

## FINANCIAL INFORMATION

### TRADING RECORD

#### Summary of combined results of the Group

Set out below is a summary of the audited combined results of the Group for each of the three years ended 31st December, 2001 extracted from the accountants' report set out in appendix I to this prospectus. The table below also contains information of the unaudited figures of earnings before interest, tax, depreciation and amortisation ("EBITDA"), which are not contained in the accountants' report set out in appendix I to this prospectus. The summary includes the results of the Acquired Breweries for the six months ended 31st December, 2001 only as (1) the Acquisition was completed on 29th June, 2001, prior to which the Acquired Breweries were not operated under the management of the Group; and (2) in the opinion of the Directors, the effect of the results of the Acquired Breweries from 29th June, 2001 to 30th June, 2001 on the Group is not material. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

	Notes	Year ended 31st December,		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Turnover	(a)	453,806	581,185	836,704
Cost of sales		<u>(245,751)</u>	<u>(303,797)</u>	<u>(455,567)</u>
Gross profit		208,055	277,388	381,137
Other revenue		2,518	5,251	8,755
Selling and distribution costs		(78,841)	(86,497)	(133,088)
Administrative expenses		(59,125)	(65,207)	(83,580)
Other operating expenses		<u>(14,482)</u>	<u>(14,718)</u>	<u>(20,963)</u>
Profit from operating activities		58,125	116,217	152,261
Finance costs		<u>(17,445)</u>	<u>(17,192)</u>	<u>(33,473)</u>
Profit before tax		40,680	99,025	118,788
Tax	(b)	<u>(7,284)</u>	<u>(14,343)</u>	<u>(33,775)</u>
Profit before minority interests		33,396	84,682	85,013
Minority interests		<u>149</u>	<u>273</u>	<u>(3,578)</u>
Net profit from ordinary activities attributable to shareholders		<u>33,545</u>	<u>84,955</u>	<u>81,435</u>
EBITDA	(c)	<u>96,944</u>	<u>171,865</u>	<u>241,553</u>

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	Notes	Year ended 31st December,		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Transfer to proposed reserve fund	(d)	<u>2,051</u>	<u>4,590</u>	<u>5,314</u>
Transfer to proposed enterprise expansion fund	(d)	<u>2,051</u>	<u>4,590</u>	<u>5,314</u>
Dividend		<u>29,443</u>	<u>75,775</u>	<u>Nil</u>
Earnings per Share				
— Basic, HK cents	(e)	<u>5.08</u>	<u>12.87</u>	<u>12.34</u>

During the Track Record Period, expenses in respect of the Group's salaries, directors' remuneration and office rentals in Hong Kong with aggregate amount of approximately HK\$3.5 million, HK\$3.3 million and HK\$4.1 million for the years ended 31st December, 1999, 2000 and 2001, respectively, have been absorbed by one of the Company's shareholders. The Directors have confirmed that such expenses will be borne by the Group after the Shares are listed on the Stock Exchange. Had these amounts been recorded by the Group during the Track Record Period, the combined results of the Group after taxation would have decreased by the following notional amounts:

	Year ended 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Net profit for the year as set out above	33,545	84,955	81,435
Notional directors' remuneration, salaries and office rentals	<u>(3,535)</u>	<u>(3,284)</u>	<u>(4,147)</u>
Adjusted profit for the year	<u>30,010</u>	<u>81,671</u>	<u>77,288</u>

*Notes:*

- (a) Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, value-added tax and consumption tax. All significant intra-group transactions have been eliminated on combination.
- (b) Tax for 2001 was approximately HK\$33.8 million, or an effective tax rate of approximately 28.4%, as compared to approximately 14.5% in 2000. Increase in effective tax rate was mainly attributable to the tax holiday enjoyed by HB Company, the Group's major operating subsidiary, ended in 2000, and a full 24% statutory corporate income tax was provided for by HB Company (2000: 12%). In addition, the net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2001 included certain tax non-deductible items under the PRC tax rule. As a result, effective tax rate for the Group in 2001 was higher.
- (c) EBITDA represents earnings from operating activities before interest, tax, depreciation and amortisation.

- (d) 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 PRC. 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.
- (e) The calculation of basic earnings per Share is based on the net profit from ordinary activities attributable to shareholders for the Track Record Period and on the assumption that 660,000,000 ordinary Shares were in issue and issuable during the Track Record Period, comprising 1,000,000 Shares in issue as at the date of the Prospectus and 659,000,000 Shares to be issued pursuant to the Capitalisation Issue, as more fully described in the paragraph headed “Written resolutions of the shareholders of the Company passed on 3rd June, 2002 and 17th June, 2002” in the section headed “Further information about the Company” in Appendix VI to the Prospectus.

No diluted earnings per Share have been presented for the Track Record Period as the Company did not have any dilutive potential ordinary Shares during the Track Record Period.

### **MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP’S RESULTS OF OPERATION DURING THE TRACK RECORD PERIOD**

The following discussion and analysis on the Group’s performance has been prepared based on the audited combined results of the Group for the Track Record Period. No discussion has been made on the performance of the Acquired Breweries prior to 1st July, 2001 as the Acquisition was completed on 29th June, 2001, prior to which the Acquired Breweries were not operated under the management of the Group.

#### **Turnover**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, value-added tax and consumption tax. All significant intra-group transactions have been eliminated on combination. The Group’s products are subject to a 17% value-added tax and a consumption tax of approximately RMB22.3-25.3 per hl (RMB220-250 per tonne) of beer.

#### *Turnover by product category*

It is the Group’s strategy to achieve significant growth through organic and acquisitive growth. As a result of the Group’s continued expansion by acquiring other breweries and the increment of market share in Northeast Region by developing the new middle-income market in Harbin City and expanding new markets to other cities in Heilongjiang Province, Jilin Province and Liaoning Province, the annual production of the Group grew from approximately

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4.0 million hl (405,000 tonnes) in 1999 to approximately 6.9 million hl (700,000 tonnes) in 2001 or a CAGR of approximately 31.3%. The following table is a summary of the breakdown of the Group's turnover by product category for the three years ended 31st December, 2001:

Turnover	For the year ended 31st December,					
	1999		2000		2001	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Original	376,015	82.8	473,988	81.5	674,518	80.6
Classic	33,958	7.5	60,181	10.4	87,798	10.5
Premium	43,833	9.7	47,016	8.1	74,388	8.9
Total	<u>453,806</u>	<u>100.0</u>	<u>581,185</u>	<u>100.0</u>	<u>836,704</u>	<u>100.0</u>

The following table is a summary of the breakdown of the average turnover per hl of each of the original, classic and premium products for the three years ended 31st December, 2001 respectively:

Average turnover per hl	For the year ended 31st December,		
	1999 (HK\$/hl)	2000 (HK\$/hl)	2001 (HK\$/hl)
Original	99.9	108.7	103.7
Classic	249.4	313.9	314.3
Premium	550.8	540.4	545.4

The Directors have been managing the Group's product mix with a view to optimizing profitability, brand recognition and production efficiency.

