

Notes to Condensed Consolidated Financial Statements

30 June 2003

1. Accounting Policies and Prior Period Adjustments

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2002, except for the revised SSAP 12 "Income taxes" and the new interpretations relating thereto which have been retrospectively adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, rising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

Due to the adoption of SSAP 12 (Revised), prior period adjustments were made to recognise the deferred tax assets and liabilities relating to (i) the differences between capital allowance for tax purpose and depreciation for financial reporting purposes and other taxable and deductible temporary difference are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; (ii) the fair value adjustments arising from the acquisition of subsidiaries; and (iii) tax losses arising in the prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

The effects of the adjustments on these condensed consolidated interim financial statements are summarised as follows:

	As at 1 January 2003 HK\$'000	As at 1 January 2002 HK\$'000
	Increase/(decrease)	
Balance sheet		
Deferred tax assets	30,072	33,396
Minority interests	2,928	3,540
Retained profits	24,804	27,516
Goodwill classified under capital reserve	2,340	2,340

Notes to Condensed Consolidated Financial Statements (Cont'd)**1. Accounting Policies and Prior Period Adjustments** (Cont'd)

For the six
months ended
30 June 2002
HK\$'000
**Increase/
(decrease)**

Profit and loss account

Deferred tax expenses, net	257
Minority interest share of profit	(153)
Profit attributable to shareholders	<u>(104)</u>

During the period, deferred tax of HK\$7,131,000 was charged to the profit and loss account. As at 30 June 2003, the deferred tax assets amounted to HK\$22,941,000.

2. Segment Information

The Group's operating businesses are structured and managed separately, according to the location of customers. Each of the Group's geographical segments represents a strategic geographical unit that offers products and services which are subject to risks and returns that are different from those of the other geographical segments. Summary details of the geographical segments are as follows:

- (a) the Mainland China segment engages in the production, distribution and sale of beer, and operation of restaurants, pubs and other related services;
- (b) the Overseas and Hong Kong segment engages in the distribution and sale of beer in Taiwan, Macau and Hong Kong; and
- (c) the Corporate segment engages in providing corporate services to the Mainland China, and the Overseas and Hong Kong segments in Hong Kong.

In determining the Group's business segments, revenues and results are attributed to the segments based on the nature of their operations and the products and services they provide.

Intersegment transactions mainly represent the sale of beer by the Mainland China segment which is made on the bases determined within the Group.

Notes to Condensed Consolidated Financial Statements (Cont'd)

2. Segment Information (Cont'd)

(a) Geographical segments

The following tables present revenue, results and other information for the Group's geographical segments.

	(Unaudited)									
	For the six months ended 30 June									
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	Mainland China		Overseas		Corporate		Eliminations		Consolidated	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
										(Restated)
Segment revenue:										
Sales to external customers	259,744	255,001	29,891	21,432	—	—	—	—	289,635	276,433
Intersegment sales	7,147	5,959	—	—	—	—	(7,147)	(5,959)	—	—
Other revenue and gains	6,380	18,543	—	—	—	—	—	—	6,380	18,543
Total	273,271	279,503	29,891	21,432	—	—	(7,147)	(5,959)	296,015	294,976
Segment results	49,500	53,360	11,380	6,336	(860)	(2,057)	—	—	60,020	57,639
Interest income and unallocated gains									3,148	344
Profit from operating activities									63,168	57,983
Share of loss of an associate	—	(2,998)	—	—	—	—	—	—	—	(2,998)
Profit before tax									63,168	54,985
Tax									(11,589)	(8,357)
Profit before minority interests									51,579	46,628
Minority interests									(5,451)	(3,142)
Net profit from ordinary activities attributable to shareholders									46,128	43,486
Other segment information:										
Depreciation and amortisation	45,925	46,367	92	—	—	110	—	—	46,017	46,477

(b) Business segments

During the period, the Group was engaged in the production, distribution and sale of beer. In prior period, the Group terminated its operations of restaurants, pubs and other related services (the "Other Operations"). As the Other Operations contributed for less than 10% of total revenue and results, the information in respect of each of the business segment are not presented.

