

31 December 2003

## 1. CORPORATE INFORMATION

During the year, the Group was principally engaged in investment holding, and the production, distribution and sale of beer.

Subsequent to the transaction of introducing a strategic investor as detailed in note 31(a), the equity interest in the Company held by GDH Limited ("GDH"), a company incorporated in Hong Kong, decreased from approximately 72% as at 31 December 2003 to approximately 53% as at the date of approval of these financial statements by the board of directors. In the opinion of the directors, the ultimate holding company of the Company is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), a company established in the People's Republic of China (the "PRC" or "Mainland China").

## 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising 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).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences 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;
- deferred tax assets have been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries; and
- deferred tax assets have been recognised for 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.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 24 to the financial statements.

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### 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, 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 2003. The results of subsidiaries 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.

Minority interests represent the interests of outside equityholders in the results and net assets of the Company's subsidiaries.

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### **Joint venture companies established in the PRC**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement with the venturers stipulates 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 the joint venture company's operations and any distribution of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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

#### Joint venture companies established in the PRC (cont'd)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an investment security, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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

#### Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill in an amount not exceeding the fair values of the acquired non-monetary assets is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

#### 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.

#### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

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

#### Impairment of assets (cont'd)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### Reusable packaging materials

Reusable packaging materials currently in use are stated at cost less accumulated amortisation and any impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over a period of three years.

#### Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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.

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 remaining life of the joint venture companies
Buildings	4.5% – 20%
Plant, machinery and equipment	4.5% – 20%
Furniture and fixtures	18% – 20%
Motor vehicles	18% – 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

#### Fixed assets and depreciation (cont'd)

Construction in progress represents buildings, machinery and equipment under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction 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.

#### Investment securities

Investment securities are non-trading investments in unlisted equity securities intended to be held on a long term basis, which are stated at cost less any impairment losses on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

#### Inventories

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

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

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or if it relates to items that are recognised in the same or a different period in equity, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

#### Income tax (cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### 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) from 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) rental income, on a time proportion basis over the lease terms;
- (c) interest income, 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 Group's right to receive the refund has been established.

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

#### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### Foreign currencies

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

On consolidation, the financial statements of subsidiaries operating in Mainland China are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rate at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries operating in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

#### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



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

#### Employee benefits

##### *Retirement benefits scheme*

The Company and certain of its subsidiaries established in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF 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 MPF 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 MPF Scheme.

The employees of the Group's certain subsidiaries which operate in Mainland China are mandatory to participate in a local pension scheme (the "LPS") operated by the local municipal government. These subsidiaries are required to contribute 8% of their payroll costs to the LPS. The contributions under the LPS are charged to the profit and loss account as they become payable in accordance with the rules of the LPS.

##### *Share option schemes*

The Company operates share option schemes (the "Share Option Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the Share Option Schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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#### 4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No further business segment information is presented as the Group's operations relate solely to the production, distribution and sale of beer. Summary details of the geographical segments are as follows:

- (a) the Mainland China segment engages in the production, distribution and sale of beer in Mainland China;
- (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 segment, and the Overseas and Hong Kong segment in Hong Kong.

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

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**4. SEGMENT INFORMATION (cont'd)****Geographical segments**

The following tables present revenue, profit/(loss) and certain assets, liability and expenditure information for the Group's geographical segments.

**Group**

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
										<i>(Restated)</i>
Segment revenue:										
Sales to external customers	<b>619,373</b>	539,028	<b>65,201</b>	54,024	—	—	—	—	<b>684,574</b>	593,052
Intersegment sales	<b>16,420</b>	14,369	—	—	—	—	<b>(16,420)</b>	(14,369)	—	—
Other revenue and gains	<b>13,466</b>	30,385	—	—	<b>1,880</b>	—	—	—	<b>15,346</b>	30,385
Total	<b>649,259</b>	583,782	<b>65,201</b>	54,024	<b>1,880</b>	—	<b>(16,420)</b>	(14,369)	<b>699,920</b>	623,437
Segment results	<b>116,994</b>	88,927	<b>22,247</b>	15,900	<b>(3,819)</b>	(3,534)	—	—	<b>135,422</b>	101,293
Interest income									<b>6,201</b>	1,261
Unallocated gain									—	2,388
Unallocated loss									—	(4,611)
Profit from operating activities									<b>141,623</b>	100,331
Share of loss of an associate	—	(4,437)	—	—	—	—	—	—	—	(4,437)
Profit before tax									<b>141,623</b>	95,894
Tax									<b>(26,102)</b>	(14,653)
Profit before minority interests									<b>115,521</b>	81,241
Minority interests									<b>(10,460)</b>	(5,950)
Net profit from ordinary activities attributable to shareholders									<b>105,061</b>	75,291

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**4. SEGMENT INFORMATION (cont'd)****Geographical segments (cont'd)****Group**

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
										<i>(Restated)</i>
Segment assets	<b>1,406,568</b>	1,313,126	<b>19,772</b>	15,112	<b>36,955</b>	95,751	<b>(1,560)</b>	(1,716)	<b>1,461,735</b>	1,422,273
Unallocated assets									<b>17,800</b>	30,072
Total assets									<b>1,479,535</b>	1,452,345
Segment liabilities	<b>180,424</b>	210,457	<b>4,177</b>	4,209	<b>7,566</b>	6,226	<b>(1,560)</b>	(1,716)	<b>190,607</b>	219,176
Unallocated liabilities									<b>1,107</b>	1,173
Total liabilities									<b>191,714</b>	220,349
Other segment information:										
Depreciation and amortisation	<b>87,757</b>	88,933	<b>187</b>	30	—	183	—	—	<b>87,944</b>	89,146
Write-off of fixed assets	<b>4,257</b>	—	—	—	—	—	—	—	<b>4,257</b>	—
Impairment of an investment security									—	4,611
Capital expenditure	<b>37,007</b>	26,074	<b>93</b>	—	—	—	—	—	<b>37,100</b>	26,074

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**5. TURNOVER, REVENUE AND GAINS**

Turnover represents the invoiced value of goods sold, net of discounts, returns, value-added tax and consumption tax, after elimination of all significant intra-group transactions.