During the Track Record Period, original products have been the Group's major products and turnover derived from the sale of original products has shown an increasing trend from approximately HK\$376 million in 1999 to approximately HK\$674.5 million in 2001, or a CAGR of approximately 33.9%. Average turnover of original products increased from approximately HK\$99.9 per hl (HK\$987 per tonne) in 1999 to approximately HK\$108.7 per hl (HK\$1,074 per tonne) in 2000 and decreased slightly to HK\$103.7 per hl (HK\$1,024.6 per tonne) in 2001. The change in average turnover was due to a change in product mix during the Track Record Period to cater for market demand. While the Directors believe that sale of original products will remain the Group's major revenue contributor in the foreseeable future, it is the Group's strategy to capitalise on the brand awareness of "Harbin" (哈爾濱) in Northeast Region to capture the emerging middle-income market.

During the Track Record Period, sale of classic products, which are primarily catered for the middle-income market, has been growing from approximately HK\$34 million in 1999 to approximately HK\$87.8 million in 2001, or a CAGR of approximately 60.7%. As a percentage

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of the Group's turnover, turnover from sale of classic products increased from approximately 7.5% in 1999 to approximately 10.5% in 2001. This corresponds with the significant increase in average turnover of the products from approximately HK\$249.4 per hl (HK\$2,464.1 per tonne) in 1999 to approximately HK\$314.3 per hl (HK\$3,105.3 per tonne) in 2001.

During the same period, turnover derived from sale of premium products has increased from approximately HK\$43.8 million in 1999 to approximately HK\$74.4 million in 2001, or a CAGR of approximately 30.3%. Average turnover from premium products remains steady at approximately HK\$550.8 per hl (HK\$5,441.9 per tonne) in 1999 and approximately HK\$545.4 per hl (HK\$5,388.6 per tonne) in 2001. A higher average turnover of premium products in 2001 as compared with that of 2000 was the result of the Group's adjustment of its product mix towards higher price premium products. The Directors believe that sale of premium beer is essential to maintain the Group's profile and product coverage and the Group will continue to keep a presence in the premium market segment.

Overall, the Group's turnover had increased from approximately HK\$453.8 million in 1999 to approximately HK\$836.7 million in 2001, representing a CAGR of approximately 35.8% for the three years ended 31st December, 2001. The growth in turnover was mainly attributable to an increase in sale of (i) original products as the Group expanded to new markets in other cities in Heilongjiang Province, Jilin Province and Liaoning Province; and (ii) classic products as a result of the development of the new middle-income market in Harbin City and other markets and the inclusion of the Acquired Breweries. In addition, the Group's overall production has increased with a higher production capacity, thereby enabling the Group to produce a higher volume of beer to meet the market demand.

### *Turnover by geographical location*

The following table is a summary of the breakdown of the Group's turnover by geographical location for each of the three years ended 31st December, 2001:

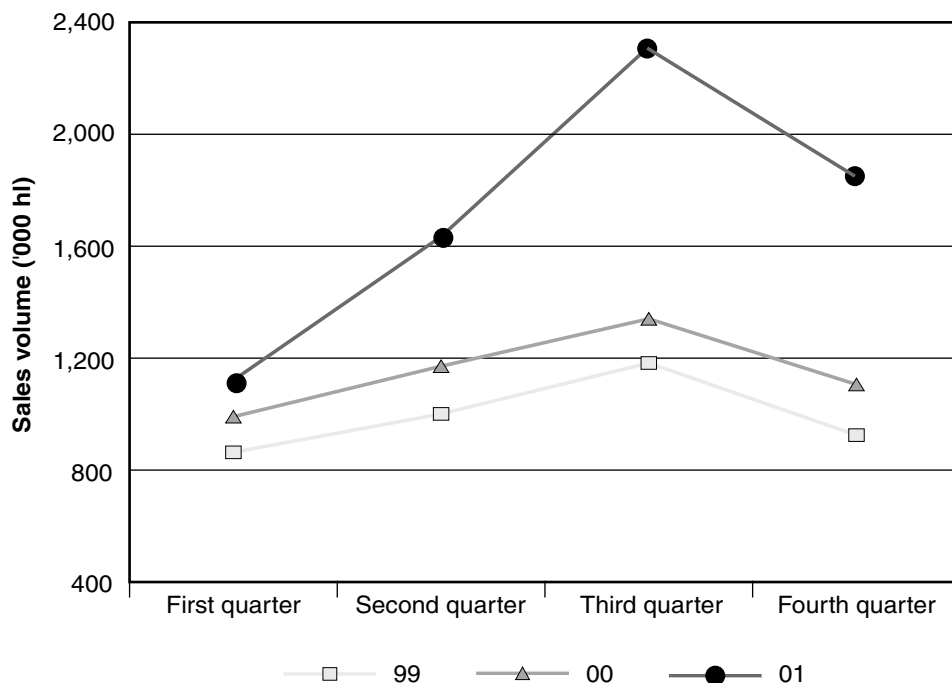
Turnover	For the year ended 31st December,					
	1999		2000		2001	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Northeast Region:						
Heilongjiang Province						
— Harbin City	297,890	65.6	322,193	55.5	325,380	38.9
— Other cities	132,454	29.2	201,218	34.6	286,036	34.2
Sub-total	430,344	94.8	523,411	90.1	611,416	73.1
Jilin Province	16,189	3.6	45,014	7.7	133,773	16.0
Liaoning Province	3,215	0.7	7,228	1.2	56,844	6.8
Sub-total	449,748	99.1	575,653	99.0	802,033	95.9
Non-northeast markets and overseas	4,058	0.9	5,532	1.0	34,671	4.1
Total	453,806	100.0	581,185	100.0	836,704	100.0

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As illustrated in the table above, Northeast Region remains the major market for the Group's products and Heilongjiang Province is the single largest province in which the Group's products are sold. Turnover derived from sales made to Heilongjiang Province represented approximately 94.8%, 90.1% and 73.1% of the Group's turnover for the three years ended 31st December, 2001 respectively. The Group has expanded its market share in regions outside Heilongjiang Province, particularly in other areas of Northeast Region. As shown in the table above, turnover made to other areas of Northeast Region represented an increasing proportion of the Group's turnover from approximately 4.3% in 1999 to approximately 22.8% in 2001. The Directors expect that sales of beer to areas in Northeast Region outside Heilongjiang Province will contribute more significantly to the Group's turnover in the future.

