

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of preparation

This interim financial report is unaudited and has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31st December 2004 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24th February 2005.

The same accounting policies adopted in the 2004 financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 financial statements.

## 2. Segment Reporting

*in Hong Kong dollar thousands*

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of customers is chosen. The segment presentation has been changed from location of assets to location of customers because location of customers can better reflect the financial performance of the Group.

No business segments analysis of the Group is presented as all the Group's turnover and trading result are generated from the manufacture and distribution of bottled, canned and draught beers.

|   | Hong Kong        |               |               | PRC              |               |               | Inter-segment elimination |               |            | Consolidated     |               |            |
|---|------------------|---------------|---------------|------------------|---------------|---------------|---------------------------|---------------|------------|------------------|---------------|------------|
|   | Six months ended |               | Year ended    | Six months ended |               | Year ended    | Six months ended          |               | Year ended | Six months ended |               | Year ended |
|   | 30th June        | 31st December | 31st December | 30th June        | 31st December | 31st December | 30th June                 | 31st December | 30th June  | 31st December    | 31st December |            |
|   | 2005             | 2004          | 2004          | 2005             | 2004          | 2004          | 2005                      | 2004          | 2004       | 2005             | 2004          | 2004       |
| Revenue from external customers           | 329,249          | 320,863       | 696,997       | 261,075          | 258,651       | 564,235       | -                         | -             | -          | 590,324          | 579,514       | 1,261,232  |
| Inter-segment revenue                     | 16,392           | 11,925        | 29,815        | -                | -             | -             | (16,392)                  | (11,925)      | (29,815)   | -                | -             | -          |
| Other revenue                             | 2,329            | 2,482         | 4,685         | -                | -             | -             | -                         | -             | -          | 2,329            | 2,482         | 4,685      |
| Total revenue                             | 347,970          | 335,270       | 731,497       | 261,075          | 258,651       | 564,235       | (16,392)                  | (11,925)      | (29,815)   | 592,653          | 581,996       | 1,265,917  |
| Segment result                            | (2,941)          | 771           | 19,112        | (15,727)         | (4,848)       | (5,366)       |                           |               |            | (18,668)         | (4,077)       | 13,746     |
| Unallocated operating income and expenses |                  |               |               |                  |               |               |                           |               |            | 4,269            | 2,058         | 4,930      |
| Finance costs                             |                  |               |               |                  |               |               |                           |               |            | (2,865)          | (1,129)       | (2,832)    |
| Income tax                                |                  |               |               |                  |               |               |                           |               |            | (333)            | (2,217)       | (3,032)    |
| (Loss)/profit after taxation              |                  |               |               |                  |               |               |                           |               |            | (17,597)         | (5,365)       | 12,812     |

### 3. (Loss)/profit before taxation

*in Hong Kong dollar thousands*

|   | Six months ended |         | Year ended    |
|---|------------------|---------|---------------|
|   | 30th June        |         | 31st December |
|   | 2005             | 2004    | 2004          |
| (Loss)/profit before taxation is stated after charging/<br>(crediting) the following items: |                  |         |               |
| Depreciation of fixed assets  | <b>39,192</b>    | 38,345  | 80,630        |
| Amortisation of trademarks and goodwill   | <b>1,947</b>     | 2,109   | 4,305         |
| Interest expenses   | <b>2,795</b>     | 1,058   | 2,683         |
| Inventory costs   | <b>236,953</b>   | 186,352 | 405,129       |
| Interest income   | <b>(4,269)</b>   | (2,058) | (4,930)       |
| Loss on disposal of fixed assets  | <b>378</b>       | 656     | 4,040         |

### 4. Income tax in the Consolidated Income Statement

*in Hong Kong dollar thousands*

|   | Six months ended |         | Year ended    |
|---|------------------|---------|---------------|
|   | 30th June        |         | 31st December |
|   | 2005             | 2004    | 2004          |
| <b>Overseas taxation</b>                |                  |         |               |
| Tax refund in respect of previous years | –                | –       | (6,101)       |
| <b>Deferred taxation</b>                | <b>(333)</b>     | (2,217) | 9,133         |
|   | <b>(333)</b>     | (2,217) | 3,032         |

No provision for Hong Kong profits tax has been made in the financial statements as the Company sustained losses for taxation purposes.

No provision for overseas taxation has been made in the financial statements as the overseas subsidiaries sustained losses for taxation purposes.

In 2004, the Group received a tax refund from the PRC tax authority in relation to the re-investment of retained profits of a PRC subsidiary into registered capital of that subsidiary.

