



粵海啤酒集團有限公司  
GUANGDONG BREWERY HOLDINGS LIMITED

(於百慕達註冊成立之有限公司)  
(Incorporated in Bermuda with limited liability)



2002

年報 • Annual Report

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### Board of Directors

YE Xuquan (*Chairman*)  
JIANG Guoqiang (*Managing Director*)  
CHENG Mo Chi, Moses\*  
Alan Howard SMITH\*  
V-nee YEH\*  
ZHANG Yaping  
LI Wai Keung  
WANG Man Kwan, Paul  
HO LAM Lai Ping, Theresa  
FUNG Sing Hong, Stephen (*Chief Financial Officer*)

\* *Independent Non-Executive Directors*

### Company Secretary

LAM Yee Mei, Katherine

### Auditors

Ernst & Young

### Principal Bankers

Standard Chartered Bank  
Shenzhen Development Bank

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### Head Office & Principal Place of Business

Office A1, 19th Floor  
Guangdong Investment Tower  
148 Connaught Road Central  
Hong Kong  
Telephone: (852) 2165 6262  
Facsimile: (852) 2815 2822

### Principal Share Registrars

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

### Branch Share Registrars in Hong Kong

Tengis Limited  
G/F., Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## SIMPLIFIED CORPORATE STRUCTURE CHART



### Notes:

The percentages shown represent the attributable interest of the Company or its subsidiaries as of 11 April 2003.

## THE YEAR'S HIGHLIGHTS

	2002	2001	Change(%)
<b>OPERATIONS</b>			
Beer sales volume, in tons	<b>224,000</b>	161,000	+39.1%
Average unit selling price, in dollars per ton	<b>2,648</b>	3,333	-20.6%
Average unit costs, in dollars per ton	<b>1,570</b>	2,046	-23.3%
Debtors average collection period, in days	<b>20</b>	25	-20.0%
Creditors average payment period, in days	<b>49</b>	54	-9.3%
Stock turnover, in days	<b>8</b>	11	-27.3%
Year-end number of staff	<b>925</b>	925	—
<b>FINANCIAL RESULTS</b>			
Turnover, in thousand dollars	<b>593,052</b>	543,922	+9.0%
Earning before finance costs, tax, depreciation and amortisation (EBITDA), in thousand dollars	<b>185,040</b>	180,326	+2.6%
Net profit attributable to shareholders, in thousand dollars	<b>78,003</b>	34,434	+126.5%
Basic earnings per share, in cents	<b>6.2</b>	2.8	+121.4%
Current ratio, times	<b>1.9</b>	1.5	+26.7%
Gearing ratio, %	<b>7.3%</b>	8.0%	-8.8%
<b>SHAREHOLDERS' WEALTH</b>			
Issued shares, in thousand shares	<b>1,250,000</b>	1,250,000	—
Shareholders' equity, in thousand dollars	<b>1,160,848</b>	1,109,050	+4.7%
Shareholders' equity per share, in cents	<b>93</b>	89	+4.5%

### RESULTS

The Board of Directors is pleased to report a remarkable growth in the Group's results for year 2002. Net profit from ordinary activities attributable to shareholders was HK\$78.00 million, increased by 127% over last year of HK\$34.43 million. Basic earnings per share were 6.2 HK cents, representing a rise of 121% as compared to 2.8 HK cents in year 2001.

### DIVIDENDS

The Board of Directors recommends a final dividend of 1.0 HK cent per share for year 2002. This, together with the interim dividend of 1.0 HK cent per share paid during the year, gives a total dividend of 2.0 HK cents per share for year 2002 (2001: a total dividend of 1.0 HK cent per share). The proposed final dividend will be paid on 8 July 2003, subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

### BUSINESS REVIEW

2002 was an encouraging year for the Group, with breakthrough achieved in sales volume and overall performance. The sales volume of beer in 2002 was 224 thousand tons, an increase of 63 thousand tons or 39.1% over 161 thousand tons in year 2001. This breakthrough was primarily attributable to the effective implementation of the Group's marketing strategies embracing "precise market segmentation, sound distribution network, operational prudence and excellence, and target-based management".

The Group has sponsored and participated in a wide spectrum of sports, cultural and art events during the year. These efforts effectively portrayed Kingway beer as a product closely associated with the leisure life and entertainment of consumers, and helped create stronger brand recognition and loyalty. Kingway beer was also rated by the Government as the "China Top Brand" in the category of beer products, highlighting its leading market position in Mainland China.

Our commitment to strict cost controls remained intact. Sourcing costs were effectively reduced as sourcing activities were carried out by way of public tender under the "Sunshine Program". Unit production cost per ton of beer was reduced to a record low level, following the Group's efforts to closely monitor various production technologies to ensure compliance with the economic efficiency criteria.

Focusing on financial performance and efficiency has been the thrust of our corporate culture. In line with our corporate culture, an incentive program directly linked to the Group's results was set up to motivate the staff and bring into full play their initiative. As a result, their overall performance and efficiency have improved significantly.

Disposal of loss-ridden business in which the Group has no controlling interest was made during the year. Central China (Asia) Investment Limited, the holding company which has a 50% interest in Amber Brewery, was sold by the Group on 29 November 2002. This transaction would bring positive impacts to the Group's profitability as the Group would not be required to share the loss of Amber Brewery following the completion of the disposal.

### 2003 OUTLOOK

The Group will continue to strive for enhanced integration and building of market, brand and distribution network, and focus on establishing strategic relationships with distributors that are mutually beneficial. Measures will also be taken to strengthen the market presence of Kingway beer in Shenzhen and the Pearl River Delta, and to reinforce the marketing efforts for Kingway beer in other areas of the Guangdong Province, Hong Kong, Macau and Taiwan. With these proactive policies in place, Kingway beer is able to enter a new horizon for growth in 2003, with sales volume and performance continuing to improve.

Demand for beer is expected to rise continuously in Guangdong, given the sustained economic development in Mainland China and, in particular, the rapid economic growth of the Pearl River Delta. The Management is assured of the development potential of Kingway beer in Guangdong, leveraging on the Group's existing advantages in terms of distribution network, brand recognition, infrastructure, technology and market share. The Group will study various strategic plans to underpin its expansion in the Guangdong Province. They include the investment plans to increase its shareholding in existing breweries, pursue takeover and merger, or set up new breweries.

In line with the Group's expansion strategy, on 28 March 2003, the Group acquired 10% interest and the minority shareholder's loan of Kingway Plant No. 2 from the minority shareholder for a total cash consideration of approximately HK\$70.7 million.

While competition in the Guangdong beer market is set to intensify, the Board of Directors and the management have confidence in leading the Group to create better value for shareholders, a shared vision actively pursued by the Group and all the staff.

Finally, I would like to thank all shareholders, consumers and distributors for their full support of the Group, and our staff for their dedication, loyal service and contributions during the year.

