

1. CORPORATE INFORMATION

During the year, the Group was involved in the production and distribution of beer.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): “Income taxes”
- SSAP 35: “Accounting for government grants and disclosure of government assistance”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

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

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

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings; and
- a deferred tax asset and liability have been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 27 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

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2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 27 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

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

Joint venture companies established in the People's Republic of China (the “PRC”)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies established in the People's Republic of China (the "PRC") (continued)

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 the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions 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 subsidiary if the Company has unilateral control, directly or indirectly, over the joint venture company.

Goodwill

Goodwill arising on the 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 of twenty years.

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.

The carrying amount of goodwill 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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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

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

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

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

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, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation 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, 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.

Changes in the value of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, after taking into account any estimated residual value. The principal annual rates used for this purpose are as follows:

Land use rights	Over the lease terms
Buildings	2.6% - 4.5%
Plant and machinery	2.3% - 18%
Furniture, fixtures and equipment	9% - 18%
Motor vehicles	15% - 18%

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 is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Intangible assets, representing trademarks, right to use electricity and technical know-how acquired, are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Trademarks	10 or 20 years
Right to use electricity	20 years
Technical know-how	10 years

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred expenditure

Deferred expenditure represents expenses incurred in connection with the raising of long term finance and is amortised on the straight-line basis over the terms of the relevant underlying borrowings.

Reusable packaging materials

Reusable packaging materials, comprising reusable bottles and plastic crates 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 to five years.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost in respect of raw materials, work in progress and finished goods is determined on the weighted average method. In the case of work in progress and finished goods, cost comprises direct materials, direct labour and an attributable proportion of production overheads. Net realisable value is based on estimated selling prices less any further costs to be incurred to completion and disposal.

Cash and cash equivalents

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.

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 the initial recognition of an asset or liability 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.

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.

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) consultancy fee income, in the period in which such services are performed; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. 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.

The employees of the Group's PRC Subsidiaries are required to participate in a central pension scheme operated by the local municipal government. These PRC Subsidiaries are required to contribute 22% to 30% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes are 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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

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

For the purpose of the consolidated cash flow statement, the cash flows of the PRC Subsidiaries are translated into Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of the PRC Subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

No business or geographical segment information is presented as the Group's customers and operations, which related substantially to the production and distribution of beer, are located in Mainland China.

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5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, value-added tax and consumption tax.

An analysis of turnover and other revenue is as follows:

	2003	2002
	HK\$'000	HK\$'000
TURNOVER		
Sale of beer	1,401,821	1,118,642
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OTHER REVENUE		
Sale of raw materials, packaging materials and by-products	6,600	4,006
Consultancy fee income	—	12,360
Government subsidies	4,404	11,297
Interest income	756	1,275
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	11,760	28,938
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	1,413,581	1,147,580
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Notes to Financial Statements

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6. PROFIT FROM OPERATING ACTIVITIES

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

	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Depreciation	125,445	97,311
Amortisation of intangible assets, other than goodwill and negative goodwill*	2,359	2,362
Amortisation of goodwill*	8,173	5,128
Amortisation of negative goodwill*	(68)	—
Amortisation of reusable packaging materials*	20,639	14,783
Minimum lease payments under operating leases on land and buildings	2,973	2,596
Auditors' remuneration	3,164	2,638
Staff costs (excluding directors' remuneration (note 8)):		
Wages and salaries	120,702	82,993
Pension scheme contributions	18,684	14,213
	139,386	97,206
Provision for doubtful debts	12,248	2,695
Loss on disposal of fixed assets	4,308	3,649
Government subsidies**	(4,404)	(11,297)
Exchange (gains)/losses, net	48	(27)
Interest income	(756)	(1,275)

* The amortisation of intangible assets, goodwill, negative goodwill and reusable packaging materials are included in "Other operating expenses" on the face of the consolidated profit and loss account.

** Various government grants have been received by certain PRC Subsidiaries in connection with tax refund and the implementation of the work relating to the environmental protection system. The government grants released have been included in other revenue. There are no unfulfilled conditions or contingencies relating to these grants.

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7. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans wholly repayable within five years	46,354	45,052
Interest on other loans	78	301
Interest on an amount due to a joint venture partner of a subsidiary	1,221	1,289
Interest on convertible notes	24	1,090
	<u>47,677</u>	<u>47,732</u>
Other finance cost:		
Amortisation of deferred expenditure	2,864	2,864
	<u>50,541</u>	<u>50,596</u>

8. 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:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees	1,263	810
Other emoluments:		
Salaries, allowances and benefits in kind	5,364	5,325
Pension scheme contributions	223	250
	<u>6,850</u>	<u>6,385</u>

Fees include HK\$456,000 (2002: HK\$210,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

8. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	14	9
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	2	—
HK\$2,500,001 to HK\$3,000,000	—	1
	<u>17</u>	<u>11</u>

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: one) non-director, highest paid employees for the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	1,900	560
Pension scheme contributions	24	7
	<u>1,924</u>	<u>567</u>

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

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

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10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on the existing legislation, interpretations and practices in respect thereof.