Notes to Condensed Consolidated Financial Statements (Cont'd)**3. Profit from Operating Activities**

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

	(Unaudited)	
	For the six months	
	ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold	162,321	168,399
Depreciation	41,486	43,276
Minimum lease payments under operating lease in respect of land and buildings	327	372
Amortisation of reusable packaging materials	4,531	3,201
(Gains)/losses on disposal of fixed assets, net	(63)	161
Interest income	(2,205)	(344)
Exchanges (gains)/losses, net	(56)	25
Net rental income	(909)	(384)
Value-added tax exemption*	(3,894)	(16,447)

* According to a notice from the Shenzhen tax authority dated 19 December 2002, the policy for value-added tax exemption on the products that are both produced and sold in Shenzhen was ceased effective from 1 January 2003. On 23 April 2003, the Group received an approval from the Shenzhen tax authority which revised the approval percentage for the aforesaid exemption for the year ended 31 December 2002 and accordingly, a further tax exemption of HK\$3,894,000 was credited to the profit and loss account for the period.

4. Tax

	(Unaudited)	
	For the six months	
	ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Company and subsidiaries:		
Current:		
Hong Kong	1,908	896
Mainland China	2,550	7,204
Deferred (note 1)	7,131	257
	11,589	8,357
Associate:		
Mainland China	<u>—</u>	<u>—</u>
	11,589	8,357

Notes to Condensed Consolidated Financial Statements *(Cont'd)***4. Tax** *(Cont'd)*

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. The increased profits tax rate became effective from 1 April 2003.

Enterprise Income Tax of Shenzhen Kingway Brewery Co., Ltd., a subsidiary of the Group, has been provided at the rate of 15% (2002: 15%) on the estimated assessable profits. Shenzhen Kingway Brewing Co., Ltd., ("Shenzhen Brewing", a subsidiary of the Group) is entitled to a tax exemption for the first two profitable years and a tax relief of 50% in the succeeding three years under the approval of the local tax authority. Shenzhen Brewing has still applied tax losses carried forward for a period of five years to offset the profits assessable in Mainland China during the period and, accordingly, the tax exemption period has not commenced.

5. Dividend

The Board of Directors has resolved to declare an interim dividend of 1.0 (2002: 1.0) HK cent per share for the six months ended 30 June 2003.

6. Earnings Per Share

The calculation of the basic earnings per share is based on the unaudited net profit attributable to shareholders for the six months ended 30 June 2003 of HK\$46,128,000 (2002: HK\$43,486,000 as restated) and the weighted average number of 1,250,209,945 (2002: 1,250,000,000) shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$46,128,000. The weighted average number of shares used in the calculation is 1,258,494,937 shares, comprising the weighted average of 1,250,209,945 shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 8,284,992 shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

The diluted earnings per share amount for the six months ended 30 June 2002 reflecting the exercise of all outstanding share options was not presented because the impact was anti-dilutive.

Notes to Condensed Consolidated Financial Statements (Cont'd)**7. Trade Receivables**

The Group's trading terms with customers are either on a cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30 to 180 days of issuance. Credit limits are 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.

The aged analysis of the trade receivables based on payment due date is as follows:

	(Unaudited)	(Audited)
	30 June	31 December
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	36,025	24,275
More than 3 months and less than 6 months	345	1,236
More than 6 months and less than 1 year	6,161	848
More than 1 year	2,214	2,977
	44,745	29,336
Less: Provision for doubtful debts	(2,456)	(3,233)
	42,289	26,103

8. Cash and Cash Equivalents and Pledged Bank Deposit

	(Unaudited)	(Audited)
	30 June	31 December
	2003	2002
	HK\$'000	HK\$'000
Cash and bank balances	112,291	115,169
Time deposits	135,907	117,565
	248,198	232,734
Less: Pledged bank deposit (note 14(b))	(28,263)	—
Cash and cash equivalents	219,935	232,734

Notes to Condensed Consolidated Financial Statements (Cont'd)**9. Trade Payables**

The aged analysis of the trade payables based on invoice date is as follows:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Within 3 months	41,751	37,702
More than 3 months and less than 6 months	1	—
More than 6 months and less than 1 year	—	58
More than 1 year	2,161	4,577
	<u>43,913</u>	<u>42,337</u>

10. Share Capital

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Authorised: 2,000,000,000 (2002: 2,000,000,000) shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid: 1,250,400,000 (2002: 1,250,000,000) shares of HK\$0.10 each	<u>125,040</u>	<u>125,000</u>

During the period, 400,000 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$0.383 per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses, of HK\$153,000.

