

## NOTES TO FINANCIAL STATEMENTS

(31 December 2004)

### 1. CORPORATE INFORMATION

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

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2004. 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 intercompany 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.

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

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 between 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.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group 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 Group 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.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

#### **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 as 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.

#### **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.

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill 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 and its net selling price.

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.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

#### Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation 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 lease terms or the remaining life of the joint venture companies
Buildings	3% – 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.

Construction in progress represents building, plant, 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.

#### 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.

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

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

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. 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 allowance 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.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation charge.

**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.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

#### Income tax (cont'd)

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.

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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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 right to receive the refund has been established.

**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 bye-laws 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 rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.



(31 December 2004)

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

#### **Foreign currencies (cont'd)**

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.

#### **Employee benefits**

##### *Retirement benefits schemes*

The Company and certain of its subsidiaries 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Employee benefits (cont'd)***Share option scheme*

The Company operates a share option scheme (the "Share Option Scheme") 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 Scheme 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.

**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 sale of beer by the Mainland China segment which was made on the bases determined within the Group.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 4. SEGMENT INFORMATION (cont'd)

#### Geographical segments

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

#### Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	858,883	619,373	65,645	65,201	-	-	-	-	924,528	684,574
Intersegment sales	17,494	16,420	-	-	-	-	(17,494)	(16,420)	-	-
Other revenue and gains	12,044	13,466	-	-	4,211	1,880	-	-	16,255	15,346
<b>Total</b>	<b>888,421</b>	<b>649,259</b>	<b>65,645</b>	<b>65,201</b>	<b>4,211</b>	<b>1,880</b>	<b>(17,494)</b>	<b>(16,420)</b>	<b>940,783</b>	<b>699,920</b>
Segment results	171,460	116,994	23,027	22,247	(11,965)	(3,819)	-	-	182,522	135,422
Interest income									6,110	6,201
Profit before tax									188,632	141,623
Tax									(18,183)	(26,102)
Profit before minority interests									170,449	115,521
Minority interests									(4,287)	(10,460)
Net profit from ordinary activities attributable to shareholders									166,162	105,061

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

## 4. SEGMENT INFORMATION (cont'd)

## Geographical segments (cont'd)

## Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,755,211	1,406,568	22,398	19,772	79,873	36,955	-	(1,560)	1,857,482	1,461,735
Unallocated assets									7,743	17,800
Total assets									<u>1,865,225</u>	<u>1,479,535</u>
Segment liabilities	192,457	180,424	2,952	4,177	6,871	7,566	-	(1,560)	202,280	190,607
Unallocated liabilities									2,593	1,107
Total liabilities									<u>204,873</u>	<u>191,714</u>
Other segment information:										
Depreciation and amortisation	90,149	87,757	182	187	-	-	-	-	90,331	87,944
Write-off of fixed assets	877	4,257	-	-	-	-	-	-	877	4,257
Provision for other receivables	-	-	-	-	7,000	-	-	-	7,000	-
Capital expenditure	266,002	37,007	135	93	-	-	-	-	266,137	37,100

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 5. TURNOVER, OTHER 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, other revenue and gains is as follows:

	Notes	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Turnover</b>			
Invoiced value of goods sold (net of discounts, returns and value-added tax)		<b>1,010,229</b>	744,663
Beer consumption tax		<b>(85,701)</b>	(60,089)
		<u>924,528</u>	<u>684,574</u>
<b>Other revenue</b>			
Gain on sale of scrap materials		<b>5,233</b>	3,462
Interest income		<b>6,110</b>	6,201
Gross rental income		<b>2,914</b>	1,843
Discount on acquisition of an amount due to a minority equityholder of subsidiaries	31(viii)	–	4,338
Value-added tax exemption*		–	3,894
Others		<b>3,002</b>	1,588
		<u>17,259</u>	<u>21,326</u>
<b>Gains</b>			
Negative goodwill recognised as income	14	<b>662</b>	221
Exchange gains, net		<b>4,444</b>	–
		<u>5,106</u>	<u>221</u>
		<u><b>22,365</b></u>	<u>21,547</u>

