

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim financial reporting”, issued by the Hong Kong Society of Accountants (the “HKSA”) and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the audited financial statements for the year ended 31st December, 2001 except that the Group has adopted the following new or revised 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 25 (revised)	:	“Interim financial reporting”
SSAP 34	:	“Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The adoption of these SSAPs during the current financial period does not have any significant impact on the Group’s profit or shareholders’ equity, except that the presentation of certain items and balances in the condensed consolidated interim financial statements have been revised to comply with the new requirements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

An analysis of the Group's revenue and results by business and geographical segments for the six months ended 30th June, 2002 is as follows:

(a) *Business segments***For the six months ended 30th June, 2002****Group**

	Brewery operations Unaudited HK\$'000	Retail operations Unaudited HK\$'000	Dairy operations Unaudited HK\$'000	Expressway operations Unaudited HK\$'000	Water treatment operations Unaudited HK\$'000
Segment revenue:					
Sales to external customers	1,115,437	910,665	471,679	169,621	173,625
Intersegment sales	—	—	—	—	—
Other revenue	11,982	7,481	6,612	279	—
Total	1,127,419	918,146	478,291	169,900	173,625
Segment results	113,811	54,264	31,345	124,298	70,164
Interest income					
Unallocated revenue and gains					
Unallocated expenses					
Profit from operating activities					
Finance costs					
Share of profits and losses of:					
Jointly-controlled entities	(3,771)	(1,112)	12,546	—	—
Associates	(35)	(77)	—	—	—
Profit before tax					
Tax					
Profit before minority interests					
Minority interests					
Net profit from ordinary activities attributable to shareholders					

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Hotel operations Unaudited HK\$'000	Tourism operations Unaudited HK\$'000	Property construction and development Unaudited HK\$'000	Telecommunications and IT related services and products Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
69,814	76,682	54,066	90,708	192,004	—	3,324,301
—	—	—	—	192	(192)	—
182	1,979	630	—	13,221	—	42,366
69,996	78,661	54,696	90,708	205,417	(192)	3,366,667
2,332	7,399	(13,372)	(3,112)	(18,090)		369,039
						31,208
						28,607
						(4,900)
						423,954
						(112,757)
						7,663
			33,299	4,930		38,117
						356,977
						(83,442)
						273,535
						(57,419)
						216,116

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the six months ended 30th June, 2001

Group

	Brewery operations Unaudited HK\$'000	Retail operations Unaudited HK\$'000	Dairy operations Unaudited HK\$'000	Expressway operations Unaudited HK\$'000	Water treatment operations Unaudited HK\$'000
Segment revenue:					
Sales to external customers	1,091,907	894,924	451,000	147,558	98,935
Intersegment sales	—	—	—	—	—
Other revenue	13,322	18,430	6,559	1,120	—
Total	1,105,229	913,354	457,559	148,678	98,935
Segment results	118,688	34,716	22,111	107,180	63,530
Interest income					
Unallocated revenue and gains					
Unallocated expenses					
Profit from operating activities					
Finance costs					
Share of profits and losses of:					
Jointly-controlled entities	(1,460)	712	6,428	—	—
Associates	612	46	—	—	—
Profit before tax					
Tax					
Profit before minority interests					
Minority interests					
Net profit from ordinary activities attributable to shareholders					

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Hotel operations Unaudited HK\$'000	Tourism operations Unaudited HK\$'000	Property construction and development Unaudited HK\$'000	Telecom- munications and IT related services and products Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
59,705	69,270	10,761	3,383	43,081	—	2,870,524
—	—	—	—	—	—	—
112	862	—	—	—	—	40,405
59,817	70,132	10,761	3,383	43,081	—	2,910,929
(999)	3,472	(3,186)	1,766	(40,105)		307,173
						72,525
						56,472
						(5,000)
						431,170
						(110,861)
—	—	—	1,412	—		7,092
—	—	—	106,139	1,863		108,660
						436,061
						(71,551)
						364,510
						(76,529)
						287,981

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

(b) Geographical segments

For the six months ended 30th June, 2002

Group

	Hong Kong Unaudited HK\$'000	Elsewhere in the PRC Unaudited HK\$'000	Overseas Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
Segment revenue:					
Sales to external customers	8,066	3,241,111	75,124	—	3,324,301
Intersegment sales	—	192	—	(192)	—
Other revenue	13,221	29,145	—	—	42,366
Total segment revenue	21,287	3,270,448	75,124	(192)	3,366,667
Segment results	(8,136)	375,993	1,182	—	369,039

For the six months ended 30th June, 2001

Group

	Hong Kong Unaudited HK\$'000	Elsewhere in the PRC Unaudited HK\$'000	Overseas Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
Segment revenue:					
Sales to external customers	4,424	2,849,043	17,057	—	2,870,524
Intersegment sales	—	—	—	—	—
Other revenue	—	40,405	—	—	40,405
Total segment revenue	4,424	2,889,448	17,057	—	2,910,929
Segment results	(23,390)	331,161	(598)	—	307,173

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. TURNOVER

Turnover represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for goods returned and trade discounts; (2) the aggregate of revenue from hotel operations, toll revenue, entrance fees and telecommunications and IT related services, net of business and consumption taxes and government surcharges; and (3) rental income.