An analysis of the Group's turnover, and other revenue and gains is as follows:

		<b>Group</b>	
		<b>2003</b>	2002
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Turnover</b>			
Sale of goods		<b>684,574</b>	593,052
<b>Other revenue</b>			
Value-added tax exemption*		<b>3,894</b>	24,908
Interest income		<b>6,201</b>	1,261
Net rental income		<b>1,843</b>	1,048
Discount on acquisition of amounts due to a minority equityholder of subsidiaries	32(vii)	<b>4,338</b>	—
Others		<b>5,050</b>	4,429
		<b>21,326</b>	31,646
<b>Gains</b>			
Negative goodwill recognised as income	14	<b>221</b>	—
Gain on disposal of a subsidiary	28(b)	—	2,388
		<b>221</b>	2,388
		<b>21,547</b>	34,034

- \* 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 ceased to be effective on 1 January 2003. On 23 April 2003, the Group received an approval from the Shenzhen tax authority which revised the approved 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 year.

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**6. PROFIT FROM OPERATING ACTIVITIES**

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

	Notes	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Cost of inventories sold		<b>373,398</b>	351,680
Depreciation	13	<b>79,048</b>	82,479
Amortisation of reusable packaging materials		<b>8,896</b>	6,667
Minimum lease payments under operating leases in respect of land and buildings		<b>660</b>	748
Auditors' remuneration		<b>775</b>	770
Staff costs (excluding directors' remuneration — note 7):			
Wages and salaries		<b>67,311</b>	50,355
Pension scheme contributions		<b>7,497</b>	6,630
Less: Forfeited contributions*		<b>—</b>	—
Net pension scheme contributions		<b>7,497</b>	6,630
		<b>74,808</b>	56,985
Exchange losses, net		<b>1,793</b>	387
Loss on disposal of fixed assets, net		<b>—</b>	2,059
Write-off of fixed assets		<b>4,257</b>	—

\* At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to its pension scheme in future years (2002: Nil).

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**7. DIRECTORS' REMUNERATION**

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fees:		
Non-executive	<b>90</b>	90
Executive	<b>79</b>	1
	<u>169</u>	<u>91</u>
Other emoluments:		
Salaries, allowances and benefits in kind	<b>2,043</b>	7
Bonuses paid and payable	<b>1,401</b>	6
Pension scheme contributions	<b>445</b>	1
	<u>3,889</u>	<u>14</u>
	<u><b>4,058</b></u>	<u>105</u>

Fees include HK\$90,000 (2002: 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 (2002: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	<b>Number of directors</b>	
	<b>2003</b>	2002
Nil to HK\$1,000,000	<b>10</b>	11
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	—
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	—
	<u>12</u>	<u>11</u>

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

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**7. DIRECTORS' REMUNERATION (cont'd)**

During the year, 5,300,000 share options (2002: Nil) were granted to the directors in respect of their services to the Group. Further details of the share option scheme are set out in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

**8. FIVE HIGHEST PAID INDIVIDUALS**

The five highest paid individuals of the Group included three directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two non-directors, highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>1,425</b>	1,542
Bonuses paid and payable	<b>386</b>	594
Pension scheme contributions	<b>77</b>	87
	<b><u>1,888</u></b>	<u>2,223</u>

In 2002, the five highest paid individuals of the Group included one former director who resigned as director but remained as employee during that year and four non-director, highest paid employees.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	<b>Number of individuals</b>	
	<b>2003</b>	2002
Nil to HK\$1,000,000	<b>1</b>	5
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	—
	<b><u>2</u></b>	<u>5</u>

During the year, 1,700,000 (2002: Nil) share options were granted to the two (2002: five) highest paid individuals in respect of their services to the Group, further details of which are included in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid individuals' remuneration disclosures.



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**9. TAX**

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 year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

Enterprise Income Tax of Shenzhen Kingway Brewery Co., Ltd., ("Shenzhen Brewery") has been provided at the rate of 15% (2002: 15%) on the estimated assessable profits. Shenzhen Kingway Brewing Co., Ltd., ("Shenzhen Brewing") is entitled to a tax exemption for the first two profit-making years and a tax relief of 50% in the succeeding three years under the approval of the local tax authority. As Shenzhen Brewing did not generate any accumulated assessable profit since its establishment, the tax exemption period has not commenced.

