



哈爾濱啤酒集團有限公司
HARBIN BREWERY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2003

The board of directors (the “Board”) of Harbin Brewery Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2003. The results had been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | For the six months | |
|-------------------------------------|--------------|---------------------------|--------------------|
| | | ended 30 June | |
| | | 2003 | 2002 |
| | <i>Notes</i> | (Unaudited) | (Unaudited) |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | <i>(Note 10)</i> |
| TURNOVER | 3 | 658,186 | 548,153 |
| Cost of sales | | <u>(381,765)</u> | <u>(320,260)</u> |
| Gross profit | | 276,421 | 227,893 |
| Other revenue | 3 | 3,751 | 13,931 |
| Selling and distribution costs | | (78,431) | (65,265) |
| Administrative expenses | | (91,491) | (56,296) |
| Other operating expenses | | <u>(17,182)</u> | <u>(12,722)</u> |
| PROFIT FROM OPERATING ACTIVITIES | 4 | 93,068 | 107,541 |
| Finance costs | 5 | <u>(26,841)</u> | <u>(25,699)</u> |
| PROFIT BEFORE TAX | | 66,227 | 81,842 |
| Tax | 6 | <u>(13,236)</u> | <u>(18,913)</u> |
| PROFIT BEFORE MINORITY INTERESTS | | 52,991 | 62,929 |
| Minority interests | | <u>(7,228)</u> | <u>(9,709)</u> |
| NET PROFIT FROM ORDINARY ACTIVITIES | | | |
| ATTRIBUTABLE TO SHAREHOLDERS | | <u>45,763</u> | <u>53,220</u> |
| DIVIDEND | 7 | <u>13,954</u> | <u>—</u> |
| EARNINGS PER SHARE | 8 | | |
| - Basic | | <u>4.80 cents</u> | <u>7.99 cents</u> |
| - Diluted | | <u>4.67 cents</u> | <u>7.98 cents</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 (Note 10) |
|---------------------------------------|--|--|
| NON-CURRENT ASSETS | <u>1,876,679</u> | <u>1,609,245</u> |
| Current assets | 847,511 | 673,116 |
| Current liabilities | <u>(734,096)</u> | <u>(659,219)</u> |
| NET CURRENT ASSETS | <u>113,415</u> | <u>13,897</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 1,990,094 | 1,623,142 |
| NON-CURRENT LIABILITIES | (800,116) | (671,384) |
| MINORITY INTERESTS | <u>(209,598)</u> | <u>(142,514)</u> |
| | <u>980,380</u> | <u>809,244</u> |
| Represented by: | | |
| SHAREHOLDERS' EQUITY | <u>980,380</u> | <u>809,244</u> |

Notes:

1. ADOPTION OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

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 2002, except the revised SSAP 12 "Income Taxes" has been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 12 prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is that deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. In addition, a deferred tax liability has been recognised on the revaluation of the Group's land and buildings.

The change in accounting policy has been applied retrospectively. As a result, the prior year adjustments with the retained profits as at 1 January 2002 and 1 January 2003 restated by an increase of HK\$5,302,000 and HK\$5,636,000, respectively. The comparative amount in respect of deferred tax assets and deferred tax liabilities as at 31 December 2002 has also been restated by an increase of HK\$10,840,000 and HK\$3,735,000, respectively. In addition, goodwill and fixed asset revaluation reserve as at 1 January 2003 have been restated by a reduction of HK\$5,813,000 and HK\$3,940,000, respectively.

2. SEGMENT INFORMATION

During the period, 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.

3. 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:

| | For the six months ended 30 June | |
|--|-------------------------------------|--|
| | 2003 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 (Note 10) |
| TURNOVER | | |
| Sale of beer | <u>658,186</u> | <u>548,153</u> |
| OTHER REVENUE | | |
| Sale of raw materials, packaging materials and by-products | 2,833 | 2,990 |
| Consultancy fee income | — | 9,360 |
| Government subsidies | 612 | 1,367 |
| Interest income | <u>306</u> | <u>214</u> |
| | <u>3,751</u> | <u>13,931</u> |
| | <u>661,937</u> | <u>562,084</u> |

4. PROFIT FROM OPERATING ACTIVITIES

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

| | For the six months ended 30 June | |
|---|-------------------------------------|--|
| | 2003 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 (Note 10) |
| Depreciation | 57,272 | 47,029 |
| Amortisation of intangible assets, other than goodwill* | 1,181 | 863 |
| Amortisation of goodwill* | 3,830 | 2,062 |
| Minimum lease payments under operating leases in respect of land and buildings | 2,587 | 749 |
| Auditors' remuneration | 369 | 396 |
| Staff costs (including directors' remuneration) | | |
| Wages and salaries | 56,383 | 38,195 |
| Pension contributions | <u>9,019</u> | <u>4,960</u> |
| | <u>65,402</u> | <u>43,155</u> |
| Write back of provision for doubtful debts | (963) | — |
| Loss/(gain) on disposal of fixed assets | 1,411 | (865) |
| Interest income | <u>(306)</u> | <u>(214)</u> |