**Ye Xuquan**

*Chairman*

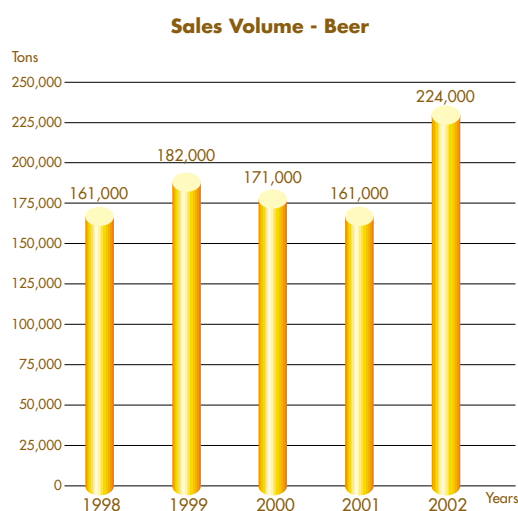
Hong Kong, 11 April 2003

## Operating Results

In 2002, the production and sale of Kingway beer continued to be the Group's core business. The Group's sales are principally conducted in the Guangdong Province, Mainland China. The total sales volume of Kingway beer for the year amounted to 224,000 tons (2001: 161,000 tons), a rise of 39.1% over 2001. Of the total sales volume for the year, the flagship 12° Kingway beer, Kingway bottled draft beer and Kingway "2008" represent 45.4%, 7.0% and 17.1% respectively.

The consolidated turnover for the year was HK\$593 million, representing an increase of 9.0% over HK\$544 million of 2001. The increase was primarily attributable to the effectiveness of the Group's appropriate marketing strategies. The sales in Mainland China contributed to 90.9% of the Group's turnover, an increase of 6.1% over the same period last year, and the remaining 9.1% represented overseas and Hong Kong sales, a rise of 51.3% over the same period of 2001. The remarkable sales growth in overseas and Hong Kong indicates that the Group has started to benefit from years of marketing efforts in the overseas and Hong Kong market where brand recognition for Kingway beer has been achieved.

While the average unit selling price has declined, the gross profit margin was raised from 38.8% in 2001 to 40.7% for the year under review. This improvement was a result of the effective cost controls and the reduction in unit fixed costs. The management will strive to maintain the gross profit margin of Kingway beer by the adoption of various effective cost control measures.





**Operating Expenses and Finance Costs**

To build brand recognition and image of Kingway beer has been the focus of promotion in 2002. Selling and distribution expenses were HK\$134 million, a similar level as compared to the previous year. However, such expenses in terms of unit cost were decreased by 27.9% against the same period last year. This shows the higher efficiency of selling and distribution expenses as Kingway beer has been widely recognised and well received by consumers. As a result of the strict cost reduction programs and controls, administrative expenses for the year decreased by 19.8% to HK\$36.5 million. No finance cost was incurred for the year as the Group has no interest-bearing debt. Finance costs dropped by approximately HK\$7.86 million from the same period of 2001.

**Taxes**

The exemption of value added tax for beer produced and sold in Shenzhen granted to Kingway Plant No. 1 at Luohu, Shenzhen has been expired on 1 January 2003. A gain of HK\$24.91 million was recorded for the Group in 2002 due to this exemption.

Enterprise Income Tax exemption were granted to Kingway Plant No. 2 at Baoan, Shenzhen for its first two profit-making years and a tax relief of 50% in next three years. No claim for such exemption has yet been made as there were accumulated losses to set-off the taxable profits during year 2002.

**Capital Expenditure**

The Group's capital expenditure for the year was approximately HK\$26.0 million (2001: HK\$9.8 million), a rise of about 165% over the same period last year. It was incurred primarily by the renovation of the office at Kingway Plant No. 1, the installation of necessary packaging equipment for Kingway Plant No. 2 and the purchase of machinery, equipment and reusable packaging materials of both plants.

**Financial Resources and Liquidity**

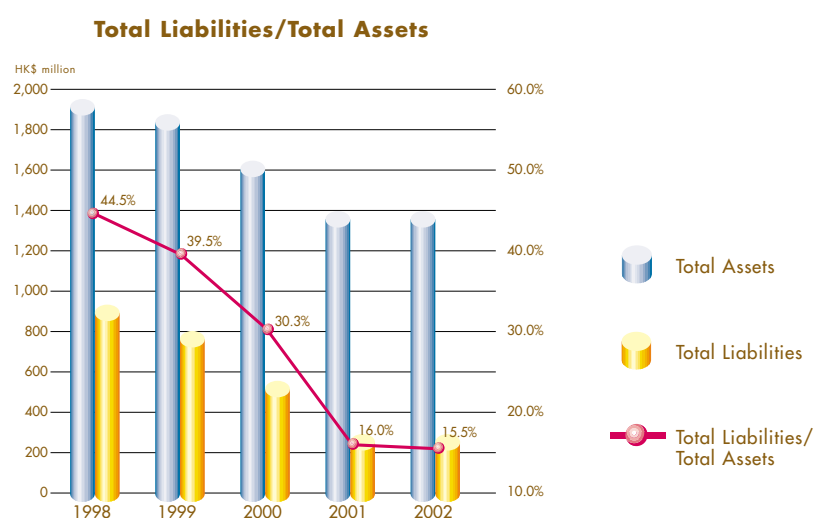
The Group's financial position was solid, with shareholders' funds amounting to HK\$1.16 billion as at the end of 2002.

As at the end of 2002, the Group had cash and bank balances of HK\$232 million (2001: HK\$74.6 million), a rise of 210% as compared to the same period last year. Of such balances, 22.9% was in USD, 14.0% was in HKD and 63.1% was in RMB. The net cash inflow from operating activities for the year amounted to HK\$164 million. At present, the Group's cash balances and net cash inflow from operating activities are ample enough to satisfy the funding requirement for business operations.

## Debts and Contingent Liabilities

No bank loan was recorded at the end of 2002. The only debts of the Group outstanding were the amounts due to the minority shareholders of the subsidiaries totalling HK\$84.38 million (2001: HK\$88.18 million), which are interest-free. None of the fixed assets of the Group were pledged to creditors and there were no contingent liabilities recorded as at the end of 2002.

Furthermore, the ratio of total liabilities to total assets was 15.5% (2001: 16.0%), reflecting the sound capital structure of the Group.



## Human Resources

The Group has employed 925 staff with a total remuneration of HK\$56.99 million during the year. The Group places strong emphasis on raising the quality of its staff and their productivity. The Group organises regular internal training programs to its staff and also encourages them to attend training programs organised by external professional bodies. The Group provides all the basic benefits to its staff and their year-end bonus scheme is directly linked to the Group's results.

The Directors have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in investment holding and in the production, distribution and sale of beer.

There were no significant changes in the nature of the Group’s principal activities during the year.

### RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 74.

An interim dividend of 1.0 HK cent per share was paid on 18 October 2002. The Directors recommend the payment of a final dividend of 1.0 HK cent per share for the year ended 31 December 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section of the balance sheet.

The proposed final dividend, if approved at the forthcoming Annual General Meeting of the Company to be held on Wednesday, 18 June 2003, is expected to be paid on 8 July 2003 to shareholders whose names appear on the register of members of the Company on 18 June 2003.

### FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

**RESULTS**

	<b>Year Ended 31 December</b>				
	<b>2002</b>	2001	2000	1999	1998
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<b>593,052</b>	543,922	613,892	682,454	618,641
Cost of sales	<b>(351,680)</b>	(332,691)	(386,172)	(456,477)	(380,537)
Gross profit	<b>241,372</b>	211,231	227,720	225,977	238,104
Other revenue and gains	<b>34,034</b>	43,880	53,872	71,707	65,477
Selling and distribution expenses	<b>(133,960)</b>	(133,586)	(98,151)	(108,932)	(79,802)
Administrative expenses	<b>(36,504)</b>	(45,537)	(68,774)	(73,114)	(98,488)
Impairment of investment in an associate	<b>-</b>	(5,600)	(31,367)	-	-
Impairment of an investment security	<b>(4,611)</b>	-	(1,000)	-	-
Impairment of goodwill arising from an acquisition of an associate previously dealt with in reserves	<b>-</b>	-	(9,135)	-	-
PROFIT FROM OPERATING ACTIVITIES	<b>100,331</b>	70,388	73,165	115,638	125,291
Finance costs	<b>-</b>	(7,857)	(30,483)	(45,250)	(30,275)
Share of results of an associate	<b>(4,437)</b>	(13,424)	(14,496)	(8,401)	1,398
PROFIT BEFORE TAX	<b>95,894</b>	49,107	28,186	61,987	96,414
Tax	<b>(11,329)</b>	(12,067)	(19,042)	(9,991)	(12,772)
PROFIT BEFORE MINORITY INTERESTS	<b>84,565</b>	37,040	9,144	51,996	83,642
Minority interests	<b>(6,562)</b>	(2,606)	1,098	716	610
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>78,003</b>	34,434	10,242	52,712	84,252

**ASSETS AND LIABILITIES**

	<b>As at 31 December</b>				
	<b>2002</b>	2001	2000	1999	1998
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	<b>1,422,273</b>	1,360,661	1,605,929	1,844,575	1,915,603
Total liabilities	<b>(220,349)</b>	(217,115)	(486,608)	(728,485)	(852,410)
Minority interests	<b>(41,076)</b>	(34,496)	(31,866)	(37,849)	(39,778)
Net assets	<b><u>1,160,848</u></b>	<u>1,109,050</u>	<u>1,087,455</u>	<u>1,078,241</u>	<u>1,023,415</u>

**FIXED ASSETS**

Movements in fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

**SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the authorised and issued shares and share options of the Company during the year are set out in notes 22 and 23 to the financial statements.

**SHARE PREMIUM ACCOUNT AND RESERVES**

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

**DISTRIBUTABLE RESERVES**

At 31 December 2002, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$50,336,000, of which HK\$12,500,000 has been proposed as a final dividend for the year.

In addition, the Company's share premium of HK\$739,583,000 may be distributed in the form of fully paid bonus shares.

**CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions totalling HK\$437,000 (2001: HK\$1,400).

### DIRECTORS

The Directors of the Company during the year and up to date of this report are:

YE Xuquan	(appointed on 14 January 2002)
JIANG Guoqiang	
CHENG Mo Chi, Moses*	
Alan Howard SMITH*	
V-nee YEH*	
ZHANG Yaping	
LI Wai Keung	(appointed on 12 November 2002)
WANG Man Kwan, Paul	
HO LAM Lai Ping, Theresa	
FUNG Sing Hong, Stephen	(appointed on 6 December 2002)
ZHOU Dongxiang	(resigned on 14 January 2002)

\* *Independent Non-Executive Director*

In accordance with bye-law 86(2) of the Company's Bye-laws, Messrs. Li Wai Keung and Fung Sing Hong, Stephen, who were appointed as Directors of the Company after the last Annual General Meeting of the Company, will hold office until the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election at the meeting.

In accordance with bye-law 87 of the Company's Bye-laws, Messrs. Ye Xuquan and Jiang Guoqiang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

**DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

The Directors of the Company as at the date of this report are as follows:

**Directors**

**Mr. Ye Xuquan**, aged 47, was appointed a Director and the Chairman of the Company in January 2002. Mr. Ye graduated from the Department of Chinese Language and Literature and the Institute of Economy Research, South China Normal University and obtained a Master's degree of Economics from South China Normal University. Mr. Ye joined the Guangdong Province Dongshen Water Supply Management Bureau (the "Dongshen Water Bureau") in 1978 and has 23 years' experience in the management and operation of water supply. Mr. Ye was a section chief of the Dongshen Water Bureau in 1984, promoted as Vice Director in 1987, acted as Deputy Director in 1995 and acted as Director from 1997 to 2000. He was Chairman of Guangnan (Holdings) Limited from November 2000 to January 2002. He is Director and Deputy General Manager of both 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) and GDH Limited. He is a Director of Guangdong Investment Limited ("GDI") and Chairman of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited). He is also Vice President of both Entrepreneur Association for Water Consultative Conference of China and Shenzhen Chinese and Foreign Entrepreneur Association.

**Mr. Jiang Guoqiang**, aged 50, was appointed the Managing Director of the Company in January 2002 and previously was appointed a Director and the Chairman of the Company in March 2001. He is a Deputy General Manager of GDI. Mr. Jiang graduated from Shanghai Metallurgical Machinery School where he majored in metallurgical machinery. He is an engineer. From 1976 to 1988, Mr. Jiang worked for First Metallurgy Construction Company of the Ministry of Metallurgy. In 1988, he joined Zhongshan Zhongyue Tin-Plate Industrial Company Limited and Shanghai Industrial Co., Ltd. and he became a director and Deputy General Manager of both companies in 1991. Mr. Jiang was a Director and the General Manager of both companies from 1995 to March 2001. He was a Deputy General Manager of the strategic development department of GDH Limited from April 2000 to January 2001.