A summary of movements of the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK\$'000	Share premium HK\$'000	Total HK\$'000
At 1 January 2002, 31 December 2002 and 1 January 2003	1,250,000,000	125,000	739,583	864,583
Share options exercised	<u>400,000</u>	<u>40</u>	<u>113</u>	<u>153</u>
At 30 June 2003	<u>1,250,400,000</u>	<u>125,040</u>	<u>739,696</u>	<u>864,736</u>

Notes to Condensed Consolidated Financial Statements (Cont'd)

11. Share Option Schemes

The movements of the Company's share options under its share option schemes during the period are as follows:

Name or category of participants	Number of share options					Date of grant of share option*	Exercise period of share options#	Exercise price of share options**	Price of Company's shares***	
	At 01/01/2003	Granted during the period	Lapsed during the period	Exercised during the period	At 30/06/2003				At grant date of options	At exercise date of options
					HK\$		HK\$	HK\$	HK\$	
Directors and chief executives										
Ye Xuquan	—	2,000,000	—	—	2,000,000	26/05/2003	27/08/2003–26/08/2008	0.840	0.790	—
Jiang Guoqiang	10,000,000	—	—	—	10,000,000	10/10/2001	11/04/2002–10/04/2007	0.383	0.400	—
	—	2,000,000	—	—	2,000,000	26/05/2003	27/08/2003–26/08/2008	0.840	0.790	—
Cheng Mo Chi, Moses	—	300,000	—	—	300,000	26/05/2003	27/08/2003–26/08/2008	0.840	0.790	—
Alan Howard Smith	—	300,000	—	—	300,000	26/05/2003	27/08/2003–26/08/2008	0.840	0.790	—
V-nee Yeh	—	300,000	—	—	300,000	26/05/2003	27/08/2003–26/08/2008	0.840	0.790	—
Fung Sing Hong, Stephen	—	400,000	—	—	400,000	26/05/2003	27/08/2003–26/08/2008	0.840	0.790	—
	<u>10,000,000</u>	<u>5,300,000</u>	<u>—</u>	<u>—</u>	<u>15,300,000</u>					
Other employees										
In aggregate	3,650,000	—	(3,650,000)	—	—	20/08/1997	20/02/1998–19/02/2003	2.100	2.550	—
	7,400,000	—	—	(400,000)	7,000,000	10/10/2001	11/04/2002–10/04/2007	0.383	0.400	0.650
	—	4,900,000	—	—	4,900,000	26/05/2003	27/08/2003–26/08/2008	0.840	0.790	—
	<u>11,050,000</u>	<u>4,900,000</u>	<u>(3,650,000)</u>	<u>(400,000)</u>	<u>11,900,000</u>					
	<u>21,050,000</u>	<u>10,200,000</u>	<u>(3,650,000)</u>	<u>(400,000)</u>	<u>27,200,000</u>					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on The Stock Exchange of Hong Kong Limited on the trading day immediately prior to the date of grant of the share options. The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average closing price of the shares immediately before the dates on which the share options were exercised.

If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01p.m. on the business day preceding that day (Hong Kong time).

Notes to Condensed Consolidated Financial Statements (Cont'd)**11. Share Option Schemes** (Cont'd)

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the period to the directors and employees, because in the absence of a readily market value of the share options on the shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

12. Reserves

	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 2003:							
As previously stated	739,583	51,104	3,202	216	15,246	213,997	1,023,348
Prior period adjustments (note 1)	—	2,340	—	—	—	24,804	27,144
As restated	739,583	53,444	3,202	216	15,246	238,801	1,050,492
Share options exercised	113	—	—	—	—	—	113
Net profit for the period	—	—	—	—	—	46,128	46,128
Proposed interim dividend	—	—	—	—	—	(12,504)	(12,504)
Exchange adjustments	—	—	182	—	—	—	182
At 30 June 2003	<u>739,696</u>	<u>53,444</u>	<u>3,384</u>	<u>216</u>	<u>15,246</u>	<u>272,425</u>	<u>1,084,411</u>
At 1 January 2002:							
As previously stated	739,583	51,104	4,407	216	15,246	160,994	971,550
Prior period adjustments (note 1)	—	2,340	—	—	—	27,516	29,856
As restated	739,583	53,444	4,407	216	15,246	188,510	1,001,406
Net profit for the period							
As previously stated	—	—	—	—	—	43,590	43,590
Prior period adjustments (note 1)	—	—	—	—	—	(104)	(104)
As restated	—	—	—	—	—	43,486	43,486
Proposed interim dividend	—	—	—	—	—	(12,500)	(12,500)
Exchange adjustments	—	—	63	—	—	—	63
At 30 June 2002	<u>739,583</u>	<u>53,444</u>	<u>4,470</u>	<u>216</u>	<u>15,246</u>	<u>219,496</u>	<u>1,032,455</u>

Notes to Condensed Consolidated Financial Statements (Cont'd)**13. Operating Lease Arrangements**(a) *As lessor*

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for one year. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2003, the Group had total future minimum lease receivables under non-cancelable operating leases, in respect of land and buildings, with its tenants falling due as follows:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Within one year	<u>1,894</u>	<u>857</u>