4. OTHER REVENUE AND GAINS, NET

	Group	
	Six months ended 30th June,	
	2002	2001
	Unaudited	Unaudited
	HK\$'000	HK\$'000
<i>Other revenue, net</i>		
Negative goodwill recognised as income	21,513	11,828
Service income	13,209	—
Investment income	6,847	—
Corporate income tax and value-added tax refund	1,488	16,754
Others	27,761	23,541
	70,818	52,123
<i>Gains, net</i>		
Gain on partial disposal of interest in a subsidiary	—	19,965
Gain on disposal of short term investments	155	24,789
	155	44,754
	70,973	96,877

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30th June,	
	2002	2001
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Depreciation	226,955	193,403
Amortisation of intangible assets	36,039	35,334
Amortisation of goodwill	6,840	1,045
Negative goodwill recognised as income	(21,513)	(11,828)
Investment income	(6,847)	(31,039)

6. FINANCE COSTS

	Group	
	Six months ended 30th June,	
	2002	2001
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest on bank loans and other loans wholly repayable within five years	105,827	102,941
Interest on other loans	6,930	7,920
	112,757	110,861

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. TAX

	Six months ended 30th June,	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Group:		
The PRC — Hong Kong	51	—
— elsewhere	72,991	52,568
Overseas	846	—
Overprovision in prior period, net	(967)	—
Deferred tax	2,029	—
	74,950	52,568
Share of tax of jointly-controlled entities	4,944	1,997
Share of tax of associates	3,548	16,986
	83,442	71,551

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the period. No provision for Hong Kong profits tax was made in the prior period as the Group had no assessable profit arising in Hong Kong during that period. The income tax provision in respect of operations elsewhere in the PRC and overseas is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

8. INTERIM DIVIDEND

	Six months ended 30th June,	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Proposed 2002 interim dividend of HK\$0.10 (2001: HK\$0.10) per ordinary share	62,250	62,250

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$216,116,000 (2001: HK\$287,981,000) and the weighted average of 622,500,000 (2001: 622,500,000) ordinary shares in issue during the period.

The exercise of the outstanding share options of the Company would not have a diluting effect to the earnings per share.

10. TRADE RECEIVABLES

The various group companies have different credit policies, dependent on the requirements of their markets and the business in which they operate. Ageing analyses of trade receivables are prepared and closely monitored in order to minimise any credit risk associated with receivables.

The ageing analysis of the Group's trade receivables as at the balance sheet date is as follows:

	30th June, 2002 Unaudited HK\$'000	31st December, 2001 Audited HK\$'000
Within one year	667,191	458,626
One to two years	24,944	32,367
Two to three years	12,915	1,987
	705,050	492,980

11. TRADE PAYABLES

The ageing analysis of the Group's trade payables is as follows:

	30th June, 2002 Unaudited HK\$'000	31st December, 2001 Audited HK\$'000
Within one year	497,944	381,294
One to two years	2,752	3,057
Two to three years	605	2,930
Over three years	13,556	18,079
	514,857	405,360

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. SHARE CAPITAL

	30th June, 2002 Unaudited HK\$'000	31st December, 2001 Audited HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
622,500,000 ordinary shares of HK\$0.10 each	62,250	62,250

Share options

The Company operates a share option scheme, further details of which are set out under the heading "Share option scheme" in the section of "Discloseable Information" on pages 35 to 38.

At the balance sheet date, the Company had outstanding share options entitling the holders to subscribe for shares in the Company. The share options entitle the registered holders to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at HK\$17.03 per share. Of the total 19,950,000 share options outstanding as of 30th June, 2002, 2,000,000 share options are exercisable at any time in the 10 years commencing on 1st September, 1998, and 17,950,000 share options are exercisable in 9 equal portions commencing on 1st January, 1999 with one additional portion becoming exercisable on 1st January, in each of the following years. All of such options (to the extent not exercised) will be exercisable on 1st January, 2007, and if not otherwise exercised, will lapse on 1st January, 2009. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 19,950,000 additional ordinary shares of HK\$0.10 each and cash proceeds of approximately HK\$339,748,500 before the related issue expenses.

No share options were granted or exercised during the period.