## 5. Dividends

in Hong Kong dollar thousands

(a) Dividends attributable to the interim period/year

|   | Six months ended |      | Year ended    |
|---|------------------|------|---------------|
|   | 30th June        |      | 31st December |
|   | 2005             | 2004 | 2004          |
| Interim dividend declared after the interim period<br>end of \$0.01 per share (2004: \$nil per share) | <u>3,736</u>     | —    | —             |
|   | <u>3,736</u>     | —    | —             |

The interim dividend declared after balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous year, approved and paid during the interim period/year

|   | Six months ended |      | Year ended    |
|---|------------------|------|---------------|
|   | 30th June        |      | 31st December |
|   | 2005             | 2004 | 2004          |
| Final dividend in respect of the previous year, approved<br>and paid during the interim period/year, of \$0.01 per<br>share (2004: \$nil per share) (note 11) | <u>3,736</u>     | —    | —             |

## 6. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on (loss)/profit attributable to equity holders of the parent for the period ended 30th June 2005 of a loss of \$12,415,000 (30th June 2004 loss of: \$3,519,000; 31st December 2004 profit of: \$11,578,000) and on 373,570,560 ordinary shares (at 30th June and 31st December 2004: 373,570,560 ordinary shares), being the weighted average number of shares in issue during the period/year.

The amount of diluted (loss)/earnings per share is not presented as there were no dilutive potential ordinary shares in existence.

## 7. Fixed assets

*in Hong Kong dollar thousands*

|                      | <b>Plant, property<br/>and equipment</b> |
|----------------------|--|
|                      | <b>Six months ended<br/>30th June</b>    |
|                      | <b>2005</b>                              |
| At 1st January 2005  | <b>1,939,135</b>                         |
| Additions            | <b>9,822</b>                             |
| Disposals            | <b>(748)</b>                             |
| Exchange adjustments | <b>(578)</b>                             |
| Depreciation         | <b>(39,192)</b>                          |
| At 30th June 2005    | <b><u>1,908,439</u></b>                  |

## 8. Inventories

*in Hong Kong dollar thousands*

|                                 | <b>As at<br/>30th June</b> | As at<br>31st December |
|---------------------------------|----------------------------|------------------------|
|                                 | <b>2005</b>                | 2004                   |
| Products in hand and in process | <b>31,190</b>              | 29,763                 |
| Materials and supplies          | <b>57,836</b>              | 63,645                 |
|                                 | <b><u>89,026</u></b>       | <u>93,408</u>          |

## 9. Trade receivables and payables – ageing analysis

*in Hong Kong dollar thousands*

Credit is offered to customers following financial assessment and an established payment record. Security in the form of mortgages or bank guarantees is obtained from major customers. Credit limits are set for all customers and these are exceeded only with the approval of senior company officers. Customers considered to be a credit risk trade on a cash basis. Professional staff monitor accounts receivable and follow up collections. General credit terms are payment by the end of the month following the month in which sales took place.

The ageing of trade receivables (net of provision for bad and doubtful debts) is as follows:

|                   | <b>As at<br/>30th June</b> | As at<br>31st December |
|-------------------|----------------------------|------------------------|
|                   | <b>2005</b>                | 2004                   |
| From invoice date |                            |                        |
| Less than 30 days | <b>43,659</b>              | 25,800                 |
| 31 to 60 days     | <b>20,566</b>              | 21,572                 |
| 61 to 90 days     | <b>6,879</b>               | 7,716                  |
| over 90 days      | <b>15,818</b>              | 9,564                  |
|                   | <b><u>86,922</u></b>       | <u>64,652</u>          |

The ageing of trade payables is as follows:

|                   | <b>As at<br/>30th June</b> | As at<br>31st December |
|-------------------|----------------------------|------------------------|
|                   | <b>2005</b>                | 2004                   |
| From invoice date |                            |                        |
| Less than 30 days | <b>46,574</b>              | 41,172                 |
| 31 to 60 days     | <b>3,204</b>               | 1,709                  |
| 61 to 90 days     | <b>1,735</b>               | 285                    |
| over 90 days      | <b>2,490</b>               | 1,546                  |
|                   | <b>54,003</b>              | 44,712                 |

## 10. Cash and cash equivalents

*in Hong Kong dollar thousands*

Cash and cash equivalents comprise:

|                          | <b>As at<br/>30th June</b> | As at<br>31st December |
|--------------------------|----------------------------|------------------------|
|                          | <b>2005</b>                | 2004                   |
| Deposits with banks      | <b>403,255</b>             | 386,284                |
| Cash at bank and in hand | <b>79,329</b>              | 68,533                 |
|                          | <b>482,584</b>             | 454,817                |