	2003 HK\$'000	2002 HK\$'000 (Restated)
Group:		
Current - Mainland China		
Charge for the year	20,634	35,705
Under/(over) provision in prior years	(1,055)	265
Deferred (note 27)	(2,511)	(967)
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Total tax charge for the year	17,068	35,003
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A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group - 2003

	Hong Kong		Mainland PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	(30,064)		169,072		139,008	
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Tax at the statutory tax rate	(5,261)	(17.5)	55,794	33.0	50,533	36.4
Difference in tax rates applied for specific provinces or local authority	—	—	(34,617)	(20.5)	(34,617)	(24.9)
Adjustments in respect of current tax of previous periods	—	—	(1,055)	(0.6)	(1,055)	(0.8)
Estimated tax losses not recognised	5,418	18.0	7,623	4.5	13,041	9.4
Estimated income not subject to tax	—	—	(12,654)	(7.5)	(12,654)	(9.1)
Estimated expenses not deductible for tax	—	—	2,142	1.3	2,142	1.5
Others	(157)	(0.5)	(165)	(0.1)	(322)	(0.2)
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Tax charge at the Group's effective rate	—	—	17,068	10.1	17,068	12.3
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10. TAX (continued)

Group - 2002

	Hong Kong		Mainland PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>(15,377)</u>		<u>175,448</u>		<u>160,071</u>	
Tax at the statutory tax rate	(2,460)	(16.0)	57,898	33.0	55,438	34.6
Difference in tax rates applied for specific provinces or local authority	—	—	(21,502)	(12.3)	(21,502)	(13.4)
Adjustments in respect of current tax of previous periods	—	—	265	0.2	265	0.2
Tax loss utilised from previous periods	—	—	(478)	(0.3)	(478)	(0.3)
Estimated tax losses not recognised	2,460	16.0	341	0.2	2,801	1.8
Estimated income not subject to tax	—	—	(2,431)	(1.4)	(2,431)	(1.5)
Estimated expenses not deductible for tax	—	—	1,964	1.1	1,964	1.2
Others	—	—	(1,054)	(0.6)	(1,054)	(0.7)
Tax charge at the Group's effective rate	<u>—</u>	<u>—</u>	<u>35,003</u>	<u>19.9</u>	<u>35,003</u>	<u>21.9</u>

The Company's PRC Subsidiaries are exempt from the PRC corporate income tax for the first two profitable years of operation and, thereafter, are eligible for a 50% relief from the PRC corporate income tax for the following three years.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Group's net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 includes the profit for the year dealt with in the financial statements of the Company amounting to HK\$112,523,000 (2002: loss of HK\$9,927,000) (Note 30(b)).

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12. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim - 1.4 cents (2002: Nil) per ordinary share	13,954	—
Proposed final - 2.1 cents (2002: Nil) per ordinary share	21,060	—
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	35,014	—
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The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$114,378,000 (2002 (restated): HK\$110,181,000), and the weighted average of 976,583,168 (2002: 788,684,932) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2003 is based on the net profit attributable to shareholders for the year of HK\$114,378,000 (2002 (restated): HK\$110,181,000), as adjusted for the interest on convertible notes of HK\$24,000 (2002: HK\$1,090,000). The weighted average number of ordinary shares used in the calculation is the 976,583,168 (2002: 788,684,932) ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 306,287 (2002: 13,974,359) ordinary shares assumed to have been issued on the full conversion of the convertible notes outstanding during the year and the weighted average of 25,709,852 (2002: 7,238,942) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

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14. FIXED ASSETS

Group

	Land and buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:						
At beginning of year	462,848	992,945	15,262	31,205	131,756	1,634,016
Additions	69,706	123,018	4,599	20,147	205,280	422,750
Acquisitions subsidiaries	52,593	45,639	3,203	1,327	903	103,665
Disposals	(259)	(32,370)	(384)	(5,564)	(354)	(38,931)
Transfers	56,353	192,077	2,587	—	(251,017)	—
Exchange realignment	(2,780)	(5,640)	(115)	(213)	(406)	(9,154)
At 31 December 2003	<u>638,461</u>	<u>1,315,669</u>	<u>25,152</u>	<u>46,902</u>	<u>86,162</u>	<u>2,112,346</u>
Analysis of cost or valuation:						
At cost	—	1,315,669	25,152	46,902	86,162	1,473,885
At valuation	<u>638,461</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>638,461</u>
	<u>638,461</u>	<u>1,315,669</u>	<u>25,152</u>	<u>46,902</u>	<u>86,162</u>	<u>2,112,346</u>
Accumulated depreciation:						
At beginning of year	12,031	222,084	3,899	10,467	—	248,481
Provided during the year	25,538	91,517	2,753	5,637	—	125,445
Disposals	(122)	(16,126)	(227)	(2,700)	—	(19,175)
Exchange realignment	(493)	(1,689)	(43)	(88)	—	(2,313)
At 31 December 2003	<u>36,954</u>	<u>295,786</u>	<u>6,382</u>	<u>13,316</u>	<u>—</u>	<u>352,438</u>
Net book value:						
At 31 December 2003	<u>601,507</u>	<u>1,019,883</u>	<u>18,770</u>	<u>33,586</u>	<u>86,162</u>	<u>1,759,908</u>
At 31 December 2002	<u>450,817</u>	<u>770,861</u>	<u>11,363</u>	<u>20,738</u>	<u>131,756</u>	<u>1,385,535</u>

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14. FIXED ASSETS (continued)

Company

	Furniture fixtures and equipment HK\$'000
Cost:	
Additions and at 31 December 2003	295
Accumulated depreciation:	
Provided during the year and at 31 December 2003	—
Net book value:	
At 31 December 2003	<u>295</u>

The Group's land and buildings were revalued individually at 30 April 2002 in connection with the listing of the Company's shares on 27 June 2002, by Vigers Hong Kong Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$355,398,000 based on their existing use. A revaluation surplus of HK\$20,045,000, resulting from the above valuations, was credited to the fixed asset revaluation reserve. In the opinion of the directors, the fair values of these revalued land and buildings and the land and buildings acquired subsequent to the valuation approximated the carrying values of the respective assets at 31 December 2003.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$307,571,000.