\* 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 from 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 ended 31 December 2003.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Cost of inventories sold		<b>481,550</b>	373,398
Depreciation#	13	<b>76,272</b>	79,048
Amortisation of reusable packaging materials#		<b>14,059</b>	8,896
Minimum lease payments under operating leases in respect of land and buildings		<b>830</b>	660
Auditors' remuneration		<b>985</b>	868
Staff costs (excluding directors' remuneration – note 7)#:			
Wages and salaries		<b>79,232</b>	67,311
Pension scheme contributions		<b>9,754</b>	7,497
Less: Forfeited contributions*		<b>(175)</b>	–
Net pension scheme contributions		<b>9,579</b>	7,497
		<b>88,811</b>	74,808
Write-off of fixed assets	13	<b>877</b>	4,257
Provision for other receivables	32	<b>7,000</b>	–
Net rental income		<b>2,684</b>	1,843
Exchange losses/(gains), net		<b>(4,444)</b>	1,793

# The staff costs, amortisation of reusable packaging materials and depreciation for the year of HK\$36,097,000 (2003: HK\$35,489,000), HK\$14,059,000 (2003: HK\$8,896,000) and HK\$62,767,000 (2003: HK\$63,547,000), respectively, are included in the cost of inventories sold as disclosed above.

\* At 31 December 2004, the Group had no forfeited contributions (2003: Nil) available to reduce its contributions to its retirement benefits schemes in future years.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 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>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees:		
Independent non-executive	<b>300</b>	90
Non-executive	–	–
Executive	<b>81</b>	79
	<u><b>381</b></u>	<u>169</u>
Other emoluments:		
Salaries, allowances and benefits in kind	<b>2,176</b>	2,043
Bonuses paid and payable	<b>1,667</b>	1,401
Pension scheme contributions	<b>658</b>	445
	<u><b>4,501</b></u>	<u>3,889</u>
	<u><b>4,882</b></u>	<u>4,058</u>

Fees include HK\$300,000 (2003: 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 (2003: Nil).

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

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil to HK\$1,000,000	<b>12</b>	10
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
HK\$1,500,001 to HK\$2,000,000	<b>2</b>	1
	<u><b>15</b></u>	<u>12</u>

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

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which 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 EMPLOYEES

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>1,297</b>	1,425
Bonuses paid and payable	<b>339</b>	386
Pension scheme contributions	<b>245</b>	77
	<u><b>1,881</b></u>	<u>1,888</u>

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

	<b>Number of employees</b>	
	<b>2004</b>	2003
Nil to HK\$1,000,000	<b>1</b>	1
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
	<u><b>2</b></u>	<u>2</u>

During the year, 3,200,000 (2003: 1,700,000) share options were granted to the two (2003: two) highest paid employees 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 non-director, highest paid employees' remuneration disclosures.



## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Shenzhen Kingway Brewing Co., Ltd. ("Shenzhen Brewing"), Kingway Brewery (Shan Tou) Co., Ltd. ("Kingway Shantou") and Kingway Brewery (Dongguan) Co., Ltd. ("Kingway Dongguan"), subsidiaries of the Group, are 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 respective local tax authorities.

As Shenzhen Brewing is in its first profit-making year, it is entitled to an exemption from PRC corporate income tax for the current year. As Kingway Shantou and Kingway Dongguan did not generate any accumulated assessable profit since their establishments, the tax exemption period has not commenced.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group:		
Current:		
Hong Kong – Charge for the year	4,015	3,891
Mainland China:		
Charge for the year	2,347	10,112
Overprovision in prior years	(1,345)	(1,859)
Deferred ( <i>note 24</i> )	13,166	13,958
	<u>18,183</u>	<u>26,102</u>
Total tax charge for the year	<u>18,183</u>	<u>26,102</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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 – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>13,295</u>		<u>175,337</u>		<u>188,632</u>	
Tax at the statutory tax rate	2,327	17.5	57,861	33.0	60,188	31.9
Lower tax rates for specific provinces or local authorities	–	–	(31,800)	(18.1)	(31,800)	(16.9)
Adjustment in respect of current tax of prior years	–	–	(1,345)	(0.8)	(1,345)	(0.7)
Profits exempted from PRC corporate income tax	–	–	(10,777)	(6.1)	(10,777)	(5.7)
Income not subject to tax	(1,148)	(8.6)	–	–	(1,148)	(0.6)
Expenses not deductible for tax	1,281	9.6	229	0.1	1,510	0.8
Tax losses not recognised	<u>1,555</u>	<u>11.7</u>	<u>–</u>	<u>–</u>	<u>1,555</u>	<u>0.8</u>
Tax charge at the Group's effective rate	<u>4,015</u>	<u>30.2</u>	<u>14,168</u>	<u>8.1</u>	<u>18,183</u>	<u>9.6</u>

