

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the preparation of the audited financial statements for the year ended 31st December, 2002 except for the adoption of SSAP 12 (Revised) “Income Taxes” during the period.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

As a consequence of the adoption of this revised SSAP, the net amounts of deferred tax of the Group and jointly-controlled entities and associates credited to the profit and loss account during the six months ended 30th June, 2003 amounted to HK\$6,799,000 and HK\$2,883,000, respectively.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The change in this accounting policy has insignificant effect on the result of the Group for the six months ended 30th June, 2002 and the effect of the change in respect of the Group’s financial position as at 31st December, 2002 is summarised below:

- (i) deferred tax assets and liabilities as at 31st December, 2002 have been increased by HK\$32,110,000 and HK\$132,117,000, respectively;
- (ii) share of net assets of jointly-controlled entities and an associate as at 31st December, 2002 have been decreased by HK\$41,006,000 and increased by HK\$9,115,000, respectively;

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- (iii) minority interests as at 31st December, 2002 have been decreased by HK\$47,734,000;
- (iv) negative goodwill as at 31st December, 2002 has been decreased by HK\$1,478,000;
- (v) retained profits, hotel property revaluation reserve, capital reserve and exchange fluctuation reserve as at 31st December, 2002 have been increased by HK\$55,259,000, decreased by HK\$1,391,000, HK\$135,719,000 and HK\$835,000, respectively; and
- (vi) retained profits, hotel property revaluation reserve, capital reserve, and exchange fluctuation reserve as at 1st January, 2002 have been increased by HK\$58,669,000, decreased by HK\$638,000, HK\$135,719,000 and HK\$835,000, respectively.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**2. SEGMENT INFORMATION**

The analysis of the Group's revenue and results by business and geographical segments for the six months ended 30th June, 2003 are as follows:

*(a) Business segments***For the six months ended 30th June, 2003**

	Brewery operations Unaudited HK\$'000	Retail operations Unaudited HK\$'000	Dairy operations Unaudited HK\$'000	Expressway and toll road operations Unaudited HK\$'000
<b>Segment revenue:</b>				
<b>Sales to external customers</b>	1,322,049	953,019	564,340	149,582
<b>Intersegment sales</b>	-	-	-	-
<b>Other revenue</b>	13,242	7,300	802	1,564
<b>Total</b>	<b>1,335,291</b>	<b>960,319</b>	<b>565,142</b>	<b>151,146</b>
<b>Segment results</b>	<b>135,743</b>	<b>44,268</b>	<b>25,472</b>	<b>86,363</b>
<b>Interest income</b>				
<b>Unallocated revenue and gains</b>				
<b>Unallocated expenses</b>				
<b>Profit from operating activities</b>				
<b>Finance costs</b>				
<b>Share of profits and losses of:</b>				
<b>Jointly-controlled entities</b>	(3,451)	(658)	2,056	-
<b>Associates</b>	(96)	(45)	-	-
<b>Amortisation of goodwill arising on acquisition of jointly-controlled entities</b>	(339)	(171)	-	-
<b>Profit before tax</b>				
<b>Tax</b>				
<b>Profit before minority interests</b>				
<b>Minority interests</b>				
<b>Net profit from ordinary activities attributable to shareholders</b>				

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Water treatment operations Unaudited HK\$'000	Hotel operations Unaudited HK\$'000	Tourism operations Unaudited HK\$'000	Property construction and development Unaudited HK\$'000	Telecom- munications and IT related services and products Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
194,810	1,463	-	18,428	107,478	309,648	-	3,620,817
-	-	-	540	-	-	(540)	-
-	-	-	3,788	6,484	8,315	-	41,495
<b>194,810</b>	<b>1,463</b>	<b>-</b>	<b>22,756</b>	<b>113,962</b>	<b>317,963</b>	<b>(540)</b>	<b>3,662,312</b>
<b>71,328</b>	<b>(218)</b>	<b>-</b>	<b>(25,751)</b>	<b>26,306</b>	<b>(27,765)</b>		<b>335,746</b>
							14,608
							45,523
							<b>(27,676)</b>
							<b>368,201</b>
							<b>(78,873)</b>
-	(6,515)	(3,962)	-	-	(76)		(12,606)
-	-	-	(59)	22,821	10,188		32,809
-	-	-	-	-	(2,065)		(2,575)
							<b>306,956</b>
							<b>(57,141)</b>
							<b>249,815</b>
							<b>(67,974)</b>
							<b>181,841</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**2. SEGMENT INFORMATION** (continued)*(a) Business segments* (continued)