The Group's land and buildings are held under medium term leases and are situated in the Mainland China.

At 31 December 2003, certain of the Group's land and buildings and plant and machinery, with net book values of approximately HK\$700,983,000 (2002: HK\$610,079,000), were pledged to secure certain banking facilities and an other loan granted to the Group (notes 25 and 26).

15. INTANGIBLE ASSETS

Group

	Trademarks HK\$'000	Right to use electricity HK\$'000	Technical know-how HK\$'000	Total HK\$'000
Cost:				
At beginning of year	19,561	15,191	566	35,318
Exchange realignment	(79)	(61)	(3)	(143)
	<u>19,482</u>	<u>15,130</u>	<u>563</u>	<u>35,175</u>
At 31 December 2003	<u>19,482</u>	<u>15,130</u>	<u>563</u>	<u>35,175</u>
Accumulated amortisation:				
At beginning of year	5,956	5,315	57	11,328
Provided during the year	1,544	759	56	2,359
Exchange realignment	(29)	(24)	—	(53)
	<u>7,471</u>	<u>6,050</u>	<u>113</u>	<u>13,634</u>
At 31 December 2003	<u>7,471</u>	<u>6,050</u>	<u>113</u>	<u>13,634</u>
Net book value:				
At 31 December 2003	<u><u>12,011</u></u>	<u><u>9,080</u></u>	<u><u>450</u></u>	<u><u>21,541</u></u>
At 31 December 2002	<u><u>13,605</u></u>	<u><u>9,876</u></u>	<u><u>509</u></u>	<u><u>23,990</u></u>

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16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	141,982	—
Prior year adjustment:		
SSAP 12 - restatement of deferred tax	(3,962)	—
As restated	138,020	—
Acquisitions of subsidiaries (note 31(b))	33,179	—
Acquisition of additional interest in a subsidiary	—	2,736
At 31 December 2003	<u>171,199</u>	<u>2,736</u>
Accumulated amortisation:		
At beginning of year	7,617	—
Prior year adjustment:		
SSAP 12 - restatement of deferred tax	(365)	—
As restated	7,252	—
Provided during the year	8,173	68
At 31 December 2003	<u>15,425</u>	<u>68</u>
Net book value:		
At 31 December 2003	<u>155,774</u>	<u>2,668</u>
At 31 December 2002 (restated)	<u>130,768</u>	<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 negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve.

The amount of negative goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to the adoption of the SSAP in 2001, was HK\$94,000 as at 1 January and 31 December 2003.

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	406,768	368,768
Due from subsidiaries	511,870	307,959
Due to subsidiaries	—	(8,732)
	<u>918,638</u>	<u>667,995</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	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	
Harbin Brewery Investments Limited	British Virgin Islands	US\$50,000	100	—	Investment holding
Harbin Brewing Company Limited *	PRC/ Mainland China	RMB250,000,000	—	100	Production and distribution of bottled, barrel and canned beer, and investment holding
Harbin Brewing (Songjiang) Company Limited **	PRC/ Mainland China	RMB32,500,000	—	100	Production and distribution of bottled beer
Harbin Brewing (Hegang) Company Limited **	PRC/ Mainland China	RMB10,000,000	—	95	Production and distribution of bottled beer
Jilin Harbin Brewing Company Limited ***	PRC/ Mainland China	RMB5,000,000	—	70	Production and distribution of bottled beer
Harbin Brewing (Hailun) Company Limited *	PRC/ Mainland China	RMB37,800,000	—	100	Production and distribution of bottled beer

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	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	
King Victory Investments Inc.	British Virgin Islands	US\$10	100	—	Investment holding
Harbin Brewery Jiamusi Jiafeng Company Limited ** ("HB Jiamusi") (formerly Jiamusi Yuehai Jiafeng Brewery Company Limited)	PRC/ Mainland China	RMB49,720,000	—	60	Production and distribution of bottled beer
Harbin Beer (Mudanjiang Jingpo) Company Limited ** (formerly Mudanjiang Jing Po Brewery Company Limited)	PRC/ Mainland China	RMB64,120,000	—	55	Production and distribution of bottled and canned beer
Harbin Brewery (Changchun Yinpu) Company Limited ** ("HB Yinpu")	PRC/ Mainland China	RMB68,000,000	—	55	Production and distribution of bottled and canned beer
Harbin Brewery Trading Company Limited	Hong Kong	HK\$100	100	—	Trading of beer
Ballantine Management Limited	British Virgin Islands	US\$2	100	—	Investment holding
Harbin Brewing Jinzhou Company Limited *	PRC/ Mainland China	RMB15,000,000	—	100	Production and distribution of bottled beer
Harbin Brewing Daqing Xiaoxue Company Limited ** (formerly Daqing Xiaoxue Brewery Company Limited)	PRC/ Mainland China	RMB15,000,000	—	60	Production and distribution of bottled beer

