

**FINANCIAL CALENDAR**

28 August 2003	Announcement of interim results (unaudited)
23 September 2003	Latest date of registration for entitlement to interim dividend
24 to 26 September 2003	Book close dates
26 September 2003	Record date for interim dividend
8 October 2003	Despatch of interim dividend

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## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Fixed asset revaluation reserve (Unaudited) HK\$'000
At 1 January 2002					
As previously reported	100	—	232,243	176	—
Prior year adjustments:					
SSAP 12 "Income taxes"	—	—	—	—	—
As restated	100	—	232,243	176	—
Transfers	—	—	—	—	—
New issue on listing	22,000	321,200	—	—	—
Capitalisation issue of shares	65,900	(65,900)	—	—	—
Share issue expenses	—	(49,516)	—	—	—
Surplus on revaluation	—	—	—	—	20,045
Surplus on revaluation shared by minority shareholders of subsidiaries	—	—	—	—	(6,081)
Deferred tax liability arising on revaluation	—	—	—	—	(3,940)
Exchange realignment	—	—	—	—	—
Net gains not recognised in the profit and loss account	—	—	—	—	10,024
Net profit for the period	—	—	—	—	—
<b>At 30 June 2002</b>	<b>88,000</b>	<b>205,784</b>	<b>232,243</b>	<b>176</b>	<b>10,024</b>
At 1 January 2003					
As previously reported	91,300	254,071	232,243	176	13,964
Prior year adjustments:					
SSAP 12 "Income taxes"	—	—	—	—	(3,940)
As restated	91,300	254,071	232,243	176	10,024
Transfers	—	—	—	—	—
Issued upon exercise of convertible rights of convertible notes	1,397	20,403	—	—	—
New issue on placing	4,400	85,501	—	—	—
Exercise of share options	780	13,053	—	—	—
Exchange realignment	—	—	—	—	—
Net losses not recognised in the profit and loss account	—	—	—	—	—
Net profit for the period	—	—	—	—	—
Interim 2003 dividend	—	—	—	—	—
<b>At 30 June 2003</b>	<b>97,877</b>	<b>373,028</b>	<b>232,243</b>	<b>176</b>	<b>10,024</b>

Enterprise expansion fund (Unaudited) HK\$'000	Reserve fund (Unaudited) HK\$'000	Proposed enterprise expansion fund (Unaudited) HK\$'000	Proposed reserve fund (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
11,185	11,185	5,314	5,314	3,246	70,807	—	339,570
—	—	—	—	5	5,302	—	5,307
11,185	11,185	5,314	5,314	3,251	76,109	—	344,877
5,314	5,314	(5,314)	(5,314)	—	—	—	—
—	—	—	—	—	—	—	343,200
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(49,516)
—	—	—	—	—	—	—	20,045
—	—	—	—	—	—	—	(6,081)
—	—	—	—	—	—	—	(3,940)
—	—	—	—	290	—	—	290
—	—	—	—	290	—	—	10,314
—	—	—	—	—	53,220	—	53,220
<b>16,499</b>	<b>16,499</b>	<b>—</b>	<b>—</b>	<b>3,541</b>	<b>129,329</b>	<b>—</b>	<b>702,095</b>
16,499	16,499	4,768	4,768	3,222	170,040	—	807,550
—	—	—	—	(2)	5,636	—	1,694
16,499	16,499	4,768	4,768	3,220	175,676	—	809,244
4,768	4,768	(4,768)	(4,768)	—	—	—	—
—	—	—	—	—	—	—	21,800
—	—	—	—	—	—	—	89,901
—	—	—	—	—	—	—	13,833
—	—	—	—	(161)	—	—	(161)
—	—	—	—	(161)	—	—	(161)
—	—	—	—	—	45,763	—	45,763
—	—	—	—	—	(13,954)	13,954	—
<b>21,267</b>	<b>21,267</b>	<b>—</b>	<b>—</b>	<b>3,059</b>	<b>207,485</b>	<b>13,954</b>	<b>980,380</b>