For the six months ended 30th June, 2002

	Brewery operations Unaudited HK\$'000	Retail operations Unaudited HK\$'000	Dairy operations Unaudited HK\$'000	Expressway and toll road operations Unaudited HK\$'000
Segment revenue:				
Sales to external customers	1,115,437	910,665	471,679	169,621
Intersegment sales	–	–	–	–
Other revenue	11,982	7,481	6,612	279
<b>Total</b>	<b>1,127,419</b>	<b>918,146</b>	<b>478,291</b>	<b>169,900</b>
<b>Segment results</b>	<b>113,811</b>	<b>54,264</b>	<b>31,345</b>	<b>124,298</b>
Interest income				
Unallocated revenue and gains				
Unallocated expenses				
Profit from operating activities				
Finance costs				
Share of profits and losses of:				
Jointly-controlled entities	(3,771)	(1,112)	12,546	–
Associates	(35)	(77)	–	–
Amortisation of goodwill arising on acquisition of jointly-controlled entities	(339)	(171)	–	–
Profit before tax				
Tax				
Profit before minority interests				
Minority interests				
Net profit from ordinary activities attributable to shareholders				

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Water treatment operations Unaudited HK\$'000	Hotel operations Unaudited HK\$'000	Tourism operations Unaudited HK\$'000	Property construction and development Unaudited HK\$'000	Telecom- munications and IT related services and products Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
173,625	69,814	76,682	54,066	90,708	192,004	-	3,324,301
-	-	-	-	-	192	(192)	-
-	182	1,979	630	-	13,221	-	42,366
173,625	69,996	78,661	54,696	90,708	205,417	(192)	3,366,667
70,164	2,332	7,399	(13,372)	(3,112)	(15,740)		371,389
							31,208
							28,607
							(4,900)
							426,304
							(112,757)
-	-	-	-	-	-		7,663
-	-	-	-	33,299	4,930		38,117
-	-	-	-	-	(1,840)		(2,350)
							356,977
							(83,442)
							273,535
							(57,419)
							216,116

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**2. SEGMENT INFORMATION** (continued)*(b) Geographical segments*

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30th June,		30th June,		30th June,		30th June,		30th June,	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
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	6,906	8,066	3,542,328	3,241,111	71,583	75,124	-	-	3,620,817	3,324,301
Intersegment sales	-	-	-	192	540	-	(540)	(192)	-	-
Other revenue	8,315	13,221	33,180	29,145	-	-	-	-	41,495	42,366
Total segment revenue	15,221	21,287	3,575,508	3,270,448	72,123	75,124	(540)	(192)	3,662,312	3,366,667

**3. TURNOVER**

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**4. OTHER REVENUE AND GAINS, NET**

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	2002
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
<i>Other revenue, net</i>		
Negative goodwill recognised as income	<b>8,351</b>	21,513
Service income	<b>1,496</b>	13,209
Investment income	<b>9,897</b>	6,847
Corporate income tax and value-added tax refund	–	1,488
Others	<b>37,730</b>	27,761
	<b>57,474</b>	70,818
<i>Gains, net</i>		
Gain on disposal of fixed assets	<b>19,321</b>	–
Gain on disposal of short term investments	–	155
Gain on disposal of long term investment	<b>10,223</b>	–
	<b>29,544</b>	155
	<b>87,018</b>	70,973

**5. PROFIT FROM OPERATING ACTIVITIES**

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

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	2002
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>243,946</b>	226,955
Amortisation of intangible assets	<b>51,628</b>	36,039
Amortisation of goodwill	<b>8,951</b>	4,490
Negative goodwill recognised as income	<b>(8,351)</b>	(21,513)
Investment income	<b>(9,897)</b>	(6,847)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**6. FINANCE COSTS**