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	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	
Tangshan Beer Company Limited ** ("HB Tangshan")	PRC/ Mainland China	RMB63,470,000	—	63	Production and distribution of bottled and canned beer
New-Biz Corporation #	British Virgin Islands	US\$3	100	—	Investment holding
Harbin Brewing (Shenyang) Company Limited **/#	PRC/ Mainland China	RMB36,800,000	—	70	Production and distribution of bottled beer
Noble Right Limited #	British Virgin Islands	US\$3	100	—	Investment holding
Harbin Brewing (Yanji) Company Limited **/#	PRC/ Mainland China	US\$8,790,000	—	60	Production and distribution of bottled and canned beer

* these companies are registered as wholly foreign-owned enterprises under the PRC law

** these companies are registered as sino-foreign equity joint ventures under the PRC law

*** this company is registered as a limited liability company under the PRC law

newly acquired during the year

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.

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18. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	91,862	85,120
Work in progress	32,871	28,241
Finished goods	27,000	17,090
Spare parts and consumables	50,339	32,793
Packaging materials	37,516	30,498
	<u>239,588</u>	<u>193,742</u>

No inventories were stated at net realisable value at 31 December 2003 (2002: Nil).

19. ACCOUNTS RECEIVABLE

The Group's sales are normally made on a cash on delivery basis. Credit terms are granted to certain major customers with terms ranging from 30 to 90 days. Each customer has a maximum credit limit which can be extended subject to the approval of sales director and general manager. Overdue balances are reviewed regularly by senior management.

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	26,466	32,859
Between 31 and 60 days	9,611	48,797
Between 61 and 180 days	29,358	39,564
Between 181 and 365 days	15,395	11,860
	<u>80,830</u>	<u>133,080</u>

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20. OTHER RECEIVABLES

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments, deposits and other debtors		72,698	74,659	1,080	8,793
Due from joint venture partners of subsidiaries	21	131,829	35,820	—	—
		204,527	110,479	1,080	8,793

21. BALANCES WITH JOINT VENTURE PARTNERS OF SUBSIDIARIES

The balances with joint venture partners of subsidiaries included in the current assets and current liabilities sections are unsecured and have no fixed terms of repayment. Except for an amount of HK\$1,877,000 (2002: Nil) due from a joint venture partner of a subsidiary which bears interest at the prevailing lending rate quoted by the People's Bank of China, the remaining balance is interest-free.

Included in the amounts due from joint venture partners of subsidiaries is an amount of HK\$105,866,000 (2002: HK\$28,308,000) due from Harbin Brewery Factory (note 35), the joint venture partner of HB Hegang and an entity under the Harbin Municipal Government, which is unsecured, interest-free and has no fixed terms of repayment. Harbin Tianlu Assets Management Company Limited, an entity under the Harbin Municipal Government, has guaranteed the Group in writing the repayment of the amount in 2004.

The amounts due to joint venture partners of subsidiaries included in non-current liabilities section included an amount of HK\$18,668,000 (2002: HK\$18,668,000) which is unsecured, bears interest at the prevailing lending rate quoted by the People's Bank of China, and is not repayable within one year. The remaining amount is unsecured and interest-free.

22. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	119,797	57,049
Between 31 and 60 days	32,111	18,421
Between 61 and 180 days	42,028	28,560
Between 181 and 365 days	9,626	35,288
Between 366 and 540 days	27,458	12,110
	231,020	151,428

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23. OTHER PAYABLES AND ACCRUALS

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accruals and other liabilities		426,496	324,321	2,653	2,683
Due to joint venture partners of subsidiaries	21	26,056	26,813	—	—
		452,552	351,134	2,653	2,683

24. CONVERTIBLE NOTES

On 30 October 2001, the Company issued a total of HK\$21.8 million convertible notes (the "Notes") to two independent third parties. The Notes bear interest at 5% per annum with original maturity date on 28 October 2002. Pursuant to the subscription agreements dated 29 October 2001, if the date of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Listing Date") falls within the period from 2 April 2002 to 28 October 2002, the noteholders may, at their sole discretion, extend the maturity date to eight months from the Listing Date. The issue price of the Notes was 100% of their principal amount.

On 21 October 2002 and 28 October 2002, the noteholders served notices to the Company to extend the maturity date of the Notes from the 28 October 2002 to 26 February 2003.

The Notes are, at the option of the noteholders, convertible into fully paid ordinary shares of HK\$0.1 each in the Company at the offer price of HK\$1.56. The conversion period for the Notes is from the Listing Date up to the fifth business day prior to the extended maturity date of the Notes (as may be amended pursuant to the subscription agreements), both dates inclusive. On conversion, the principal amount of the Notes being converted and the accrued interest thereon will be extinguished and released in exchange for the new shares to be issued by the Company.

Unless previously redeemed or converted, the outstanding Notes will be fully redeemed by the Company on the extended maturity date at their principal amount plus accrued and unpaid interest on the maturity date.

On 9 January 2003, the noteholders exercised their rights to fully convert the Notes into 13,974,358 shares of the Company at HK\$1.56 per share, representing approximately 1.51% of the enlarged issued share capital of the Company.

