Notes to Financial Statements

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1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) on 23 February 2001. Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 26 June 2001, the Company became the holding company of the companies now comprising the Group. This was accomplished by the Company acquiring the entire issued share capital of Harbin Brewery Investments Limited ("HBIL"), the then holding company of certain subsidiaries as set out in note 17 to the financial statements. Further details of the Group Reorganisation and the subsidiaries acquired pursuant and subsequent thereto are set out in notes 17 and 29, respectively, to the financial statements and in the Company's prospectus dated 18 June 2002 (the "Prospectus").

2. CORPORATE INFORMATION

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

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised 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 principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 30 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates for the year whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 4 to the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates ruling at the balance sheet date. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 4 and in note 32(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has had no material effect on the financial statements. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 30 to the financial statements. These share option scheme disclosures similar to the Listing Rules disclosures are now required to be included in the notes to the financial statements as a consequence of the SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

Notes to Financial Statements

31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The consolidated financial statements in the prior year were prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 26 June 2001. On this basis, the Company had been treated as the holding company of its subsidiaries prior to the completion date of the Group Reorganisation, rather than from the date of acquisition of the subsidiaries on 26 June 2001. Accordingly, the consolidated results of the Group for the year ended 31 December 2001 included the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation/establishment, where this is a shorter period, on the basis that the existing Group had been in place as at January 2001. The results of the subsidiaries acquired by the Company following the Group Reorganisation in the prior year were included in the consolidated profit and loss account from their effective dates of acquisition.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

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

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

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as a subsidiary if the Company has unilateral control, directly or indirectly, over the joint venture company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of twenty years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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

Related parties

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

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

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Intangible assets

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

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

Deferred expenditure

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

Notes to Financial Statements

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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

Packaging materials, comprising reusable bottles and plastic crates currently in use, are stated at cost and are amortised on the straight-line basis over a period of three and five years, respectively.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) consultancy fee income, in the period in which such services are performed;

(c) government subsidies, on a cash receipt basis; and

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Operating leases

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of the PRC Subsidiaries and the cash flows of the PRC Subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 32(a) to the financial statements.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option schemes

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes are not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

5. SEGMENT INFORMATION

During the year, the Group was principally involved in the production and distribution of beer. Over 90% of the Group's revenue, results, assets and liabilities were derived from Mainland China and, accordingly, no business or geographical segment information is presented.

6. TURNOVER AND REVENUE

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

An analysis of turnover and other revenue is as follows:

	2002	2001
	HK$'000	HK$'000
TURNOVER		
Sale of beer	**1,118,642**	836,704
OTHER REVENUE		
Sale of raw materials, packaging materials and by-products	**4,006**	3,921
Consultancy fee income	**12,360**	—
Government subsidies	**11,297**	4,337
Interest income	**1,275**	497
	28,938	8,755
	1,147,580	845,459

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7. PROFIT FROM OPERATING ACTIVITIES

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

	2002 HK$'000	2001 HK$'000
Depreciation	**97,311**	69,769
Amortisation of intangible assets, other than goodwill*	**2,362**	1,758
Amortisation of goodwill*	**5,366**	2,251
Minimum lease payments under operating leases on land and buildings	**2,596**	1,120
Auditors' remuneration	**2,638**	234
Staff costs (excluding directors' remuneration (note 9)):		
Wages and salaries	**82,993**	52,954
Pension contributions	**14,213**	9,349
	97,206	62,303
Provision for doubtful debts	**2,695**	24
Loss on disposal of fixed assets	**3,649**	617
Exchange gains, net	**(27)**	(260)
Interest income	**(1,275)**	(497)

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

8. FINANCE COSTS

	Group	
	2002 HK$'000	2001 HK$'000
Interest on bank loans wholly repayable within five years	**45,052**	30,398
Interest on other loans	**301**	308
Interest on an amount due to a joint venture partner of a subsidiary	**1,289**	1,173
Interest on convertible notes	**1,090**	182
	47,732	32,061
Other finance cost:		
Amortisation of deferred expenditure	**2,864**	1,412
	50,596	33,473

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9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Fees	**810**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**5,325**	562
Pension scheme contributions	**250**	124
	6,385	686

Fees include HK$210,000 (2001: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	Number of directors	
	2002	2001
Nil to HK$1,000,000	**9**	9
HK$1,000,001 to HK$1,500,000	**1**	—
HK$2,500,001 to HK$3,000,000	**1**	—
	11	9

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

During the year, 54,860,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2001: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2001: two) non-director, highest paid employee(s) are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Salaries and allowances	**560**	248
Pension scheme contributions	**7**	55
	567	303

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

	Number of employees	
	2002	2001
Nil to HK$1,000,000	**1**	2

During the year, 5,280,000 share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid employees' remuneration disclosures.