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
		<i>(Restated)</i>
Group:		
Current:		
Hong Kong	<b>3,891</b>	2,545
Mainland China:		
Provision for current year	<b>10,112</b>	8,784
Overprovision of tax for prior years	<b>(1,859)</b>	—
Deferred (note 24)	<b>13,958</b>	3,324
	<hr/>	<hr/>
Total tax charge for the year	<b>26,102</b>	14,653
	<hr/> <hr/>	<hr/> <hr/>

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**9. TAX (cont'd)**

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

**Group — 2003**

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>6,517</u>		<u>135,106</u>		<u>141,623</u>	
Tax at the statutory or applicable tax rate	1,140	17.5	20,266	15.0	21,406	15.1
Adjustments in respect of current tax of prior years	—	—	(1,859)	(1.4)	(1,859)	(1.3)
Income not subject to tax	(448)	(6.9)	—	—	(448)	(0.3)
Expenses not deductible for tax	2,445	37.5	3,804	2.8	6,249	4.4
Tax losses not recognised as deferred tax assets	<u>754</u>	<u>11.6</u>	<u>—</u>	<u>—</u>	<u>754</u>	<u>0.5</u>
Tax charge at the Group's effective rate	<u>3,891</u>	<u>59.7</u>	<u>22,211</u>	<u>16.4</u>	<u>26,102</u>	<u>18.4</u>

**Group — 2002**

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>17,964</u>		<u>77,930</u>		<u>95,894</u>	
Tax at the statutory or applicable tax rate	2,874	16.0	11,690	15.0	14,564	15.2
Income not subject to tax	(1,633)	(9.1)	(248)	(0.3)	(1,881)	(2.0)
Expenses not deductible for tax	922	5.1	666	0.9	1,588	1.7
Tax losses not recognised as deferred tax assets	<u>382</u>	<u>2.1</u>	<u>—</u>	<u>—</u>	<u>382</u>	<u>0.4</u>
Tax charge at the Group's effective rate	<u>2,545</u>	<u>14.1</u>	<u>12,108</u>	<u>15.6</u>	<u>14,653</u>	<u>15.3</u>

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**10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$267,309,000 (2002: net loss of HK\$1,812,000) (note 27).

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
		<i>(Restated)</i>
Profit/(loss) for the year attributable to:		
Company and subsidiaries	<b>105,061</b>	79,728
Associate	<b>—</b>	(4,437)
	<u><b>105,061</b></u>	<u>75,291</u>

**11. DIVIDENDS**

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Interim — 1.0 HK cent (2002: 1.0 HK cent) per share	<b>12,504</b>	12,500
Proposed final — 1.5 HK cents (2002: 1.0 HK cent) per share	<b>20,916</b>	12,500
	<u><b>33,420</b></u>	<u>25,000</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The total final dividend payable is based on total number of shares as at the approval date of these financial statements by the board of directors which will include the shares issued after the year end.

**12. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$105,061,000 (2002: HK\$75,291,000 as restated), and the weighted average of 1,250,367,123 (2002: 1,250,000,000) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$105,061,000 (2002: HK\$75,291,000 as restated). The weighted average number of shares used in the calculation is 1,261,680,294 (2002: 1,254,191,136) shares, comprising the 1,250,367,123 (2002: 1,250,000,000) shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 11,313,171 (2002: 4,191,136) shares assumed to have been issued at no consideration on the deemed exercise of the share options expiring on 10 April 2007 and 26 August 2008 (2002: share options expiring on 10 April 2007) outstanding during the year. The share options expired on 19 February 2003 had an anti-dilutive effect on the basic earnings per share and so have not been included in the diluted earnings per share calculation for both years.

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**13. FIXED ASSETS****Group**

	<b>Land and buildings</b>	<b>Plant, machinery and equipment</b>	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:						
At beginning of year	440,114	1,213,342	1,806	43,280	21,493	1,720,035
Additions	1,229	3,342	93	808	15,204	20,676
Disposals	(335)	(19,361)	—	(3,604)	—	(23,300)
Reclassifications	21,499	1,709	—	—	(23,208)	—
Exchange realignment	(1,861)	(5,000)	(4)	(171)	(66)	(7,102)
At 31 December 2003	<u>460,646</u>	<u>1,194,032</u>	<u>1,895</u>	<u>40,313</u>	<u>13,423</u>	<u>1,710,309</u>
Accumulated depreciation:						
At beginning of year	110,785	538,527	1,217	32,207	—	682,736
Provided during the year	20,330	54,236	187	4,295	—	79,048
Disposals	(204)	(15,297)	—	(3,118)	—	(18,619)
Exchange realignment	(497)	(2,358)	(3)	(137)	—	(2,995)
At 31 December 2003	<u>130,414</u>	<u>575,108</u>	<u>1,401</u>	<u>33,247</u>	<u>—</u>	<u>740,170</u>
Net book value:						
At 31 December 2003	<u>330,232</u>	<u>618,924</u>	<u>494</u>	<u>7,066</u>	<u>13,423</u>	<u>970,139</u>
At 31 December 2002	<u>329,329</u>	<u>674,815</u>	<u>589</u>	<u>11,073</u>	<u>21,493</u>	<u>1,037,299</u>

At 31 December 2003, the Group's land and buildings included above are held under the following lease terms:

	<b>2003</b>	2002
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Long term leases in Mainland China	<b>29,316</b>	31,208
Medium term leases in Mainland China	<b>300,916</b>	298,121
	<b><u>330,232</u></b>	<u>329,329</u>

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**14. GOODWILL AND NEGATIVE GOODWILL**

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

	<b>Group</b> HK\$'000
Cost:	
Acquisition of minority interests and at 31 December 2003	<u>10,592</u>
Accumulated recognition as income:	
Recognised as income during the year and at 31 December 2003	<u>(221)</u>
Net book value:	
At 31 December 2003	<u><u>10,371</u></u>

The Group has adopted the transitional provision of SSAP 30 in 2001 which permits goodwill of HK\$126,410,000 (restated) and negative goodwill of HK\$39,620,000 (restated) as at 1 January and 31 December 2003 in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

**15. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares/investments, at cost	<b>261,816</b>	261,816
Due from subsidiaries	<b>947,108</b>	774,030
Due to subsidiaries	<u><b>(52,541)</b></u>	<u>(52,562)</u>
	<b>1,156,383</b>	983,284
Provision for amounts due from subsidiaries	<u><b>(39,254)</b></u>	<u>(84,841)</u>
	<u><u><b>1,117,129</b></u></u>	<u><u>898,443</u></u>

The amounts due from/to subsidiaries as included in the Company's current assets and current liabilities are unsecured and have no fixed terms of repayment. All other balances with subsidiaries are unsecured and not repayable within the next twelve months from the balance sheet date.