Notes to Financial Statements

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25. OTHER LOANS

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Other loans:			
Secured	(i)	964	1,628
Unsecured	(ii)	6,880	9,399
		<u>7,844</u>	<u>11,027</u>

Notes:

- (i) The loan is secured by certain of the Group's plant and machinery with net book value of HK\$397,000 (2002: HK\$455,000), interest-free and has no fixed terms of repayment.
- (ii) The unsecured other loans are repayable within one year or have no fixed terms of repayment.

The balance as at 31 December 2003 included an amount of HK\$999,000 which bears interest at a fixed rate of 7% per annum. The remaining amounts are interest-free.

The balance as at 31 December 2002 included an amount of HK\$1,314,000 which bore interest at a fixed rate of 7% per annum and an amount of HK\$2,139,000 in 2002 which bore interest at the prevailing bank lending rate quoted by the People's Bank of China. The remaining amounts were interest-free.

Notes to Financial Statements

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26. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans:				
Secured	485,780	542,036	53,485	89,143
Unsecured	352,529	212,202	—	—
	838,309	754,238	53,485	89,143
Bank loans repayable:				
Within one year	113,461	114,671	35,657	35,657
In the second year	720,156	611,373	17,829	35,657
In the third to fifth years, inclusive	4,692	28,914	—	17,829
	838,309	754,238	53,486	89,143
Portion classified as current liabilities	(113,461)	(114,671)	(35,657)	(35,657)
Long term portion	724,848	639,567	17,829	53,486

Certain of the Group's bank loans are secured by the Group's land and building and plant and machinery, which had an aggregate net book value at the balance sheet date of approximately HK\$700,586,000 (2002: HK\$609,624,000).

In addition, the Group's syndicated bank loan at the balance sheet date of approximately US\$6.9 million (2002: US\$11.4 million) is secured by the following:

- (i) Floating charge over the assets of certain of the Company's subsidiaries; and
- (ii) Share mortgage/assignment of the ownership rights of certain of the Group's interests in subsidiaries.

27. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

	Revaluation of properties HK\$'000	2003 Fair value adjustment arising from acquisition of subsidiaries HK\$'000	Total HK\$'000
At 1 January 2003			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 - restatement of deferred tax	<u>5,679</u>	<u>1,175</u>	<u>6,854</u>
At 1 January 2003 as restated and gross deferred tax liabilities at 31 December 2003	<u>5,679</u>	<u>1,175</u>	<u>6,854</u>
Offset deferred tax assets related to income tax levied by the same tax authority on the same entity			<u>(3,918)</u>
			<u>2,936</u>

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27. DEFERRED TAX (continued)

Deferred tax assets

Group

	Future benefit of expenses HK\$'000	2003 Fair value adjustment arising from acquisition of subsidiaries HK\$'000	Total HK\$'000
At 1 January 2003			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 - restatement of deferred tax	<u>5,884</u>	<u>5,137</u>	<u>11,021</u>
As restated	5,884	5,137	11,021
Deferred tax charged to the profit and loss account during the year	2,511	—	2,511
Exchange realignment	<u>(46)</u>	—	<u>(46)</u>
Gross deferred tax assets at 31 December 2003	<u>8,349</u>	<u>5,137</u>	13,486
Offset deferred tax liabilities related to income tax levied by the same tax authority on the same entity			<u>(3,918)</u>
			<u>9,568</u>
Net deferred tax assets at 31 December 2003			<u>6,632</u>

27. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	Revaluation of properties HK\$'000	2002 Fair value adjustment arising from acquisition of subsidiaries HK\$'000	Total HK\$'000
At 1 January 2002	—	—	—
Deferred tax charged to the revaluation reserve account during the year	5,679	—	5,679
Deferred tax debited to the goodwill account during the year	—	1,175	1,175
Gross deferred tax liabilities at 31 December 2002	<u>5,679</u>	<u>1,175</u>	6,854
Offset deferred tax assets related to income tax levied by the same tax authority on the same entity			<u>(3,107)</u>
			<u>3,747</u>

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27. DEFERRED TAX (continued)

Deferred tax assets

Group

	Future benefit of expenses HK\$'000	2002 Fair value adjustment arising from acquisition of subsidiaries HK\$'000	Total HK\$'000
At 1 January 2002			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 - restatement of deferred tax	4,916	5,137	10,053
As restated	4,916	5,137	10,053
Deferred tax credited to the profit and loss account during the year	967	—	967
Exchange realignment	1	—	1
Gross deferred tax assets at 31 December 2002	<u>5,884</u>	<u>5,137</u>	11,021
Offset deferred tax liabilities related to income tax levied by the same tax authority on the same entity			(3,107)
			<u>7,914</u>
Net deferred tax assets at 31 December 2002			<u>4,167</u>

The Group has tax losses arising in Hong Kong of HK\$118,000 (2002: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

27. DEFERRED TAX (continued)

SSAP 12 (Revised) was adopted during the year, as further explained in note 3 to the financial statements. This change in accounting policy has resulted in an increase in the Group's net deferred tax asset as at 31 December 2003 and 2002 by HK\$6,632,000 and HK\$4,167,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased by HK\$1,804,000 and HK\$1,412,000, respectively, the consolidated retained profits at 1 January 2003 and 2002 have been increased by HK\$6,210,000 and HK\$4,798,000, respectively, and the consolidated fixed assets revaluation reserve at 1 January 2003 has been reduced by HK\$3,940,000, as detailed in the consolidated statement of changes in equity.