11. TAX

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

	2002	2001
	HK$'000	HK$'000
Group:		
Mainland China	**35,970**	33,775

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11. TAX (continued)

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

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

The revaluation of the Group's land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Group's net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 includes the loss for the year dealt with in the financial statements of the Company amounting to HK$9,927,000 (period from 23 February 2001 (date of incorporation) to 31 December 2001: loss of HK$7,124,000).

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$108,769,000 and the weighted average of 788,684,932 ordinary shares in issue during the year. The comparative amount of the basic earnings per share was based on the net profit attributable to shareholders for that year of HK$81,435,000 and on the assumption that 660,000,000 ordinary shares were in issue and issuable, comprising 1,000,000 shares in issue as at that date and 659,000,000 shares to be issued pursuant to the capitalisation issue as described in note 29(c) to the financial statements.

The calculation of diluted earnings per share for the year ended 31 December 2002 is based on the net profit attributable to shareholders for the year of HK$108,769,000 as adjusted for the interest on convertible notes of HK$1,090,000. The weighted average number of ordinary shares used in the calculation is the 788,684,932 ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 13,974,359 ordinary shares assumed to have been issued on the full conversion of the convertible notes outstanding during the year and the weighted average of 7,238,942 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 is based on the net profit attributable to shareholders for the year of HK$81,435,000 as adjusted for the interest on convertible notes of HK$182,000. The weighted average number of ordinary shares used in the calculation is the 660,000,000 ordinary shares deemed to have been in issue and issuable during that year, as used in the basic earnings per share calculation, and the weighted average of 2,412,013 ordinary shares assumed to have been issued on the full conversion of the convertible notes outstanding during that year.

14. FIXED ASSETS

Group

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	368,845	862,509	11,555	26,098	99,026	1,368,033
Additions	1,636	4,301	1,066	6,855	129,138	142,996
Acquisition of subsidiaries	77,846	52,287	911	3,509	32,336	166,889
Disposals	(253)	(15,751)	(174)	(5,258)	(617)	(22,053)
Revaluation	(21,913)	—	—	—	—	(21,913)
Transfers	36,664	89,567	1,904	—	(128,135)	—
Exchange realignment	23	32	—	1	8	64
At 31 December 2002	462,848	992,945	15,262	31,205	131,756	1,634,016
Analysis of cost or valuation:						
At cost	—	992,945	15,262	31,205	131,756	1,171,168
At valuation	462,848	—	—	—	—	462,848
	462,848	992,945	15,262	31,205	131,756	1,634,016
Accumulated depreciation:						
At beginning of year	37,287	153,213	2,097	8,662	—	201,259
Provided during the year	16,732	74,485	1,865	4,229	—	97,311
Disposals	(36)	(5,633)	(63)	(2,425)	—	(8,157)
Written back on revaluation	(41,958)	—	—	—	—	(41,958)
Exchange realignment	6	19	—	1	—	26
At 31 December 2002	12,031	222,084	3,899	10,467	—	248,481
Net book value:						
At 31 December 2002	450,817	770,861	11,363	20,738	131,756	1,385,535
At 31 December 2001	331,558	709,296	9,458	17,436	99,026	1,166,774

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14. FIXED ASSETS (continued)

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

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$324,606,000.

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

At 31 December 2002, certain of the Group's land and buildings and plant and machinery, with net book values of approximately HK$610,079,000 (2001: HK$617,139,000), were pledged to secure certain banking facilities and an other loan granted to the Group (notes 26 and 27).