Included in the amounts due from subsidiaries is the amount of HK\$22,267,000 (2002: HK\$56,063,000) due from Shenzhen Brewery which is interest-bearing, the details of which are set out in note 32(v) to the financial statements. The remaining amounts due from/to subsidiaries are interest-free.

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**15. INTERESTS IN SUBSIDIARIES (cont'd)**

In 2002, the amount due from Morefit Limited ("Morefit"), a wholly-owned subsidiary, of HK\$247,702,000 bore interest at six months' London Inter Bank Offered Rate ("LIBOR") plus 0.75% per annum. With effect from 1 January 2003, the amount due from Morefit is interest-free.

Particulars of the principal subsidiaries at the balance sheet date were as follows:

<b>Company</b>	<b>Place of incorporation/ registration and operations</b>	<b>Nominal value of issued share capital/ registered capital</b>	<b>Percentage of attributable equity interest held by Company</b>	<b>Group</b>	<b>Principal activities</b>
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK\$2	100%	100%	Sale and marketing of beer
Shenzhen Kingway Brewery Co., Ltd.*	The PRC/ Mainland China	US\$50,000,000	—	95%	Production, distribution and sale of beer and investment holding
Shenzhen Kingway Brewing Co., Ltd.*	The PRC/ Mainland China	US\$12,000,000	—	97%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd.*	The PRC/ Mainland China	US\$12,000,000	—	97%	Provision of bottling and packaging services
Shenzhen Kingway Utility Co., Ltd.*	The PRC/ Mainland China	US\$12,000,000	—	97%	Provision of utilities services
Kingway Brewery (Shan Tou) Co., Ltd.#	The PRC/ Mainland China	RMB126,000,000	—	100%	Production, distribution and sale of beer

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

# This subsidiary was newly established as a wholly foreign-owned enterprise and has not commenced its operations at 31 December 2003.

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**15. INTERESTS IN SUBSIDIARIES (cont'd)**

During the year, the Group acquired an additional 10% equity interest in each of Shenzhen Brewing, Shenzhen Kingway Packaging Co., Ltd and Shenzhen Kingway Utility Co., Ltd. (collectively the "SK Companies"), from a minority equityholder of the SK Companies. Further details of this acquisition are included in note 32(vii) to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

**16. INVESTMENT SECURITY**

	<b>Group and Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted equity investment, at cost	<b>5,611</b>	5,611
Provision for impairment	<b>(5,611)</b>	(5,611)
	<u>—</u>	<u>—</u>

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

**17. INVENTORIES**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>16,460</b>	16,064
Spare parts and consumables	<b>28,443</b>	28,616
Packaging materials	<b>20,565</b>	17,330
Work in progress	<b>11,678</b>	9,792
Finished goods	<b>7,718</b>	9,064
	<u><b>84,864</b></u>	<u>80,866</u>

At 31 December 2002 and 2003, all of the inventories were carried at cost.

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**18. 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 30–180 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.

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>21,547</b>	24,275
More than 3 months and less than 6 months	<b>3,859</b>	1,236
More than 6 months and less than 1 year	<b>45</b>	848
More than 1 year	<b>2,974</b>	2,977
	<b>28,425</b>	29,336
Less: Provision for doubtful debts	<b>(5,823)</b>	(3,233)
	<b>22,602</b>	26,103

**19. CASH AND CASH EQUIVALENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Cash and bank balances	<b>272,476</b>	232,734	<b>24,454</b>	75,551
Time deposits	<b>75,192</b>	—	<b>9,538</b>	—
	<b>347,668</b>	232,734	<b>33,992</b>	75,551

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK\$293,809,000 (2002: HK\$146,840,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.



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**20. TRADE PAYABLES**

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>33,578</b>	37,702
More than 3 months and less than 6 months	<b>3</b>	—
More than 6 months and less than 1 year	<b>—</b>	58
More than 1 year	<b>1,955</b>	4,577
	<b><u>35,536</u></b>	<u>42,337</u>

**21. DUE TO THE IMMEDIATE HOLDING COMPANY**

The balance due to the immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

**22. DUE TO A FELLOW SUBSIDIARY**

The amount due is unsecured, interest-free and is repayable within 30 days from the date of invoices.

**23. DUE TO MINORITY EQUITYHOLDERS OF SUBSIDIARIES**

Except for an amount of HK\$6,401,000 (2002: HK\$60,852,000) due to a minority equityholder of subsidiaries, which is repayable within one year, all amounts due to minority equityholders of subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

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**24. DEFERRED TAX ASSETS**

The movements in deferred tax assets during the year is as follows:

**Group**

	<b>2003</b>			
	<b>Decelerated tax depreciation HK\$'000</b>	<b>Fair value adjustments arising from acquisition of subsidiaries HK\$'000</b>	<b>Loss available for offset against future taxable profit HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2003				
As previously reported	—	—	—	—
Prior year adjustments:				
SSAP 12 — restatement of deferred tax	<u>7,794</u>	<u>2,645</u>	<u>19,633</u>	<u>30,072</u>
As restated	<b>7,794</b>	<b>2,645</b>	<b>19,633</b>	<b>30,072</b>
Deferred tax credited/(charged) to the profit and loss account during the year (note 9)	<b>(3,502)</b>	<b>51</b>	<b>(10,507)</b>	<b>(13,958)</b>
Exchange differences	<u>(29)</u>	<u>(1)</u>	<u>(62)</u>	<u>(92)</u>
At 31 December 2003	<u><b>4,263</b></u>	<u><b>2,695</b></u>	<u><b>9,064</b></u>	<u><b>16,022</b></u>

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**24. DEFERRED TAX ASSETS (cont'd)****Group**

	2002			
	Decelerated tax depreciation HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Loss available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2002				
As previously reported	—	—	—	—
Prior year adjustments:				
SSAP 12 — restatement of deferred tax	9,576	2,145	21,675	33,396
As restated	9,576	2,145	21,675	33,396
Deferred tax credited/(charged) to the profit and loss account during the year (note 9)	(1,782)	500	(2,042)	(3,324)
At 31 December 2002	7,794	2,645	19,633	30,072

The Company and the Group have tax losses arising in Hong Kong of HK\$45,446,000 (2002: HK\$41,135,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the directors considered it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Company and the Group.

At 31 December 2003, there was no recognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted based on existing legislation, interpretations and practices.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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**24. DEFERRED TAX ASSETS (cont'd)**

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements, and prior year adjustments were made to recognise the deferred tax in the consolidated financial statements.

The effects of the prior year adjustments on these consolidated financial statements are summarised as follows:

	<b>As at 1 January 2003 HK\$'000 Increase</b>	As at 1 January 2002 HK\$'000 Increase
<b>Balance sheet</b>		
Deferred tax assets	<b>30,072</b>	33,396
Minority interests	<b>2,928</b>	3,540
Retained profits	<b>24,804</b>	27,516
Goodwill classified under capital reserve	<b>2,340</b>	2,340
		For the year ended 31 December 2002 HK\$'000 Increase/ (decrease)
<b>Profit and loss account</b>		
Deferred tax expenses		3,324
Minority interests, share of profit		(612)
Net profit attributable to shareholders		<u>(2,712)</u>

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**25. SHARE CAPITAL****Shares**

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<i>Authorised:</i>		
2,000,000,000 (2002: 2,000,000,000) shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,250,600,000 (2002: 1,250,000,000) shares of HK\$0.10 each	<u>125,060</u>	<u>125,000</u>

During the year, 400,000 and 200,000 shares of HK\$0.10 each were issued for cash at the respective subscription price of HK\$0.383 and HK\$0.840 per share pursuant to the exercise of the Company's share options for a total cash consideration, net of expenses, of HK\$321,000.

There was no change to the carrying amount or the number of shares of the Company in the prior year.

The movements in the Company's issued share capital is summarised as follows:

	<b>Number of shares in issue</b>	<b>Issued share capital</b>	<b>Share premium account</b>	<b>Total</b>
		HK\$'000	HK\$'000	HK\$'000
At 1 January 2002 and 2003	1,250,000,000	125,000	739,583	864,583
Share options exercised	<u>600,000</u>	<u>60</u>	<u>261</u>	<u>321</u>
<b>At 31 December 2003</b>	<b><u>1,250,600,000</u></b>	<b><u>125,060</u></b>	<b><u>739,844</u></b>	<b><u>864,904</u></b>

**Share options**

Details of the Company's share option schemes and the share options issued under the share option schemes are included in note 26 to the financial statements.

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## 26. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "New Option Scheme") for the purpose of providing incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain good relationship with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the New Option Scheme include the directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The New Option Scheme was adopted on 31 May 2002 and, unless otherwise terminated or amended, will remain in force for a period of 10 years from 10 January 2003.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the New Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the New Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the New Option Scheme. As at 31 December 2003, the total number of shares issuable for options granted under the share option schemes of the Company was 20,000,000 which represented approximately 1.6% of the Company's shares then in issue as at that date.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, but must not be less than the higher of (i) the closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

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**26. SHARE OPTION SCHEMES (cont'd)**

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

Prior to the adoption of the New Option Scheme, the Company operated another share option scheme, which was adopted on 22 July 1997 (the "Old Option Scheme"). With effect from 31 May 2002, the Old Option Scheme was terminated and there is no further grant of share options under the Old Option Scheme.

The following share options were outstanding under the Company's share option schemes during the year:

Name or category of participant	Number of share options					At 31 December 2003	Date of grant of share options*	Exercise period of share options <sup>†</sup>	Price of Company's shares***		
	At 1 January 2003	Granted during the year <sup>##</sup>	Exercised during the year	Lapsed during the year	Cancelled during the year				Exercise price of share options**	At date of grant of options	At date of exercise of options
									HK\$	HK\$	HK\$
<b>Directors and chief executive</b>											
Mr. Ye Xuquan	—	2,000,000	—	—	—	<b>2,000,000</b>	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	—
Mr. Jiang Guoqiang	10,000,000	—	—	—	—	<b>10,000,000</b>	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.400	—
	—	2,000,000	—	—	—	<b>2,000,000</b>	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	—
Mr. Cheng Mo Chi, Moses	—	300,000	—	—	—	<b>300,000</b>	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	—
Mr. Alan Howard Smith	—	300,000	—	—	—	<b>300,000</b>	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	—
Mr. V-nee Yeh	—	300,000	—	—	—	<b>300,000</b>	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	—
Mr. Fung Sing Hong, Stephen	—	400,000	—	—	—	<b>400,000</b>	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	—
	<u>10,000,000</u>	<u>5,300,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u><b>15,300,000</b></u>					
<b>Other employees</b>											
In aggregate	3,650,000	—	—	(3,650,000)	—	—	20-08-1997	20-02-1998 to 19-02-2003	2.100	2.725	—
	7,400,000	—	(400,000)	—	(7,000,000)	—	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.400	0.820
	—	4,900,000	(200,000)	—	—	<b>4,700,000</b>	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	1.750
	<u>11,050,000</u>	<u>4,900,000</u>	<u>(600,000)</u>	<u>(3,650,000)</u>	<u>(7,000,000)</u>	<u><b>4,700,000</b></u>					
	<u><u>21,050,000</u></u>	<u><u>10,200,000</u></u>	<u><u>(600,000)</u></u>	<u><u>(3,650,000)</u></u>	<u><u>(7,000,000)</u></u>	<u><u><b>20,000,000</b></u></u>					