### Seasonality

The Group's turnover is in general subject to a general seasonal fluctuation. The following chart illustrates the distribution of sales volume for a normal calendar year:



*Note: Sales volume in the third and fourth quarters of 2001 include that of the Acquired Breweries*

In a normal calendar year, demand for beer is higher in summer time and this results in a higher sales volume in the third quarter as compared with the other periods. Sales volume in the first quarter is slightly lower as beer consumption usually slows down in the post Chinese New Year period.

### Cost of sales breakdown

For the three years ended 31st December, 2001, the Group's cost of sales had increased from approximately HK\$245.8 million in 1999 to approximately HK\$455.6 million in 2001.

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The following table is a summary of the breakdown of the Group's cost of sales for each of the three years ended 31st December, 2001:

Cost of sales	For the year ended 31st December,					
	1999		2000		2001	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Direct materials	165,486	66.1	210,412	68.7	319,992	69.2
Direct labor	10,176	4.1	11,554	3.8	18,004	3.9
Overhead						
Depreciation	28,908	11.5	41,748	13.6	63,846	13.8
Others	45,788	18.3	42,541	13.9	60,501	13.1
Cost of production	250,358	100.0	306,255	100.0	462,343	100.0
Finished goods movement	(4,607)		(2,458)		(6,776)	
Total	<u>245,751</u>		<u>303,797</u>		<u>455,567</u>	

### *Inventory turnover and accounts receivable turnover*

For the three years ended 31st December, 2001, the Group's average inventory turnover (days) and accounts receivable turnover (days) are as follows:

	For the year ended 31st December,		
	1999	2000	2001 (note 3)
Average inventory turnover (days) (notes 1 and 3)	4	8	10
Average accounts receivable turnover (days) (notes 2 and 3)	9	16	33

#### *Notes:*

- Average inventory turnover (days) is calculated based on average finished goods divided by cost of sales and multiplied by 365 days for the Track Record Period. The Directors consider that the figures of the average inventory turnover, which are calculated based on the average finished goods balance during the Track Record Period, are more illustrative in presenting information on the turnover of the Group's beer products as compared with the figures of using the entire inventory balance, which comprise a high proportion of raw materials and packaging materials retained in accordance to the Group's production plan. **Should total inventory balance be used, the figures would be 139 days, 147 days and 191 days for the three years ended 31st December, 2001 respectively.**
- Average accounts receivable turnover (days) is calculated based on average accounts receivable divided by turnover and multiplied by 365 days for the Track Record Period.
- Both finished goods and average accounts receivable have included the balances of the Acquired Breweries and is calculated by multiplying the turnover of the Group for the year ended 31st December, 2001.

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For the three years ended 31st December, 2001, the Group's average inventory turnover was kept relatively low for no more than 10 days. The upward movement of the average inventory turnover was due to additional stocks kept for the increase in turnover. The Group's accounts receivable turnover had increased from approximately 9 days for the year ended 31st December, 1999 to approximately 33 days for the year ended 31st December, 2001. The Directors attribute the upward movement of the accounts receivable turnover to the increase in sales of classic and premium products which are generally subject to credit terms of 30 to 90 days. The aggregate turnover from sales of classic and premium products for the year ended 31st December, 2000 amounted to approximately HK\$107.2 million, representing approximately 37.8% increase from that of approximately HK\$77.8 million for the year ended 31st December, 1999. For the year ended 31st December, 2001, a higher account receivable turnover was partly due to the inclusion of accounts receivable of approximately HK\$11.5 million of the Acquired Breweries. This, coupled with an increase in sales of classic and premium products of approximately HK\$55 million in 2001, resulted in a significant increase in the year end balance of accounts receivable of approximately HK\$115 million (as at 30th April, 2002, approximately 67.2% of the amount has been settled). The unsettled amount was due to a longer credit term of over 90 days granted to customers. For more details on the Group's credit policy, please refer to the paragraph headed "Sales and distribution network in the paragraph headed "Sales" in the section headed "Particulars of the Group" of this prospectus.

### *Gearing ratio*

The Group's gearing ratio as at each of 31st December, 1999, 2000 and 2001 are as follows:

	As at 31st December,		
	1999	2000	2001 (note 2)
Gearing ratio (notes 1 and 2)	93%	75%	226%

#### *Notes:*

1. Gearing ratio is calculated based on total interest-bearing debts divided by shareholders' equity.
2. Gearing ratio has included the balances of the Acquired Breweries.

The Group's gearing ratio had increased from approximately 93% as at 31st December, 1999 to approximately 226% as at 31st December, 2001. The upward movement of the gearing ratio was the result of the additional debts incurred to finance the Acquisition and the absorption of the interest-bearing debts of approximately HK\$287 million owed by the Acquired Breweries. The Company will lower its gearing ratio by applying part of its operating income and proceeds to be raised from the Share Offer for repaying part of its debts.

### **Financial year ended 31st December, 1999 ("FY99")**

#### *Turnover*

For FY99, the Group recorded a turnover of approximately HK\$453.8 million. The amount of turnover is net of approximately HK\$82.4 million consumption tax and approximately



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HK\$40.9 million sales discount. Sales of original, classic and premium products represented approximately 82.8%, 7.5% and 9.7% of the Group's turnover respectively. During the year, approximately 94.8% of the Group's turnover was attributable to sales made in Heilongjiang Province, with approximately 5.2% of turnover being derived from other areas.