15. INTANGIBLE ASSETS

Group

	Trademarks	Right to use electricity	Technical know-how	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At beginning of year	19,559	15,190	566	35,315
Exchange realignment	2	1	—	3
At 31 December 2002	19,561	15,191	566	35,318
Accumulated amortisation:				
At beginning of year	4,414	4,551	1	8,966
Provided during the year	1,542	764	56	2,362
At 31 December 2002	5,956	5,315	57	11,328
Net book value:				
At 31 December 2002	13,605	9,876	509	23,990
At 31 December 2001	15,145	10,639	565	26,349

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16. GOODWILL AND NEGATIVE GOODWILL

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

Group

	Goodwill
	HK$'000
Cost:	
At beginning of year	90,007
Acquisition of subsidiaries (note 32(c))	51,975
At 31 December 2002	141,982
Accumulated amortisation:	
At beginning of year	2,251
Provided during the year	5,366
At 31 December 2002	7,617
Net book value:	
At 31 December 2002	134,365
At 31 December 2001	87,756

As detailed in note 4 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve.

The amount of negative goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to 1 January 2001, was HK$94,000 as at 1 January and 31 December 2002.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**368,768**	298,768
Due from subsidiaries	**307,959**	237,645
Due to subsidiaries	**(8,732)**	(26,504)
	667,995	509,909

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17. INTERESTS IN SUBSIDIARIES (continued)

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Harbin Brewery Investments Limited	British Virgin Islands	US$50,000	100	—	Investment holding
Harbin Brewing Company Limited	PRC/Mainland China	RMB250,000,000	—	100	Production and distribution of bottled, barrel and canned beer, and investment holding
Harbin Brewing (Songjiang) Company Limited ("HB Songjiang")	PRC/Mainland China	RMB32,500,000	—	70	Production and distribution of bottled beer
Harbin Brewing (Hegang) Company Limited	PRC/Mainland China	RMB10,000,000	—	95	Production and distribution of bottled beer
Jilin Harbin Brewing Company Limited ("HB Jilin")	PRC/Mainland China	RMB5,000,000	—	70	Production and distribution of bottled beer
Harbin Brewing (Hailun) Company Limited	PRC/Mainland China	RMB20,000,000 (Note)	—	100	Production and distribution of bottled beer
King Victory Investments Inc.	British Virgin Islands	US$10	100	—	Investment holding
Jiamusi Yuehai Jiafeng Brewery Company Limited ("HB Jiamusi")	PRC/Mainland China	US$5,984,000	—	60	Production and distribution of bottled beer
Mudanjiang Jing Po Brewery Company Limited	PRC/Mainland China	RMB64,120,000	—	55	Production and distribution of bottled beer

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Harbin Brewery (Changchun Yinpu) Company Limited (formerly Jilin GD-Yinpu Beer Company Limited) ("HB Yinpu")	PRC/Mainland China	RMB68,000,000	—	55	Production and distribution of bottled and canned beer
Harbin Brewery Trading Company Limited	Hong Kong	HK$100	100	—	Trading of beer
Ballantine Management Limited *	British Virgin Islands	US$2	100	—	Investment holding
Harbin Brewing Jinzhou Company Limited (formerly Jinzhou Jingpingquan Brewery Company Limited) *	PRC/Mainland China	RMB15,000,000	—	100	Production and distribution of bottled beer
Daqing Xiaoxue Brewery Company Limited *	PRC/Mainland China	RMB15,000,000	—	60	Production and distribution of bottled beer
Tangshan Beer Company Limited *	PRC/Mainland China	RMB63,470,000 (Note)	—	63	Production and distribution of bottled beer

* newly acquired during the year

Note: Harbin Brewing (Hailun) Company Limited and Tangshan Beer Company Limited were established in 2002. Up to the date of the approval of the financial statements, none of the registered capital of these subsidiaries has been paid up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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18. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**85,120**	78,880
Work in progress	**28,241**	21,850
Finished goods	**17,090**	16,061
Spare parts and consumables	**32,793**	29,212
Packaging materials	**97,967**	92,228
	261,211	238,231

No inventories were stated at net realisable value at 31 December 2002 (2001: Nil).