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## 26. SHARE OPTION SCHEMES (cont'd)

Notes:

- \* *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 on the business day prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices (immediately before the dates on which the options were exercised) over all of the exercises of options within the disclosure line.*
- # *If the last day of the exercise period is not a business day in Hong Kong, the exercise period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).*
- ## *HK\$1.00 is payable by the grantee on acceptance of the offer in respect of the option granted on 26 May 2003.*

The 600,000 share options exercised during the year resulted in the issue of 600,000 shares of the Company and new share capital of HK\$60,000 and share premium of HK\$261,000 (net of issue expenses), as detailed in note 25 to the financial statements.

At the balance sheet date, the Company had 20,000,000 share options outstanding under the Old Option Scheme and the New Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 20,000,000 additional ordinary shares of the Company and additional share capital of HK\$2,000,000 and share premium of HK\$10,230,000 (before issue expenses).

Subsequent to the balance sheet date, a total of 10,000,000 share options under the Old Option Scheme were exercised by a director of the Group at an exercise price of HK\$0.383 per share. This resulted in the issue of 10,000,000 shares of the Company and new share capital of HK\$1,000,000 and share premium of HK\$2,830,000 (net of expenses). In addition, on 6 February 2004, a total of 20,700,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the future. These share options have an exercise price of HK\$1.93 per share and are exercisable for the period from 7 May 2004 to 6 May 2009. The price of the Company's shares at the date of grant was HK\$1.93 per share.



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**27. RESERVES****Group**

		<b>Share premium account</b>	<b>Capital reserve*</b>	<b>Exchange fluctuation reserve</b>	<b>Enterprise development fund#</b>	<b>Reserve fund#</b>	<b>Retained profits</b>	<b>Total</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002:								
As previously reported		739,583	51,104	4,407	216	15,246	160,994	971,550
Prior year adjustments:								
SSAP 12 — restatement of deferred tax	24	—	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 year (as restated)		—	—	—	—	—	75,291	75,291
Interim dividend	11	—	—	—	—	—	(12,500)	(12,500)
Proposed final dividend	11	—	—	—	—	—	(12,500)	(12,500)
Disposal of a subsidiary	28(b)	—	—	(917)	—	—	—	(917)
Exchange realignment		—	—	(288)	—	—	—	(288)
At 31 December 2002		<u>739,583</u>	<u>53,444</u>	<u>3,202</u>	<u>216</u>	<u>15,246</u>	<u>238,801</u>	<u>1,050,492</u>

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**27. RESERVES (cont'd)****Group**

		Share premium account	Exchange Capital reserve*	fluctuation reserve	Enterprise development fund#	Reserve fund#	Retained profits	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note)					
At 1 January 2003:								
As previously reported		739,583	51,104	3,202	216	15,246	213,997	1,023,348
Prior year adjustments:								
SSAP 12 — restatement of deferred tax	24	—	2,340	—	—	—	24,804	27,144
As restated		739,583	53,444	3,202	216	15,246	238,801	1,050,492
Issue of shares		261	—	—	—	—	—	261
Net profit for the year		—	—	—	—	—	105,061	105,061
Interim dividend	11	—	—	—	—	—	(12,504)	(12,504)
Proposed final dividend	11	—	—	—	—	—	(20,916)	(20,916)
Transfer from retained profits		—	—	—	—	15,437	(15,437)	—
Exchange realignment		—	—	(3,176)	—	—	—	(3,176)
<b>At 31 December 2003</b>		<b>739,844</b>	<b>53,444</b>	<b>26</b>	<b>216</b>	<b>30,683</b>	<b>295,005</b>	<b>1,119,218</b>

\* The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiaries, are HK\$126,410,000 (restated) and HK\$39,620,000 (restated), respectively, as at 1 January and 31 December 2003. The goodwill was stated at cost as at 31 December 2002 and 2003.

# Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of a Company's subsidiary registered in the PRC has been transferred to the enterprise development fund and the reserve fund which are restricted as to use. The amounts transferred from the retained profits are determined by the board of directors of that subsidiary. These funds are not available for distribution.

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**27. RESERVES (cont'd)****Company**

	<i>Note</i>	<b>Share premium account</b> <i>HK\$'000</i> <i>(Note)</i>	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2002		739,583	140,234	64,648	944,465
Net loss for the year		—	—	(1,812)	(1,812)
Interim dividend	11	—	—	(12,500)	(12,500)
Proposed final dividend	11	—	—	(12,500)	(12,500)
At 31 December 2002 and 1 January 2003		739,583	140,234	37,836	917,653
Issue of shares		261	—	—	261
Net profit for the year		—	—	267,309	267,309
Interim dividend	11	—	—	(12,504)	(12,504)
Proposed final dividend	11	—	—	(20,916)	(20,916)
<b>At 31 December 2003</b>		<b><u>739,844</u></b>	<b><u>140,234</u></b>	<b><u>271,725</u></b>	<b><u>1,151,803</u></b>

Note: On 23 April 1998, a special resolution was passed in a special general meeting of the Company for a reduction of its share premium account in the amount of HK\$140,234,000. This amount was for transferring to the credit of the capital reserve account against goodwill arising on the acquisitions of subsidiaries and an associate.

