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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0249)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

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 2004. The results had been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 June	
	Notes	**2004 (Unaudited)** *HK$'000*	**2003 (Unaudited)** *HK$'000*
TURNOVER	3	780,030	658,186
Cost of sales		(458,871)	(381,765)
Gross profit		321,159	276,421
Other revenue	3	15,254	3,751
Selling and distribution costs		(105,566)	(78,431)
Administrative expenses		(109,315)	(91,491)
Other operating expenses		(58,858)	(17,182)
PROFIT FROM OPERATING ACTIVITIES	4	62,674	93,068
Finance costs	5	(25,172)	(26,841)
PROFIT BEFORE TAX		37,502	66,227
Tax	6	(16,024)	(13,236)
PROFIT BEFORE MINORITY INTERESTS		21,478	52,991
Minority interests		(7,145)	(7,228)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		14,333	45,763
DIVIDEND	7	—	13,954
EARNINGS PER SHARE	8		
- Basic		1.43 cents	4.80 cents
- Diluted		1.38 cents	4.67 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2004 (Unaudited) *HK$'000*	31 December 2003 (Audited) *HK$'000*
NON-CURRENT ASSETS	2,237,373	2,132,295
Current assets	763,508	670,141
Current liabilities	(1,493,711)	(806,497)
NET CURRENT LIABILITIES	(730,203)	(136,356)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,507,170	1,995,939
NON-CURRENT LIABILITIES	(192,540)	(755,866)
MINORITY INTERESTS	(172,953)	(170,465)
	1,141,677	1,069,608
Represented by:		
SHAREHOLDERS' EQUITY	1,141,677	1,069,608

Notes:

1. BASIS OF PREPARATION 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 2003.

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	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
TURNOVER		
Sale of beer	780,030	658,186
OTHER REVENUE		
Sale of raw materials, packaging materials and by-products	8,735	2,833
Government subsidies	6,054	612
Interest income	465	306
	15,254	3,751
	795,284	661,937

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation	63,263	57,272
Amortisation of intangible assets, other than goodwill*	1,099	1,181
Amortisation of goodwill*	4,296	3,830
Amortisation of negative goodwill*	(68)	(68)
Amortisation of reusable packaging materials*	10,827	8,762
Minimum lease payments under operating leases in respect of land and buildings	1,931	2,587
Auditors' remuneration	481	369
Staff costs (including directors' remuneration)		
Wages and salaries	75,791	56,383
Pension contributions	9,010	9,019
	84,801	65,402
Provision/(write back) for doubtful debts	453	(963)
Loss/(gain) on disposal of fixed assets	(394)	1,411
Interest income	(465)	(306)

* The amortisation of intangible assets, goodwill, negative goodwill and reusable packaging materials 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	
	2004	**2003**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	23,740	25,386
Interest on convertible notes	—	23
	23,740	25,409
Other finance cost:		
Amortisation of deferred expenditure	1,432	1,432
	25,172	26,841

6. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (2003: 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	
	2004	**2003**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Group:		
Current - Mainland China	15,823	12,936
Deferred	201	300
Tax charges for the period	16,024	13,236

7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: HK1.4 cents per ordinary share).

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$14,333,000 (2003: HK$45,763,000) and the weighted average of 1,003,820,402 (2003: 953,955,602) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2004 is based on the unaudited net profit attributable to shareholders for the period of HK$14,333,000. The weighted average number of ordinary shares used in the calculation is the 1,003,820,402 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 31,257,311 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover reached HK$780.0 million for the six months ended 30 June 2004, an increase of 18.5% over the same period in 2003. Effective market penetration into areas outside the Northeast Region of China, a strengthened product mix as well as further improved operating efficiencies in the acquired breweries all contributed to this growth.

During the period, output volume was up 19.9% to 647,880 kl. Nevertheless, market competition drove down the average turnover slightly by 1.1% to HK$1,204 per kl. Growth in the sale of Classic and Premium products boosted the respective gross margins, demonstrating better economies of scale. This helped to minimize the effect of an overall increase in raw material cost such as rice and barley. As such, the Group was able to maintain an overall gross margin at 41.2% for the six months ended 30 June 2004.

Profit from operating activities amounted to HK$62.7 million, representing a decrease of 32.7%. This was attributable to the one-off administrative expenses incurred in the Company as a result of the general offer came about during the period. Net profit attributable to shareholders during the period was HK$14.3 million, representing a decrease of 68.7% from the corresponding period in 2003. Basic earnings per share were HK1.43 cents. Excluding the expenses incurred due to the general offer, profit from operating activities and net profit attributable to shareholders, on the contrary, increased by 6.3% and 11.6% respectively as compared with the corresponding period in 2003, while basic earnings per share were HK5.09 cents.

Business Review

The Group's brand equity is an important driver to sustain growth in the competitive marketplace. Improved operating efficiencies, stronger presence outside the Northeast Region, as well as an enhanced national distribution network paved the way for the Group to elevate its market position in China.

(i) ***Turnover analysis by product mix***

The Group's products are offered in three categories, namely Original, Classic and Premium, targeting at the mass, middle-income and premium markets respectively. As the major revenue contributor, the sale of Original products grew at a stable rate of 14.9% to HK$625.9 million, contributing 80.2% of the Group's turnover.

Robust growth in the sale of Classic and Premium products as a result of an expanded distribution network and stronger sales force led to increased contribution to the Group's turnover from 17.3% in the first half of 2003 to 19.8% in the same period in 2004, which translated into a growth of 35.7% in turnover.