**Mr. Cheng Mo Chi, Moses**, JP, aged 53, was appointed an Independent Non-Executive Director of the Company in July 1997. He is also an Independent Non-Executive Director of GDI. Mr. Cheng is a senior partner of Messrs. P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is currently the Chairman of the Hong Kong Institute of Directors and the Committee on the Promotion of Civic Education. He also serves on the boards of many other listed companies as independent non-executive director.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)

#### Directors (cont'd)

**Mr. Alan Howard Smith**, aged 59, was appointed an Independent Non-Executive Director of the Company in January 1999. Mr. Smith was Vice Chairman in the Pacific Region, of Credit Suisse First Boston ("CSFB"), a leading global investment bank from 1997 to 2001. Prior to joining CSFB, he was the Chief Executive of the Jardine Fleming Group from 1983 to 1994 and was Chairman of the Jardine Fleming Group from 1994 to 1996. Mr. Smith has over twenty-five years investment banking experience in Asia. He was elected a council member of The Stock Exchange of Hong Kong Limited on two occasions. He was a member of the Hong Kong Special Administrative Region Government's Economic Advisory Committee from 1994 to 2001, and was for 10 years a member of the Hong Kong Government's Standing Committee on Company Law Reform.

**Mr. V-nee Yeh**, aged 44, was appointed an Independent Non-Executive Director of the Company in January 1999. He is the Chairman of Hsin Chong Construction Group Ltd.; co-founder of Value Partners Limited and VP Private Equity Limited. Mr. Yeh was also a council member of The Stock Exchange of Hong Kong Limited until its merger into the Hong Kong Exchanges and Clearing Ltd. He remains a member of the Listing Committee. He also sits on the Takeovers and Mergers Panel and the Takeovers Appeals Committee of the Securities and Futures Commission.

**Mr. Zhang Yaping**, aged 50, was appointed a Director of the Company in August 2000. Mr. Zhang was appointed a Director of GDI in March 2001 and Managing Director of GDI from March 2001 to December 2002. He was appointed Chairman of 深圳市東深投資控股有限公司 (Shenzhen Dongshen Investment Holding Co. Ltd.) in July 2002. He was appointed a Director of GDH Limited and Deputy General Manager of GDI in September 2000 and June 2000 respectively. Mr. Zhang completed the Professional Finance Program in Jilin College of Finance and Trading and the Senior Management Program in the Economic Management College of Tianjin Nankai University. He has more than 20 years working experience in the banking and securities industries. Between 1990 and 1997, he worked in the Bank of China Group. Prior to joining GDI, he was Deputy Commissioner in the Shenzhen Regulatory Commissioner's Office of the China Securities Regulatory Commission. He is a Senior Economist in the PRC.

**Mr. Li Wai Keung**, aged 46, was appointed a Director of the Company in November 2002. Mr. Li is currently a Director and the Financial Controller of GDH Limited. He is also a Director of GDI. Mr. Li graduated from Hong Kong Polytechnic and holds a Master's degree in Business Administration from the University of East Asia. He is a fellow member of The Association of Chartered Certified Accountants and Hong Kong Society of Accountants. Mr. Li had held a number of positions with companies including Sino Land Company Limited and Henderson Land Development Company Limited.



### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)

#### Directors (cont'd)

**Mr. Wang Man Kwan, Paul**, aged 46, was appointed a Director of the Company in August 2000. He is a Director of GDI (GDI, together with its subsidiaries, the "GDI Group") and the Chief Financial Officer of the GDI Group. Mr. Wang is a Certified Public Accountant in Hong Kong, a fellow of The Association of Chartered Certified Accountants and Hong Kong Society of Accountants. He is also an associate of Certified General Accountants of Canada, The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Company Secretaries and the Hong Kong Institute of Taxation.

**Mrs. Ho Lam Lai Ping, Theresa**, aged 47, was appointed a Director of the Company in August 2000. She is also a Director of Guangdong Tannery Limited. She has been the Company Secretary of GDI since December 1992. She graduated from the Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

**Mr. Fung Sing Hong, Stephen**, aged 38, was appointed a Director and the Chief Financial Officer of the Company in December 2002. Mr. Fung holds a Master's degree of Business Administration from the University of Wales, United Kingdom. Mr. Fung is a Certified Public Accountant of the United States. He has extensive experience in mergers and acquisitions, capital market financing, corporate restructuring and financial management. Currently, Mr. Fung is a Deputy General Manager of the Finance Department of GDH Limited and a Director of Guangdong Asset Management Limited. He is also Director and Chief Financial Officer of both Guangdong (H.K.) Tours Company Limited and Guangdong (Macau) Tours Company Limited.

#### Senior Management

During the year, Messrs. Ye Xuquan, Jiang Guoqiang and Fung Sing Hong, Stephen were members of the Company's senior executives.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a beneficial interest in any contract of significance to the business of the Group, whether directly or indirectly, to which the Company, any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ye Xuquan, Zhang Yaping and Li Wai Keung, Directors of the Company, are also Directors of GDH Limited ("GDH") as at the balance sheet date. GDH engages in a wide range of business, including brewing. However the Directors do not believe that the brewing business of GDH competes either directly or indirectly in any material respect with those of the Group.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, the interests of the Directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Director of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### I. SHARES

#### (i) The Company

Name of Director	Type of interest	Number of shares held
Ho Lam Lai Ping, Theresa	Personal	180,000
Fung Sing Hong, Stephen	Personal	24,000

#### (ii) Guangdong Investment Limited

Name of Director	Type of interest	Number of ordinary shares held
Wang Man Kwan, Paul	Personal	500,000
Ho Lam Lai Ping, Theresa	Personal	250,000

As at 31 December 2002, Mr. V-nee Yeh, a Director of the Company, held US\$450,000 in principal amount of the Guaranteed Floating Rate Bonds due in 2005 (the "2005 Guaranteed Bonds"), issued by Guangdong Investment Finance (Cayman) Limited and guaranteed by Guangdong Investment Limited. The 2005 Guaranteed Bonds are listed on the Luxembourg Stock Exchange and are due in 2005.

## DIRECTORS' INTERESTS IN SHARES (cont'd)

### I. SHARES (cont'd)

(iii) *Guangdong Tannery Limited*

Name of Director	Type of interest	Number of shares held
Fung Sing Hong, Stephen	Personal	226,000

(iv) *Guangnan (Holdings) Limited*

Name of Director	Type of interest	Number of shares held
Fung Sing Hong, Stephen	Personal	500,000

### II. Options

(i) *The Company*

Name of Director	Number of options held on 01/01/2002	Options granted during the year	Options granted	Period during which option is exercisable*	Price per share to be paid on exercise of option (HK\$)	Number of options exercised during the year	Number of options held on 31/12/2002
Jiang Guoqiang	10,000,000	-	-	11/04/2002-10/04/2007	0.383	-	10,000,000

\* If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day proceeding that day (Hong Kong time).