### *Cost of sales*

Cost of sales of the Group for FY99 amounted to approximately HK\$245.8 million. Direct materials, direct labour and overhead represented approximately 66.1%, 4.1% and 29.8% of the Group's cost of production respectively.

### *Gross profit*

During FY99, the Group's gross profit amounted to approximately HK\$208.1 million, representing a gross profit margin of approximately 45.8%.

### *Profit before tax*

During FY99, the Group recorded approximately HK\$2.5 million other revenue, comprising mainly sales of raw materials, packing materials and by-products of approximately HK\$1.5 million and tax refund of approximately HK\$0.7 million. In FY99, the Group recorded total operating expenses of approximately HK\$152.4 million, comprising approximately HK\$78.8 million selling and distribution costs, approximately HK\$59.1 million administrative expenses and approximately HK\$14.5 million other operating expenses. Selling and distribution costs for FY99 comprised approximately HK\$8.3 million salaries and allowances, approximately HK\$16.9 million transportation charges and approximately HK\$31 million advertising and promotion expenses. The Group's administration expenses in FY99 were approximately HK\$59.1 million, which comprised approximately HK\$19.3 million salary, wages and allowances, approximately HK\$6.7 million pension cost and approximately HK\$3.8 million depreciation expenses. Other operating expenses of approximately HK\$14.5 million comprised mainly amortisation of beer bottles and plastic crates of approximately HK\$4.7 million and loss on disposal of fixed assets of approximately HK\$2.5 million. In FY99, finance costs amounted to approximately HK\$17.4 million. Overall, the Group's profit before tax was approximately HK\$40.7 million.

### *Tax*

Tax for the year ended 31st December, 1999 was approximately HK\$7.3 million, or an effective tax rate of approximately 17.9%. For more information, please refer to the paragraph headed "Tax rate" below.

### *Net profit from ordinary activities attributable to shareholders*

In FY99, the Group reported a net profit from ordinary activities attributable to shareholders of approximately HK\$33.5 million. Net profit margin during the year was approximately 7.4%.

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### *EBITDA*

For FY99, EBITDA amounted to approximately HK\$96.9 million. EBITDA margin in 1999 was approximately 21.4%.

### **Financial year ended 31st December, 2000 (“FY00”)**

#### *Turnover*

For FY00, turnover of the Group increased by approximately HK\$127.4 million, or approximately 28.1%, to approximately HK\$581.2 million from approximately HK\$453.8 million in FY99. The amount of turnover is net of approximately HK\$97.1 million consumption tax and approximately HK\$32.1 million sales discount. Growth in the Group’s turnover was mainly attributable to a significant increase in the sales of original products. For FY00, the turnover from sale of original products increased to approximately HK\$474 million, representing an increase of approximately HK\$98 million or 26.1% from that of FY99. The increase in turnover of original products was the result of the combined effects of the increase in average turnover per hl by approximately 8.8% and sales volume of approximately 15.9%. Sales of original, classic and premium products represented approximately 81.5%, 10.4% and 8.1% of the Group’s turnover respectively. During the year, approximately 90.1% of the Group’s turnover was derived from sales in Heilongjiang Province, with approximately 9.9% from sales made to other areas.

#### *Cost of sales*

The Group recorded cost of sales of approximately HK\$303.8 million, representing an increase of approximately HK\$58 million from that of FY99. The percentage increase in cost of sales was in line with the increase in turnover of the Group. Direct materials, direct labor and overhead represented approximately 68.7%, 3.8% and 27.5% of cost of production respectively. Growth in cost of production was primarily attributable to the increase in cost of direct materials corresponding to the increase in sales volume. In FY00, the Group’s cost of direct materials increased to approximately HK\$210.4 million, representing an increase of approximately HK\$44.9 million or 27.1% from that of FY99.

#### *Gross profit*

Gross profit of the Group for FY00 increased by approximately HK\$69.3 million, or 33.3% to approximately HK\$277.4 million from approximately HK\$208.1 million in FY99. The increase in gross profit was mainly due to the increase in turnover and an improvement in gross profit margin. Gross profit margin for the year amounted to approximately 47.7%, as compared with approximately 45.8% in FY99. Increase in gross profit margin was mainly attributable to the lower cost of direct materials, which in turn was the result of the decrease of approximately 29.3% in the purchase price of rice, being one of the major raw materials of the Group’s production and represented approximately 32.9% and 24.8% of the Group’s total cost of raw materials for FY99 and FY00 respectively. In addition, costs of direct labour and overheads was lower with the improvement of operating efficiency.

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### *Profit before tax*

During the year, the Group recorded other revenue of approximately HK\$5.3 million, which comprised a government subsidy received by HB Hegang of approximately HK\$3.4 million. In FY00, the Group recorded total operating expenses of approximately HK\$166.4 million, comprising approximately HK\$86.5 million selling and distribution costs, approximately HK\$65.2 million administrative expenses and approximately HK\$14.7 million other operating expenses. Selling and distribution costs during the year were approximately HK\$86.5 million or approximately 14.9% of the Group's turnover, as compared to approximately 17.4% in FY99. Selling and distribution costs for FY00 comprised approximately HK\$6.6 million salaries and allowances, approximately HK\$16.9 million transportation charges and approximately HK\$49.7 million advertising and promotion expenses. The Directors attribute the lower selling and distribution costs as a percentage to the Group's turnover to the Group's improved efficiency in the deployment of selling and distribution resources. During the year, the Group's administrative expenses increased by approximately HK\$6.1 million to approximately HK\$65.2 million. The administrative expenses as a percentage of turnover amounted to approximately 11.2%, as compared with approximately 13% in FY99. Lower administrative expenses as a percentage of turnover was due to the fact that some of the staff costs previously borne by the Group were reduced with the improvement of operating efficiency in FY00. Other operating expenses of approximately HK\$14.7 million comprised mainly amortisation of beer bottles and plastic crates of approximately HK\$8.3 million and disposal of fixed assets of approximately HK\$2 million. Finance costs in FY00 were stable at approximately HK\$17.2 million. As a result of the foregoing, the Group recorded a profit before tax of approximately HK\$99 million, or approximately 143.4% increase from that of FY99.

### *Tax*

Tax for FY00 was approximately HK\$14.3 million, or an effective tax rate of approximately 14.5%. For more information, please refer to the paragraph headed "Tax rate" below.