(ii) ***Turnover analysis by geographical location***

Increased contribution from areas outside Heilongjiang Province was recorded during the first half of 2004. Market penetration in Jilin Province and Liaoning Province was promising, which resulted in an impressive growth in turnover by 38.9% and 66.1% respectively. Their aggregate contribution to the Group's turnover increased from 24.4% in the first half of 2003 to 30.8% in the same period in 2004. Sales from the Non-northeast Region sustained its strong growth of 47.6% and accounted for 13.9% of the Group's turnover.

Heilongjiang Province remained the major market of the Group despite industry competition, and contributed to 55.3% of the Group's turnover.

(iii) ***Overall production operations***

Harbin Brewery's business scale expanded substantially in recent years through a series of acquisitions and internal advancement measures. By operating 13 breweries in China, the Group's aggregate designed production capacity reached approximately 1,615,000 kl per annum.

Change of Substantial Shareholder

On 20 March 2004, Global Conduit Holdings Limited ("Global Conduit") entered into a conditional sale and purchase agreement with one of the Company's substantial shareholders, Harbin Brewery Factory (BVI) Limited ("HBF (BVI)"), to acquire 291,500,000 shares of the Company from HBF (BVI) at a consideration of HK$3.25 per share. It was equivalent to approximately 29.07% of the Company's issued share capital at that time.

Subsequently, on 2 May 2004, Capital Select Enterprises Limited ("Capital Select") entered into a conditional sale and purchase agreement for the sale of Global Conduit, which was the purchaser of 291,500,000 shares of the Company, to Anheuser-Busch Companies, Inc. ("Anheuser-Busch") at a consideration of HK$3.70 per share. Upon completion of the sale and purchase agreement on 19 May 2004, Anheuser-Busch owned 291,500,000 shares of the Company, which was equivalent to approximately 29.07% of the Company's issued share capital at that time, through its wholly owned subsidiary, Global Conduit.

On 31 May 2004, Anheuser-Busch Hong Kong Investment Company, Limited ("Anheuser-Busch HK") entered into an unconditional sale and purchase agreement to acquire a further 69,565,501 shares of the Company, representing approximately 6.9% of the Company's issued share capital at that time, from funds managed by Capital International, Inc. at a consideration of HK$5.58 per share. With Anheuser-Busch and parties acting in concert with it ("Anheuser-Busch parties") owning 361,065,501 shares of the Company, representing approximately 36.0% of the Company's issued share capital at that time, a mandatory cash offer was made by Anheuser-Busch HK for all the remaining shares of the Company not owned by Anheuser-Busch parties at an offer price of HK$5.58 per share.

At the close of the mandatory cash offer on 18 August 2004, taken together with the 361,065,501 shares of the Company which Anheuser-Busch parties owned prior to making the mandatory cash offer, Anheuser-Busch parties owned 1,023,706,544 shares of the Company in aggregate, representing approximately 99.91% of the Company's total issued share capital at that time. A compulsory acquisition for the unacquired shares is under progress and the Company will apply for the withdrawal of listing from the Stock Exchange of Hong Kong upon completion of the compulsory acquisition.

Prospects

China is one of the largest beer consuming nations in the world and is recording the highest consumption growth rate. While offering tremendous opportunities for expansion, Harbin Brewery will also implement prudent measures to tackle the challenges of intense market competition and rising raw material cost.

Market consolidation in China's beer industry has been dominantly led by large brewery groups and foreign players. While the Company is currently under the process of privatization and will withdraw its listing status from the Stock Exchange of Hong Kong upon completion of relevant procedures, its presence in the consumer market offering quality beer products will prevail. The "Harbin" brand equity will be upheld and enhanced to maximize its market capture.

FINANCIAL RESOURCES AND LIQUIDITY

The Group's total assets were approximately HK$3,001 million as at 30 June 2004, increasing by 7.1% as compared to that as at 31 December 2003. Net assets were approximately HK$1,142 million as at 30 June 2004, increasing by 6.7% as compared to that as at 31 December 2003. The increase in net assets was mainly attributable to the net cash inflow from the Group's operating activities. Cash and bank balances amounted to approximately HK$180 million as at 30 June 2004.

The debt to equity ratio of the Group was 80.9% as at 30 June 2004, while the net debt to equity ratio was 65.1%.

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 2004, 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 breweries acquired during 2002. 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 2004, the Group fully utilised the net proceeds for the acquisition and capital expenses of the breweries acquired during 2003

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group employs a total of 8,138 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.

CONTINGENT LIABILITIES

At 30 June 2004, the Group had given guarantees of HK$4,767,000 (31 December 2003: HK$5,401,000) 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 2004, 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$554,528,000 (31 December 2003: HK$700,586,000).

In addition, the Group's syndicated bank loan at the balance sheet date of approximately US$4.6 million (31 December 2003: US$6.9 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.

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 2004.

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 2004, 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.

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 2004 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, 21 September 2004

As at the date of this announcement, the executive directors are: Messrs. Li Wentao, Lo Peter, Fu Hui, Au Peter Jeva and Bao Liusuo; the non-executive directors are: Messrs. Larry D. Baumann, Stephen J. Burrows; YanJun Cheng, Cheng Yeh-Ran, Alex Ten Young Chiu, John S. Koykka, Chester Lai, Samuel X. Zhang and William J. Kimmins, Jr.; the independent non-executive directors are: Dr Sit Fung Shuen Victor and Mr Sam Zuchowski.

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