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13. RESERVES

Group

	Share premium Unaudited HK\$'000	Capital reserve Unaudited HK\$'000	Hotel property revaluation reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	PRC reserve funds Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Total Unaudited HK\$'000
At 1st January, 2002	4,839,497	303,151	2,051	34,663	400,775	1,350,191	6,930,328
Exchange realignments	—	—	—	1,626	—	—	1,626
Net profit for the period	—	—	—	—	—	216,116	216,116
Proposed interim dividend	—	—	—	—	—	(62,250)	(62,250)
Transfer to reserves	—	588	—	—	31,431	(32,019)	—
At 30th June, 2002	4,839,497	303,739	2,051	36,289	432,206	1,472,038	7,085,820

14. CONTINGENT LIABILITIES

	Group	
	30th June, 2002 Unaudited HK\$'000	31st December, 2001 Audited HK\$'000
Guarantee of banking facilities granted to third parties	28,929	10,852

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. CAPITAL COMMITMENTS

	Group	
	30th June, 2002 Unaudited HK\$'000	31st December, 2001 Audited HK\$'000
Land and buildings:		
Authorised, but not contracted for	124,623	109,580
Contracted, but not provided for	65,604	99,990
	190,227	209,570
Plant and machinery:		
Authorised, but not contracted for	39,664	45,322
Contracted, but not provided for	11,483	42,555
	51,147	87,877
Capital contributions to subsidiaries and associates:		
Authorised, but not contracted for	72,220	72,197
Contracted, but not provided for	138,746	94,315
	210,966	166,512
Total capital commitments	452,340	463,959

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16. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material transactions with related parties:

Name of company	Nature of transaction	Notes	Six months ended 30th June,	
			2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
<i>Ultimate holding company</i>				
Beijing Holdings Limited and its associates	Rental income	(a)	1,471	1,603
	Rental and related expenses	(a)	2,253	2,706
<i>Joint venture partners of subsidiaries</i>				
Beijing Yanjing Beer Group	Purchases of bottle labels	(b)	25,504	20,900
Company ("Yanjing Beer Group") and its associates	Purchases of bottle caps	(b)	3,002	27,835
	Canning service fees paid	(c)	10,421	10,687
	Comprehensive support service fees paid	(d)	7,372	7,324
	Land rent expenses	(e)	821	821
Beijing San Yuan Group Company ("San Yuan Group")	Trademark licensing fees paid	(f)	8,169	7,359
	Less: 20% refund for advertising subsidies	(f)	(1,633)	(1,472)
	Purchase of raw milk	(g)	98,774	—
Beijing Tourism Corporation and its associates	Lease of land	(h)	1,258	—
	Land use fees	(i)	1,634	1,539
<i>Associates</i>				
Beijing International Switching System Co., Ltd.	Interest income	(j)	3,783	3,400
Wanbo Property Management Company Limited	Rental income	(a)	—	2,167

In the opinion of the directors, the above transactions have been entered into by the Group in the normal course of its business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (a) The rentals were determined by reference to open market rentals at the time when the lease agreements were entered into.
- (b) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing for the preceding year.
- (c) Canning service fees were charged at a rate equal to the costs of canning services incurred by Yanjing Beer Group plus a pre-agreed profit margin.
- (d) Comprehensive support service fees paid included the following:
 - a security and canteen services fee which was determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and
 - rental expenses, related to the premises occupied and used by Beijing Yanjing Brewery Company Limited (“Yanjing Brewery”) as its office, canteen and staff dormitories, were determined by reference to the market rentals at the time when the relevant agreements were entered into.
- (e) Land rent expenses were charged at a mutually-agreed amount of RMB1,744,000 per annum.
- (f) Trademark licensing fees paid were for the use of the “Yanjing” trademark and were determined based on 1% of the annual sales of beer and mineral water products by Yanjing Brewery. Yanjing Beer Group will refund 20% of the trademark licensing fees received from Yanjing Brewery to be used by Yanjing Brewery to develop and promote the “Yanjing” trademark.
- (g) San Yuan Group provided the supply of raw fresh milk to Sanyuan Foods. Ten years commencing from 1st January, 1997 at market price determined by reference to the prices offered by raw fresh milk market in Beijing.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. RELATED PARTY TRANSACTIONS (continued)

- (h) Lease of the land located in Beijing by San Yuan Group to Sanyuan Foods with a total gross floor area of approximately 286,800 sq. metres for industrial use. The lease is for a term of 20 years commencing from 1st January 1997, and automatically renewable for a further 20 years unless terminated by either party three months before the expiry of the initial term.
- (i) Land use fees were determined based on 3% of the annual gross turnover of Jian Guo Hotel Joint Venture Beijing.
- (j) The loan to an associate was unsecured and bore interest at 5.85% per annum.

17. REVIEW AND APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed the accounting policies adopted by the Group and has discussed the internal controls and financial affairs including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2002.

The condensed interim financial statements were approved by the Board of Directors of the Company on 17th September, 2002.