28. SHARE CAPITAL

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
5,000,000,000 (2002: 5,000,000,000) ordinary shares of HK\$0.10 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
1,002,864,358 (2002: 913,000,000) ordinary shares of HK\$0.10 each	<u>100,286</u>	<u>91,300</u>

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

- (a) On 9 January 2003, the holders of the Company's Notes (note 24) exercised their rights to convert the principal amount of the Notes in the sum of HK\$21.8 million at HK\$1.56 per share.
- (b) On 26 February 2003, 44,000,000 existing ordinary shares of the Company held by CEDF Brewery (Holdings) Limited ("CEDF"), the major shareholder of the Company, were placed to independent placees at HK\$2.1 per share. On the same date, CEDF subscribed for 44,000,000 new ordinary shares of the Company at HK\$2.1 each for cash, totalling HK\$92.4 million, for the acquisition of minority interests of the Group's subsidiary as well as the other breweries in Mainland China.
- (c) The subscription rights attaching to 31,890,000 share options were exercised at the subscription price of HK\$1.56 per share and HK\$1.85 per share (note 29), resulting in the issue of 31,890,000 ordinary shares of HK\$0.1 each for total cash consideration of HK\$51,413,000.

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28. SHARE CAPITAL (continued)

Shares (continued)

The summary of the above movements in the issued share capital of the Company is as follows:

	Notes	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Issued share capital as at 1 January 2002		1,000,000	100	—	100
New issue on listing		220,000,000	22,000	321,200	343,200
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public		659,000,000	65,900	(65,900)	—
New issue on exercise of over-allotment option		33,000,000	3,300	48,180	51,480
Share issue expenses		—	—	(49,409)	(49,409)
Issued share capital as at 31 December 2002		913,000,000	91,300	254,071	345,371
New issue upon exercise of convertible rights of convertible notes	(a)	13,974,358	1,397	20,403	21,800
New issue on share placement	(b)	44,000,000	4,400	88,000	92,400
Share options exercised	(c)	31,890,000	3,189	48,224	51,413
Share issue expenses		—	—	(2,499)	(2,499)
Issued share capital as at 31 December 2003		1,002,864,358	100,286	408,199	508,485

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEMES

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Scheme") and a share option scheme (the "Share Option Scheme") under which directors and full-time employees of the Group were granted options to acquire shares of the Company.

The purpose of the share option schemes is to give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimise their performance and efficiency and to attract and retain the participants whose contributions are important to the long-term growth and profitability of the Group.

Pre-IPO Scheme

Pursuant to the terms of the Pre-IPO Scheme, options to subscribe for an aggregate of 67,340,000 shares of the Company were granted to nine directors and certain employees of the Group on 3 June 2002, at an exercise price of HK\$1.56.

The following share options were outstanding under the Pre-IPO 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 2003	Exercised during the year	At 31 December 2003				Immediately preceding the grant date of options HK\$	Immediately preceding the exercise date of options HK\$
Directors								
Li Wentao	4,400,000	4,400,000	—	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.65
	4,400,000	—	4,400,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
Lo Peter (Note)	4,400,000	4,400,000	—	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.60
	4,400,000	—	4,400,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
Fu Hui	3,300,000	3,300,000	—	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.65
	3,300,000	—	3,300,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
Au Peter Jeva	2,200,000	2,200,000	—	3 June 2002	27 September 2003 to 26 June 2007	1.56	N/A	3.10

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29. SHARE OPTION SCHEMES (continued)

Pre-IPO Scheme (continued)

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 2003	Exercised during the year	At 31 December 2003				Immediately preceding the grant date of options HK\$	Immediately preceding the exercise date of options HK\$
Directors (continued)								
Au Peter Jeva	2,200,000	—	2,200,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	2,200,000	—	2,200,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A
Lee Kong Leong	2,200,000	2,200,000	—	3 June 2002	27 September 2003 to 26 June 2007	1.56	N/A	3.10
	2,200,000	—	2,200,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	2,200,000	—	2,200,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A
Bao Liusuo	2,250,000	2,250,000	—	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.65
	2,250,000	—	2,250,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
Tong Kay Tak Tom	1,760,000	1,760,000	—	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.48
	1,760,000	—	1,760,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	1,760,000	—	1,760,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A
Tse Kwok Lam	1,760,000	1,760,000	—	3 June 2002	27 September 2003 to 26 June 2007	1.56	N/A	3.10
	1,760,000	—	1,760,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	1,760,000	—	1,760,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A

29. SHARE OPTION SCHEMES (continued)

Pre-IPO Scheme (continued)

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 2003	Exercised during the year	At 31 December 2003				Immediately preceding the grant date of options HK\$	Immediately preceding the exercise date of options HK\$
Directors (continued)								
Chen Zhixiong	800,000	—	800,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	N/A
	800,000	—	800,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	800,000	—	800,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A
Other employees								
In aggregate	4,160,000	3,880,000	280,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.61
	4,160,000	—	4,160,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	4,160,000	—	4,160,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A
	<u>12,480,000</u>	<u>3,880,000</u>	<u>8,600,000</u>					
	<u>67,340,000</u>	<u>26,150,000</u>	<u>41,190,000</u>					

The 26,150,000 share options exercised during the year resulted in the issue of 26,150,000 ordinary shares of the Company and new share capital of HK\$2,615,000 and share premium of HK\$38,179,000 (before issue expenses), as detailed in note 28 to the financial statements.