### *Net profit from ordinary activities attributable to shareholders*

As a result of the above, the Group's net profit from ordinary activities attributable to shareholders for FY00 was approximately HK\$85 million, representing a net profit margin of approximately 14.6%, compared to approximately 7.4% in FY99.

### *EBITDA*

For FY00, EBITDA amounted to approximately HK\$171.9 million, representing an increase of approximately HK\$75 million or approximately 77.3% from FY99. EBITDA margin was approximately 29.6%.

### **Financial year ended 31st December, 2001 ("FY01")**

#### *Turnover*

For FY01, turnover of the Group increased by approximately HK\$255.5 million, or approximately 44%, to approximately HK\$836.7 million from approximately HK\$581.2 million in FY00. The amount of turnover is net of approximately HK\$142.3 million consumption tax and approximately HK\$71.8 million sales discount. Significant growth in the Group's turnover was

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mainly attributable to the significant increase in the sales of original products as a result of the inclusion of the results of the Acquired Breweries (approximately HK\$162.6 million). For FY01, turnover from sale of original products increased to approximately HK\$674.5 million, representing an increase of approximately HK\$200.5 million or 42.3% from that of FY00. Sales of original, classic and premium products represented approximately 80.6%, 10.5% and 8.9% of the Group's turnover respectively. During the year, approximately 73.1% of the Group's turnover was derived from sales in Heilongjiang Province, with the remaining of approximately 26.9% from sales made to other areas.

### *Cost of sales*

For FY01, the Group recorded cost of sales of approximately HK\$455.6 million, representing an increase of approximately HK\$151.8 million, or approximately 50%, from that of FY00. The percentage increase in cost of sales was generally in line with the increase in turnover of the Group. Direct materials, direct labour and overheads represented approximately 69.2%, 3.9% and 26.9% of cost of production respectively. In FY01, the Group's cost of direct materials increased to approximately HK\$320 million, representing an increase of approximately HK\$109.6 million, or 52.1%, from that of FY00. Growth in the cost of direct materials was due to the increased purchase to cater for higher production volume.

### *Gross profit*

Gross profit of the Group for FY01 increased by approximately HK\$103.7 million, or approximately 37.4% to approximately HK\$381.1 million from approximately HK\$277.4 million in FY00. The increase in gross profit was mainly due to the increase in turnover. Gross profit margin for the year was approximately 45.6%, as compared with approximately 47.7% in FY00. A slight decrease in gross profit margin in FY01 as compared with that of FY00 was mainly due to the inclusion of six months operating results of the Acquired Breweries. Should the results of the Acquired Breweries be excluded, the Group's gross profit margin in FY01 would have amounted to approximately 49.5%.

### *Profit before tax*

During the year, the Group recorded other revenue of approximately HK\$8.8 million, which comprised mainly other sales of approximately HK\$3.8 million, which represented sales of raw materials, packing materials and by-products, and a government subsidy received mainly by HB Hegang of approximately HK\$4.3 million. In FY01, the Group's total operating expenses amounted to approximately HK\$237.6 million, comprising approximately HK\$133.1 million selling and distribution costs, approximately HK\$83.6 million administrative expenses and approximately HK\$21 million other operating expenses. Selling and distribution costs during the year were approximately HK\$133.1 million or approximately 15.9% of the Group's turnover, as compared to approximately 14.9% in FY00. Selling and distribution costs for FY01 comprised approximately HK\$8.9 million salaries and allowances, approximately HK\$36.9 million transportation charges and approximately HK\$70.7 million advertising and promotion expenses. The increase in selling and distribution costs as a percentage to turnover was mainly attributable to the increase in the expenses incurred in transportation of goods and advertisement and promotion as a result of the expansion of the Group's market to other regions outside Heilongjiang Province, particularly in other areas of Northeast Region. During the year, the Group's administrative expenses increased by approximately HK\$18.4 million to approximately HK\$83.6 million. The administrative expenses as a percentage of turnover

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amounted to approximately 10%, as compared with approximately 11.2% in FY00. Other operating expenses of approximately HK\$21 million comprised mainly amortisation of beer bottles and plastic crates of approximately HK\$15.5 million and disposal of fixed assets of approximately HK\$0.6 million. Finance costs in FY01 increased by approximately HK\$16.3 million to approximately HK\$33.5 million from approximately HK\$17.2 million in FY00. The substantial increase in finance costs was attributable to the additional debts borrowed by the Group for financing the Acquisition and the absorption of the interest-bearing debts originally owed by the Acquired Breweries (amounting to approximately HK\$287 million as at 31st December, 2001). As a result of the foregoing, the Group recorded a profit before tax of approximately HK\$118.8 million, or approximately 20% increase from that of FY00.

### *Tax*

Tax for FY01 was approximately HK\$33.8 million, or an effective tax rate of approximately 28.4%, as compared to approximately 14.5% in FY00. Increase in effective tax rate was mainly attributable to the tax holiday enjoyed by HB Company, the Group's major operating subsidiary, ended in FY00, and a full 24% statutory corporate income tax was provided for by HB Company (FY00: 12%). In addition, the net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2001 included certain tax non-deductible items under the PRC tax rule. As a result, effective tax rate for the Group in FY01 was higher. For more information, please refer to the paragraph headed "Tax rate" below.

### *Net profit from ordinary activities attributable to shareholders*

For FY01, the Group's net profit from ordinary activities attributable to shareholders was approximately HK\$81.4 million, representing a net profit margin of approximately 9.7%, compared to approximately 14.6% in FY00. The lower net profit margin for the year was primarily due to the higher effective tax rate resulting from the expiry of the tax holiday enjoyed by HB Company, the Group's major operating subsidiary, in FY00. Since then, HB Company is subject to corporate income tax at 24% (FY00: 12%). In addition, the inclusion of six months operating results of the Acquired Breweries also lowered the Group's net profit margin.

### *EBITDA*

For FY01, EBITDA amounted to approximately HK\$241.6 million, representing an increase of approximately HK\$69.7 million or approximately 40.5% from FY00. EBITDA margin was approximately 28.9%.

### **Tax rate**

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for Hong Kong profits tax purpose during the Track Record Period. Taxes on profits assessable in the PRC have been calculated at the applicable rates of tax prevailing in the PRC, based on the then applicable legislation, interpretations and practices in respect thereof.