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<b>30 June</b>	31 December
	<b>2003</b>	2002
<i>Notes</i>	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
		<i>(Note 18)</i>
<b>NON-CURRENT ASSETS</b>		
Fixed assets	<b>1,615,743</b>	1,385,535
Intangible assets	<b>22,809</b>	23,990
Goodwill	<b>157,721</b>	128,552
Deferred expenditure	<b>5,747</b>	7,179
Deferred tax assets	<b>10,665</b>	10,840
Deposits paid for purchases of fixed assets	<b>63,994</b>	53,149
	<b><u>1,876,679</u></b>	<u>1,609,245</u>
<b>CURRENT ASSETS</b>		
Inventories	<b>265,691</b>	261,211
Accounts receivable	<b>108,690</b>	133,080
Prepayments, deposits and other receivables	<b>99,243</b>	74,659
Due from joint venture partners of subsidiaries	<b>100,925</b>	35,820
Cash and bank balances	<b>272,962</b>	168,346
	<b><u>847,511</u></b>	<u>673,116</u>

**CONDENSED CONSOLIDATED BALANCE SHEET** (Cont'd)

		<b>30 June 2003</b>	31 December 2002
	<i>Notes</i>	<b>(Unaudited) HK\$'000</b>	(Audited) HK\$'000 <i>(Note 18)</i>
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	<b>157,117</b>	151,428
Tax payable		<b>5,192</b>	9,159
Accruals and other liabilities		<b>361,843</b>	324,321
Due to joint venture partners of subsidiaries		<b>79,127</b>	26,813
Convertible notes		<b>—</b>	21,800
Other loans		<b>10,180</b>	11,027
Interest-bearing bank borrowings		<b>120,637</b>	114,671
		<b>734,096</b>	659,219
<b>NET CURRENT ASSETS</b>			
		<b>113,415</b>	13,897
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>1,990,094</b>	1,623,142
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		<b>(768,176)</b>	(639,567)
Due to joint venture partners of subsidiaries		<b>(28,082)</b>	(28,082)
Deferred tax liabilities		<b>(3,858)</b>	(3,735)
		<b>(800,116)</b>	(671,384)
<b>MINORITY INTERESTS</b>			
		<b>(209,598)</b>	(142,514)
		<b>980,380</b>	809,244
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>97,877</b>	91,300
Reserves		<b>882,503</b>	717,944
		<b>980,380</b>	809,244

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	<b>165,312</b>	91,708
INVESTING ACTIVITIES	<b>(272,776)</b>	(54,223)
FINANCING ACTIVITIES	<b>212,080</b>	228,109
	<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS	<b>104,616</b>	265,594
Cash and cash equivalents at beginning of period	<b>168,346</b>	52,750
Effect of foreign exchange rate changes, net	<b>—</b>	34
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b><u>272,962</u></b>	<b><u>318,378</u></b>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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, and with the goodwill and fixed asset revaluation reserve as at 1 January 2003 restated by a reduction of HK\$5,813,000 and HK\$3,940,000, 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.

**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:

	<b>For the six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		<i>(Note 18)</i>
<b>TURNOVER</b>		
Sale of beer	<b>658,186</b>	548,153
<b>OTHER REVENUE</b>		
Sale of raw materials, packaging materials and by-products	<b>2,833</b>	2,990
Consultancy fee income	<b>—</b>	9,360
Government subsidies	<b>612</b>	1,367
Interest income	<b>306</b>	214
	<b>3,751</b>	13,931
	<b>661,937</b>	562,084

**4. PROFIT FROM OPERATING ACTIVITIES**

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

	<b>For the six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		<i>(Note 18)</i>
Depreciation	<b>57,272</b>	47,029
Amortisation of intangible assets, other than goodwill*	<b>1,181</b>	863
Amortisation of goodwill*	<b>3,830</b>	2,062
Minimum lease payments under operating leases in respect of land and buildings	<b>2,587</b>	749
Auditors' remuneration	<b>369</b>	396
Staff costs (including directors' remuneration)		
Wages and salaries	<b>56,383</b>	38,195
Pension contributions	<b>9,019</b>	4,960
	<u><b>65,402</b></u>	<u>43,155</u>
Write back of provision for doubtful debts	<b>(963)</b>	—
Loss/(gain) on disposal of fixed assets	<b>1,411</b>	(865)
Interest income	<b>(306)</b>	(214)
	<u><b>          </b></u>	<u><b>          </b></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**