Note: Lo Peter also has family interests in respect of the option granted by the Company to Ho Kar Yin (an employee of the Company), the spouse of Lo Peter, who had 1,800,000 options. Out of these, 600,000 options have been exercised during the year. Upon the full exercise of the remaining options, 1,200,000 shares will be allotted and issued to Ho Kar Yin.

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29. SHARE OPTION SCHEMES (continued)

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of (i) motivating the participants to optimise their performance and efficiency; and (ii) attracting and retaining the participants whose contributions are important to the long term growth and profitability of the Group. Eligible participants of the Share Option Scheme include the executive and non-executive directors, officers, employees, substantial shareholders of the Company and its subsidiaries (or their respective associates).

The Share Option Scheme became effective on 17 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other share option scheme of the Company (excluding options lapsed in accordance with the Scheme and any other schemes of the Company) may not in aggregate exceed 10% of the issued share capital of the Company, or to a maximum of 30% should the shareholders renew the 10% limit, from time to time which have been duly allocated and issued. The maximum number of shares issuable under share options to each eligible participant (including both exercised and outstanding options) in the Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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. 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 price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise period of the share options granted is determinable by the directors, but may not be later than ten years after the date of the grant of the option. According to the Share Option Scheme, there is no provision requiring a minimum holding period before an option may be exercised. A nominal consideration HK\$1 is payable on acceptance of the grant of an option under the Share Option Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the shares; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options.

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

29. SHARE OPTION SCHEMES (continued)

Share Option Scheme (continued)

Details of these options are as follows:

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 2003	Exercised during the year	At 31 December 2003				Immediately preceding the grant date of options HK\$	Immediately preceding the exercise date of options HK\$
Other employees								
In aggregate	6,040,000	5,740,000	300,000	16 July 2002	27 June 2003 to 26 June 2007	1.85	1.85	2.48
	6,040,000	—	6,040,000	16 July 2002	27 June 2004 to 26 June 2007	1.85	1.85	N/A
	6,040,000	—	6,040,000	16 July 2002	27 June 2005 to 26 June 2007	1.85	1.85	N/A
	<u>18,120,000</u>	<u>5,740,000</u>	<u>12,380,000</u>					

The 5,740,000 share options exercised during the year resulted in the issue of 5,740,000 ordinary shares of the Company and new share capital of HK\$574,000 and share premium of HK\$10,045,000 (before issue expenses), as detailed in note 28 to the financial statements.

At the balance sheet date, the Company had 41,190,000 and 12,380,000 share options outstanding under the Pre-IPO Share Option Scheme and Share Option Scheme, respectively which represented approximately 4.10% and 1.23% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 53,570,000 additional ordinary shares of the Company and additional share capital of 5,357,000 and share premium of 81,802,400 (before issue expenses).

Notes to Financial Statements

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30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 34 and 35 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation in preparation for the listing of the Company in 2002 over the nominal value of the share capital of the Company issued in exchange therefor.

The reserve fund and the enterprise expansion fund are non-distributable and the transfers to these funds are determined by the board of directors of the PRC Subsidiaries in accordance with the relevant laws and regulations of the Mainland China. The reserve fund and the enterprise expansion fund can be used to make good future losses or to increase the capital of the PRC Subsidiaries.

The negative goodwill arising on the acquisition of a subsidiary in previous year remains credited to the capital reserve, as explained in note 16 to the financial statements.

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30. RESERVES (continued)

(b) Company

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002		—	297,699	(7,124)	290,575
New issue on listing	28	321,200	—	—	321,200
Capitalisation issue of shares	28	(65,900)	—	—	(65,900)
New issue on exercise of over-allotment option	28	48,180	—	—	48,180
Share issue expenses	28	(49,409)	—	—	(49,409)
Net loss for the year		—	—	(9,927)	(9,927)
At 31 December 2002 and at 1 January 2003		254,071	297,699	(17,051)	534,719
New issue upon exercise of convertible rights of convertible notes	28(a)	20,403	—	—	20,403
New issue on share placement	28(b)	88,000	—	—	88,000
Share options exercised	28(c)	48,224	—	—	48,224
Share issue expenses	28	(2,499)	—	—	(2,499)
Net profit for the year		—	—	112,523	112,523
Interim 2003 dividend	12	—	—	(13,954)	(13,954)
Proposed final 2003 dividend	12	—	—	(21,060)	(21,060)
At 31 December 2003		408,199	297,699	60,458	766,356

The Company's contributed surplus represents the excess of the fair value of the shares of the PRC Subsidiaries acquired pursuant to the Group reorganisation in preparation for the listing of the Company in 2002, over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company of approximately HK\$408,199,000 as at 31 December 2003 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 may also be distributed in the form of fully paid bonus shares.

Notes to Financial Statements

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31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

The Group had the following major non-cash transactions during the year:

- (i) As detailed in note 28(a) to the financial statements, the holders of the Company's Notes exercised their rights to convert the principal amount of the convertible notes in the sum of HK\$21.8 million at HK\$1.56 per share.
- (ii) The capital contribution made by the minority shareholder of a subsidiary of the Group was in the form of non-current assets valued at HK\$114,733,000, non-cash current assets valued at HK\$14,840,000, current liabilities valued at HK\$79,882,000 and non-current liabilities valued at HK\$29,212,000.