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
Adjustment 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	<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>

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK\$2,908,000 (2003: net profit of HK\$267,309,000).

### 11. DIVIDENDS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim – 1.5 HK cents (2003: 1.0 HK cent) per share	20,922	12,504
Proposed final – 2.0 HK cents (2003: 1.5 HK cents) per share	<u>27,911</u>	<u>20,916</u>
	<u><u>48,833</u></u>	<u><u>33,420</u></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 proposed final dividend as at 31 December 2003 was based on the total number of shares in issue as at the approval date of prior year's financial statements by the board of directors which included 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\$166,162,000 (2003: HK\$105,061,000), and the weighted average of 1,375,624,197 (2003: 1,250,367,123) ordinary 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\$166,162,000 (2003: HK\$105,061,000). The weighted average number of shares used in the calculation is the 1,383,908,325 (2003: 1,261,680,294) ordinary shares, comprising 1,375,624,197 (2003: 1,250,367,123) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 8,284,128 (2003: 11,313,171) ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year. The share options expired on 19 February 2003 had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2003 and so had not been included in the diluted earnings per share calculation for that year.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

13. FIXED ASSETS

Group

	Land and buildings <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At beginning of year	460,646	1,194,032	1,895	40,313	13,423	1,710,309
Additions	19,207	4,171	135	1,490	250,145	275,148
Write-off	(668)	(3,228)	–	(1,724)	–	(5,620)
Transfers	105,675	131,063	–	–	(236,738)	–
Exchange realignment	317	1,230	1	52	11	1,611
At 31 December 2004	<u>585,177</u>	<u>1,327,268</u>	<u>2,031</u>	<u>40,131</u>	<u>26,841</u>	<u>1,981,448</u>
Accumulated depreciation:						
At beginning of year	130,414	575,108	1,401	33,247	–	740,170
Provided during the year	20,235	54,143	182	1,712	–	76,272
Write-off	(376)	(2,839)	–	(1,528)	–	(4,743)
Exchange realignment	119	628	1	42	–	790
At 31 December 2004	<u>150,392</u>	<u>627,040</u>	<u>1,584</u>	<u>33,473</u>	<u>–</u>	<u>812,489</u>
Net book value:						
At 31 December 2004	<u>434,785</u>	<u>700,228</u>	<u>447</u>	<u>6,658</u>	<u>26,841</u>	<u>1,168,959</u>
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>

The Group's land and buildings included above are held under the following lease terms:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Long term leases in Mainland China	27,586	29,316
Medium term leases in Mainland China	407,199	300,916
	<u>434,785</u>	<u>330,232</u>

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 13. FIXED ASSETS (cont'd)

During the year, the Group acquired from the Shantou Land Authority the right to use the land on which a new brewery plant is located. The application for land use right certificate has commenced, however the land use right certificate had not yet been issued by the Shantou Land Authority as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has obtained beneficial title to these assets as at 31 December 2004 and that the land use right certificate will be issued in due course.