## DIRECTORS' INTERESTS IN SHARES (cont'd)

### II. Options (cont'd)

#### (ii) Guangdong Investment Limited

Name of Director	Number of options held on 01/01/2002	Options granted during the year	Number granted	Period during which option is exercisable*	Price per share to be paid on exercise of option (HK\$)	Number of options exercised during the year	Number of options held on 31/12/2002
Ye Xuquan	12,000,000	–	–	11/02/2002-10/02/2007	0.5312	–	12,000,000
	–	07/05/2002	9,000,000	08/11/2002-07/11/2007	0.814	–	9,000,000
	–	04/12/2002	6,000,000 **	05/03/2003-04/03/2008	0.96	–	6,000,000
Jiang Guoqiang	1,500,000	–	–	11/02/2002-10/02/2007	0.5312	1,500,000	–
Cheng Mo Chi, Moses	1,000,000	–	–	02/05/2002-01/05/2007	0.74	–	1,000,000
	–	07/05/2002	1,000,000	08/11/2002-07/11/2007	0.814	–	1,000,000
	–	04/12/2002	1,000,000 **	05/03/2003-04/03/2008	0.96	–	1,000,000
Zhang Yaping	12,000,000	–	–	11/02/2002-10/02/2007	0.5312	–	12,000,000
	–	07/05/2002	9,000,000	08/11/2002-07/11/2007	0.814	–	9,000,000
	–	04/12/2002	6,000,000 **	05/03/2003-04/03/2008	0.96	–	6,000,000
Li Wai Keung	1,500,000	–	–	02/05/2002-01/05/2007	0.74	–	1,500,000
	–	07/05/2002	1,500,000	08/11/2002-07/11/2007	0.814	–	1,500,000
	–	04/12/2002	1,500,000 **	05/03/2003-04/03/2008	0.96	–	1,500,000
Wang Man Kwan, Paul	1,500,000	–	–	11/02/2002-10/02/2007	0.5312	500,000	1,000,000
	–	07/05/2002	1,500,000	08/11/2002-07/11/2007	0.814	–	1,500,000
	–	04/12/2002	1,500,000 **	05/03/2003-04/03/2008	0.96	–	1,500,000

**DIRECTORS' INTERESTS IN SHARES (cont'd)**
**II. Options (cont'd)**
*(ii) Guangdong Investment Limited (cont'd)*

Name of Director	Number of options held on 01/01/2002	Options granted during the year Date granted	Number granted	Period during which option is exercisable*	Price per share to be paid on exercise of option (HK\$)	Number of options exercised during the year	Number of options held on 31/12/2002
Ho Lam Lai Ping, Theresa	500,000	-	-	19/08/1998-18/08/2003	2.892	-	500,000
	1,200,000	-	-	11/02/2002-10/02/2007	0.5312	-	1,200,000
	-	07/05/2002	1,200,000	08/11/2002-07/11/2007	0.814	-	1,200,000
	-	04/12/2002	1,200,000 **	05/03/2003-04/03/2008	0.96	-	1,200,000
Fung Sing Hong, Stephen	-	04/12/2002	400,000 **	05/03/2003-04/03/2008	0.96	-	400,000

\* If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

\*\* HK\$1.00 is payable by the grantee on acceptance of the offer in respect of the option.

Save as disclosed above, as at 31 December 2002, 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 which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Other than "Directors' Interests in Securities" above and "Share Options of the Company and Associated Corporation" below, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporation a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**SHARE OPTIONS OF THE COMPANY AND ASSOCIATED CORPORATION**

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee benefit", most of the detailed disclosure relating to the Company's share option scheme have been moved to note 23 to the financial statements.

There were no share options granted to or exercised by the Directors of the Company under the Company's share option schemes during the year.

Details of the options of the Company and GDI held by the Directors of the Company are set out in the section headed "Directors' Interest in Securities" of this report.

**SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name of shareholder</b>	<b>Number of Shares Held</b>	<b>Percentage Holding</b>
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)	900,000,000	72%
GDH Limited ("GDH")	900,000,000	72%
Guangdong Investment Limited ("GDI")	900,000,000	72%

*Notes:*

1. The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100% direct interests in GDH.
2. The attributable interest which GDH has in the Company is held through its subsidiary, GDI.

**CONNECTED TRANSACTIONS**

Details of the connected transactions for the year are set out in note 29 to the financial statements. The Independent Non-Executive Directors of the Company reviewed the connected transaction set out in note 29(i) for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules and confirmed that:

- (a) the transaction was entered into by the Group in the ordinary and usual course of its business;
- (b) the transaction was entered into on terms are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the transaction was entered into either (i) in accordance with terms of the agreements governing such transaction, or (ii) on terms no less favourable than terms available to or from independent third parties; and
- (d) the aggregate value of the malt purchased by the Group during the year from Guangzhou Malting Co., Ltd. in which Guangdong Investment Limited, the Company's immediate holding company during the year, has an approximately 51.6% interest, does not exceed 30% of the total cost of production of the Group.

**PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the law of Bermuda, being the jurisdiction in which the Company is incorporated.

**MAJOR CUSTOMERS AND SUPPLIERS**

Purchases from the largest supplier and the five largest suppliers represent 18.8% and 40.2% of the Group's total purchases for the year, respectively.

Sales attributable to the five largest customers are less than 30% of the Group's total sales for the year.

Apart from Guangzhou Malting Co., Ltd., none of the Directors, their respective associates or shareholders (which to the best knowledge of the Directors) owning more than 5% of the issued share capital of the Company, has any interests in the five largest suppliers of the Group.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 28 to the financial statements.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

During the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

### AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the Code of Best Practice. The Audit Committee comprises three independent non-executive directors and a non-executive director of the Company. The Audit Committee meets every six months mainly to consider the nature and scope of audit reviews, the effectiveness of the internal control systems and compliance with the relevant rules and regulations.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**Ye Xuquan**

*Chairman*

Hong Kong, 11 April 2003



## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Guangdong Brewery Holdings Limited (the "Company") will be held at The Boardroom, Basement II, The Wharney Hotel Hong Kong, No. 57-73 Lockhart Road, Wanchai, Hong Kong on 18 June 2003 (Wednesday) at 2:30 p.m. for the following purposes :

1. To receive and consider the audited Consolidated Financial Statements and the Reports of the Directors and the Auditors for the year ended 31 December 2002.
2. To declare a final dividend for the year ended 31 December 2002.
3. To re-elect retiring Directors and to authorise the Board of Directors to fix the remuneration of the Directors.
4. To determine the maximum number of Directors and to authorise the appointment of additional Directors.
5. To re-appoint Auditors and to authorise the Board of Directors to fix their remuneration.
6. As Special Business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution :

(A) **"THAT:** –

- (i) subject to sub-paragraph (ii) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot and issue additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved;

- (ii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, other than pursuant to a Rights Issue (as hereinafter defined) or the exercise of subscription or conversion rights under any warrants, convertible bonds or other securities issued by the Company or any securities which are convertible into shares of the Company or any share option scheme or similar arrangement for the time being adopted for the grant or issue of officers and/or employees of the Company and/or any of its subsidiaries and other eligible persons (if any) of shares or rights to acquire shares in the capital of the Company or any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company on the date of this resolution and this approval shall be limited accordingly; and

- (iii) for the purposes of this resolution: –

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of: –

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or
- (c) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restriction or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

(B) **"THAT:-**

- (i) subject to sub-paragraph (ii) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued shares in the capital of the Company ("Shares") subject to and in accordance with all applicable laws and the Bye-laws of the Company, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of Shares which the Company is authorised to repurchase pursuant to the approval in sub-paragraph (i) of this resolution shall not exceed 10% of the aggregate nominal amount of the Shares in issue as at the date of the passing of this resolution and the authority pursuant to sub-paragraph (i) of this resolution shall be limited accordingly; and
- (iii) for the purposes of this resolution:-

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:-

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or
- (c) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution in general meeting."