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

**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.

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

## 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. 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 accounts receivable, based on invoice date and net of provisions, is as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within 30 days	<b>19,482</b>	32,859
Between 31 and 60 days	<b>28,434</b>	48,797
Between 61 and 180 days	<b>41,915</b>	39,564
Between 181 and 365 days	<b>18,859</b>	11,860
	<b><u>108,690</u></b>	<u>133,080</u>

**10. ACCOUNTS PAYABLE**

An aged analysis of accounts payable, based on invoice date, is as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within 30 days	<b>53,118</b>	57,049
Between 31 and 60 days	<b>23,305</b>	18,421
Between 61 and 180 days	<b>36,236</b>	28,560
Between 181 days and 365 days	<b>27,524</b>	35,288
Between 366 and 540 days	<b>16,934</b>	12,110
	<b><u>157,117</u></b>	<u>151,428</u>

11. SHARE CAPITAL

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
<i>Authorised:</i>		
5,000,000,000 (2002: 5,000,000,000) ordinary shares of HK\$0.10 each	<b><u>500,000</u></b>	<u>500,000</u>
<i>Issued and fully paid:</i>		
978,774,358 (2002: 913,000,000) ordinary shares of HK\$0.10 each	<b><u>97,877</u></b>	<u>91,300</u>
	<b>Number of issued shares '000</b>	Par value HK\$'000
Issued share capital as at 1 January 2003 (Audited)	<b>913,000</b>	91,300
Issued upon exercise of convertible rights of convertible notes (a)	<b>13,974</b>	1,397
New issue on placing (b)	<b>44,000</b>	4,400
Exercise of share options	<b><u>7,800</u></b>	<u>780</u>
Share capital as at 30 June 2003 (Unaudited)	<b><u>978,774</u></b>	<u>97,877</u>

*Notes:*

- (a) On 9 January 2003, the holders of the Group's convertible notes exercised their rights to convert the principal amount of the convertible notes in the sum of HK\$21.8 million at HK\$1.56 per share.
- (b) On 26 February 2003, through top-up placement, 44,000,000 existing ordinary shares of the Company held by CEDF Brewery (Holdings) Limited ("CEDF Brewery"), the substantial shareholder of the Company, were placed to independent placees at HK\$2.1 per share. On the same date, CEDF Brewery subscribed for 44,000,000 new ordinary shares of the Company at HK\$2.1 each for cash, totalling HK\$92.4 million. On 10 March 2003, upon completion, the Company issued 44,000,000 new ordinary shares to CEDF Brewery.

**12. CONTINGENT LIABILITIES**

At 30 June 2003, the Group had given guarantees of approximately 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.

**13. 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 certain of the Company's subsidiaries; and
- (ii) Share mortgage/assignment of the ownership rights of certain of the Group's interests in subsidiaries.



#### 14. 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 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within one year	<b>675</b>	2,681
In the second to fifth years, inclusive	<b>889</b>	1,276
After five years	<b>1,655</b>	1,623
	<b><u>3,219</u></b>	<u>5,580</u>

#### 15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had the following commitments at 30 June 2003:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
(a) Capital commitments		
Contracted for	<b>114,589</b>	50,988
Authorised, but not contracted for	<b>—</b>	8,293
	<b><u>114,589</u></b>	<u>59,281</u>
(b) Other commitments		

The Group had committed (i) payment of HK\$3,769,000 (31 December 2002: HK\$3,769,000) to Yinpu Brewery Factory, a joint venture partner of a subsidiary, for the use of trademark; and (ii) payment of HK\$73,797,000 (31 December 2002: HK\$96,413,000) to suppliers for purchases of raw materials.