### 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> <i>HK\$'000</i>
Cost:	
At 1 January 2004	10,592
Acquisition of additional interest in subsidiaries	<u>538</u>
At 31 December 2004	<u>11,130</u>
Accumulated recognition as income:	
At 1 January 2004	(221)
Recognised as income during the year	<u>(662)</u>
At 31 December 2004	<u>(883)</u>
Net book value:	
At 31 December 2004	<u><u>10,247</u></u>
At 31 December 2003	<u><u>10,371</u></u>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill of HK\$126,410,000 and negative goodwill of HK\$39,620,000 as at 1 January and 31 December 2004 in respect of acquisitions which occurred prior to the adoption of SSAP 30, to remain eliminated against or credited to the consolidated capital reserve.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares/investments, at cost	261,816	261,816
Due from subsidiaries	1,150,439	947,108
Due to subsidiaries	(18,044)	(52,541)
	<u>1,394,211</u>	<u>1,156,383</u>
Provision for amounts due from subsidiaries	(39,254)	(39,254)
	<u>1,354,957</u>	<u>1,117,129</u>

Except for the balances with subsidiaries as included in the Company's current assets and current liabilities which have no fixed terms of repayment, all balances with subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

As at 31 December 2003, included in the amounts due from subsidiaries was an amount of HK\$22,267,000 due from Shenzhen Kingway Brewery Co., Ltd. ("Shenzhen Brewery") which bore interest at six months' LIBOR plus 0.75% per annum. Such amount due from Shenzhen Brewery was fully repaid during the year.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK\$2	100%	–	Sale and marketing of beer
Shenzhen Kingway Brewery Co., Ltd.*	PRC/Mainland China	US\$50,000,000	–	95%	Production, distribution and sale of beer
Shenzhen Kingway Brewing Co., Ltd.**	PRC/Mainland China	US\$12,000,000	–	100%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd.**	PRC/Mainland China	US\$12,000,000	–	100%	Provision of bottling and packaging services

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Kingway Utility Co., Ltd.**	PRC/Mainland China	US\$12,000,000	–	100%	Provision of utilities services
Kingway Brewery (Shan Tou) Co., Ltd.#	PRC/Mainland China	RMB126,000,000	–	100%	Production, distribution and sale of beer
Kingway Brewery (Dongguan) Co., Ltd.##	PRC/Mainland China	US\$11,880,000	–	100%	Production, distribution and sale of beer

\* This subsidiary is established as a Sino-foreign equity joint venture company.

\*\* These subsidiaries were established as Sino-foreign equity joint venture companies in prior years. During the year, the Group acquired an additional 3% equity interest in each of these subsidiaries. Upon completion of the acquisition, these subsidiaries have become wholly foreign-owned enterprises.

# This subsidiary is established as a wholly foreign-owned enterprise.

## This subsidiary was established during the current year as a wholly foreign-owned enterprise.

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

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted equity investment, at cost	5,611	5,611
Provision for impairment	(5,611)	(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. Due to the continuing non-performance of the investment, the directors considered that the investment was fully impaired.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 17. INVENTORIES

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>23,373</b>	16,460
Spare parts and consumables	<b>33,784</b>	28,443
Packaging materials	<b>25,146</b>	20,565
Work in progress	<b>13,889</b>	11,678
Finished goods	<b>11,668</b>	7,718
	<u><b>107,860</b></u>	<u>84,864</u>

At 31 December 2003 and 2004, all of the inventories were carried at cost.

### 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>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>38,764</b>	21,547
More than 3 months and less than 6 months	–	3,859
More than 6 months and less than 1 year	<b>655</b>	45
More than 1 year	<b>834</b>	2,974
	<u><b>40,253</b></u>	<u>28,425</u>
Less: Provision for doubtful debts	<u><b>(1,388)</b></u>	<u>(5,823)</u>
	<u><b>38,865</b></u>	<u>22,602</u>



## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 19. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED BANK BALANCES

	Notes	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances		127,078	272,476	379	24,454
Time deposits		377,559	75,192	69,789	9,538
		<b>504,637</b>	347,668	<b>70,168</b>	33,992
Less: Bank balances pledged					
for banking facilities	(i)	(4,008)	–	–	–
Restricted bank balance	(ii)	(2,817)	–	–	–
Cash and cash equivalents	(iii)	<b>497,812</b>	347,668	<b>70,168</b>	33,992

Notes:

- (i) At the balance sheet date, certain bank balances totalling HK\$4,008,000 (2003: Nil) were pledged for banking facilities granted to a subsidiary of the Group.
- (ii) During the year, the Group received a government grant of RMB3,000,000 (approximately equivalent to HK\$2,817,000) (2003: Nil) for future acquisition of certain qualifying assets in connection with the Group's research and development of brewing and related technologies in accordance with the terms of the grant. As at 31 December 2004, the government grant was not utilised and is classified as the Group's restricted bank balance.
- (iii) At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$398,520,000 (2003: HK\$293,809,000). 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.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 20. TRADE PAYABLES

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>38,846</b>	33,578
More than 3 months and less than 6 months	<b>301</b>	3
More than 6 months and less than 1 year	<b>356</b>	–
More than 1 year	<b>2,221</b>	1,955
	<u><b>41,724</b></u>	<u>35,536</u>

### 21. DUE TO THE IMMEDIATE HOLDING COMPANY

The Group's and the Company's amount 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 A MINORITY EQUITYHOLDER OF SUBSIDIARIES

The amount due to a minority equityholder of subsidiaries is unsecured, interest-free and is repayable within one year.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

#### Group – 2004

##### Deferred tax assets

	Decelerated tax depreciation <i>HK\$'000</i>	Fair value adjustments arising from acquisition of subsidiaries <i>HK\$'000</i>	Loss available for offset against future taxable profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	4,263	2,695	9,064	16,022
Deferred tax charged to the profit and loss account during the year (note 9)	(2,456)	(405)	(7,794)	(10,655)
Exchange differences	23	–	55	78
	<u>1,830</u>	<u>2,290</u>	<u>1,325</u>	<u>5,445</u>
Gross deferred tax assets at 31 December 2004				

##### Deferred tax liabilities

	Accelerated tax depreciation <i>HK\$'000</i>
At 1 January 2004	–
Deferred tax charged to the profit and loss account during the year (note 9)	(2,511)
Exchange differences	(4)
	<u>(2,515)</u>
Gross deferred tax liabilities at 31 December 2004	
Net deferred tax assets at 31 December 2004	<u>2,930</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

24. DEFERRED TAX (cont'd)

Group – 2003

Deferred tax assets

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

The Company and the Group have tax losses arising in Hong Kong of HK\$55,265,000 (2003: HK\$45,446,000) that are available indefinitely for offsetting against their future taxable profits. 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 2004, there was no recognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group had 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.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 25. SHARE CAPITAL

#### Shares

	2004 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,395,568,000 (2003: 1,250,600,000) ordinary shares of HK\$0.10 each	<u>139,557</u>	<u>125,060</u>

During the year, the movements in share capital were as follows:

- (a) On 19 February 2004, the Company allotted and issued 133,768,000 new ordinary shares of HK\$0.10 each at a subscription price of HK\$1.85 per share to Heineken – APB (China) Pte. Ltd. (formerly Heineken Asia Pacific Breweries (China) Pte. Ltd.) for cash.
- (b) During the year, 10,000,000, 500,000 and 700,000 ordinary shares of HK\$0.10 each were issued for cash at the respective subscription price of HK\$0.383, HK\$0.84 and HK\$1.93 per share pursuant to the exercise of the Company's share options for a total cash consideration, net of expenses, of HK\$5,601,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2003	1,250,000,000	125,000	739,583	864,583
Share options exercised	600,000	60	261	321
At 31 December 2003 and 1 January 2004	1,250,600,000	125,060	739,844	864,904
Issue of new shares (note (a))	133,768,000	13,377	234,094	247,471
Share issue expenses	–	–	(3,714)	(3,714)
Share options exercised (note (b))	11,200,000	1,120	4,481	5,601
<b>At 31 December 2004</b>	<u><b>1,395,568,000</b></u>	<u><b>139,557</b></u>	<u><b>974,705</b></u>	<u><b>1,114,262</b></u>

**25. SHARE CAPITAL (cont'd)****Share options**

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

**26. SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Share 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 Share 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 Share 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 Share 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 Share 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 Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the Share Option Scheme. As at 31 December 2004, the total number of shares issuable for options granted under the share option scheme of the Company was 29,500,000 (2003: 20,000,000) which represented approximately 2.1% (2003: 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.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

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 share 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.