- (C) **"THAT** conditional upon resolution no. 6(B) above being passed, the aggregate nominal amount of the number of Shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors of the Company as mentioned in resolution no. 6(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to resolution no. 6(A) above."

By order of the Board  
**Lam Yee Mei, Katherine**  
*Company Secretary*

HONG KONG, 11 April 2003

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Notes:—*

- (i) A member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (ii) In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be lodged with the Company's Branch Share Registrars in Hong Kong, Tengis Limited of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting (or the adjourned meeting as the case may be).
- (iii) The Register of Members will be closed from Friday, 13 June 2003 to Wednesday, 18 June 2003, both days inclusive, during such period no transfers of shares will be effected. In order to qualify for the proposed final dividend and be eligible to attend and vote at the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars in Hong Kong, Tengis Limited, of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 12 June 2003.
- (iv) A form of proxy for use at the meeting and an explanatory statement containing further details regarding resolution no. 6 above are enclosed in the 2002 Annual Report.
- (v) In relation to resolution no. 6(A), approval is being sought from members of the Company for a general mandate to authorise the allotment of shares in the share capital of the Company. The Directors of the Company currently have no immediate plans to issue any new shares in the share capital of the Company pursuant to such general mandate.
- (vi) In relation to resolution no. 6(B), the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate.
- (vii) In relation to resolution no. 6(C), approval is being sought from members to extend the general mandate to allot shares by adding the repurchased shares to the 20 percent general mandate.



To the members

**Guangdong Brewery Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 29 to 74 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

11 April 2003

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

		2002 HK\$'000	2001 HK\$'000
	Notes		
TURNOVER	5	593,052	543,922
Cost of sales		<u>(351,680)</u>	<u>(332,691)</u>
Gross profit		241,372	211,231
Other revenue and gains		34,034	43,880
Selling and distribution expenses		(133,960)	(133,586)
Administrative expenses		(36,504)	(45,537)
Impairment of investment in an associate		–	(5,600)
Impairment of an investment security		<u>(4,611)</u>	<u>–</u>
PROFIT FROM OPERATING ACTIVITIES	6	100,331	70,388
Finance costs	7	–	(7,857)
Share of loss of an associate		<u>(4,437)</u>	<u>(13,424)</u>
PROFIT BEFORE TAX		95,894	49,107
Tax	10	<u>(11,329)</u>	<u>(12,067)</u>
PROFIT BEFORE MINORITY INTERESTS		84,565	37,040
Minority interests		<u>(6,562)</u>	<u>(2,606)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>78,003</u>	<u>34,434</u>
DIVIDENDS	12	<u>(25,000)</u>	<u>(12,500)</u>
EARNINGS PER SHARE	13		
– Basic		<u>6.2 cents</u>	<u>2.8 cents</u>
– Diluted		<u>6.2 cents</u>	<u>N/A</u>

# CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	1,037,299	1,112,710
Interest in an associate	16	–	42,997
Investment securities	17	–	4,611
Reusable packaging materials		15,778	5,975
		<b>1,053,077</b>	1,166,293
CURRENT ASSETS			
Inventories	18	80,866	76,852
Trade receivables	19	26,103	37,327
Prepayments, deposits and other receivables		29,493	5,610
Cash and bank balances		232,734	74,579
		<b>369,196</b>	194,368
CURRENT LIABILITIES			
Trade payables	20	(42,337)	(35,955)
Tax payable		(1,173)	(7,026)
VAT payable		(7,977)	(7,138)
Other payables and accruals		(84,485)	(70,203)
Due to a fellow subsidiary	29(i)	–	(8,612)
Due to a minority equityholder of subsidiaries	21	(60,852)	–
		<b>(196,824)</b>	(128,934)
NET CURRENT ASSETS		<b>172,372</b>	65,434
TOTAL ASSETS LESS CURRENT LIABILITIES – page 31		<b>1,225,449</b>	1,231,727

# CONSOLIDATED BALANCE SHEET (cont'd)

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES – page 30		<u>1,225,449</u>	<u>1,231,727</u>
NON-CURRENT LIABILITIES			
Due to minority equityholders of subsidiaries	21	<u>(23,525)</u>	<u>(88,181)</u>
		<b>1,201,924</b>	1,143,546
MINORITY INTERESTS		<u>(41,076)</u>	<u>(34,496)</u>
		<u><b>1,160,848</b></u>	<u>1,109,050</u>
CAPITAL AND RESERVES			
Issued capital	22	<b>125,000</b>	125,000
Reserves	24	<b>1,023,348</b>	971,550
Proposed dividend	12	<u><b>12,500</b></u>	<u>12,500</u>
		<u><b>1,160,848</b></u>	<u>1,109,050</u>

**Ye Xuquan**  
Director

**Fung Sing Hong, Stephen**  
Director



## CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Total equity at 1 January		<b>1,109,050</b>	1,087,455
Exchange differences on translation of the financial statements of subsidiaries and an associate in Mainland China, and net losses not recognised in the profit and loss account	24	<b>(288)</b>	(339)
Release of exchange fluctuation reserve upon disposal of a subsidiary	24	<b>(917)</b>	–
Net profit from ordinary activities attributable to shareholders		<b>78,003</b>	34,434
Dividends paid		<b>(25,000)</b>	(12,500)
Total equity at 31 December		<b><u>1,160,848</u></b>	<u>1,109,050</u>