19. ACCOUNTS RECEIVABLE

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

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

	Group	
	2002	2001
	HK$'000	HK$'000
Within 30 days	**32,859**	44,950
Between 31 and 60 days	**48,797**	27,479
Between 61 and 180 days	**39,564**	37,577
Between 181 and 365 days	**11,860**	4,999
	133,080	115,005

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20. OTHER RECEIVABLES

	Note	Group		Company	
		2002	2001	**2002**	2001
		HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments, deposits and other debtors		**74,659**	40,170	**8,793**	10,122
Due from joint venture partners of subsidiaries	21	**35,820**	7,539	**—**	—
		110,479	47,709	**8,793**	10,122

21. BALANCES WITH JOINT VENTURE PARTNERS OF SUBSIDIARIES

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

22. ACCOUNTS PAYABLE

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

	Group	
	2002	2001
	HK$'000	HK$'000
Within 30 days	**57,049**	56,684
Between 31 and 60 days	**18,421**	30,029
Between 61 and 180 days	**28,560**	62,538
Between 181 and 365 days	**35,288**	8,790
Between 366 and 540 days	**12,110**	5,131
	151,428	163,172

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23. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2002**	2001	**2002**	2001
		HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other liabilities		**324,321**	253,082	**2,683**	138
Due to joint venture partners of subsidiaries	21	**26,813**	47,698	**—**	—
Loans from shareholders	24	**—**	53,545	**—**	53,545
		351,134	354,325	**2,683**	53,683

24. LOANS FROM SHAREHOLDERS

The loans from shareholders were unsecured, interest-free and fully repaid during the year.

25. CONVERTIBLE NOTES

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

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

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

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

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

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26. OTHER LOANS

	Notes	Group 2002 HK$'000	Group 2001 HK$'000
Other loans:			
Secured	(i)	**1,628**	2,531
Unsecured	(ii)	**9,399**	20,938
		11,027	23,469

Notes:

(i) The loan is secured by certain of the Group's plant and machinery with net book value of HK$455,000 (2001: HK$511,000), interest-free and has no fixed terms of repayment.

(ii) The unsecured other loans are repayable within one year or have no fixed terms of repayment. These loans as at 31 December 2002 included (i) an amount of HK$1,314,000 (2001: HK$5,070,000) which bears interest at a fixed rate of 7% (2001: 10%) per annum; and (ii) an amount of HK$2,139,000 (2001: HK$5,126,000) which bears interest at the prevailing bank lending rate quoted by the People's Bank of China. The remaining amounts are interest-free.

27. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans:				
Secured	**542,036**	617,430	**89,143**	171,600
Unsecured	**212,202**	91,209	**—**	—
	754,238	708,639	**89,143**	171,600
Bank loans repayable:				
Within one year	**114,671**	144,477	**35,657**	49,029
In the second year	**629,202**	468,250	**53,486**	49,029
In the third to fifth years, inclusive	**10,365**	95,912	**—**	73,542
	754,238	708,639	**89,143**	171,600
Portion classified as current liabilities	**(114,671)**	(144,477)	**(35,657)**	(49,029)
Long term portion	**639,567**	564,162	**53,486**	122,571

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27. INTEREST-BEARING BANK BORROWINGS (continued)

Certain of the Group's bank loans are secured by the Group's land and building and plant and machinery, which had an aggregate net book value at the balance sheet date of approximately HK$609,624,000 (2001: HK$616,628,000).

In addition, the Group's syndicated bank loan at the balance sheet date of approximately US$11.4 million (2001: US$22 million) is secured by the following:

(i) Floating charge over the assets of all of the Company's subsidiaries; and

(ii) Share mortgage/assignment of the ownership rights of the Group's interests in subsidiaries.

28. DUE TO JOINT VENTURE PARTNERS OF SUBSIDIARIES

The amounts due to joint venture partners of subsidiaries included an amount of HK$18,668,000 (2001: HK$28,082,000) which is unsecured, bears interest at the prevailing lending rate quoted by the People's Bank of China, and is not repayable within one year. The remaining amount was unsecured and interest-free.

29. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	HK$'000
Authorised:		
5,000,000,000 (2001: 1,000,000) ordinary shares of HK$0.10 each	**500,000**	100
Issued and fully paid:		
913,000,000 (2001: 1,000,000) ordinary shares of HK$0.10 each	**91,300**	100

During the period from 23 February 2001 (date of incorporation) to 31 December 2002, there were the following movements in the Company's authorised and issued share capital:

(a) On incorporation, the Company had an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each, one share of which was issued and allotted nil paid on that date.

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29. SHARE CAPITAL (continued)

(b) On 26 June 2001, as part of the Group Reorganisation, the Company issued an aggregate of 999,999 new shares of HK$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of HBIL. The excess of the fair value of shares of HBIL, as determined on the basis of the consolidated net assets at that date over the nominal value of the Company's shares issued in exchange therefor, was credited to the Company's contributed surplus account.