**16. RELATED PARTY TRANSACTIONS**

The Group had the following material transactions with related parties during the period:

Nature of transaction	Notes	For the six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Joint venture partners of subsidiaries:			
Payment to Jilin Province Guoren Beer Company Limited for the use of plant and machinery	(i)	492	492
Payment to Yinpu Brewery Factory for the use of trademark	(ii)	471	471
Payment to Tangshan Brewery Factory for the use of land	(iii)	155	—

Notes:

- (i) 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.
- (ii) The payment for the use of trademark was charged at RMB1,000,000 per annum.
- (iii) The payment for the use of land was determined based on RMB5 per square metre with reference to the market price prevailing at the time of entering into the contract and was charged at RMB328,000 per annum commencing from 1 January 2003 until 31 December 2032.

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

## 17. 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. Following the acquisition, Harbin Brewing (Songjiang) Company Limited is beneficially 100% owned by the Company.

## 18. 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 2003 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.

## **DISCLOSURE OF ADDITIONAL INFORMATION**

### **Directors' interests in shares**

At 30 June 2003, the interests of a Director in the share capital of the Company or its associated corporations, as defined in the Part XV of the Securities and Futures Ordinance (the "SFO") or, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, was as follows:

#### *Ordinary shares of the Company*

<b>Name of Director</b>	<b>Number of shares held</b>
Tong Kay Tak Tom	<u>1,760,000</u>

The interests of the Directors in the share options of the Company are separately disclosed under the section headed "Share option schemes" below.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SFO.

### **Directors' right to acquire shares or debentures**

Save as disclosed under the section headed "Share option schemes" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **Share option schemes**

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.

**(a) 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	At 1 January 2003	Exercised during the period	At 30 June 2003	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
							Immediately preceding the grant date of share options HK\$	Immediately preceding the exercise date of share options HK\$
<b>Directors</b>								
Li Wentao	4,400,000	—	4,400,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	N/A
	4,400,000	—	4,400,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
Lo Peter (Note)	4,400,000	—	4,400,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	N/A
	4,400,000	—	4,400,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
Fu Hui	3,300,000	—	3,300,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	N/A
	3,300,000	—	3,300,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
Au Peter Jeva	2,200,000	—	2,200,000	3 June 2002	27 September 2003 to 26 June 2007	1.56	N/A	N/A
	2,200,000	—	2,200,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	2,200,000	—	2,200,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A

Name or category of participant	At 1 January 2003	Exercised during the period	At 30 June 2003	Date of grant of share options *	Exercise period of share options	Price of Company's shares ***			
						Exercise price of share options **	Immediately preceding the grant	Immediately preceding the exercise	
							date of share options	date of share options	
	HK\$	HK\$	HK\$						
<b>Directors (cont'd)</b>									
Lee Kong Leong	2,200,000	—	2,200,000	3 June 2002	27 September 2003 to 26 June 2007	1.56	N/A	N/A	
	2,200,000	—	2,200,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A	
	2,200,000	—	2,200,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A	
Bao Liusuo	2,250,000	—	2,250,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	N/A	
	2,250,000	—	2,250,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A	
Tong Kay Tak Tom	1,760,000	1,760,000	—	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.50	
	1,760,000	—	1,760,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A	
	1,760,000	—	1,760,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A	
Tse Kwok Lam	1,760,000	—	1,760,000	3 June 2002	27 September 2003 to 26 June 2007	1.56	N/A	N/A	
	1,760,000	—	1,760,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A	
	1,760,000	—	1,760,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A	

