>	<u>-</u>	<u>983</u>
Accumulated depreciation:			
At beginning of year	920	1,262	2,182
Provided during the year	366	438	804
Disposals	(1,039)	(1,700)	(2,739)
	<u>247</u>	<u>-</u>	<u>247</u>
At 31 December 2000	<u>247</u>	<u>-</u>	<u>247</u>
Net book value:			
At 31 December 2000	<u>736</u>	<u>-</u>	<u>736</u>
At 31 December 1999	<u>1,227</u>	<u>1,460</u>	<u>2,687</u>

As at 31 December 2000, the net book values of the Group's leasehold land and buildings comprised:

	2000	1999
	HK\$'000	HK\$'000
Long term leases in Mainland China	33,228	35,291
Medium term leases in Mainland China	333,929	320,994
	<u>367,157</u>	<u>356,285</u>

As at 31 December 1999, certain of the Group's land and buildings with an aggregate net book value of HK\$38,076,000 were pledged to secure certain interest-bearing bank loans granted to the Group (note 21). During the year, the aforesaid bank loans were fully repaid and the legal charge over the Group's land and buildings was released accordingly.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

15. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares/investments, at cost	261,816	261,816
Due from subsidiaries	874,515	1,057,355
	1,136,331	1,319,171
Provisions for diminutions in values	(37,275)	–
	<u>1,099,056</u>	<u>1,319,171</u>

The amounts due from subsidiaries are unsecured and not repayable within one year from the balance sheet date. Except for the amount due from Shenzhen Brewery which is interest-bearing the details of which are set out in note 31(vi) to the financial statements; and the amount due from Morefit Limited, a wholly-owned subsidiary, of HK\$273,669,000 (1999: HK\$307,814,000) which bears interest ranging from 6 months' FIBOR plus 0.65% to 6 months' LIBOR plus 0.65% per annum, the balances with the other subsidiaries are interest-free.

Particulars of the subsidiaries at 31 December 2000 were as follows:

Company	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Baligold Developments Limited	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Central China (Asia) Investment Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Investment holding
Crown Right Development Limited	Hong Kong	Ordinary HK\$2	100%	100%	Investment holding
Ease Court Investment Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$2	–	100%	Investment holding

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

15. INTERESTS IN SUBSIDIARIES (cont'd)

Company	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Guangdong Brewery (Nominees) Limited	Hong Kong	Ordinary HK\$2	100%	100%	Nominee services
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK\$2	100%	100%	Sale and marketing of beer
Harbour Bright Enterprises Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$2	–	100%	Investment holding
Helmuth Enterprises Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Morefit Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Mountain View Developments Limited	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Shenzhen Kingway Brewery Co., Ltd.*	Mainland China	US\$50,000,000	–	95%	Production, distribution and sale of beer and investment holding
Shenzhen Kingway Brewing Co., Ltd.*	Mainland China	US\$12,000,000	–	87%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd.*	Mainland China	US\$12,000,000	–	87%	Provision of bottling and packaging services
Shenzhen Kingway Utility Co., Ltd.*	Mainland China	US\$12,000,000	–	87%	Provision of utilities services

* These subsidiaries are established as Sino-foreign equity joint venture companies.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

16. INTEREST IN AN ASSOCIATE

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	94,446	108,533
Less: Provision for impairment in value	(32,367)	–
	<u>62,079</u>	<u>108,533</u>

The Group's share of the post-acquisition accumulated deficits, other than the exchange fluctuation reserve, of the associate at 31 December 2000 was HK\$21,499,000 (1999: HK\$7,003,000).

The Group's share of the post-acquisition exchange fluctuation reserve surplus of the associate at 31 December 2000 was HK\$1,006,000 (1999: HK\$597,000).