(c) On 3 June 2002, the authorised share capital of the Company was increased from HK$100,000 to HK$500,000,000 by the creation of a further 4,999,000,000 shares of HK$0.10 each, ranking pari passu with the existing share capital of the Company. On the same date, a total of 659,000,000 shares of HK$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that day, by way of capitalisation of the sum of HK$65,900,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"), conditional on the share premium account being credited as a result of the issue of new shares to the public as detailed in note (d) below.

(d) On 27 June 2002, 220,000,000 new shares of HK$0.10 each were issued to the public at HK$1.56 each for a total cash consideration, before expenses, of HK$343,200,000. The excess of the consideration received for shares issued over the nominal value amounting to HK$321,200,000, before expenses, was credited to the share premium account.

(e) On 15 July 2002, 33,000,000 new shares of HK$0.10 each were issued at HK$1.56 each pursuant to an over-allotment option exercised on that date.

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29. SHARE CAPITAL (continued)

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

	Notes	Number of shares in issue	Par value HK$'000	Share premium account HK$'000	Total HK$'000
Share allotted and issued nil paid on incorporation	(a)	1	—	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of HBIL pursuant to the Group Reorganisation	(b)	999,999	100	—	100
Issued share capital as at 31 December 2001		1,000,000	100	—	100
New issue on listing	(d)	220,000,000	22,000	321,200	343,200
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(c)	659,000,000	65,900	(65,900)	—
New issue on exercise of over-allotment option	(e)	33,000,000	3,300	48,180	51,480
Share issue expenses		—	—	(49,409)	(49,409)
Issued share capital as at 31 December 2002		913,000,000	91,300	254,071	345,371

29. SHARE CAPITAL (continued)

Subsequent to the balance sheet date, on 9 January 2003, the holders of the Company's Notes (note 25) exercised their rights to convert the principal amount of the Notes in the sum of HK$21.8 million at HK$1.56 per share. On 26 February 2003, 44,000,000 existing ordinary shares of the Company held by CEDF Brewery (Holdings) Limited ("CEDF"), the major shareholder of the Company, were placed to independent placees at HK$2.1 per share. On the same date, CEDF subscribed for 44,000,000 new ordinary shares of the Company at HK$2.1 each for cash, totalling HK$92.4 million, for the proposed acquisition of certain minority interests of the Group's subsidiaries as well as the other breweries in Mainland China.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 30 to the financial statements.

30. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, these detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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

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

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30. SHARE OPTION SCHEMES (continued)

Pre-IPO Scheme

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

Details of these options are as follows:

Name or category of participant	Number of shares subject to the options granted for the year ended 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$
Directors				
Li Wentao	4,400,000	3 June 2002	27 June 2003 to 26 June 2007	1.56
	4,400,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
Lo Peter (Note)	4,400,000	3 June 2002	27 June 2003 to 26 June 2007	1.56
	4,400,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
Fu Hui	3,300,000	3 June 2002	27 June 2003 to 26 June 2007	1.56
	3,300,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
Au Peter Jeva	2,200,000	3 June 2002	27 September 2003 to 26 June 2007	1.56
	2,200,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
	2,200,000	3 June 2002	27 June 2005 to 26 June 2007	1.56

30. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of shares subject to the options granted for the year ended 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$
Directors (continued)				
Lee Kong Leong	2,200,000	3 June 2002	27 September 2003 to 26 June 2007	1.56
	2,200,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
	2,200,000	3 June 2002	27 June 2005 to 26 June 2007	1.56
Bao Liusuo	2,250,000	3 June 2002	27 June 2003 to 26 June 2007	1.56
	2,250,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
Tong Kay Tak Tom	1,760,000	3 June 2002	27 June 2003 to 26 June 2007	1.56
	1,760,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
	1,760,000	3 June 2002	27 June 2005 to 26 June 2007	1.56
Tse Kwok Lam	1,760,000	3 June 2002	27 September 2003 to 26 June 2007	1.56
	1,760,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
	1,760,000	3 June 2002	27 June 2005 to 26 June 2007	1.56

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30. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of shares subject to the options granted for the year ended 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$
Directors (continued)				
Chen Zhixiong	800,000	3 June 2002	27 June 2003 to 26 June 2007	1.56
	800,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
	800,000	3 June 2002	27 June 2005 to 26 June 2007	1.56
	54,860,000			
Other employees				
In aggregate	4,160,000	3 June 2002	27 June 2003 to 26 June 2007	1.56
	4,160,000	3 June 2002	27 June 2004 to 26 June 2007	1.56
	4,160,000	3 June 2002	27 June 2005 to 26 June 2007	1.56
	12,480,000			
	67,340,000			

At 31 December 2002, the number of shares issuable under share options granted was 67,340,000, which represented approximately 7.38% of the Company's shares in issue as at that date. Up to 31 December 2002, none of such options granted was exercised, cancelled or lapsed.