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

5. FINANCE COSTS

| | For the six months ended 30 June | |
|---|---|--|
| | 2003 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 |
| Interest on bank loans wholly repayable within five years | 25,386 | 23,722 |
| Interest on convertible notes | <u>23</u> | <u>545</u> |
| | 25,409 | 24,267 |
| Other finance cost: | | |
| Amortisation of deferred expenditure | <u>1,432</u> | <u>1,432</u> |
| | <u><u>26,841</u></u> | <u><u>25,699</u></u> |

6. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (2002: 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.

| | For the six months ended 30 June | |
|----------------------------|---|--|
| | 2003 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 (Note 10) |
| Group: | | |
| Current - Mainland China | 12,936 | 17,986 |
| Deferred | <u>300</u> | <u>927</u> |
| Tax charges for the period | <u><u>13,236</u></u> | <u><u>18,913</u></u> |

7. DIVIDEND

The Board has resolved to declare an interim dividend of HK1.4 cents (2002: Nil) per ordinary share for the six months ended 30 June 2003, to shareholders whose names appear on the register of members of the Company as at the close of business on 26 September 2003. The interim dividend is expected to be paid on or about 8 October 2003.

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 HK\$45,763,000 (2002: HK\$53,220,000) and the weighted average of 953,955,602 (2002: 666,077,348) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2003 is based on the unaudited net profit attributable to shareholders for the period of HK\$45,763,000. The weighted average number of ordinary shares used in the calculation is the 953,955,602 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 25,785,971 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options 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 HK\$53,220,000 as adjusted for the interest on convertible notes of HK\$12,000. 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; 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 and the weighted average of 932,093 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

9. POST BALANCE SHEET EVENTS

- (i) On 28 July 2003, the Company and SABMiller Asia BV entered into the Strategic Investor Agreement (“SI Agreement”) for the purpose of regulating their relationship with each other and certain aspects of the affairs of and their dealings with the Company. The non-interested directors of the Company have reviewed and approved the SI Agreement and, as advised by Anglo Chinese Corporate Finance Limited, consider that the SI Agreement is on normal commercial terms for a transaction of that type and is in the interests of the Company and its shareholders as a whole.
- (ii) On 21 August 2003, the Company’s wholly owned subsidiary, Harbin Brewing Company Limited, acquired additional 30% interest of the Harbin Brewing (Songjiang) Company Limited from Harbin Songjiang Electrical and Mechanical Factory, a joint venture partner of Harbin Brewing (Songjiang) Company Limited, at a consideration of approximately HK\$27.5 million. After the acquisition, Harbin Brewing (Songjiang) Company Limited is beneficially 100% owned by the Company.

10. COMPARATIVE FIGURES

As further explained in note 1 above, due to the adoption of a revised SSAP during the current period, 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 prior year adjustments have been made and certain comparative amounts have been restated to conform with the current period’s presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2003, the Group recorded a turnover of HK\$658.2 million, an increase of 20.1% as compared to the corresponding period last year. The growth in turnover was mainly attributed to contributions from the breweries acquired in 2002 and 2003.

During the period, output volume was up 23.3% to 540,522 kl, while the average turnover fell 2.6% to HK\$1,217.7 per kl, owing to a change in product mix initiated by the negative impact of Severe Acute Respiratory Syndrome (“SARS”).

The drop in the average turnover of the beer products was offset by a lower average cost of goods sold, which was the result of higher operating efficiencies achieved, hence maintaining the Group’s overall gross margin at 42.0% for the six months ended 30 June 2003.

Profit from operating activities amounted to HK\$93.1 million for the six months ended 30 June 2003, decreasing by 13.5% as compared to the same period last year. This was partially attributed to an increase of the Group’s administrative expenses as compared to the

corresponding period last year, with the majority of the increase coming from the inclusion of administrative expenses from the breweries acquired in 2002. Furthermore, the marketing resources invested in the first six months of 2003 did not achieve the expected results due to the outbreak of SARS. However, the procurement of barley has been secured up until the end of the third quarter in 2003, thus safeguarding the Group from experiencing an increase in its barley cost during the first six months of this year. Net profit attributable to shareholders for the six months ended 30 June was HK\$45.8 million, representing a decrease of 14.0% from that of corresponding period last year. Basic earnings per share were HK4.80 cents.

Business Review

During the period under review, the Group's performance was nevertheless affected by the poor market sentiment derived from SARS. With stringent cost control measures and effective management practices in place, the Group successfully improved the efficiencies and operating results of the newly acquired breweries, making up for the undesirable outcomes recorded during the SARS epidemic.

