NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 23 February 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a corporate reorganisation which was completed on 26 June 2001 for the purpose of rationalising the structure of the Group (the "Reorganisation") in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2002, the Company became the holding company of the companies now comprising the Group.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants, as a result of the Reorganisation completed on 26 June 2001, which involved companies under common control. On this basis, the Company has been treated as the holding company of its subsidiaries for the six months ended 30 June 2001, rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the six months ended 30 June 2001 include the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, where this is a short period.

The results of other subsidiaries acquired by the Company during the prior year are included in the consolidated profit and loss account from their effective dates of acquisition.

In the opinion of the directors of the Company (the "Directors"), the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2001 prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Cont'd)

These unaudited interim condensed consolidated financial statements have been prepared in accordance with SSAP 25 "Interim Financial Reporting" and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31 December 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

- SSAP 1 (Revised): "Presentation of Financial Statements"
- SSAP 11 (Revised): "Foreign Currency Translation"
- SSAP 15 (Revised): "Cash Flow Statements"
- SSAP 33: "Discontinuing Operations"
- SSAP 34: "Employee Benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Cont'd)

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries operating in the People's Republic of China (the "PRC") are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no major impact on these condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these condensed consolidated financial statements.

3. SEGMENT INFORMATION

During the period, the Group was engaged in the production and distribution of beer in the PRC and the provision of consultancy service. As the income from the provision of consultancy service contributed for less than 10% of the total revenue, and over 90% of the Group's revenue was derived from customers based in the PRC, the business and geographical segment information are therefore not presented.

4. 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 and the income from the provision of consultancy service.

An analysis of the Group's turnover and revenue is as follows:

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Turnover:		
Sale of beer	**548,153**	323,208
Consultancy fee income	**9,360**	—
	557,513	323,208
Other revenue:		
Sales of raw materials, packaging materials and by-products	**2,990**	825
Government subsidies	**1,367**	629
Interest income	**214**	225
	4,571	1,679
Total revenue	**562,084**	324,887

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June 2002 (Unaudited) HK$'000	2001 (Unaudited) HK$'000
Depreciation	**47,029**	24,248
Amortisation of intangible assets, other than goodwill*	**863**	721
Amortisation of goodwill*	**2,250**	—
Minimum lease payments under operating leases on land and building	**749**	242
Payment for the use of land	**—**	226
Payment for the use of plant and machinery	**492**	490
Payment for the use of trademark	**471**	—
Auditors' remuneration	**396**	197
Staff costs (including directors' remuneration)		
Wages and salaries	**38,195**	20,636
Pension contributions	**4,960**	3,005
Total staff costs	**43,155**	23,641
Provision for doubtful debts	**—**	53
Loss/(gain) on disposal of fixed assets	**(865)**	11
Interest income	**(214)**	(225)

* The amortisation of intangible assets and goodwill are included in "Other operating expenses" on the face of the condensed consolidated profit and loss account.

6. FINANCE COSTS

	For the six months ended 30 June 2002 (Unaudited) HK$'000	2001 (Unaudited) HK$'000
Interest expense on:		
Bank loans wholly repayable within five years	23,722	8,501
Loan from a former joint venture partner of a subsidiary	—	84
Convertible notes	545	—
	24,267	8,585
Other finance cost:		
Amortisation of deferred expenditure	1,432	—
	25,699	8,585

7. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the period (2001: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the period of approximately HK$54,279,000 (2001: HK$38,792,000) and the weighted average number of 666,077,348 (2001: 660,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2002 is based on the unaudited net profit attributable to shareholders for the period of approximately HK$54,279,000 as adjusted for the interest on convertible notes of HK$11,945. The weighted average number of ordinary shares used in the calculation is the 666,077,348 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 311,236 ordinary shares assumed to have been issued on the full conversion of the convertible notes outstanding during the period. The outstanding share options had no dilutive effect on the basic earnings per share for the period as the outstanding share options are not exercisable until 27 June 2003.

No diluted earnings per share have been presented for the six months ended 30 June 2001 as the Company did not have any dilutive potential ordinary shares during that period.

9. ACCOUNTS RECEIVABLE

The general credit terms of the Group range from 30 to 90 days.

An aged analysis of accounts receivable is as follows:

	30 June 2002 (Unaudited) HK$'000	31 December 2001 (Audited) HK$'000
Outstanding balances which age:		
Within 30 days	**48,377**	44,950
Between 31 and 60 days	**29,096**	27,479
Between 61 and 180 days	**35,003**	37,577
Between 181 and 365 days	**4,455**	4,999
	116,931	115,005

10. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	30 June 2002 (Unaudited) HK$'000	31 December 2001 (Audited) HK$'000
Outstanding balances which age:		
Within 30 days	**53,294**	56,684
Between 31 and 60 days	**34,109**	30,029
Between 61 and 180 days	**60,050**	62,538
Between 181 days and 365 days	**10,722**	8,790
Between 366 and 540 days	**7,667**	5,131
	165,842	163,172

11. SHARE CAPITAL

The following is a summary of the movements in the authorised and issued share capital of the Company:

	Number of authorised shares	Number of issued shares	Nominal value of shares issued HK$'000
Share allotted and issued nil paid on incorporation	1,000,000	1	—
Shares issued as consideration for the acquisition of the entire issued share capital of a subsidiary	—	999,999	100
Increase in authorised share capital	4,999,000,000	—	—
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	—
Pro forma share capital as at 31 December 2001	5,000,000,000	660,000,000	100
Capitalisation of the share premium account as set out above	—	—	65,900
New issue on public offer and placing	—	220,000,000	22,000
Share capital as at 30 June 2002	5,000,000,000	880,000,000	88,000

12. CONTINGENT LIABILITIES

At 30 June 2002, the Group had given guarantees of approximately HK$8,052,000 (31 December 2001: HK$3,770,000) to a bank in connection with credit facilities granted to certain employees of a subsidiary 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.

13. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2002 (Unaudited) HK$'000	31 December 2001 (Audited) HK$'000
Within one year	**3,815**	3,962
In the second to fifth years, inclusive	**1,097**	2,265
After five years	**1,688**	1,382
	6,600	7,609

14. COMMITMENTS

In addition to the operating lease commitments detailed in note 13 above, the Group had the following commitments at 30 June 2002:

	30 June 2002 (Unaudited) HK$'000	31 December 2001 (Audited) HK$'000
(i) Capital commitments in respect of construction/installation of plant and machinery		
Contracted for	**51,615**	66,021

(ii) Other commitments

At 30 June 2002, the Group had total committed payment of HK$4.2 million (31 December 2001: HK$4.7 million) to Yinpu Brewery Factory, Jilin Province, a joint venture partner of a subsidiary, for the use of trademark.

15. RELATED PARTY TRANSACTIONS

The Group had the following material related party transactions during the period:

Nature of transaction	Notes	For the six months ended 30 June 2002 (Unaudited) HK$'000	2001 (Unaudited) HK$'000
Joint venture partners of subsidiaries:			
Payment to Harbin Songjiang Electrical and Mechanical Factory for the use of land	(i)	—	226
Payment to Jilin Province Guoren Beer Company Limited for the use of plant and machinery	(ii)	492	490
Payment to Yinpu Brewery Factory, Jilin Province, for the use of trademark	(iii)	471	—

Notes:

(i) The payment for the use of land was determined based on RMB5 per square metre and was charged at RMB480,000 per annum commencing from 8 October 1998.

(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 31December 1999 performed by an independent valuer in the PRC.

(iii) The payment for the use of trademark was charged at RMB1,000,000 per annum.

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

16. POST BALANCE SHEET EVENTS

(i) On 15 July 2002, the Company issued 33,000,000 ordinary shares of HK$0.1 each at a price of HK$1.56 each pursuant to the exercise of the Over-allotment Option (as defined in the Company's prospectus dated 18 June 2002 (the "Prospectus")) by the Placing Underwriter (as defined in the Prospectus) on 11 July 2002, for a total cash consideration, net of related expenses, of HK$49.4 million. The details of the exercise of the Over-allotment Option were disclosed in an announcement dated 11 July 2002 made by the Company.

(ii) On 16 July 2002, 18,120,000 share options, representing approximately 1.98% of the Company's shares in issue as at that date were granted to certain employees of the Company's subsidiaries to subscribe for shares in the Company pursuant to the share option scheme of the Company adopted on 17 June 2002. The subscription price of the options granted under the scheme is HK$1.85 (being the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days from 10 July 2002 to 16 July 2002) and the exercise period is from 27 June 2003 to 26 June 2007. The exercise in full of the outstanding options would, with the present capital structure of the Company, result in the issue of 18,120,000 additional shares of HK$0.10 each, and generate cash proceeds to the Company of HK$33,522,000 before the related share issue expenses.

16. POST BALANCE SHEET EVENTS (Cont'd)

(iii) On 28 August 2002, the Group completed its acquisition of the entire interest of Ballantine Management Limited ("Ballantine") from Goldenite International Limited, an independent third party not connected with the chief executives, directors and substantial shareholders of the Group, or their respective associates, for an aggregate cash consideration of HK$70 million. The consideration was arrived at after arm's length negotiations between the parties thereto. Ballantine holds 100%, 63.02% and 60% interest in Jinzhou Jingpingquan Brewery Co., Ltd ("Jinzhou Brewery"), Jinzhou City, Liaoning Province, Tangshan Brewery Co., Ltd. ("Tangshan Brewery"), Tangshan City, Hebei Province and Daqing Xiaoxue Brewery Co., Ltd. ("Daqing Brewery), Daqing City, Heilongjiang Province with a total annual production capacity of approximately 220,000 tonnes (2.2 million hl). Jinzhou Brewery and Daqing Brewery are established in the PRC as a wholly foreign-owned enterprise and a sino-foreign joint venture respectively. Tangshan Brewery is undergoing the formalities to become a sino-foreign joint venture which is expected to be completed soon. This acquisition will further expand the Group's production capacity and consolidate its market position in the northeast region of the PRC (comprising Heilongjiang Province, Jilin Province and Liaoning Province) (the "Northeast Region"), and at the same time pave the way for the Group to expand its market share in North China in the PRC.