Name or category of participant	At 1 January 2003	Exercised during the period	At 30 June 2003	Date of grant of share options *	Exercise period of share options	Price of Company's shares ***		
						Exercise price of share options ** HK\$	Immediately preceding the grant date of share options HK\$	Immediately preceding the exercise date of share options HK\$
<b>Directors (cont'd)</b>								
Chen Zhixiong	800,000	—	800,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	N/A
	800,000	—	800,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	800,000	—	800,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A
	<u>54,860,000</u>	<u>1,760,000</u>	<u>53,100,000</u>					
<b>Other employees</b>								
In aggregate	4,160,000	300,000	3,860,000	3 June 2002	27 June 2003 to 26 June 2007	1.56	N/A	2.50
	4,160,000	—	4,160,000	3 June 2002	27 June 2004 to 26 June 2007	1.56	N/A	N/A
	4,160,000	—	4,160,000	3 June 2002	27 June 2005 to 26 June 2007	1.56	N/A	N/A
	<u>12,480,000</u>	<u>300,000</u>	<u>12,180,000</u>					
	<u>67,340,000</u>	<u>2,060,000</u>	<u>65,280,000</u>					

For the six months ended 30 June 2003, no share options were granted, 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.

**(b) Share Option Scheme**

On 16 July 2002, 18,120,000 share options were granted to certain employees of the Company's subsidiaries to subscribe for shares in the Company pursuant to the Share Option Scheme. The subscription price of the options granted under the scheme is HK\$1.85 (being the average of the closing prices of the Company's shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days from 10 July 2002 to 16 July 2002) and the exercise period is from 27 June 2003 to 26 June 2007.

Details of these options are as follows:

Name or category of participant	At 1 January 2003	Exercised during the period	At 30 June 2003	Date of grant of share options*	Exercise period of share options	Price of Company's shares ***		
						Exercise price of share options **	Immediately preceding the grant of share options	Immediately preceding the exercise of share options
						HK\$	HK\$	HK\$
<b>Other employees</b>								
In aggregate	6,040,000	5,740,000	300,000	16 July 2002	27 June 2003 to 26 June 2007	1.85	1.85	2.50
	6,040,000	—	6,040,000	16 July 2002	27 June 2004 to 26 June 2007	1.85	1.85	N/A
	6,040,000	—	6,040,000	16 July 2002	27 June 2005 to 26 June 2007	1.85	1.85	N/A
	<u>18,120,000</u>	<u>5,740,000</u>	<u>12,380,000</u>					

For the six months ended 30 June 2003, no share options were granted, cancelled or lapsed.

Notes :

- \* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The price of the Company's shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as immediately preceding the exercise date of the share options is the weighted average of the Stock Exchange closing prices over all the exercises of share options within the disclosure category.

### Substantial shareholders

So far as the Company is aware, set out below is the names of the parties which were interested in 5% or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which it was interested as at 30 June 2003 as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Notes	Number of shares held and nature of interest		Percentage of the Company's share capital
		Direct	Deemed	
China Enterprise Development Fund Limited	1	—	343,200,000	35.06%
CEDF (Brewery) Holdings Limited	1	343,200,000	—	35.06%
Kwok Nea Development Limited	2	—	291,500,000	29.78%
Harbin Brewery Factory (BVI) Limited	2	291,500,000	—	29.78%

*Notes:*

1. CEDF (Brewery) Holdings Limited is owned as to 86.84% by China Enterprise Development Fund Limited and as to 13.16% by Brewery Investors Limited.
2. Harbin Brewery Factory (BVI) Limited is a wholly-owned subsidiary of Kwok Nea Development Limited.

Save as disclosed above, no person, other than the Directors, whose interests are set out in the section “Directors’ interests in shares” above had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **Practice Note 19 of the Listing Rules**

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Company’s loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 27 June 2001 (the “Loan Agreement”) in relation to a US\$22 million syndicated bank loan, China Enterprise Development Fund Limited and Brewery Investors Limited are required to maintain at all times their controlling shareholder position of the Company after the listing of the Company’s shares on the Stock Exchange. The breach of such specific performance covenants constitute an event of default upon (i) the occurrence of such event; and (ii) the request in writing by the lenders whose aggregate advance made to the Company exceeds 66 $\frac{2}{3}$ %, and will cause all amounts outstanding and owing under the Loan Agreement to become immediately due and payable. The covenant was waived on 25 July 2003.



**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 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.

On behalf of the Board

**Li Wentao**

*Chairman*

Hong Kong, 28 August 2003