(i) *Turnover analysis by product mix*

The Group's products are divided into three categories: Original, Classic and Premium, targeting the provision of quality beer products for the mass, middle-income and premium markets respectively. The sale of Original products continued on their stable growth path and remained the Group's major income source, representing 82.7% of the total turnover for the six months ended 30 June 2003. Turnover from Original products increased by 32.4% to approximately HK\$544.6 million.

During the period, contributions by percentage from both the Classic and Premium products to the total turnover dropped in response to the weak consumption incentives resulting from the SARS outbreak. The drop is particularly disastrous from sectors such as hotels and restaurants. For the six months ended 30 June 2003, turnover from Classic products decreased by 25.3% to approximately HK\$66.7 million, which amounted to 10.1% of the total turnover. The contribution from Premium products only accounted for 7.1% of the total turnover this year. With an expanded distribution network, turnover from Premium products was basically maintained at approximately HK\$46.9 million as compared to the same period last year.

(ii) *Turnover analysis by geographical location*

The Northeast Region remains the major market of the Group, which accounted for 88.8% of the total turnover during the period under review. The Group was able to record an increase of 13.2% in turnover to HK\$584.6 million from the Northeast Region as compared to the same period last year.

Heilongjiang Province, contributing 64.4% of the total turnover, remained the single largest market of the Group. In Jilin Province, where the largest number of SARS cases in the northeast was recorded, the respective turnover only reported a slight increase of 3.9%

as compared to the same period last year. The Group's market expansion in Liaoning Province and the Non-Northeast Region remained positive, seeing continuous growth in turnover contribution from both markets, which accounted for 9.1% and 11.2% respectively of the total turnover.

(iii) 2002 & 2003 Acquired Breweries

The three breweries acquired in 2002 ("2002 Acquired Breweries") were operating smoothly during the period, while the two breweries acquired in 2003 ("2003 Acquired Breweries") are currently under the process of integration. These recently acquired breweries in aggregate contributed 19.7% of the Group's total turnover during the period. The Group expects that these breweries will generate further contributions in the second half of 2003.

(iv) Overall production operations

The Group now operates 13 breweries in the PRC, with an aggregate designed production capacity reaching approximately 1,290,000 kl per annum. The utilisation rate of all breweries for the six months ended 30 June 2003 was at approximately 90 %.

Change of Substantial Shareholder

On 27 June 2003, SABMiller Holdings Limited ("SABMiller Holdings") through Gardwell Limited ("Gardwell"), which is beneficially owned as to 95% by SABMiller Holdings and 5% by the Group's certain executives, entered into a conditional sale and purchase agreement with CEDF (Brewery) Holdings Limited ("CEDF Brewery"), the Group's substantial shareholder, for acquiring from CEDF Brewery 295 million shares, which is equivalent to approximately 29.64% of the Group's enlarged issued share capital (upon completion), at a consideration of HK\$675.55 million. The sale and purchase agreement was completed on 28 July 2003. On the same day, the Group and SABMiller Asia BV entered into a Strategic Investor Agreement for a three-year term for the purpose of regulating their relationship with each other and certain aspects of the affairs of and their dealings with the Group.

The change in shareholding and the establishment of the strategic partnership not only enhance the Group's domestic and international profile, but also provide an improved operating environment for the Group.

Prospects

In view of its proven successes in improving operating efficiencies in the acquired breweries, the Group is set to further extend its distribution network and capture a larger market share in the Northeast Region as well as in other regions in China. The Group will also continue to explore acquisition opportunities to sustain business growth.

The Group has resumed its marketing initiatives to recapture a larger market share in the middle-income and premium markets after the retreat of SARS, striving for a higher profit margin in the second half of 2003.

Looking ahead, market competition and consolidation in China's beer industry will continue to eliminate small and inefficient breweries. This will not only bring new opportunities for development, but will require key players like Harbin Brewery to better themselves to confront the exciting challenges ahead.

With the fusion of synergies from SABMiller, the Group aims at maximising the benefits from the cooperation in terms of brand equity, market expansion, technical expertise and know-how, and excelling its industry advantages to achieve higher revenue and generate stronger returns to shareholders.

FINANCIAL RESOURCES AND LIQUIDITY

The Group's total assets were approximately HK\$2,724.2 million as at 30 June 2003, increasing by 19.4% as compared to that as at 31 December 2002. Net assets were approximately HK\$980.4 million as at 30 June 2003, increasing by 21.1% as compared to that as at 31 December 2002. The increase in net assets was attributable to the net proceeds raised from the completion of top-up placement in March 2003 and the net cash inflow from the Group's operating activities. Cash and bank balances amounted to approximately HK\$273.0 million as at 30 June 2003.