HB Company and HB Songjiang are subject to a 24% statutory income tax rate. HB Company was exempt from the PRC corporate income tax for the first two profitable years of operation starting from 1996 and, thereafter, is eligible for a 50% relief from the PRC corporate income tax for the following three years. Accordingly, for the two years ended 31st December, 2000, PRC corporate income tax had been provided at a reduced rate of 12% on the estimated

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assessable income generated by HB Company in respect of its fourth and fifth profit-making years. From 2001 onwards, HB Company is subject to corporate income tax rate of 24%. HB Songjiang was exempt from the PRC corporate income tax for the first two profitable years of operation starting from 2001 and, thereafter, is eligible for a 50% relief from the PRC corporate income tax for the following three years. Accordingly, no provision for PRC corporate income tax of HB Songjiang had been made for the Track Record Period.

Yinpu JV is subject to a 24% statutory corporate income tax rate. Yinpu JV was exempt from the PRC corporate income tax for the first two profitable years of operation starting from 1998 and, thereafter, is eligible for a 50% relief from the PRC corporate income tax for the following three years. Accordingly, for the two years ended 31st December, 2001, PRC corporate income tax had been provided at a reduced rate of 12% on the estimated assessable income generated by Yinpu JV in respect of its third and fourth profit-making years.

Jiamusi JV and Mudanjiang JV, subsidiaries established and operated in the PRC, are subject to a 33% statutory corporate income tax rate. Jiamusi JV is exempt from the PRC corporate income tax for the first two profitable years of operation starting from 2000 and, thereafter, is eligible for a 50% relief from the PRC corporate income tax for the following three years. Accordingly, no PRC corporate income tax of Jiamusi JV had been provided for the Track Record Period. Mudanjiang JV is exempt from the PRC corporate income tax for the first two profitable years of operation starting from 1997 and, thereafter, is eligible for a 50% relief from the PRC corporate income tax for the following three years. Accordingly, for the three years ended 31st December, 2001, PRC corporate income tax had been provided at a reduced rate of 16.5% on the estimated assessable income generated by Mudanjiang JV in respect of its third, fourth and fifth profit-making years.

The Group's other subsidiaries established and operated in the PRC, namely HB Hegang, HB Jilin and HB Tianhe, are subject to a 33% statutory income tax rate.

### DIVIDENDS

For the three years ended 31st December, 2001, the Company declared and paid a dividend of approximately HK\$29.4 million, HK\$75.8 million and nil respectively. The Directors confirmed that there had not been any material adverse impact on the Group's financial position as a result of the payment of such dividend.

The Directors at present do not intend to recommend any other dividends for the year ending 31st December, 2002. The Directors expect that, in the future, interim and final dividends will be paid in October and May of each year respectively and interim dividends will normally represent approximately one-third of the expected total dividends of each year.

Prospective investors should be reminded that the historical records of the dividends paid by the Group have no correlation to the Group's future dividend policy, which is subject to changes from time to time. There is no assurance that the amount of future dividends will be similar to historical dividends or will be declared at all, and potential investors should be aware that historical dividends should not be used as a reference or basis upon which the Group's future dividends may be determined.

**INDEBTEDNESS****Borrowings**

At the close of business on 30th April, 2002, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$889.3 million, comprising convertible notes of approximately HK\$21.8 million, secured short term bank loans of approximately HK\$67 million, unsecured short term bank loans of approximately HK\$47.1 million, other secured short term loan of approximately HK\$2.5 million, unsecured short term other loans of approximately HK\$10.7 million, secured long term bank loans of approximately HK\$520.5 million, unsecured long term bank loans of approximately HK\$93.6 million, unsecured loans from shareholders of approximately HK\$51.6 million and unsecured amounts due to joint venture partners of subsidiaries of approximately HK\$74.5 million, which were incurred primarily as part of the investments in excess of capital contribution by joint venture partners in accordance to the terms of the relevant joint venture contracts.

The Group's borrowings as at 30th April, 2002 were denominated in US dollars, Renminbi and Hong Kong dollars. For the purpose of this indebtedness statement, amounts denominated in US dollars and Renminbi have been translated into Hong Kong dollars at the applicable rate of exchange prevailing at the close of business on 30th April, 2002 of US\$1 to HK\$7.8 and HK\$1 to RMB1.0605 respectively.

**Securities**

As at 30th April, 2002, certain of the Group's borrowings were secured by, among others, (i) mortgages over certain land and buildings and plant and machinery of the Group; (ii) bank deposits of US\$1 million (HK\$7.8 million); (iii) floating charge over the assets of the Company and the assets of all of the Company's subsidiaries. This floating charge will be released following the listing of the Company's shares; (iv) share mortgage/assignment of the ownership rights of the Group's interests in subsidiaries; and (v) assignment of the Company's shareholders loans.

**Contingent liabilities**

As at 30th April, 2002, the Group had given guarantees of approximately HK\$3.8 million to a bank in connection with credit facilities granted to certain employees of Yinpu JV for financing the construction of employees' quarters. Upon the issuance of building ownership certificate, the employees' quarters will be mortgaged to secure the credit facilities and replace the guarantees.

**Disclaimer**

Save as referred to above or as otherwise disclosed herein and apart from intra-Group liabilities, the Group did not have, at the close of business on 30th April, 2002, any mortgages, charges, debentures or other loan capital or bank overdrafts, loans and other similar indebtedness or hire purchase commitments or any guarantees or other material contingent liabilities.

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The Directors have confirmed that there have been no material change in the indebtedness and contingent liabilities of the Group since 30th April, 2002.

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL RESOURCES**

#### **Net current liabilities**

As at 30th April, 2002, being the latest practicable date for the purpose of ascertaining certain information contained in this statement, the Group had net current liabilities of approximately HK\$152.2 million. Current assets of the Group comprised cash and bank balances of approximately HK\$87.6 million, accounts receivable of approximately HK\$117.1 million, inventories of approximately HK\$214.3 million, and prepayments, deposits, and other debtors of approximately HK\$71 million. Cash and bank balances are held in US dollars, Renminbi and Hong Kong dollars. Current liabilities of the Group comprised bank and other borrowings of approximately HK\$245.9 million, accounts payable of approximately HK\$143.4 million, accruals and other liabilities of approximately HK\$239.2 million, and tax payable of approximately HK\$13.7 million.