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

		2002	2001
	Notes	HK\$'000	HK\$'000
			(Restated)
CASH INFLOW FROM OPERATING ACTIVITIES			
Profit before tax		<b>95,894</b>	49,107
Adjustment for:			
Finance costs	7	-	7,857
Share of loss of an associate		<b>4,437</b>	13,424
Interest income	6	<b>(1,261)</b>	(1,600)
Depreciation	6	<b>82,479</b>	111,839
Amortisation of reusable packaging materials	6	<b>6,667</b>	11,523
Losses/(gains) on disposal of fixed assets, net	6	<b>2,059</b>	(136)
Gain on disposal of a subsidiary	6	<b>(2,388)</b>	-
Impairment of an investment security		<b>4,611</b>	-
Impairment of investment in an associate		-	5,600
Operating profit before working capital changes		<b>192,498</b>	197,614
Decrease/(increase) in inventories		<b>(4,048)</b>	2,360
Decrease in trade receivables		<b>11,218</b>	343
Decrease/(increase) in prepayments, deposits and other receivables		<b>(3,883)</b>	5,156
Decrease in loan to a director		-	1,700
Increase/(decrease) in trade payables		<b>6,399</b>	(549)
Increase in other payables and accruals		<b>14,540</b>	9,131
Increase/(decrease) in VAT payable		<b>842</b>	(11,991)
Increase/(decrease) in amount due to a fellow subsidiary		<b>(8,612)</b>	4,963
Cash generated from operations		<b>208,954</b>	208,727
Interest received		<b>1,261</b>	1,600
Interest paid		-	(9,936)
Hong Kong profits tax paid		<b>(2,456)</b>	(399)
Mainland China profits tax paid		<b>(14,726)</b>	(9,002)
Dividends paid		<b>(25,000)</b>	(12,500)
Dividends paid to a minority equityholder of subsidiaries		<b>(3,769)</b>	(4,304)
Net cash inflow from operating activities – page 34		<b>164,264</b>	174,186

/continued...

# CONSOLIDATED CASH FLOW STATEMENT (cont'd)

Year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000 (Restated)
Net cash inflow from operating activities – page 33		<b>164,264</b>	174,186
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		<b>(9,596)</b>	(4,320)
Proceeds from disposal of fixed assets		<b>38</b>	953
Disposal of a subsidiary	25	<b>20,000</b>	–
Purchases of reusable packaging materials		<b>(16,478)</b>	(5,480)
Net cash outflow from investing activities		<b>(6,036)</b>	(8,847)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank loans		–	91,393
Repayment of interest-bearing bank loans		–	(251,567)
Repayment to immediate holding company		–	(97,856)
Repayment to minority equityholders of subsidiaries		–	(8,707)
Net cash outflow from financing activities		–	(266,737)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<b>158,228</b>	(101,398)
Cash and cash equivalents at beginning of year		<b>74,579</b>	176,059
Effect of foreign exchange rate changes, net		<b>(73)</b>	(82)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<b>232,734</b>	74,579
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<b>232,734</b>	74,579

# BALANCE SHEET

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	–	528
Interests in subsidiaries	15	898,443	986,839
Investment securities	17	–	4,611
		<u>898,443</u>	<u>991,978</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		155	536
Due from subsidiaries		99,093	89,076
Cash and bank balances		75,551	8,544
		<u>174,799</u>	<u>98,156</u>
CURRENT LIABILITIES			
Other payables and accruals		(3,983)	(5,806)
Due to a subsidiary		(14,106)	(2,363)
		<u>(18,089)</u>	<u>(8,169)</u>
NET CURRENT ASSETS		<u>156,710</u>	<u>89,987</u>
		<u><b>1,055,153</b></u>	<u><b>1,081,965</b></u>
CAPITAL AND RESERVES			
Issued capital	22	125,000	125,000
Reserves	24	917,653	944,465
Proposed dividend	12	12,500	12,500
		<u><b>1,055,153</b></u>	<u><b>1,081,965</b></u>

**Ye Xuquan**  
Director

**Fung Sing Hong, Stephen**  
Director

**1. CORPORATE INFORMATION**

During the year, the Group was principally engaged in investment holding, and the production, distribution and sale of beer, and terminated its operation of restaurants, pubs and other related services (the "Other Operations"). In the opinion of the directors, the Other Operations are not a major business line of the Group and accordingly, the termination of the Other Operations did not constitute a discontinued operation.

As at 31 December 2002, the Company was a 72%-owned subsidiary of Guangdong Investment Limited ("GDI"), a company incorporated and publicly listed in Hong Kong. In the opinion of the directors, the ultimate holding company of the Company as at 31 December 2002 was 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), a company established in the People's Republic of China.

Subsequent to the balance sheet date, on 26 February 2003, GDI publicly announced that it entered into a conditional agreement with its parent company, GDH Limited, under which GDI and its subsidiaries would sell various of its entire investments in certain subsidiaries including, amongst others, 900,000,000 issued shares of the Company (the "Disposal Transaction"). The Disposal Transaction was completed on 31 March 2003. Accordingly, GDH Limited has become the Company's immediate holding company.

**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")**

The following new and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements:

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

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 adopting these SSAPs 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 to this SAAP is that a consolidated summary statement of changes in equity is now presented in place of the consolidated statement of recognised gains and losses which was previously required.

**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (cont'd)**

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 subsidiaries and associates operating in the mainland of the People's Republic of China (“Mainland China”) are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rate at the balance sheet date. As it is impractical to reasonably determine the prior year adjustment, these changes in accounting policy are applied prospectively in accordance with SSAP 2. The effect on the results of the current year is not significant. Further details of this change are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of the SSAP is that the consolidated cash flows now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes paid, interest received and paid, and dividends paid are now included in cash flows from operating activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout. In addition, cash flows from subsidiaries operating in Mainland China 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 rate at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no major impact on 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. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 23 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing (the “Listing Rules”) of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

**3. 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.

**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 and associate acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

**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 Company's interests in subsidiaries are stated at cost less any impairment losses.

**Associate**

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of associate, which was not previously eliminated in consolidated reserves, is included as part of the Group's interest in associate.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Joint venture companies established in Mainland China**

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 with the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distribution 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) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, directly or indirectly, but has joint control over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an investment security, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Goodwill**

Goodwill arising on acquisition of subsidiaries and associates 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 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. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

On disposal of subsidiaries or associates, 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. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and associates 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 in an amount not exceeding the fair value of the acquired non-monetary assets 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.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

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.

On disposal of subsidiaries or associates, 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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.

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.

**Reusable packaging materials**

Reusable packaging materials currently in use are stated at cost less accumulated amortisation and any impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over a period of three years.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost 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 and overhaul costs, 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.

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

Leasehold land in Mainland China	Over the shorter of the lease terms or the life of the joint ventures
Buildings	4.5% – 20%
Plant, machinery and equipment	4.5% – 20%
Furniture and fixtures	18% – 20%
Motor vehicles	18% – 20%

The directors have reassessed the estimated useful lives of certain plant, machinery and equipment, taking into account of current business environment and conditions, and the expected pattern of economic benefits from these assets, and have revised the estimated useful lives of these assets from 10 years to 15 years. These revised accounting estimates have been adopted prospectively from 1 January 2002. The effect of this change in accounting estimates is a decrease in depreciation charge and an increase in net profit attributable to shareholders by HK\$18,677,000 and HK\$15,082,000, respectively.

