

## Report of the Directors

The directors present their first report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

### Group reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) on 23 February 2001. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 26 June 2001. Further details of the Group Reorganisation, together with the details of the subsidiaries acquired pursuant and subsequent thereto, are set out in notes 1, 17 and 29 to the financial statements and in the Company's prospectus dated 18 June 2002 (the "Prospectus").

On 27 June 2002, the shares of the Company were listed on the Stock Exchange.

### Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the production and distribution of beer. There were no significant changes in the nature of the Group's principal activities during the year.

### Results and dividends

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 71.

The directors do not recommend the payment of any dividend in respect of the year.

### Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 27 June 2002 and the exercise of over-allotment option by Cazenove Asia Limited on 15 July 2002, after deduction of related issuance expenses, amounted to approximately HK\$296 million and HK\$49 million, respectively. These proceeds were applied during the year ended 31 December 2002 in accordance with the proposed applications set out in the Prospectus, as follows:

- approximately HK\$130 million was used for reduction of debts;
- approximately HK\$90 million was used for expansion, including acquisitions and capital expenditures; and
- the balance of HK\$87 million was applied as general working capital of the Group.

The balance of the proceeds of approximately HK\$38 million as at 31 December 2002 remained unused and was placed on a short term fixed deposit with a licensed bank in Hong Kong.

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### Summary financial information

A summary of the published results and assets and liabilities of the Group for the last four financial years is set out on page 72. This summary does not form part of the audited financial statements.

### Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

### Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements.

### Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### Purchase, redemption or sale of listed securities of the Company

The Company's shares were listed on the Stock Exchange on 27 June 2002. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 31 December 2002.

### Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

### Distributable reserves

At 31 December 2002, the Company's reserves available for distribution amounted to HK\$534,719,000. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$254,071,000 as at 31 December 2002 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

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### Major customers and suppliers

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the total sales and purchases for the year, respectively.

### Directors

The directors of the Company during the year were:

#### Executive directors:

Mr. Li Wentao  
Mr. Lo Peter  
Mr. Fu Hui  
Mr. Au Peter Jeva  
Mr. Lee Kong Leong  
Mr. Bao Liusuo

#### Non-executive directors:

Dr. Tong Kay Tak Tom  
Mr. Chen Zhixiong  
Mr. Tse Kwok Lam  
Dr. Sit Fung Shuen Victor\* (appointed on 11 January 2002)  
Mr. Chong Tao Boon\* (appointed on 7 February 2002)  
Mr. Pang Chun Sing (appointed on 11 January 2002 and resigned on 7 February 2002)

\* Independent non-executive directors

In accordance with article 86(3) of the Company's articles of association, all the directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 19 of the annual report.

### Directors' service contracts

Each of Mr. Li Wentao, Mr. Lo Peter, Mr. Fu Hui and Mr. Bao Liusuo has entered into a service contract with the Company on 3 June 2002 for an initial term of three years commencing from 1 June 2002, unless and until

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terminated by the Company or by the relevant director (as the case may be) by giving to the other party twelve/six months' prior notice in writing, which notice period shall not expire at any time during the first year.

Under the service contracts, there are sign-on and/or sign-off payments for the respective directors. The sign-on and sign-off payments refer to incentive and gratuity payments that will be paid to the relevant directors by the Company when they sign the service contracts and when the service contracts are terminated respectively. The aggregate sign-on and sign-off payments amount to approximately HK\$1.5 million and HK\$9 million, respectively. The sign-on payment of HK\$1.5 million was made on 2 July 2002.

Each of the executive directors will be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the directors for such year shall not exceed 10% of the audited consolidated net profit after tax but before extraordinary and exceptional items of the Group (the "Profit") and provided further that the Profit before payment of the total discretionary bonuses payable to all the executive directors shall exceed HK\$80 million. Each of the executive directors will also be entitled to all reasonable expenses properly incurred in the course of his employment or in connection with the business of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### Directors' interests in shares

None of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

The interests of the directors in the share options granted by the Company are separately disclosed in note 30 to the financial statements.

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### Directors' rights to acquire shares or debentures

Apart from as disclosed in the share option scheme disclosures in note 30 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Share option schemes

The detailed disclosures relating to the Company's share option schemes are set out in note 30 to the financial statements.

Concerning the share options granted during the year to the directors and employees, as detailed in note 30, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

### Substantial shareholders

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Notes	Number of shares held and nature of interest		Percentage of the Company's share capital
		Direct	Deemed	
China Enterprise Development Fund Limited	1	—	343,200,000	37.6%
CEDF (Brewery) Holdings Limited	1	343,200,000	—	37.6%
Kwok Nea Development Limited	2	—	291,500,000	31.9%
Harbin Brewery Factory (BVI) Limited	2	291,500,000	—	31.9%

Notes:

1. CEDF (Brewery) Holdings Limited is owned as to 86.84% by China Enterprise Development Fund Limited and as to 13.16% by Brewery Investors Limited.
2. Harbin Brewery Factory (BVI) Limited is a wholly-owned subsidiary of Kwok Nea Development Limited.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

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### Practice Note 19 of the Listing Rules

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 27 June 2001 (the "Loan Agreement") in relation to a US\$22 million syndicated bank loan, China Enterprise Development Fund Limited and Brewery Investors Limited are required to maintain at all times their controlling shareholder position of the Company after the listing of the Company's shares on the Stock Exchange. The breach of such specific performance covenants constitute an event of default upon (i) the occurrence of such event; and (ii) the request in writing by the lenders whose aggregate advance made to the Company exceeds 66  $\frac{2}{3}$ %, and will cause all amounts outstanding and owing under the Loan Agreement to become immediately due and payable.

### Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

### Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange, since the listing of the Company's shares on the Stock Exchange on 27 June 2002, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement and re-election at the general meeting of the Company in accordance with the Company's articles of association.

### Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

### Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

*Chairman*

Hong Kong  
15 April 2003