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	2002
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Interest on convertible bonds, bank loans and other loans wholly repayable within five years	<b>77,311</b>	105,827
Interest on other loans	<b>1,562</b>	6,930
	<b>78,873</b>	112,757

**7. TAX**

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	2002
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Group:		
The PRC – Hong Kong	<b>222</b>	51
– Mainland China	<b>62,924</b>	72,991
Overseas	<b>341</b>	846
Overprovision in prior period, net	<b>(431)</b>	(967)
Deferred	<b>(6,799)</b>	2,029
	<b>56,257</b>	74,950
Share of tax of jointly-controlled entities	<b>(1,112)</b>	4,944
Share of tax of associates	<b>1,996</b>	3,548
Tax charge for the period	<b>57,141</b>	83,442

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong for the period. The income tax provision in respect of operations in Mainland China and overseas is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**8. INTERIM DIVIDEND**

	<b>Six months ended 30th June,</b>	
	<b>2003</b>	2002
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Proposed 2003 interim dividend of HK10 cents (2002: HK10 cents) per ordinary share	<b>62,250</b>	62,250

**9. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$181,841,000 (2002: HK\$216,116,000) and the weighted average of 622,500,000 (2002: 622,500,000) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30th June, 2003 and 2002 have not been shown because the exercise of the outstanding share options of the Company during these periods would not have a diluting effect on the earnings per share.

The convertible bonds of the Group were issued by Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), a subsidiary of the Company, which are convertible into ordinary shares of Yanjing Brewery, and hence, would not have a diluting effect on the earnings per share.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**10. TRADE RECEIVABLES**

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

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

	<b>30th June, 2003 Unaudited HK\$'000</b>	31st December, 2002 Audited HK\$'000
Within one year	<b>726,080</b>	499,457
One to two years	<b>47,573</b>	66,518
Two to three years	<b>9,914</b>	5,754
Over three years	<b>3,589</b>	110
	<b>787,156</b>	571,839

**11. TRADE PAYABLES**

An aged analysis of the Group's trade payables as at the balance sheet date is as follows:

	<b>30th June, 2003 Unaudited HK\$'000</b>	31st December, 2002 Audited HK\$'000
Within one year	<b>664,531</b>	561,721
One to two years	<b>36,941</b>	52,186
Two to three years	<b>10,076</b>	4,786
Over three years	<b>15,228</b>	14,159
	<b>726,776</b>	632,852

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**12. SHARE CAPITAL**

	<b>30th June, 2003 Unaudited HK\$'000</b>	31st December, 2002 Audited HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<b>200,000</b>	200,000
Issued and fully paid:		
622,500,000 ordinary shares of HK\$0.10 each	<b>62,250</b>	62,250

**Share options**

The Company operates a share option scheme, further details of which are set out under the heading "Share option schemes" in the section of "Discloseable Information" on pages 34 to 38.

No share options were granted or exercised during the period.

**13. CONTINGENT LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>30th June, 2003 HK\$'000</b>	31st December, 2002 HK\$'000	<b>30th June, 2003 HK\$'000</b>	31st December, 2002 HK\$'000
Guarantees given in respect of mortgage loans granted by banks to the Group's purchasers of properties held for sale	<b>30,881</b>	56,820	-	-
Guarantees given for banking facilities granted and utilised by a non-wholly owned subsidiary	-	-	<b>94,210</b>	174,282
Guarantee given for the convertible bonds issued by Yanjing Brewery	-	-	<b>659,444</b>	659,444
	<b>30,881</b>	56,820	<b>753,654</b>	833,726

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**14. CAPITAL COMMITMENTS**

	<b>Group</b>	
	<b>30th June, 2003 Unaudited HK\$'000</b>	31st December, 2002 Audited HK\$'000
Land and buildings:		
Authorised, but not contracted for	<b>134,632</b>	144,742
Contracted, but not provided for	<b>45,967</b>	143,390
	<b>180,599</b>	288,132
Plant and machinery:		
Authorised, but not contracted for	<b>80,603</b>	–
Contracted, but not provided for	<b>18,332</b>	122,142
	<b>98,935</b>	122,142
Capital contributions to subsidiaries and associates:		
Authorised, but not contracted for	<b>19,110</b>	–
Contracted, but not provided for	<b>636,231</b>	–
	<b>655,341</b>	–
<b>Total capital commitments</b>	<b>934,875</b>	410,274