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 30 June 2003, the total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Within one year	434	434
In the second to fifth years, inclusive	<u>73</u>	<u>290</u>
	<u>507</u>	<u>724</u>

Notes to Condensed Consolidated Financial Statements (Cont'd)**14. Commitments**

In addition to the operating lease commitments detailed in note 13 to the financial statements, the Group had the following commitments at the balance sheet date:

(a)

	(Unaudited)	(Audited)
	30 June	31 December
	2003	2002
	HK\$'000	HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted for	4,428	10,457
Authorised, but not contracted for	4,168	4,981
	<u>8,596</u>	<u>15,438</u>

- (b) On 28 March 2003, Morefit Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "S&P Agreement") with 深圳市寶安區投資管理有限公司 ("SBA"), a 10% equityholder in each of Shenzhen Kingway Brewing Co., Ltd., Shenzhen Kingway Packaging Co., Ltd. and Shenzhen Kingway Utility Co., Ltd. (collectively as the "SK Companies"), to acquire SBA's 10% interest in each of the SK Companies together with the shareholder's loans of the SK Companies due to SBA for a total consideration of RMB75,000,000.

During the period, the first installment of HK\$42,395,000 (equivalent to RMB45,000,000) was paid by the Group and recorded under "Prepayments, deposits and other receivables" as at 30 June 2003. According to the S&P Agreement, an irrevocable guarantee (the "Guarantee") was given to SBA by a bank in respect of the Group's commitment for the payment of the remaining consideration. As at 30 June 2003, a bank deposit of HK\$28,263,000 (equivalent to RMB30,000,000) was pledged as a security of the Guarantee.

The acquisition was completed on 27 August 2003 and the remaining consideration was subsequently paid by the Group in September 2003. Upon completion of the acquisition, the Group's interest in each of SK Companies was increased from 87% to 97%.

Notes to Condensed Consolidated Financial Statements (Cont'd)**15. Related Party Transactions**

The nature and terms of the material related party transactions are the same as those disclosed in the Company's audited financial statements for the year ended 31 December 2002. The magnitude of the transactions during the period is as follows:

		(Unaudited)	
		For the six months	
		ended 30 June	
		2003	2002
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Purchase of malt from a fellow subsidiary, Guangzhou Malting Co., Ltd.		22,323	23,350
Purchase of malt from a fellow subsidiary, Ningbo Malting Co., Ltd. ("NMCL")	<i>(i)</i>	11,418	—
Rental of office premises paid to a fellow subsidiary, Bateson Developments Ltd.		<u>217</u>	<u>266</u>

Note:

- (i) The amount due to NMCL of HK\$2,046,000 as at 30 June 2003 (31 December 2002: nil) was unsecured, interest-free and had no fixed terms of repayment.

16. Post Balance Sheet Events

In addition to the disclosures set out in note 14(b), subsequent to the balance sheet date, the Group had the following significant post balance sheet events:

- (a) On 19 July 2003, the Company entered into an agreement with the Preparatory Division of Jinping Government for the establishment of an indirect wholly-owned subsidiary of the Company to be engaged in the production of beer bearing the "Kingway" brand.

Accordingly, an application for the establishment of a new enterprise with the name of Kingway Brewery (Shan Tou) Co. Ltd. ("Kingway Shantou") has been made on 26 August 2003. The registered capital and total investment of Kingway Shantou amount to RMB126,000,000 and RMB230,440,000 respectively for the first phase of construction. Up to the date of this report, no capital injection has been made by the Group.

Notes to Condensed Consolidated Financial Statements *(Cont'd)***16. Post Balance Sheet Events** *(Cont'd)*

- (b) On 7 August 2003, the Group entered into a supplemental deed (the "Deed") to a sale and purchase agreement and a deed of charge with the same independent third party for the disposal (the "Disposal") of the Group's entire interest in Central China (Asia) Investment Limited ("CCAIL, a wholly-owned subsidiary of the Group"). The Disposal was completed in 2002. Details of the Disposal are disclosed in note 28(b) to the Company's audited financial statements for the year ended 31 December 2002.

According to the Deed, the Group agreed to extend the payment of the outstanding consideration of HK\$12,228,000 for the Disposal from 30 June 2003 to 24 October 2003 and charge interest up to the actual payment date at 8% per annum. In addition, the entire issued shares of CCAIL have been charged to the Group for the due and punctual payment of the outstanding amount.

17. Approval of the Interim Financial Report

These condensed interim financial statements were approved and authorised for issue by the Board of Directors on 15 September 2003.