The debt to equity ratio of the Group was 91.7% as at 30 June 2003, while the net debt to equity ratio was 63.9%.

USE OF PROCEEDS

The net proceeds from the share offer of the Group's listing on the Stock Exchange on 27 June 2002 and the over-allotment option exercised on 15 July 2002 were approximately HK\$345 million. As at 30 June 2003, the Group had fully utilised the net proceeds. Of that amount, the Group utilised approximately HK\$149 million for the repayment of shareholders' and bank loans. A further approximately HK\$109 million was used for the acquisition and capital expenses of the 2002 Acquired Breweries. Approximately HK\$87 million of the remaining net proceeds were used for the Group's working capital requirements, of which approximately HK\$70 million was used for the purchase and downpayment of raw materials, such as barley.

On 10 March 2003, the Group raised net proceeds of approximately HK\$90 million by issuing 44 million new ordinary shares at HK\$2.1 per share upon the completion of the top-up placement. As at 30 June 2003, the Group fully utilised the net proceeds for the acquisition and capital expenses of the 2003 Acquired Breweries.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group employs a total of 7,643 full time employees in Hong Kong and the PRC. The Group recognises the importance of its human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commissions.

SIGNIFICANT EVENTS

On 9 January 2003, the Group's convertible noteholders exercised their rights to fully convert the convertible notes into 13,974,358 shares of the Group at HK\$1.56 per share, representing approximately 1.51% of the enlarged issued share capital of the Group as at the same day.

On 10 March 2003, upon completion of a top-up placement, the Group raised net proceeds of approximately HK\$90 million by placing a total of 44 million shares, which is equivalent to 4.53% of the enlarged issued share capital of the Group as at the same day.

On 17 March 2003, the Group completed its acquisition of a 70% equity interest in a brewery in Shenyang City, Liaoning Province, at a consideration of HK\$18 million.

On 9 April 2003, the Group completed its acquisition of a 60% equity interest in a brewery in Yanji City, Jilin Province, at a consideration of HK\$20 million.

On 22 May 2003, the Group announced the retirement of its directors, Mr. Lee Kong Leong, Mr. Chen Zhixiong, Mr. Tse Kwok Lam and Mr. Chong Tao Boon, at the Group's Annual General Meeting. Mr. Zhu Wenwei, Mr. Louis W. Moelchert, Jr. and Mr. Martin A. Murbach were appointed as new non-executive directors while Mr. Sam Zuchowski was appointed as new independent non-executive director of the Company.

On 27 June 2003, Gardwell entered into a conditional sale and purchase agreement with the Group's substantial shareholder, CEDF Brewery, for acquiring 295 million ordinary shares of the Group, representing approximately 29.64% of the Group's enlarged issued share capital (upon completion), at a consideration of HK\$675.55 million.

On 28 July 2003, Gardwell completed the acquisition of the share sale. Mr. Louis W. Moelchert, Jr. and Mr. Martin A. Murbach resigned as non-executive directors, while Mr. Roy Bagattini and Mr. Jonathan Solesbury were appointed as new non-executive directors of the Company. On the same day, the Group and SABMiller Asia BV entered into a Strategic Investor Agreement for a three-year term.

CONTINGENT LIABILITIES

At 30 June 2003, the Group had given guarantees of HK\$6,125,000 (31 December 2002: HK\$8,047,000) 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.

PLEDGE OF ASSETS

At 30 June 2003, 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\$650,168,000 (31 December 2002: HK\$609,624,000).

In addition, the Group's syndicated bank loan at the balance sheet date of approximately US\$9.1 million (31 December 2002: US\$11.4 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.

EXPOSURE TO FOREIGN EXCHANGE RISKS

The Group conducts most of its business transactions in currencies of Hong Kong dollars and Renminbi. In view of the stability of the exchange rate of these currencies during the period under review, the Group has not been subject to exchange rate fluctuation exposure and thus no financial instrument has been adopted for hedging purposes.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not throughout the six months ended 30 June 2003, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement and re-election at the general meeting of the Company in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors, Dr. Sit Fung Shuen, Victor and Mr. Sam Zuchowski. The unaudited interim condensed consolidated financial statements have been reviewed by the audit committee.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 September to 26 September 2003 (both days inclusive), during which period no transfer of shares of the Company will be registered and effected. In order to qualify for the interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged with the Company's Branch Share Registrar

and Transfer Office in Hong Kong, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 23 September 2003. The interim dividend is expected to be paid on or about 8 October 2003.

**PUBLICATION OF DETAILED UNAUDITED INTERIM RESULTS
ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE**

A detailed unaudited interim results announcement for the six months ended 30 June 2003 containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Li Wentao
Chairman

Hong Kong, 28 August 2003

Please also refer to the published version of this announcement in The Standard.