**28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Major non-cash transaction**

During the year, a non wholly-owned subsidiary of the Group declared a dividend to its shareholders and the amount of dividend of RMB6,825,000 (equivalent to HK\$6,420,000) attributable to a minority equityholder remained unpaid as at 31 December 2003 and the dividend amount was included in the amounts due to a minority equityholder of subsidiaries in the consolidated balance sheet.

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**28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)****(b) Disposal of a subsidiary**

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Net assets disposed of:			
Interest in an associate		—	38,529
Amounts due to group companies		—	<u>(121,232)</u>
		—	(82,703)
Amounts due to group companies disposed of		—	121,232
Release of exchange reserve upon disposal	27	<u>—</u>	<u>(917)</u>
		—	37,612
Gain on disposal	5	<u>—</u>	<u>2,388</u>
		<u>—</u>	<u>40,000</u>
Satisfied by:			
Cash		—	20,000
Increase in other receivables		<u>—</u>	<u>20,000</u>
		<u>—</u>	<u>40,000</u>

In 2002, the net inflow of cash and cash equivalents in respect of the disposal of subsidiary was HK\$20,000,000.

The results of the subsidiary disposed of in the prior year contributed nil and net loss of HK\$4,447,000 to the Group's turnover and profit after tax, respectively.

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**29. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. 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 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,512</b>	857
In the second to fifth years, inclusive	<b>1,003</b>	—
	<u><b>2,515</b></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 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>338</b>	434
In the second to fifth years, inclusive	<b>—</b>	290
	<u><b>338</b></u>	<u>724</u>

At the balance sheet date, the Company did not have any operating lease arrangements.

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**30. COMMITMENTS**

In addition to the operating lease commitments detailed in note 29(b) to the financial statements, the Group had the following commitments at the balance sheet date:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Capital commitments on the acquisition of fixed assets:*		
Contracted, but not provided for	<b>4,766</b>	10,457
Authorised, but not contracted for	<b>329,336</b>	4,981
	<b>334,102</b>	15,438

- \* As further detailed in the Company's announcement dated 21 July 2003, the Group has a commitment for the establishment of a new beer production plant in Shantou, the PRC, with a total investment up to RMB350,000,000 (equivalent to approximately HK\$329,784,000). Subsequent to the balance sheet date, on 15 April 2004, the directors of the Company approved an increase in the Group's commitments in respect of the new plant construction in Shantou to RMB400,000,000, as further detailed in note 31(e) to the financial statements.

**31. POST BALANCE SHEET EVENTS**

- (a) On 28 January 2004, the Company entered into an agreement with Heineken Asia Pacific Breweries (China) Pte Ltd. ("Heineken APB"), an independent third party, under which Heineken APB agree to subscribe for 133,768,000 new ordinary shares of the Company of HK\$0.10 each (the "New Shares"), at a subscription price of HK\$1.85 per share.

The Company was also advised by GDH, that on the same date, GDH and Heineken APB entered into another agreement under which GDH agree to sell 165,496,280 ordinary shares in the issued share capital of the Company (the "Sale Shares") to Heineken APB at a purchase price of HK\$1.85 per share.

The issue of the New Shares to and the purchase of the Sale Shares by Heineken APB were completed on 19 February 2004. At the completion date, Heineken APB holds approximately 21.46% of the Company's then issued share capital.

- (b) On 6 February 2004, 20,700,000 share options were granted to certain directors and employees of the Group at a subscription price of HK\$1.93 per share, as further detailed in note 26 to the financial statements.
- (c) Subsequent to the balance sheet date, on 9 February 2004, 10,000,000 ordinary 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 of HK\$3,830,000, as further detailed in note 26 to the financial statements.

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**31. POST BALANCE SHEET EVENTS (cont'd)**

- (d) On 15 September 2003, Kingway Brewery (Shan Tou) Co., Ltd. ("Kingway Shantou") was established for a term of 50 years with a registered capital of RMB126 million. Kingway Shantou was established for the purpose of investing in the new beer production plant in Shantou, the PRC, as set out in note 30 to the financial statements. Subsequent to balance sheet date, on 15 March 2004, the Group paid up all the registered capital of Kingway Shantou.
- (e) On 15 April 2004, the plan for the construction of a new plant in Shantou has been revised. The 200,000 tonnes of beer production capacity will be built in one step with two phase implementation and the estimated total investment increased to RMB400,000,000. In the opinion of the directors, the first phase of 100,000 tonnes of production capacity will commence production in the first half of year 2005 and the remaining 100,000 tonnes of production capacity is scheduled to be completed in late 2005.
- (f) In 2002, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party for the disposal (the "Disposal") of the Group's entire interest in Central China (Asia) Investment Limited ("CCAIL"), which beneficially owned a 50% equity interest in Shandong Huazhong Amber Brewery Co., Ltd. ("Amber Brewery"), a former associate of the Group, for a total cash consideration of HK\$40,000,000. An amount of HK\$20,000,000 was received in 2002 and HK\$7,772,000 was received in 2003. On 7 August 2003, the Group entered into a supplemental deed to the Agreement and a deed of charge on the shares of CCAIL with the same independent third party for the Disposal pursuant to which the Group agreed to extend the payment of the outstanding consideration for the Disposal to 24 October 2003. However, no payment has been received by the Group since 7 August 2003 and up to the date of approval of these financial statements by the board of directors.