Bank and other borrowings included unsecured loans from shareholders of approximately HK\$51.6 million which will be fully repaid within twelve months from the date of this prospectus.

#### **Borrowings and banking facilities**

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers in Hong Kong and the PRC.

As at 30th April, 2002, the Group had aggregate banking facilities of approximately HK\$728.2 million which had been fully utilised and an amount of approximately HK\$587.5 million were secured by, among others, (i) mortgages over certain land and buildings and plant and machinery of the Group; (ii) bank deposits of US\$1 million (HK\$7.8 million); (iii) floating charge over the assets of the Company and the assets of all of the Company's subsidiaries. This floating charge will be released following the listing of the Company's shares; (iv) share mortgage/assignment of the ownership rights of the Group's interest in subsidiaries; and (v) assignment of the Company's shareholders loans.

#### **Directors' opinion on sufficiency of working capital**

The Group services its debts primarily through cash generated from its operations. The Directors are of the opinion that, taking into account its internally generated funds, its currently available borrowing facilities and the estimated net proceeds of the Share Offer, the Group has sufficient working capital to satisfy its present requirements.

#### **Foreign Exchange**

Substantially all of the Group's revenue and expenses are denominated in RMB. Under the current foreign exchange system in China, the Group may not be able to hedge effectively against currency risk, including possible future RMB devaluations. Future movements in the



exchange rate of the RMB against the US dollar and other currencies may adversely affect the Group's results of operations and financial condition. Please refer the paragraph headed "The Group's business is exposed to currency conversion and exchange rate risks" in the paragraph headed "Risks relating to the PRC" in the section headed "Risk factors" of this prospectus.

### **PRACTICE NOTE 19 OF THE LISTING RULES**

The loan agreement dated 27th June, 2001 ("Loan Agreement") in relation to a US\$22 million syndicated loan includes specific performance covenants requiring CEDF and Brewery Investors to maintain at all times their controlling shareholder position of the Company after the listing of the Company on the Main Board. A breach of such specific performance covenants constitute an event of default under the Loan Agreement, upon (1) the occurrence of such event and (2) the written request by the lenders whose aggregate advance made to the Company exceeds 66 $\frac{2}{3}$ %, all amounts outstanding and owing under the Loan Agreement will become immediately due and payable.

Save as aforesaid, the Directors have confirmed that as at the Latest Practicable Date, they were not aware of any other circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

### **NON-INCLUSION OF PROFIT FORECAST**

While the performance of the Acquired Breweries has been improving since the Acquisition (for more details, please refer to the paragraph headed "Background information on the Acquired Breweries" in the section headed "Particulars of the Group" of this prospectus), as referred to in the paragraph headed "As no profit forecast has been included in this prospectus, prospective investors should exercise caution when investing in the Shares" in the section headed "Risk factors" of this prospectus, the Directors, and the Sponsors concur, consider that to forecast the contribution of the Acquired Breweries to the Group's profit for the year ending 31st December, 2002 at the moment may not fully reflect the merits of the Acquisition. As such, no profit forecast has been included in this prospectus. Based on its management accounts, the Group sold a total of approximately 2,757,000 hl (approximately 279,000 tonnes) of beer and recorded an unaudited turnover of approximately HK\$358.3 million (approximately RMB380 million for the four months ended 30th April, 2002), representing approximately 76.7% increment from the unaudited turnover of approximately HK\$202.7 million (approximately RMB215 million) for the four months ended 30th April, 2001. The substantial increase in turnover was due to the integration of income generated from the Acquired Breweries. During the period, unaudited net profit was approximately HK\$28.7 million, or a net profit margin of approximately 8%, representing a slight drop from that of approximately 9.7% for the whole year ended 31st December, 2001. A lower net profit margin was attributable to the inclusion of the operating results of the Acquired Breweries for the four months ended 30th April, 2002. The Group's sale is normally subject to a seasonality factor of which the first quarter's sales is usually lower in a normal calendar year. During the four months ended 30th April, 2002, the Group maintained its expansion strategy toward other areas in Northeast Region. As at 30th April, 2002, the Group has a total order on hand but not yet limited of approximately 448,000 tonnes. Prospective investors should be aware that there is no assurance that the Group's historical revenue or profitability can be maintained or relied upon in assessing the Group's future performance.

**PROPERTY INTERESTS****Property leased by the Group in Hong Kong**

The Group's office in Hong Kong is located at 11th floor, World-wide House, No.19 Des Voeux Road, Central, Hong Kong. Pursuant to a Memorandum dated 1st June, 2001, the office is sublet by Sunny Trading and Marketing Limited, an independent third party, for a term of one year commencing from 1st June, 2001 and expiring on 31st May, 2002 with an option to renew for one year at a monthly rental of HK\$250,000 inclusive of building management fees, government rates, utilities, telephone operators and furniture fittings. The Company has exercised the option to rent the office for one year commencing from 1st June, 2002 to 31st May, 2003 by a Memorandum dated 24th April, 2002 signed by Sunny Trading and Marketing Limited and the Company.

Pursuant to a Tenancy Agreement dated 20th October, 2001, the Company has rented a residential unit located at Flat C, 34th Floor, Block 1, Park Tower, No. 1 King's Road, Hong Kong from an independent third party for a term of two years commencing from 1st November, 2001 to 31st October, 2003 at a monthly rental of HK\$36,000 inclusive of government rent, rates and management fees for use as a Director's quarter.

For details please see property nos. 1-2 in Group I in the Property Valuation set out in appendix III of this prospectus.

**Properties held by the Group in the PRC**

The Group holds three parcels of land located at No. 20 You Fang Street, Xiang Fang District, Harbin City, Heilongjiang Province, the PRC with a total area of approximately 101,146.6 sq.m. on which 25 buildings and additional structures with a total gross floor area of approximately 90,932.8 sq.m. have been constructed. The land use rights of these parcels of land were granted by the relevant People's Government to the Group, one of which is for a term of 25 years commencing from 1st March, 2001 for warehouse purpose and the other two are for a term of 25 years commencing from 8th March, 2001 for industrial use.

The Group holds a parcel of land located at No. 2 Tong Xiang Street, Dongli District, Songjiang Town, Harbin City, Heilongjiang Province, the PRC with an area of approximately 121,050.6 sq.m. on which 13 buildings and additional structures with a total gross floor area of approximately 29,674.3 sq.m. have been constructed. The land use rights of the land were granted by the relevant People's Government to the Group for a term of 25 years commencing from 25th July, 2001 to 24th July, 2026 for industrial use.