Particulars of the associate were as follows:

Company	Business structure	Place of registration and operation	Percentage of ownership interest attributable to the Group		Principal activities
			2000	1999	
			Shandong Huazhong Amber Brewery Co., Ltd.	Corporate	

17. INVESTMENT SECURITIES

	Group and Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted equity investment, at cost	5,611	5,611
Less: Provision for impairment in value	(1,000)	–
	<u>4,611</u>	<u>5,611</u>

The balance represents investment in a company which was established in Mainland China and is engaged in the distribution and sale of wine and beer in Mainland China.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

18. LONG TERM RECEIVABLE

The balance represents a loan to a Director, the particulars of which disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group

Name of Director	31 December 2000 HK\$'000	Maximum outstanding during the year HK\$'000	1 January 2000 HK\$'000
Chau Kam Wing, Donald ("Mr. Chau")	1,700	<u>1,751</u>	1,751
Portion classified as current assets	<u>(51)</u>		<u>(54)</u>
Long term portion	<u>1,649</u>		<u>1,697</u>

The loan granted to the Director is secured by a residential property situated in Hong Kong, bears interest at Hong Kong best lending rate less 3% per annum and is repayable by 240 equal monthly instalments.

The purpose of the advance is to facilitate the purchase of the residential premises for Mr. Chau's main residence.

Subsequent to the balance sheet date, the loan was fully settled upon the resignation of Mr. Chau as a Director of the Company.

19. INVENTORIES

	2000 HK\$'000	Group 1999 HK\$'000
Raw materials	6,140	10,927
Spare parts and consumables	32,093	36,801
Packaging materials	14,926	22,641
Work in progress	12,610	17,210
Finished goods	<u>13,443</u>	<u>10,805</u>
	<u>79,212</u>	<u>98,384</u>

At 31 December 2000 and 1999, all of the inventories were carried at cost.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

20. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

	2000	Group
	HK\$'000	1999 HK\$'000
Outstanding balances with ages:		
Within 3 months	16,851	21,935
Between 4 to 6 months	18,574	8,204
Between 7 to 12 months	2,057	2,885
Over 1 year	207	195
	<u>37,689</u>	<u>33,219</u>

Credit terms

Trading terms with customers are either on cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30-180 days of issuance. Credit limit has been set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

21. INTEREST-BEARING BANK LOANS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest-bearing bank loans:		
Secured	-	18,785
Unsecured	160,271	258,289
	<u>160,271</u>	<u>277,074</u>
The maturities of the interest-bearing bank loans are as follows:		
Repayable:		
Within one year or on demand	94,277	201,935
In the second year	65,994	75,139
	<u>160,271</u>	<u>277,074</u>
Portion classified as current liabilities	<u>(94,277)</u>	<u>(201,935)</u>
Long term portion	<u>65,994</u>	<u>75,139</u>

The secured bank loans in the prior year, which were pledged by certain land and buildings of the Group with an aggregate net book value of HK\$38,076,000 as at 31 December 1999, were fully repaid during the year (note 14).

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

22. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 3 months	30,012	14,348
Between 4 to 6 months	2,237	2
Between 7 to 12 months	4,219	2,717
Over 1 year	58	-
	<u>36,526</u>	<u>17,067</u>

23. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY

The maturities of the amounts due to immediate holding company are as follows:

	Group and Company	
	2000	1999
	HK\$'000	HK\$'000
Repayable:		
Within one year or with no fixed terms of repayment	25,325	45,148
In the second to fifth years, inclusive	72,531	176,155
	<u>97,856</u>	221,303
Portion classified as current liabilities	<u>(25,325)</u>	<u>(45,148)</u>
Long term portion	<u>72,531</u>	<u>176,155</u>

The amounts due to immediate holding company are unsecured. Of the total amounts, HK\$67,434,000 (1999: HK\$117,025,000) and HK\$29,274,000 (1999: HK\$103,168,000) bear interests at 6 months' LIBOR plus 0.65% per annum and 6 months' FIBOR plus 0.65% per annum, respectively. The remaining balance of HK\$1,148,000 (1999: HK\$1,110,000) is interest-free.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

24. AMOUNTS DUE TO MINORITY EQUITYHOLDERS OF SUBSIDIARIES

The maturities of the amounts due to minority equityholders of subsidiaries are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Repayable:		
Within one year	-	1,184
No fixed terms of repayment, but not to be repaid within one year	103,335	102,811
	103,335	103,995
Portion classified as current liabilities	-	(1,184)
Long term portion	103,335	102,811