Note: Lo Peter also has family interests in respect of the option granted by the Company to Ho Kar Yin (an employee of the Company), the spouse of Lo Peter. Upon the full exercise of the option, 1,800,000 shares will be allotted and issued to Ho Kar Yin.

30. SHARE OPTION SCHEMES (continued)

Share Option Scheme

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

The Share Option Scheme became effective on 27 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

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

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30. SHARE OPTION SCHEMES (continued)

Details of these options are as follows:

Name or category of participant	Number of shares subject to the options granted for the year ended 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	Price of the Company's shares at grant date of options HK$
Other employees					
In aggregate	6,040,000	16 July 2002	27 June 2003 to 26 June 2004	1.85	1.82
	6,040,000	16 July 2002	27 June 2004 to 26 June 2007	1.85	1.82
	6,040,000	16 July 2002	27 June 2005 to 26 June 2007	1.85	1.82
	18,120,000				

At the balance sheet date, the Company had 67,340,000 and 18,120,000 share options outstanding under the Pre-IPO Share Option Scheme and Share Option Scheme, respectively. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 85,460,000 additional ordinary shares of the Company and additional share capital of HK$8,546,000 and share premium of HK$130,026,400 (before issue expenses).

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the financial statements.

The revised SSAP 11 was adopted during the year, as explained in note 3 and under the heading "Foreign currencies" in note 4 to the financial statements. As a result, the profit and loss accounts of the PRC Subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates for the year. This change in accounting policy has had no material effect on the prior year's consolidated financial statements.

The Group's contributed surplus represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor.

31. RESERVES (continued)

(a) Group (continued)

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 Mainland China. The reserve fund and the enterprise expansion fund can be used to make good future losses or to increase the capital of the PRC Subsidiaries.

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

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Arising on acquisition of HBIL		—	297,699	—	297,699
Net loss for the period from 23 February 2001 (date of incorporation) to 31 December 2001		—	—	(7,124)	(7,124)
At 31 December 2001 and 1 January 2002		—	297,699	(7,124)	290,575
New issue on listing	29	321,200	—	—	321,200
Capitalisation Issue of shares	29	(65,900)	—	—	(65,900)
New issue on exercise of over-allotment option	29	48,180	—	—	48,180
Share issue expenses	29	(49,409)	—	—	(49,409)
Net loss for the year		—	—	(9,927)	(9,927)
At 31 December 2002		254,071	297,699	(17,051)	534,719

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company of approximately HK$254,071,000 as at 31 December 2002 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Change to the layout of the cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest received and taxes paid are now included in cash flows from operating activities, and interest and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 4 to the financial statements. Cash flows of the PRC Subsidiaries are now translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of the PRC Subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year. Previously the cash flows of the PRC Subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. This change has had no material effect on the 2001 comparative amounts of the cash flow statement.

(b) Major non-cash transaction

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

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

(c) Acquisition of subsidiaries

	2002 HK$'000	2001 HK$'000
Net liabilities acquired:		
Fixed assets	**166,889**	589,034
Intangible assets	**—**	5,918
Deposits paid for purchases of fixed assets	**1,610**	2,239
Inventories	**26,038**	82,771
Accounts receivable	**201**	10,762
Prepayments, deposits and other debtors	**10,251**	20,978
Due from joint venture partners of subsidiaries	**4,972**	16,775
Cash and bank balances	**21,096**	22,788
Accounts payable	**(28,890)**	(50,645)
Other payables and accruals	**(61,102)**	(128,984)
Tax payable	**—**	(1,419)
Bank and other loans	**(103,663)**	(244,295)
Due to joint venture partners of subsidiaries	**(8,312)**	(142,935)
Shareholder's loan	**(20,000)**	(229,031)
Minority interests	**(11,065)**	(42,994)
	(1,975)	(89,038)
Shareholder's loan to subsidiaries acquired	**20,000**	229,031
Goodwill arising from acquisition (note 16)	**51,975**	90,007
	70,000	230,000
Satisfied by:		
Cash	**70,000**	230,000