**15. POST BALANCE SHEET EVENT**

On 29th August, 2003, Sanyuan Foods offered 150,000,000 new shares with nominal value of RMB1.00 each for subscription at an issue price of RMB2.60, representing 23.6% of its enlarged share capital. The Group may have an exceptional gain of approximately HK\$94 million upon completion of the new issue and its shareholding in Sanyuan Foods will be diluted from 74.77% to 57.11%. The shares of Sanyuan Foods will be traded on the Shanghai Stock Exchange A Share Market on 15th September, 2003.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16. RELATED PARTY TRANSACTIONS

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

Name of company	Nature of transaction	Notes	Six months ended 30th June,	
			2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
<i>Ultimate holding company</i>				
Beijing Holdings Limited and its associates	Rental income	(a)	<b>1,337</b>	1,471
	Rental and related expenses	(a)	<b>2,221</b>	2,253
<i>Joint venture partners of subsidiaries and their associates</i>				
Beijing Yanjing Beer Group Company ("Yanjing Beer Group") and its associates	Purchases of bottle labels	(b)	<b>26,644</b>	25,504
	Purchases of bottle caps	(b)	<b>18,850</b>	3,002
	Canning service fees paid	(c)	<b>8,086</b>	10,421
	Comprehensive support service fees paid	(d)	<b>7,323</b>	7,372
	Land rent expenses	(e)	<b>822</b>	821
	Trademark licensing fees paid	(f)	<b>7,479</b>	8,169
	Less: 20% refund for advertising subsidies	(f)	<b>(1,496)</b>	(1,633)
Beijing San Yuan Group Company ("San Yuan Group")	Purchase of raw milk	(g)	<b>91,478</b>	98,774
	Land use fee	(h)	<b>1,385</b>	1,258
	Acquisition of a land	(i)	<b>12,247</b>	-
Beijing Tourism Corporation and its associates	Land use fees	(j)	-	1,634
<i>Jointly-controlled entities:</i>				
Beijing McDonald's Food Co., Ltd.	Sale of dairy products	(k)	<b>21,444</b>	15,069
Yanjing Beer (Qu Fu Sankong) Co., Ltd.	Sale of malt and barley	(k)	<b>8,331</b>	2,331
<i>Associates</i>				
Beijing International Switching System Co., Ltd.	Interest income	(l)	-	3,783

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**16. RELATED PARTY TRANSACTIONS** (continued)

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

*Notes:*

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 16. RELATED PARTY TRANSACTIONS (continued)

- (h) Land use fee was charged at a mutually-agreed amount of RMB2,940,000 (2002: RMB2,670,000) for the year ending 31st December, 2003.
- (i) Beijing San Yuan Jia Ming Property Development Company Limited, a subsidiary of the Company, has entered into a compensation agreement with effect on 30th July, 2003, for the acquisition of a piece of land with area of 9,146.9 square metres in a consideration of RMB 13 million from San Yuan Group.
- (j) Land use fees were determined based on 3% of the annual gross turnover of Jian Guo Hotel Joint Venture Beijing ("Jian Guo Hotel"). The transaction ceased to be a related party transaction since Jian Guo Hotel became a jointly-controlled entity of the Group in December, 2002.
- (k) The selling prices of the dairy products, malt and barley were determined by reference to the prevailing market rates.
- (l) The loan to an associate was unsecured and bore interest at 5.85% per annum.

### 17. COMPARATIVE AMOUNTS

As explained in note 1 to the condensed consolidated interim financial statements, due to the adoption of revised SSAP 12 during the current period, 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 period adjustments have been made and certain comparative amounts have been reclassified to conform to the current period's presentation.

### 18. REVIEW AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The audit committee has reviewed the accounting policies adopted by the Group and has discussed the internal controls and financial affairs, including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2003.

The condensed consolidated interim financial statements were approved by the Board of Directors of the Company on 9th September, 2003.