In the prior year, an amount of HK\$56,394,000 due to a joint venture partner of a subsidiary was capitalised as capital reserve of a subsidiary.

(b) Acquisitions of subsidiaries

	2003 HK\$'000	2002 HK\$'000 (Restated)
Net liabilities acquired:		
Fixed assets	103,665	166,889
Deposits paid for purchases of fixed assets	—	1,610
Reusable packaging materials	5,789	12,854
Inventories	8,045	13,184
Accounts receivable	104	201
Prepayments, deposits and other debtors	1,365	10,251
Due from joint venture partners of subsidiaries	—	4,972
Cash and bank balances	7,256	21,096
Accounts payable	(369)	(28,890)
Tax payable	(3,063)	—
Other payables and accruals	(41,656)	(61,102)
Bank and other loans	(38,585)	(103,663)
Due to joint venture partners of subsidiaries	—	(8,312)
Shareholder's loan	(16,321)	(20,000)
Minority interests	(37,730)	(11,065)
	(11,500)	(1,975)
Shareholder's loan to subsidiaries acquired	16,321	20,000
Goodwill arising from acquisitions (note 16)	33,179	51,975
	38,000	70,000
Satisfied by:		
Cash	38,000	70,000

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisitions of subsidiaries (continued)

An analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	(38,000)	(70,000)
Cash and bank balances acquired	7,256	21,096
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(30,744)	(48,904)
	<hr/> <hr/>	<hr/> <hr/>

The Group acquired a 100% interest in the New-Biz Corporation and its subsidiary (the "New-Biz Group") and the Noble Right Limited and its subsidiary (the "Noble Right Group") from independent third parties on 17 March 2003 and 9 April 2003, respectively. The New-Biz Group and the Noble Right Group are engaged in the production and distribution of beer.

Since its acquisition, the New-Biz Group contributed HK\$19,269,000 to the Group's turnover and a loss of HK\$5,922,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003 and the Noble Right Group contributed HK\$72,881,000 to the Group's turnover and HK\$15,874,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

The subsidiaries acquired in the prior year contributed HK\$37,712,000 to turnover and HK\$8,502,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

32. CONTINGENT LIABILITIES

At 31 December 2003, the Group had given guarantees of approximately HK\$5,401,000 (2002: HK\$8,047,000) to a bank in connection with the credit facilities granted to certain employees of a subsidiary for financing the construction of employees' quarters. Upon the issuance of the building ownership certificate, the employees' quarters will be mortgaged to secure the credit facilities and the mortgage will then replace the guarantees.

Notes to Financial Statements

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33. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 30 years.

At 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	2,331	2,681	1,096	1,570
In the second to fifth years, inclusive	4,215	1,276	1,509	—
After five years	8,879	1,623	—	—
	<u>15,425</u>	<u>5,580</u>	<u>2,605</u>	<u>1,570</u>

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted for	88,717	50,988
Authorised, but not contracted for	—	8,293
	<u>88,717</u>	<u>59,281</u>

(b) Other commitments

The Group had committed (i) payment of HK\$2,815,000 (2002: HK\$3,769,000) to Yinpu Brewery Factory, a joint venture partner of a subsidiary, for the use of trademark; and (ii) payment of HK\$123,336,000 (2002: HK\$96,413,000) to suppliers for purchases of raw materials.

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2003 HK\$'000	2002 HK\$'000
Advances to joint venture partner of HB Hegang	(i)	109,591	48,597
Payment to joint venture partner of HB Jilin for the use of plant and machinery	(ii)	983	984
Payment to joint venture partner of HB Yinpu for the use of trademark	(iii)	941	943
Interest to joint venture partner of HB Jiamusi	(iv)	1,221	1,289
Payment to joint venture partner of HB Tangshan for the use of land	(v)	308	—
		<u> </u>	<u> </u>

Notes:

- (i) The advances were made to Harbin Brewery Factory, the joint venture partner of HB Hegang, and is unsecured, interest-free and has no fixed terms of repayment (note 21).
- (ii) The payment for the use of plant and machinery was charged at 6.5% on the revalued amount of the relevant assets, which was based on a valuation at 31 December 1999 performed by an independent valuer in the Mainland China.
- (iii) The payment for the use of trademark was charged at RMB1,000,000 per annum.
- (iv) The interest was charged at the prevailing lending rate quoted by the People's Bank of China.
- (v) The payment for the use of land was determined based on RMB5 per square metre with reference to the market price prevailing at the time of entering into the contract and was charged at RMB328,000 per annum commencing from 1 January 2003 until 31 December 2032.

The salaries in respect of the Group's employees and office rentals in Hong Kong prior to the listing of the Company's shares on the Stock Exchange were absorbed by one of the Company's shareholders.

In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of business of the Group.

Notes to Financial Statements

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36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

Apart from the above, during the year, the Group reclassified reusable packaging materials (previously included in inventories) from the current assets section to the non-current assets section. The directors consider that such reclassification will allow a more appropriate presentation of the Group's financial position. The comparative amounts of reusable packaging materials and inventories have been restated to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2004.