

CONNECTED TRANSACTIONS

Members of the Group are parties to certain transactions that will, upon the listing of the Shares on the Stock Exchange, constitute connected transactions for the purposes of the Listing Rules. The following transactions between the Group and its connected persons (as defined in the Listing Rules) will continue following the listing of the Shares on the Stock Exchange but are exempted from disclosure by announcement and/or shareholders' approval under the Listing Rules.

Exempted continuing connected transactions

1. *Renting of plant and machinery by HB Jilin from its substantial shareholder*

HB Jilin has been renting certain plant and machinery from Jilin Guoren since February 2000 for an annual rental equal to a sum of 6.5% of the value of such plant and machinery based on an agreement dated 29th December, 1999. There is no specified term for the leasing in the agreement. The consideration was arrived at based on commercial negotiations between the parties thereto.

Jilin Guoren owns 30% equity interest in HB Jilin, a subsidiary of the Company. It is therefore a substantial shareholder of a subsidiary of the Company and hence a connected person within the meanings of the Listing Rules.

It is the opinion of the Directors that such transaction was entered into in the usual and ordinary course of business on an arm's length basis and on normal commercial terms that are no less favourable than terms available from independent third parties. Based on the valuation report of 永吉縣資產評估事務所, an independent professional valuer, who had reviewed, among other assets, such plant and machinery as of 31st December, 1999, the parties mutually agreed at the relevant point of time that the value of such plant and machinery was approximately RMB16,000,000 (equivalent to approximately HK\$14,998,000).

The aggregate rental paid by HB Jilin for the year ended 31st December, 2001 was approximately RMB1,044,000 (equivalent to approximately HK\$984,000), representing approximately 0.12% of the Group's turnover for the relevant period. The Group will continue to rent such plant and machinery.

As the expected amount payable by HB Jilin pursuant to the above transaction will be less than the higher of HK\$1,000,000 or 0.03% of the book value of the consolidated audited net tangible assets of the Company in any financial year, and the renting of the plant and machinery is on normal commercial terms, the transaction is exempted from any disclosure or shareholders' approval requirements for connected transactions under Rule 14.24 (5) of the Listing Rules.

2. *Purchase of beer from HB Songjiang by HB Company*

After the signing of the Songjiang Agreement on 8th October, 1998, HB Company entered into supply and purchase contract with HB Songjiang in November, 1998 and pursuant to which it became the sole distribution agent of, and started purchasing beer from, HB Songjiang on normal commercial terms that are no less favourable than terms available from independent

CONNECTED TRANSACTIONS

third parties and in the usual and ordinary course of business of the Group. As mentioned above, HB Songjiang is a non-wholly owned subsidiary of HB Company and hence such transactions between HB Company and HB Songjiang would be regarded as a connected transaction within the meanings of the Listing Rules.

Thereafter, HB Songjiang has been supplying beer to HB Company pursuant to terms and conditions set out in the supply and distribution contracts signed by the parties annually. The current contract that governs the supply and distribution of beer from HB Songjiang to HB Company was entered into by HB Company and HB Songjiang on 4th December, 2001 with the following principal terms:

- (a) *Purchase order:* HB Company is entitled to place a monthly purchase order with HB Songjiang within a maximum amount subject to an agreed aggregate annual cap. HB Songjiang is required to deliver to HB Company such quantity and type of beer for which a purchase order is placed from time to time.
- (b) *Term:* 1 year.

The prices at which the different types of beer are to be supplied by HB Songjiang to HB Company have been fixed in the current contract, which were determined by the parties by reference to the market price and the price at which the beer manufactured by HB Company would be sold to the market, which is normally lower than the retail price for beer sold by HB Songjiang. The following table sets out the value of the sales of the beer made by HB Company from HB Songjiang in the three years ended 31st December, 2001.

	Year ended 31st December,		
	1999	2000	2001
	HK\$	HK\$	HK\$
Purchase of beer from HB Songjiang	42,684,062	66,911,089	112,169,092
Approximate percentage to the total turnover of the Group	9.4%	11.5%	13.4%

HB Company will continue to purchase such beer from HB Songjiang after the listing of the Shares.