The Group holds three parcels of land located at No. 1 Pi Jiu Chang Street (formerly known as San Dao Street and Si Dao Street), Gong Nong District, Hegang City, Heilongjiang Province, the PRC with a total area of approximately 35,820 sq.m. on which 20 buildings and additional structures with a total gross floor area of approximately 16,406.5 sq.m. have been constructed. The land use rights of the land were allocated by the PRC Government to the Group for a term of 5 years commencing from 7th June, 1999 for industrial and warehouse purpose.

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The Group holds two parcels of land located at Yi Wei and San Wei, Tie Lu Street, Hailun City, Heilongjiang Province, the PRC with a total area of approximately 29,514.9 sq.m. on which 16 buildings and additional structures with a total gross floor area of approximately 9,493.2 sq.m. have been constructed. The land use rights of the land were allocated by the relevant People's Government to the Group for industrial use for an undefined term.

The Group holds two parcels of land located at Cha Lu He Town, Yongji County, Jilin Province, the PRC with a total area of approximately 49,728 sq.m. on which 17 buildings and additional structures with a total gross floor area of approximately 9,907 sq.m. have been constructed. The land use rights of the land were allocated by the relevant People's Government to the Group for industrial use for an undefined term.

The Group holds a parcel of land located at No.94 You Yi Road, Jiamusi City, Heilongjiang Province, the PRC with an area of approximately 90,966.7 sq.m. on which 33 buildings and additional structures with a total gross floor area of approximately 44,458.7 sq.m. have been constructed. The land use rights of the land were granted by the relevant People's Government to the Group for a term of 30 years commencing from 1st July, 1997 to 30th June, 2027 for industrial use.

The Group holds three parcels of land (Lands A, B and C) and leased a parcel of land (Land D), all located at No. 77 Dong Xin Rong Street, Aimin District, Mudanjiang City, Heilongjiang Province, the PRC with a total area of approximately 79,895.3 sq.m. on which 55 buildings and additional structures with a total gross floor area of approximately 71,985.4 sq.m. have been constructed. The land use rights of Lands A, B and C, with a total area of approximately 22,994.1 sq.m. were granted by the relevant People's Government to the Group for a term of 50 years commencing from 20th August, 1997 to 20th August, 2047 for industrial use. The land use rights of Land D, with an area of approximately 56,901.2 sq.m., are let by Mudanjiang City Land Administration Bureau to the Group for a term of 20 years commencing from 25th September, 2001 to 24th September, 2021 at an annual rental of RMB182,083.9.

The Group holds 2 parcels of land located at No. 125 Tong Yang Road, Shuangyang District, Changchun City, Jilin Province, the PRC with a total area of approximately 140,255.3 sq.m. on which 18 buildings and additional structures with a total gross floor area of approximately 36,574.8 sq.m. have been constructed. The land use rights of the land were granted by the relevant People's Government to the Group for a term of 50 years commencing from 31st December, 2001 to 31st December, 2051 for industrial use.

For details, please see property nos. 3-10 in Group II in the Property Valuation set out in appendix III to this prospectus.

The Group has rented 14 premises spreading over 10 cities in the PRC for use as offices sales office, staff quarter, storage and car park. These cities include Beijing, Tianjin, Nanjing of Jiangsu Province, Jinan of Shandong Province, Dalian and Shenyang of Liaoning Province, Changchun, Jilin of Jilin Province, Mudanjiang and Daqing of Heilongjiang Province. All of these properties are rented from independent third parties.

For details, please see property nos. 11-24 in Group III in the Property Valuation set out in Appendix III to this prospectus.

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### Property valuation

The property interests attributable to the Group have been valued at an aggregate amount of RMB204,825,000 on 30th April, 2002 by Vigers Hong Kong Limited, an independent property valuer. The text of the letter with a summary of values and valuation certificates of these property interests prepared by Vigers Hong Kong Limited are set out in appendix III to this prospectus.

### DISTRIBUTABLE RESERVES

As at 31st December, 2001, the Company's reserves available for distribution to the shareholders of the Company amounted to HK\$290,575,000.

### ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of the adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31st December, 2001 as shown in the accountants' report set out in appendix I to this prospectus, adjusted as described below:

	<i>HK\$'000</i>
Audited combined net assets of the Group as at 31st December, 2001	339,570
Less: Group's share of intangible assets, goodwill and deferred expenditure after minority interests	<u>(121,647)</u>
Audited net tangible assets of the Group as at 31st December, 2001	217,923
Unaudited combined profit after tax and minority interests of the Group for the four months ended 30th April, 2002	28,693
Surplus arising on the revaluation of the Group's property interests as at 30th April, 2002 ( <i>Note 1</i> )	13,964
Estimated net proceeds of the Share Offer ( <i>Note 2</i> )	<u>270,000</u>
Adjusted net tangible assets of the Group	<u>530,580</u>
Adjusted net tangible asset value per Share ( <i>Note 3</i> )	<u>HK\$0.6</u>

#### *Notes:*

- (1) The surplus arising from the revaluation performed on an open market value basis by Vigers Hong Kong Limited, an independent property valuer, will be incorporated into the Group's financial statements for the year ending 31st December, 2002.

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- (2) The estimated net proceeds of the Share Offer (based on the Offer Price of HK\$1.485 per Share, being the mid-point of the indicative price range of HK\$1.38 per Share and HK\$1.59 per Share) takes no account of any proceeds which may be raised upon exercise of any of the Over-allotment Option.
- (3) The adjusted net tangible asset value per Share is arrived at after the adjustments as referred to in this section and on the basis of a total 880,000,000 Shares expected to be in issue immediately following the completion of the Share Offer and the Capitalisation Issue, but takes no account of any Shares which may fall to be issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Scheme and that may be granted under the Share Option Scheme or upon exercise of the Over-allotment Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to in the paragraph headed “Written resolutions of the shareholders of the Company passed on 3rd June, 2002 and 17th June, 2002” in appendix VI to this prospectus.

### **NO MATERIAL ADVERSE CHANGE**

The Directors have confirmed that, save as disclosed herein, since 31st December, 2001 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.