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

(c) Acquisition of subsidiaries (continued)

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

	2002	2001
	HK$'000	HK$'000
Cash consideration	**(70,000)**	(230,000)
Cash and bank balances acquired	**21,096**	22,788
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(48,904)**	(207,212)

On 28 August 2002, the Group acquired a 100% interest in Ballantine Management Limited and its subsidiaries (the "Ballantine Group") from an independent third party. The Ballantine Group are engaged in the production and distribution of beer.

Since its acquisition, the Ballantine Group contributed HK$8,501,511 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

The subsidiaries acquired in the prior year contributed HK$1,729,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

33. CONTINGENT LIABILITIES

At 31 December 2002, the Group had given guarantees of approximately HK$8,047,000 (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.

34. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,681**	3,962	**1,570**	3,000
In the second to fifth years, inclusive	**1,276**	2,265	**—**	1,250
After five years	**1,623**	1,382	**—**	—
	5,580	7,609	**1,570**	4,250

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2002	2001
	HK$'000	HK$'000
Contracted for	**50,988**	66,021
Authorised, but not contracted for	**8,293**	—
	59,281	66,021

(b) Other commitments

The Group had committed (i) payment of HK$3,769,000 (2001: HK$4,712,000) to Yinpu Brewery Factory, a joint venture partner of a subsidiary, for the use of trademark; and (ii) payment of HK$96,413,000 (2001: Nil) to suppliers for purchases of raw materials.

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36. RELATED PARTY TRANSACTIONS

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

	Notes	2002 HK$'000	2001 HK$'000
Payment to joint venture partner of HB Songjiang for the use of land	(i)	—	415
Payment to joint venture partner of HB Jilin for the use of plant and machinery	(ii)	**984**	984
Payment to joint venture partner of HB Yinpu for the use of land	(iii)	—	151
Payment to joint venture partner of HB Yinpu for the use of trademark	(iv)	**943**	471
Payment to joint venture partner of HB Jiamusi for the use of plant and machinery	(v)	—	1,822
Purchase of plant and machinery from joint venture partner of HB Jiamusi	(v)	—	14,139
Interest to joint venture partner of HB Jiamusi	(vi)	**1,289**	1,173

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 until 25 July 2001.

(ii) The payment for the use of plant and machinery was charged at 6.5% on the revalued amount of the relevant assets, which was based on a valuation at 31 December 1999 performed by an independent valuer in Mainland China.

(iii) The payment for the use of land was determined based on RMB8 per square metre with reference to the market price prevailing at the time of entering into the contract and was charged at RMB320,000 per annum commencing from 21 March 1997 until 31 December 2001.

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

(v) The payment for the use of plant and machinery was charged by reference to the prevailing bank lending rate quoted by the People's Bank of China on the revalued amount of the relevant assets, which was based on a valuation at 21 January 1997 performed by an independent valuer in Mainland China. In November 2001, the Group acquired from the joint venture partner of HB Jiamusi the related plant and machinery which was previously leased by the Group. The purchase price was at an agreed consideration of RMB15,000,000, determined with reference to a valuation at 30 November 2000 performed by an independent valuer in Mainland China, as adjusted for a discount of approximately 28%.

(vi) The interest was charged at the prevailing lending rate quoted by the People's Bank of China.

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

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

37. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in addition to the events detailed in notes 25 and 29 to the financial statements, the following events also took place:

(a) On 17 March 2003, the Group completed its acquisition of the entire interest in New-Biz Corporation ("New-Biz") from an independent third party for a cash consideration of HK$18 million. New-Biz holds a 70% interest in Shenyang Xinyisi Brewery Co., Ltd., established in the PRC, which is engaged in the production and distribution of beer with a total annual production capacity of 20,000 tonnes.

(b) On 9 April 2003, the Group completed its acquisition of the entire interest in Noble Right Limited ("Noble Right") from an independent third party for a cash consideration of HK$20 million. Noble Right holds a 60% interest in Yanji Nuobao Brewing Company Limited, established in the PRC, which is engaged in the production and distribution of beer with a total annual production capacity of 60,000 tonnes.

38. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2003.