The Directors believe that the percentage that the annual purchase of beer from HB Songjiang bears to the total annual turnover of the Group will be kept at a similar level as in the past and do not foresee, from an operational perspective, any material changes in the future.

As (1) the above mentioned transactions between HB Company and HB Songjiang are, and are expected to be, on normal commercial terms in the ordinary and usual course of business of both of the companies concerned; and (2) no connected person(s) (as defined in the Listing Rules) is or are together substantial shareholders of HB Songjiang (save for the existing shareholders of HB Songjiang who are connected persons by virtue only of their substantial shareholding in HB Songjiang), the transaction is exempted from any disclosure or shareholders' approval requirements for connected transactions under 14.24 (4) of the Listing Rules.

3. Amounts due to the PRC joint venture partner of Jiamusi JV

In addition to the registered capital injection into Jiamusi JV, Jiamusi Brewery Factory, the PRC joint venture partner of Jiamusi JV, also contributed fixed assets as part of its share of the total investment cost of Jiamusi JV and made further advances. As at 31st December, 2001, the outstanding amount due to Jiamusi Brewery Factory in respect of the contribution made by Jiamusi Brewery Factory to the total investment cost of Jiamusi JV in excess of its contribution to the registered capital was approximately HK\$28.1 million. This contribution is amount due to Jiamusi Brewery Factory by Jiamusi JV, which, as at the date hereof, is interest-free and has no repayment term. In addition, a further aggregate amount of approximately HK\$17.8 million was due to Jiamusi Brewery Factory by Jiamusi JV including lease fees due in arrear from the previous leasing arrangement of plant and machinery between Jiamusi JV and Jiamusi Brewery Factory, which, as at the date hereof, is also interest-free and has no repayment term.

Jiamusi Brewery Factory is a connected person to the Company; therefore, the aforesaid amount due to it by Jiamusi JV constitutes connected transaction by way of financial assistance to Jiamusi JV under the Listing Rules. The Directors consider that the financial assistance provided by Jiamusi Brewery Factory as such is made for the benefit of the Company and is upon normal (or more favourable) commercial terms. No security has been provided by any member of the Group in favour of Jiamusi Brewery Factory. Therefore, the Directors are of the view that the transaction falls under Rule 14.24(8) of the Listing Rules and is exempted from any disclosure or shareholders' approval requirements for connected transactions under Rule 14.24(8) of the Listing Rules.

4. Amounts due to the PRC joint venture partner of Mudanjiang JV

Mudanjiang Brewery Factory, the PRC joint venture partner of Mudanjiang JV, has also contributed fixed assets as part of its share of the total investment cost of Mudanjiang JV in excess of the registered capital. As at 31st December, 2001, the outstanding amount due to Mudanjiang Brewery Factory in respect of such excess contribution was approximately HK\$56.4 million. Such amount due to Mudanjiang Brewery Factory from Mudanjiang JV is interest-free and has no repayment term and is expected to be capitalised by the end of 2002.

Mudanjiang Brewery Factory is a connected person to the Company. Therefore, the amount due to it by Mudanjiang JV constitutes a connected transaction by way of financial assistance to Mudanjiang JV under the Listing Rules. The Directors consider that the financial assistance provided by Mudanjiang Brewery Factory as such is made for the benefit of the Company and is upon normal commercial terms (or better). No security has been provided by any member of the Group in favour of Mudanjiang Brewery Factory. Therefore, the Directors are of the view that the transaction is exempted from any disclosure or shareholders' approval requirements for connected transactions under Rule 14.24(8) of the Listing Rules.


5. Shareholders' loans to the Company by its shareholders

HBF (BVI) and CEDF (Brewery) have made various advances to the Company, part of which had been used to finance the Acquisition. As at 31st December, 2001, the Company was indebted to HBF (BVI) and CEDF (Brewery) in an aggregate amount of HK\$53.5 million.

The loans due to HBF (BVI) and CEDF (Brewery), amounting to HK\$31 million and HK\$22.5 million respectively as at 31st December, 2001, are unsecured, interest-free and have no fixed terms of repayment.