## 11. Reserves

*in Hong Kong dollar thousands*

|  | Attributable to equity holders of the parent |                  |                    |                                    |                    |                  |                       |                  |
|--|--|------------------|--------------------|------------------------------------|--------------------|------------------|-----------------------|------------------|
|  | Share<br>capital                             | Share<br>premium | Capital<br>reserve | Exchange<br>fluctuation<br>reserve | Revenue<br>reserve | Total            | Minority<br>interests | Total<br>equity  |
| Balance at 1st January 2004  | 186,785                                      | 65,739           | 112,970            | (5,737)                            | 1,664,302          | 2,024,059        | 97,154                | 2,121,213        |
| Loss for the period  | —  | —                | —                  | —                                  | (3,519)            | (3,519)          | (1,846)               | (5,365)          |
| Exchange gain arising on consolidation   | —  | —                | —                  | 1,024                              | —                  | 1,024            | 1,878                 | 2,902            |
| Balance at 30th June 2004  | <b>186,785</b>                               | <b>65,739</b>    | <b>112,970</b>     | <b>(4,713)</b>                     | <b>1,660,783</b>   | <b>2,021,564</b> | <b>97,186</b>         | <b>2,118,750</b> |
| Balance at 1st July 2004   | 186,785                                      | 65,739           | 112,970            | (4,713)                            | 1,660,783          | 2,021,564        | 97,186                | 2,118,750        |
| Gain for the period  | —  | —                | —                  | —                                  | 15,097             | 15,097           | 3,080                 | 18,177           |
| Exchange loss arising on consolidation   | —  | —                | —                  | (112)                              | —                  | (112)            | (1,715)               | (1,827)          |
| Balance at 31st December 2004  | <b>186,785</b>                               | <b>65,739</b>    | <b>112,970</b>     | <b>(4,825)</b>                     | <b>1,675,880</b>   | <b>2,036,549</b> | <b>98,551</b>         | <b>2,135,100</b> |
| Balance at 1st January 2005  | 186,785                                      | 65,739           | 112,970            | (4,825)                            | 1,675,000          | 2,036,549        | 98,551                | 2,135,100        |
| Dividends attributable to the previous year,<br>approved and paid during the period (note 5) | —  | —                | —                  | —                                  | (3,736)            | (3,736)          | —                     | (3,736)          |
| Loss for the period  | —  | —                | —                  | —                                  | (12,415)           | (12,415)         | (5,182)               | (17,597)         |
| Exchange loss arising on consolidation   | —  | —                | —                  | (244)                              | —                  | (244)            | (74)                  | (318)            |
| <b>Balance at 30th June 2005</b>   | <b>186,785</b>                               | <b>65,739</b>    | <b>112,970</b>     | <b>(5,069)</b>                     | <b>1,659,729</b>   | <b>2,020,154</b> | <b>93,295</b>         | <b>2,113,449</b> |

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The exchange fluctuation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for translation of foreign currencies.

The capital reserve of the Group represents the reserve arising from the capitalisation of retained profits of a PRC subsidiary.

## 12. Material related party transactions

The Group purchased and sold products and materials from and to companies that either had a controlling interest in the Group or were also subsidiaries of the ultimate holding company. These transactions were carried out under the same terms as the related parties trade with other customers. For the six months ended 30th June 2005, total purchases from and sales to these related parties were \$25,363,000 (\$27,532,000 for the six months ended 30th June 2004) and \$17,081,000 (\$14,740,000 for the six months ended 30th June 2004) respectively. The net amount due to these related parties amounted to \$8,108,000 (\$1,760,000 as at 30th June 2004) on 30th June 2005.

## 13. Commitments

*in Hong Kong dollar thousands*

The Group's commitments for capital expenditure, for which no provision has been made in the financial statements, totalled approximately:

|  | <b>As at<br/>30th June<br/>2005</b> | As at<br>31st December<br>2004 |
|--|-------------------------------------|--------------------------------|
| Contracted for                                     | <b>579</b>                          | 1,120                          |
| Authorised by the directors but not contracted for | <b>25,381</b>                       | 3,516                          |
|  | <b>25,960</b>                       | 4,636                          |

## 14. Contingent liabilities

*in Hong Kong dollar thousands*

In accordance with a subsidiary company's factory lease agreement, except for certain specified reasons, the subsidiary company is required to pay the lessor a penalty of \$10.58 million (adjusted for exchange differences) if the agreement is terminated before 28th February 2021, the expiry date of the lease.

As at 30th June 2005, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to subsidiary companies.

|                     | <b>As at<br/>30th June<br/>2005</b> | As at<br>31st December<br>2004 |
|---------------------|-------------------------------------|--------------------------------|
| Guarantees to banks | <b>50,513</b>                       | 50,552                         |