As at 31 December 2003, the total outstanding amount due to the Group was HK\$12,740,000, comprising the principal and overdue interest of HK\$12,228,000 and HK\$512,000, respectively.

Subsequent to the balance sheet date, the purchaser of CCAIL requested to delay the settlement until 30 September 2004. On 31 March 2004, management has notified the said independent third party that the Group enforced the charge and thereafter the Group has caused the legal title of CCAIL be transferred back to a wholly-owned subsidiary of the Group. In the opinion of directors, the value of 50% equity of Amber Brewery exceeds the outstanding amount receivable and it is in the best interest of the Group to resell CCAIL and recover the outstanding amount. Pursuant to the supplemental deed to the Agreement, the maximum amount entitled by the Group from the sale realisation of CCAIL is the total of the outstanding principal plus late payment interest thereon and any cost associated in the course of the resale.

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## 32. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, listed below are connected transactions disclosed in accordance with the Listing Rules and related party transactions disclosed in accordance with SSAP 20 "Related party disclosures".

The transactions referred to in items (i), (ii) and (iii) below constituted related party transactions and those referred to in items (i) to (vii) below constituted 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 GDH and a fellow subsidiary of the Company, on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

For the year ended 31 December 2003, the aggregate amount of the malt purchased by the Group was RMB72,044,000 (2002: RMB71,175,000). The balance due to GMCL as at 31 December 2003 is unsecured, interest-free and is repayable within 30 days from the date of invoice.

- (ii) During the year, the Group purchased malt from Ningbo Malting Co., Ltd. ("NMCL") which is a 51% owned subsidiary of Guangdong Investment Limited ("GDI") for the period from 1 January 2003 to 30 March 2003 and became a 51% owned subsidiary of GDH for the period from 31 March 2003 to 31 December 2003, and a fellow subsidiary of the Company, on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

For the year ended 31 December 2003, the aggregate amount of the malt purchased by the Group was RMB13,527,000 (2002: Nil). The balance due to NMCL as at 31 December 2003 was unsecured, interest-free and was fully settled during the year.

- (iii) The Group entered into a tenancy agreement dated 2 February 2001 with Bateson Developments Limited ("BDT"), a wholly-owned subsidiary of GDI and a fellow subsidiary of the Company, whereby the Group agreed to lease a leasehold property (the "Property") owned by BDT 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 Group's part to renew for a further two years at the then prevailing open market rent to be agreed between the two parties.

On 1 November 2002, the tenancy agreement was renewed at a monthly rental of HK\$36,218 for a term of two years commenced on 1 September 2002.



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**32. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)**

- (iv) As at 31 December 2003, there were advances made by Morefit to the Group's non-wholly-owned subsidiary, Shenzhen Brewing, in which the Group holds a 97% (2002: 87%) equity interest, in the aggregate amount of HK\$305,210,000 (2002: HK\$249,090,000). The loans were used to finance the construction and operation of a plant in Bao An, Mainland China.

The loans were unsecured and interest-free and included in the total amount, (i) HK\$133,445,000 (2002: HK\$63,790,000) which is repayable within one year, (ii) HK\$91,575,000 (2002: HK\$104,776,000) which is repayable within five years from the balance sheet date and (iii) HK\$80,190,000 (2002: HK\$80,524,000) which is not repayable within one year. In the prior year, out of the total loan, HK\$168,566,000 bore interest at six months' LIBOR plus 0.75% per annum.

The total interest income received by Morefit in 2002 amounted to HK\$5,460,000. During the year, Morefit waived the loan interest due from Shenzhen Brewing, which was charged in prior years, amounting to HK\$13,972,000.

- (v) As at 31 December 2003, there were advances made by the Company to the Group's non-wholly-owned subsidiary, Shenzhen Brewery, in which the Group has a 95% equity interest, in the aggregate amount of HK\$144,417,000 (2002: HK\$178,721,000). The loans were used to finance its expansion plan and the construction of a plant in Bao An, Mainland China.

Out of the total balance, HK\$22,267,000 (2002: HK\$56,063,000) is unsecured, bears interest at six months' LIBOR plus 0.75% (2002: six month's LIBOR plus 0.75%) per annum and is repayable within five years. The remaining outstanding loan balance of HK\$122,150,000 (2002: HK\$122,658,000) is unsecured, interest-free and is not repayable within one year.

- (vi) As at 31 December 2003, there were advances made by the Company to Shenzhen Brewing in the aggregate amount of HK\$65,864,000 (2002: HK\$66,137,000). The loans were used to finance its operations.

The advances are unsecured, interest-free and are not repayable within one year.

- (vii) On 28 March 2003, Morefit entered into a sale and purchase agreement with 深圳市寶安區投資管理有限公司 ("SBA"), a 10% equityholder in each of the SK Companies, to acquire SBA's entire interests in each of the SK Companies together with the shareholders' loans of the SK Companies due to SBA for a total cash consideration of RMB75,000,000. The acquisition was completed on 27 August 2003.

Upon completion of the agreement, the Group's interest in each of the SK Companies was increased from 87% to 97% and a discount of HK\$4,338,000 was resulted on the Group's acquisition of amounts due to SBA, which was credited to the current year's profit and loss account.

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### **33. COMPARATIVE AMOUNTS**

As further explained in notes 2 and 24 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

### **34. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.