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

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

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

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options#	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2004	Granted during the year#	Exercised during the year	At 31 December 2004				At date of grant of options HK\$	At date of exercise of options HK\$
<b>Directors and chief executive</b>									
Mr. Ye Xuquan	2,000,000	-	-	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	7,000,000	-	7,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
Mr. Jiang Guoqiang	10,000,000	-	(10,000,000)	-	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.400	1.930
	2,000,000	-	-	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
Mr. Cheng Mo Chi, Moses	300,000	-	(300,000)	-	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	2.350
	-	300,000	(300,000)	-	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	2.350
Mr. Alan Howard Smith	300,000	-	-	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	300,000	-	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
Mr. V-nee Yeh	300,000	-	-	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	300,000	-	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
Mr. Fung Sing Hong, Stephen	400,000	-	-	400,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	400,000	-	400,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
	<u>15,300,000</u>	<u>8,300,000</u>	<u>(10,600,000)</u>	<u>13,000,000</u>					



## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options#	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2004	Granted during the year##	Exercised during the year	At 31 December 2004				At date of grant of options HK\$	At date of exercise of options HK\$
Other employees									
In aggregate	4,700,000	-	(200,000)	4,500,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	2.425
	-	12,400,000	(400,000)	12,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	2.388
	<u>4,700,000</u>	<u>12,400,000</u>	<u>(600,000)</u>	<u>16,500,000</u>					
	<u>20,000,000</u>	<u>20,700,000</u>	<u>(11,200,000)</u>	<u>29,500,000</u>					

\* The vesting period of the share option 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 option 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 6 February 2004.

The 11,200,000 share options exercised during the year resulted in the issue of 11,200,000 ordinary shares of the Company and new issued share capital of HK\$1,120,000 and share premium of HK\$4,481,000 (net of expenses), as detailed in note 25 to the financial statements.

At the balance sheet date, the Company had 29,500,000 share options outstanding under the Share 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 29,500,000 additional ordinary shares of the Company and additional share capital of HK\$2,950,000 and share premium of HK\$43,630,000 (before issue expenses).

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

## 27. RESERVES

## Group

	Notes	Share premium account HK\$'000 (Note)	Capital reserve* HK\$'000 (Note)	Exchange fluctuation reserve HK\$'000	Enterprise development funds# HK\$'000	Reserve funds# HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003		739,583	53,444	3,202	216	15,246	238,801	1,050,492
Share options exercised	25	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)
At 31 December 2003 and 1 January 2004		739,844	53,444	26	216	30,683	295,005	1,119,218
Issue of shares	25	234,094	–	–	–	–	–	234,094
Share options exercised	25	4,481	–	–	–	–	–	4,481
Share issue expenses	25	(3,714)	–	–	–	–	–	(3,714)
Net profit for the year		–	–	–	–	–	166,162	166,162
Interim dividend	11	–	–	–	–	–	(20,922)	(20,922)
Proposed final dividend	11	–	–	–	–	–	(27,911)	(27,911)
Transfer from retained profits		–	–	–	–	7,428	(7,428)	–
Exchange realignment		–	–	219	–	–	–	219
<b>At 31 December 2004</b>		<b>974,705</b>	<b>53,444</b>	<b>245</b>	<b>216</b>	<b>38,111</b>	<b>404,906</b>	<b>1,471,627</b>

\* Certain amounts of goodwill and negative goodwill arising from the acquisition of subsidiaries in prior years remained eliminated against or credited to the consolidated capital reserve, as explained in note 14 to the financial statements.

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

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 27. RESERVES (cont'd)

#### Company

	Notes	Share premium account HK\$'000 (Note)	Capital reserve HK\$'000 (Note)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003		739,583	140,234	37,836	917,653
Share options exercised	25	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)
At 31 December 2003 and 1 January 2004		739,844	140,234	271,725	1,151,803
Issue of shares	25	234,094	–	–	234,094
Share options exercised	25	4,481	–	–	4,481
Share issue expenses	25	(3,714)	–	–	(3,714)
Net loss for the year		–	–	(2,908)	(2,908)
Interim dividend	11	–	–	(20,922)	(20,922)
Proposed final dividend	11	–	–	(27,911)	(27,911)
<b>At 31 December 2004</b>		<b>974,705</b>	<b>140,234</b>	<b>219,984</b>	<b>1,334,923</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 credited to the capital reserve account against which goodwill and negative goodwill arising on the acquisitions of subsidiaries and an associate were eliminated in the Group account.