Since HBF (BVI) and CEDF (Brewery) are the controlling shareholders of the Company, the amount due to them by the Company as aforesaid constitutes a connected transaction by way of financial assistance under the Listing Rules. The Directors consider that the financial assistance provided by HBF (BVI) and CEDF (Brewery) as such is made for the benefit of the Company and is upon normal commercial terms (or better). As no security has been provided by any member of the Group in favour of HBF (BVI) and CEDF (Brewery), the Directors are of the view that the transaction is exempted from any disclosure or shareholders' approval requirements for connected transactions under Rule 14.24(8) of the Listing Rules.

6. Use of Trademarks of the Group

In order to utilise the production capacities of the Group's breweries effectively, the Group may re-allocate from time to time the production of its products among its breweries. In such regard, HB Company, HB Songjiang, HB Jilin, Jiamusi JV, Mudanjiang JV, Yinpu JV and HB Hegang, the companies which operate the Group's breweries, entered into an agreement with each other on 27th May, 2002, pursuant to which they have granted licence to each other to use the trademarks registered in their names from time to time and Yinpu JV has sub-licensed to the other parties its right to use the trademark “” licensed to it by Yinpu Brewery Factory, free of any charge, with effect from 1st January, 2002 and shall continue thereafter until terminated by mutual agreement between the parties to the agreement.

The parties to the aforesaid trademark licence agreement include both wholly owned and non-wholly owned subsidiaries of the Company. As the aforesaid licence of trademarks is on normal commercial terms in the ordinary and usual course of business of all the companies concerned, and no connected person(s) (as defined in the Listing Rules) is or are together substantial shareholders of such non-wholly owned subsidiaries of the Company (save for the existing shareholders of such parties who are connected persons by virtue of only of their substantial shareholding in such parties), the Directors take the view that the transaction is exempted from any disclosure or shareholders' approval requirements for connected transactions under Rule 14.24(4) of the Listing Rules.

7. Use of Trademarks by Yinpu JV

Pursuant to a trademark licence agreement dated 14th October, 1999 and an agreement dated 27th May, 2002 (together the “Trademark Licence Agreement”) entered into between Yinpu JV and Yinpu Brewery Factory, the PRC joint venture partner of Yinpu JV, Yinpu Brewery Factory has granted Yinpu JV a licence to use, inter alia, the trademark of “” together with a right to sub-licence to any third parties for a term commencing from 14th October, 1999 to 9th April, 2007 at an aggregate consideration of RMB10 million (equivalent to approximately HK\$9,426,000) which was fixed by taking into account of the value of the trademark as valued by 吉林省公大無形資產評估所, an independent valuer, and as confirmed by 吉林國有資產管理局 on 25th April, 1996. RMB4 million was settled in 2001 and the remaining balance will be paid in 6 equal annual installments during the remaining term of the Trademark Licence Agreement. After payment of the aforesaid consideration in full, Yinpu Brewery Factory will assign all the trademarks licensed aforesaid to Yinpu JV.

CONNECTED TRANSACTIONS

As the annual licence fee payable under the Trademark Licence Agreement will be less than the higher of HK\$1,000,000 or 0.03% of the net tangible assets of the Group, the Trademark Licence Agreement is exempt from disclosure by announcement and shareholders' approval.

Non-continuing connected transaction

8. Amounts due to HB Company by HB Songjiang

Pursuant to the Songjiang Agreement, HB Company assumed all the balance of the amounts due to HB Songjiang's previous shareholders (together with the interest accrued thereon) in view of its acquisition of 70% equity interest in HB Songjiang. By March 2001, such amount due in the sum of RMB30,180,000 (equivalent to approximately HK\$28,448,000), together with the interest accrued thereon of approximately RMB2,643,000 (equivalent to approximately HK2,491,000), was settled by HB Company for and on behalf of HB Songjiang, a non wholly-owned subsidiary of HB Company.

As a result of such, an amount due to HB Company by HB Songjiang, which is interest free and has no repayment term was created. As at 31st December, 2001, the amount due to HB Company by HB Songjiang was RMB32,823,000 (equivalent to approximately HK\$30,939,000).

As the amount due to HB Company was incurred by HB Songjiang at the time when HB Company acquired the shareholding interest in HB Songjiang, the transaction was one-off in nature.