The amounts due to minority equityholders of subsidiaries are unsecured, HK\$60,732,000 (1999: HK\$65,200,000) of the total amounts bears interest at long term lending rate per annum announced by People's Bank of China and the remaining portion of the balance is interest-free.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

25. SHARE CAPITAL

	Company	
	2000	1999
	HK\$'000	HK\$'000
<i>Authorised:</i>		
2,000,000,000 shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,250,000,000 shares of HK\$0.10 each	<u>125,000</u>	<u>125,000</u>

Share options

On 20 August 1997, pursuant to the share option scheme (the "Scheme") of the Company, options were granted to subscribe for shares of the Company to certain Directors and employees of the Group at nil cash consideration. The share options can be exercised during the period commencing on the first business day after six months from the date of grant at a subscription price of HK\$2.10 each, and expiring at the close of business on the business day preceding the fifth anniversary thereof. As at 1 January 2000, certain Directors and employees of the Group held a total of 14,850,000 share options under the Scheme. During the year, 5,400,000 options were cancelled upon the resignation of certain Directors and employees. The exercise in full of the outstanding options would result in the issue of an additional 9,450,000 shares of HK\$0.10 each and cash proceeds, before the related issue expenses, of approximately HK\$19,845,000.

There was no option granted to or exercised by the executives and/or employees of the Company and its subsidiaries during the year.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

26. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Enterprise development fund# HK\$'000	Reserve fund# HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 1999:							
As previously stated	739,583	41,969	295	120	6,611	122,272	910,850
Prior year adjustment (note 4)	-	-	-	-	-	(12,435)	(12,435)
As restated	739,583	41,969	295	120	6,611	109,837	898,415
Net profit for the year	-	-	-	-	-	52,712	52,712
Dividends	-	-	-	-	-	(12,500)	(12,500)
Transfer from retained profits	-	-	-	96	8,635	(8,731)	-
Exchange adjustments on retranslation of subsidiaries and an associate in Mainland China	-	-	2,114	-	-	-	2,114
	<u>739,583</u>	<u>41,969</u>	<u>2,409</u>	<u>216</u>	<u>15,246</u>	<u>141,318</u>	<u>940,741</u>
At 1 January 2000:							
As previously stated	739,583	41,969	2,409	216	15,246	150,042	949,465
Prior year adjustment (note 4)	-	-	-	-	-	(8,724)	(8,724)
As restated	739,583	41,969	2,409	216	15,246	141,318	940,741
Net profit for the year	-	-	-	-	-	10,242	10,242
Dividends	-	-	-	-	-	(12,500)	(12,500)
Write off of goodwill in respect of impairment in an associate	-	9,135	-	-	-	-	9,135
Exchange adjustments on retranslation of subsidiaries and associate in Mainland China	-	-	2,337	-	-	-	2,337
At 31 December 2000	<u>739,583</u>	<u>51,104</u>	<u>4,746</u>	<u>216</u>	<u>15,246</u>	<u>139,060</u>	<u>949,955</u>

Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of a Company's subsidiary operating in Mainland China has been transferred to the reserve fund and the enterprise development fund which are restricted as to use. The amounts transferred from the retained profits are determined by the Board of Directors of a subsidiary. These funds are not available for distribution.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

26. RESERVES (cont'd)

Company

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	739,583	140,234	145,673	1,025,490
Net profit for the year	–	–	19,193	19,193
Dividends	–	–	(12,500)	(12,500)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999 and 1 January 2000	739,583	140,234	152,366	1,032,183
Net loss for the year	–	–	(25,123)	(25,123)
Dividends	–	–	(12,500)	(12,500)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>739,583</u>	<u>140,234</u>	<u>114,743</u>	<u>994,560</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000	1999
	HK\$'000	HK\$'000
		(Restated)
Profit from operating activities	73,165	115,638
Interest income	(3,698)	(4,865)
Depreciation	112,361	109,694
Amortisation of reusable packaging materials	15,222	16,437
Loss on disposal of fixed assets	112	323
Provision for impairment in value of investment securities	1,000	–
Provision for impairment in value of investment in an associate	32,367	–
Release of goodwill in respect of impairment in value of investment in an associate	9,135	–
Decrease/(increase) in accounts receivable	(4,647)	890
Decrease in prepayments, deposits and other receivables	4,102	3,249
Decrease in inventories	19,172	14,515
Decrease in loan to a director	51	49
Increase/(decrease) in accounts payable	19,459	(18,881)
Increase/(decrease) in other payables and accrued liabilities	(29,183)	37,929
Increase in VAT payable	5,460	5,284
Increase/(decrease) in amounts due to a fellow subsidiary	970	(436)
	970	(436)
Net cash inflow from operating activities	<u>255,048</u>	<u>279,826</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing during the year