### 28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Major non-cash transactions

During the year, a non wholly-owned subsidiary of the Group declared a dividend to its shareholders and an amount of dividend of HK\$4,386,000 (2003: HK\$6,420,000) attributable to a minority equityholder remained unpaid as at 31 December 2004 and was included in the amount due to a minority equityholder of subsidiaries in the consolidated balance sheet.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 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 three to ten years (2003: 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 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	3,487	1,512
In the second to fifth years, inclusive	8,348	1,003
After five years	3,358	–
	<u>15,193</u>	<u>2,515</u>

#### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of two years (2003: one to two years).

At 31 December 2004, 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>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	341	338
In the second to fifth years, inclusive	228	–
	<u>569</u>	<u>338</u>

At the balance sheet date, the Company did not have any operating lease arrangements (2003: Nil).

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

### 30. COMMITMENTS

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitments on the acquisition of fixed assets:		
Contracted, but not provided for	252,353	4,766
Authorised, but not contracted for	593,649	329,336
	<u>846,002</u>	<u>334,102</u>

At the balance sheet date, the Company had no significant commitments (2003: Nil).

### 31. 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 Rules Governing the Listing of Securities on the main board of the Stock Exchange of Hong Kong Limited (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 (ix) 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 Limited ("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 2004, the aggregate amount of malt purchased by the Group was RMB108,928,000 (2003: RMB72,044,000). The balance due to GMCL of HK\$12,102,000 (2003: HK\$16,965,000) as at 31 December 2004 is unsecured, interest-free and is repayable within 30 days from date of invoice.

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

- (ii) In the prior year, the Group purchased malt from Ningbo Malting Co., Ltd. ("NMCL") which is a 51% 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.

The aggregate amount of the malt purchased by the Group during the year ended 31 December 2003 was RMB13,527,000 and the balance due to NMCL was fully settled during that year.

- (iii) The Group entered into a tenancy agreement dated 2 February 2001 with Bateson Developments Limited ("BDT"), a wholly-owned subsidiary of Guangdong Investment Limited ("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. On 1 November 2002, the tenancy agreement was renewed at a monthly rental of HK\$36,218 for a term of two years which commenced on 1 September 2002.

On 15 March 2005, the Group entered into a new tenancy agreement with Global Head Developments Limited ("GHD"), which is a wholly-owned subsidiary of GDI, a fellow subsidiary of the Company and the new owner of the Property, to lease the Property at a monthly rental of HK\$28,457 for a term of two years which commenced on 1 September 2004.

During the year, the Group paid operating lease rentals to BDT and GHD amounting to HK\$290,000 (2003: HK\$435,000) and HK\$114,000 (2003: Nil), respectively.

- (iv) As at 31 December 2004, there were advances made by the Company to the Group's non-wholly-owned subsidiary, Shenzhen Brewery, in which the Group has a 95% (2003: 95%) equity interest, in the aggregate amount of HK\$122,306,000 (2003: HK\$144,417,000) to finance its working capital. The loans were used to finance its expansion plan and the construction of a brewery plant in Bao An, Mainland China, in prior year. The balance with Shenzhen Brewery is unsecured, interest-free and is not repayable within one year.

As at 31 December 2003, included in the above balance due from Shenzhen Brewery was an amount of HK\$22,267,000, which bore interest at six months' LIBOR plus 0.75% per annum. Such amount due from Shenzhen Brewery was fully repaid during the current year.

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

- (v) As at 31 December 2003, there were advances made by the Group's wholly-owned subsidiary, Morefit Limited ("Morefit"), to the Group's non-wholly-owned subsidiary, Shenzhen Brewing, in which the Group held a 97% equity interest, in the aggregate amount of HK\$305,210,000. The loans were used to finance the construction and operation of a brewery plant in Bao An, Mainland China. The advances included amounts of (i) HK\$133,445,000 which was repayable within one year; (ii) HK\$91,575,000 which was repayable within five years from 31 December 2003; and (iii) HK\$80,190,000 which was not repayable within one year.