	Minority interests	
	2000	1999
	HK\$'000	HK\$'000
		(Restated)
At 1 January	37,849	39,778
Share of loss for the year	(1,098)	(716)
Dividend payable to minority equityholders	(4,714)	(1,174)
Exchange adjustments	(171)	(39)
	<u>31,866</u>	<u>37,849</u>
At 31 December	<u>31,866</u>	<u>37,849</u>

	Interest-bearing bank loans	
	2000	1999
	HK\$'000	HK\$'000
At 1 January	277,074	331,093
Net cash outflow from financing	(108,455)	(64,670)
Interest-bearing bank loans with maturity of less than three months from the date of the advance	(9,392)	9,392
Exchange adjustments	1,044	1,259
	<u>160,271</u>	<u>277,074</u>
At 31 December	<u>160,271</u>	<u>277,074</u>

	Amounts due to immediate holding company	
	2000	1999
	HK\$'000	HK\$'000
At 1 January	221,303	304,103
Net cash outflow from financing	(124,178)	(95,255)
Interest payable	731	12,455
	<u>97,856</u>	<u>221,303</u>
At 31 December	<u>97,856</u>	<u>221,303</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing during the year (cont'd)

	Amounts due to minority equityholders of subsidiaries	
	2000	1999
	HK\$'000	HK\$'000
At 1 January	103,995	98,044
Net cash outflow from financing	(4,714)	(156)
Interest payable	4,133	4,602
Dividend paid to minority equityholders	(5,185)	-
Dividend payable to minority equityholders	4,714	1,174
Exchange adjustments	392	331
	<u>103,335</u>	<u>103,995</u>
At 31 December	<u>103,335</u>	<u>103,995</u>

28. COMMITMENTS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital commitments in respect of property, plant and equipment:				
Contracted for	<u>1,480</u>	<u>3,182</u>	<u>-</u>	<u>-</u>
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:				
Within one year	456	582	-	582
In the second to fifth years, inclusive	532	-	532	-
	<u>988</u>	<u>582</u>	<u>532</u>	<u>582</u>

Year ended 31 December 2000

29. CONTINGENT LIABILITIES

At the balance sheet date, the contingent liabilities of the Company in respect of guarantees given to banks to secure banking facilities granted and utilised by the Group's non-wholly-owned subsidiaries amounted to HK\$28,283,000 (1999: HK\$108,012,000).

Save as disclosed above, neither the Company, nor the Group had any significant contingent liabilities at the balance sheet date.

30. PLEDGE OF ASSETS

At 31 December 1999, certain of the Group's fixed assets with an aggregate net book value of HK\$38,076,000 were pledged to secure interest-bearing bank loans granted to the Group. Such bank loans were fully repaid during the year and the security was released accordingly.

31. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed below are connected transactions disclosed in accordance with the Listing Rules and related party transactions disclosed in accordance with SSAP20 "Related Party Disclosures".

The transactions referred to in items (i), (ii), (iv) and (viii) below constitute related party transactions and those referred to in items (i) to (vii) below constitute connected transactions disclosed under the Listing Rules.