During the year 2003, Morefit waived the loan interest due from Shenzhen Brewing, which was charged in prior years, amounted to HK\$13,972,000.

Upon completion of the acquisition (as further detailed in note 15 to the financial statements), Shenzhen Brewing became a wholly-owned subsidiary of the Group. Since then, these advances do not constitute connected transactions and no disclosure was made in the financial statements for the current 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. The loans were used to finance its operations and were unsecured, interest-free and were not repayable within one year.

Upon completion of the acquisition (as further detailed in note 15 to the financial statements), Shenzhen Brewing became a wholly-owned subsidiary of the Group. Since then, these advances do not constitute connected transactions and no disclosure was made in the financial statements for the current year.

- (vii) On 2 December 2004, Morefit acquired from Shenzhen Brewery 60% interests in each of Shenzhen Brewing, Shenzhen Kingway Packaging Co., Ltd. and Shenzhen Kingway Utility Co., Ltd. (collectively the "SK Companies"), for a total cash consideration of RMB179,239,000. Upon completion of the acquisitions, the Group increased its effective equity interest in each of the SK Companies from 97% to 100%.

The acquisitions were completed on 13 December 2004 and a total negative goodwill of HK\$538,000 (note 14) was recognised in the consolidated balance sheet.

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

- (viii) 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 shareholder's 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 (note 5) in respect of the shareholder's loans was resulted on the Group's acquisition of amounts due to SBA, which was credited to the profit and loss account for the year ended 31 December 2003.

- (ix) Pursuant to an entrusted loan agreement dated 8 November 2004, Shenzhen Brewery, through a bank, advanced an unsecured loan of RMB65,000,000 to Kingway Brewery (Shan Tou) Co., Ltd., a wholly-owned subsidiary of the Group, to finance its working capital. The unsecured loan is interest-free and repayable by February 2005. On 11 February 2005, the maturity of the loan was extended to August 2005.

**32. POST BALANCE SHEET EVENT**

In December 2004, Baligold Developments Limited ("Baligold"), a wholly-owned subsidiary of the Company, commenced legal proceedings in the High Court of the Hong Kong Special Administrative Region against Best Concepts Consultants Limited as the first defendant and Central China (Asia) Investment Limited as the second defendant to recover, inter alia, the final payment of HK\$12.23 million and interest thereon under an agreement for sale and purchase dated 9 August 2002 (the "Agreement") in respect of the disposal of the entire shares of the second defendant, the shareholder of 50% interest in Shandong Huazhong Amber Brewery Co. Ltd., to the first defendant and a supplemental agreement dated 7 August 2003 (the "Supplemental Agreement"); and the enforcement of a share mortgage which is the entire shares of the second defendant as the security provided by the first defendant under the Supplemental Agreement. Moreover, Baligold's claim against the second defendant also included the damages for failure to repay the loan of HK\$35.65 million by the second defendant, which should be conditionally waived by Baligold subject to the completion of the Agreement.

In view of the uncertainty over the amounts that can be recovered from the said defendants through legal proceedings, a provision of HK\$7,000,000 (note 6) was charged to the current year consolidated profit and loss account. The loan of HK\$35.65 million due from the second defendant had been fully provided for in a prior year. The directors considered that adequate provisions have been made in the financial statements for these receivable balances.



## NOTES TO FINANCIAL STATEMENTS (Cont'd)

*(31 December 2004)*

### **32. POST BALANCE SHEET EVENT (cont'd)**

Subsequent to the balance sheet date, the defendants submitted a counterclaim in February 2005 against Baligold claiming, inter alia, damages for breach of the Agreement by Baligold. The proceedings are still in progress.

The directors, having considered the advice from legal counsel, are of the opinion that the counterclaim is without merit and that the counterclaim should have no material adverse impact to the Group.

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

The financial statements were approved and authorised for issue by the board of directors on 15 April 2005.