- (i) During the year, the Group purchased malt from Guangzhou Malting Co., Ltd. ("GMCL") which is a 51.6% owned subsidiary of GDI, on what the Directors believe to be terms similar to those offered to other customers unrelated to GDI. For the year ended 31 December 2000, the aggregate amount purchased by the Group was RMB37,609,000 (1999: RMB49,400,000). The balance due to GMCL is unsecured, interest-free and has no fixed terms of repayment.
- (ii) The Company entered into a tenancy agreement on 22 July 1997 with Bateson Developments Limited ("BDT"), a wholly-owned subsidiary of GDI, whereby the Company agreed to lease a leasehold property (the "Property") owned by BDT as office premises at a monthly rental of HK\$97,000 for a term of three years from 1 July 1997 to 30 June 2000.

From 1 July 2000 to 31 August 2000, the Company paid a monthly rental of HK\$65,079 to BDT to rent the Property at the then prevailing open market rent agreed between the two parties.

Subsequent to the balance sheet date, on 2 February 2001, the Company entered into a new tenancy agreement with BDT to rent another leasehold property as office premises at a monthly rental of HK\$44,370 for a term of two years commencing from 1 September 2000 and expiring on 31 August 2002, with an option on the Company's part to renew for a further two years at the then prevailing open market rent to be agreed between the two parties.

31. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)

- (iii) The Company entered into an agreement with Guangnan Holdings Limited ("Guangnan") on 21 August 2000 for the transfer of certain chattels and equipment to Guangnan. Upon completion of the GDE Restructuring in December 2000, Guangnan became a fellow subsidiary of the Company. Subsequent to the balance sheet date, the aforesaid agreement was terminated by the Company and Guangnan by mutual agreement and the chattels and equipment in question was repossessed by the Company. The Company is in the course of implementing alternative disposition arrangements for such chattels and equipment.
- (iv) As at 31 December 2000, there were loan advances made by GDI in the aggregate amount of HK\$96,708,000 (1999: HK\$220,193,000). The loans have been used to finance the construction of a plant and purchases of machinery and equipment for the Group's operations. The balances are unsecured, bear interest ranging from 6 months' FIBOR plus 0.65% to 6 months' LIBOR plus 0.65% per annum and are fully repayable within five years from the balance sheet date. The interest expenses arose during the year from the aforementioned loans were HK\$11,596,000 (1999: HK\$12,455,000).
- (v) As at 31 December 2000, there were loan advances made by the Group's wholly-owned subsidiary, Morefit Limited, to the Group's non-wholly-owned subsidiary, Shenzhen Kingway Brewing Co., Ltd., in which the Group holds 87% equity interest, in the amount of HK\$193,373,000 (1999: HK\$227,801,000). The loans were used to finance the construction of the plant in Bao An, Mainland China. The balances are unsecured, bear interest at 6 months' LIBOR plus 2% per annum and of which HK\$50,136,000 (1999: HK\$22,780,000) is repayable within 2001 and the remaining balance of HK\$143,237,000 (1999: HK\$205,021,000) is repayable within five years from the balance sheet date.
- (vi) As at 31 December 2000, there were loan advances made by the Company to the Group's non-wholly-owned subsidiary, Shenzhen Kingway Brewery Co., Ltd., in which the Group has a 95% equity interest, in the aggregate amount of HK\$232,747,000 (1999: HK\$265,621,000). The loans were used to finance its expansion plan and the construction of the plant in Bao An, Mainland China. The outstanding loan balance of HK\$109,102,000 (1999: HK\$108,738,000) is unsecured, bears interest at long term lending rate per annum announced by People's Bank of China and is not repayable within one year. The remaining outstanding loan balance of HK\$123,645,000 (1999: HK\$156,883,000) is unsecured, bears interest at 6 months' LIBOR plus 0.75% per annum and is repayable within five years from the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (cont'd)

Year ended 31 December 2000

31. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)

- (vii) The Company executed a guarantee for banking facilities granted to the Group's non-wholly-owned subsidiary, Shenzhen Kingway Brewery Co., Ltd., for its operations. As at 31 December 2000, the guarantee given was HK\$28,283,000 (1999: HK\$108,012,000).
- (viii) During the year, interest expenses were incurred on funds advanced by minority equityholders of the Company's subsidiaries aggregating HK\$4,133,000 (1999: HK\$4,602,000), further details of which, including the terms, are disclosed in note 24 to the financial statements.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 20 April 2001.