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 represents buildings, machinery and equipment under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Investment securities**

Investment securities are non-trading investments in unlisted equity securities intended to be held on a long term basis, which are stated at cost less any impairment losses on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

**Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of production overheads.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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) income from operations of restaurants, pubs and other related services, based on the period in which such services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) value-added tax refund, when the right to receive the refund has been established.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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 and associate operating in Mainland China are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries and associate operating in Mainland China 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 rate 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 subsidiaries operating in Mainland China are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of subsidiaries operating in Mainland China 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 2 to the financial statements, the profit and loss accounts of subsidiaries and associate operating in Mainland China and the cash flows of subsidiaries operating in Mainland China were translated to Hong Kong dollars at the exchange rate at the balance sheet date. As it is impractical to reasonably determine the prior year adjustment, these changes in policy are applied prospectively in accordance with SSAP 2. 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.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Employee benefits***Retirement benefits scheme*

The Company and certain of its subsidiaries operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. 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 except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's certain subsidiaries which operate in Mainland China are mandatory to participate in a local pension scheme (the "LPS") operated by the local municipal government. These subsidiaries are required to contribute 8% of their payroll costs to the LPS. The contributions under the LPS are charged to the profit and loss account as they become payable in accordance with the rules of the LPS.

*Share options scheme*

The Company operates a share option scheme 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 scheme is 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.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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.

**4. SEGMENT INFORMATION**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The Group's operating businesses are structured and managed separately, according to the location of customers. Each of the Group's geographical segments represents a strategic geographical unit that offers products and services which are subject to risks and returns that are different from those of other geographical segments. Summary details of the geographical segments are as follows:

- (a) The Mainland China segment engages in production, distribution and sale of beer, and operation of restaurants, pubs and other related services;
- (b) The Overseas and Hong Kong segment engages in distribution and sale of beer in Taiwan, Macau and Hong Kong; and
- (c) The Corporate segment engages in providing corporate services to Mainland China and Overseas and Hong Kong segment in Hong Kong.

In determining the Group's business segments, revenues and results are attributed to the segments based on the nature of their operations and the products and services they provide.

Intersegment transactions mainly represent sale of beer by the Mainland China segment which was made on the bases determined within the Group.

# NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

## 4. SEGMENT INFORMATION (cont'd)

### (a) Geographical segments

The following tables present revenue, profit and certain assets, liability and expenditure information for the Group's geographical segments.

#### Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	539,028	508,225	54,024	35,697	-	-	-	-	593,052	543,922
Intersegment sales	14,369	10,262	-	-	-	-	(14,369)	(10,262)	-	-
Other revenue and gains	30,385	42,280	-	-	-	-	-	-	30,385	42,280
Total	583,782	560,767	54,024	35,697	-	-	(14,369)	(10,262)	623,437	586,202
Segment results	88,927	71,876	15,900	8,285	(3,534)	(11,373)	-	-	101,293	68,788
Interest income & unallocated gains									3,649	1,600
Unallocated loss									(4,611)	-
Profit from operating activities									100,331	70,388
Finance costs									-	(7,857)
Share of loss of an associate	(4,437)	(13,424)	-	-	-	-	-	-	(4,437)	(13,424)
Profit before tax									95,894	49,107
Tax									(11,329)	(12,067)
Profit before minority interests									84,565	37,040
Minority interests									(6,562)	(2,606)
Net profit from ordinary activities attributable to shareholders									78,003	34,434

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 4. SEGMENT INFORMATION (cont'd)

#### (a) Geographical segments (cont'd)

##### Group (cont'd)

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,313,126	1,294,429	15,112	10,709	95,751	8,792	(1,716)	(877)	1,422,273	1,313,053
Interest in an associate	-	42,997	-	-	-	-	-	-	-	42,997
Investment securities									-	4,611
Total assets									1,422,273	1,360,661
Segment liabilities	210,457	199,855	4,209	2,117	6,226	8,994	(1,716)	(877)	219,176	210,089
Unallocated liabilities									1,173	7,026
Total liabilities									220,349	217,115
Other segment information:										
Depreciation and amortisation	88,933	123,144	30	-	183	218	-	-	89,146	123,362
Impairment losses recognised in the profit and loss account	-	5,600	-	-	-	-	-	-	-	5,600
Unallocated amount									4,611	-
									4,611	5,600
Other non-cash expenses	-	1,659	-	1,014	-	-	-	-	-	2,673
Capital expenditure	26,074	9,746	-	-	-	54	-	-	26,074	9,800

#### (b) Business segments

During the year, the Group was engaged in the production, distribution and sale of beer, and terminated its operations of restaurants, pubs and other related services (the "Other Operations"). As the Other Operations contributed for less than 10% of the total revenue, the segment results, the total assets at all segments and other segment information in respect of each of the business segments are not presented.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 5. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of discounts, returns, value-added tax and consumption tax; and income earned from the operation of restaurants, pubs and other related services, net of business tax, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	<b>2002</b> <b>HK\$'000</b>	<b>Group</b> 2001 HK\$'000
Sale of goods	<b>593,052</b>	536,603
Operation of restaurants, pubs and other related services	<b>–</b>	7,319
	<b>593,052</b>	543,922

### 6. PROFIT FROM OPERATING ACTIVITIES

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

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Cost of inventories sold	<b>351,680</b>	332,691
Depreciation	<b>82,479</b>	111,839
Minimum lease payments under operating leases in respect of land and buildings	<b>748</b>	875
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	<b>50,355</b>	40,593
Pension contributions	<b>6,630</b>	4,994
Less: forfeited contributions*	<b>–</b>	–
Net pension contributions	<b>6,630</b>	4,994
	<b>56,985</b>	45,587
Amortisation of reusable packaging materials	<b>6,667</b>	11,523
Auditors' remuneration	<b>770</b>	937
Exchange losses, net	<b>387</b>	217
Losses/(gains) on disposal of fixed assets, net	<b>2,059</b>	(136)
Gain on disposal of a subsidiary	<b>(2,388)</b>	–
Interest income	<b>(1,261)</b>	(1,600)
Net rental income	<b>(1,048)</b>	–
Value-added tax exemption** (note 28(a))	<b>(24,908)</b>	(37,670)

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 6. PROFIT FROM OPERATING ACTIVITIES (cont'd)

\* At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to its retirement benefits scheme in future years (2001: Nil).

\*\* The amount represents the exemption of net output value-added tax on those beer products that are both produced and sold in Shenzhen entitled by Shenzhen Kingway Brewery Co., Ltd.

### 7. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on:		
Bank loans	-	6,120
Other loans wholly repayable within five years	-	1,737
	<u>-</u>	<u>7,857</u>

### 8. 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:		
Non-executive	90	90
Executive	1	28
Other emoluments:		
Salaries, allowances and benefits in kind	7	512
Bonuses paid and payable	6	271
Pension scheme contributions	1	27
Less: forfeited contributions	-	-
	<u>105</u>	<u>928</u>

**8. DIRECTORS' REMUNERATION (cont'd)**

Fees include HK\$90,000 (2001: HK\$90,000) 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 remuneration of all eleven (2001: all ten) directors fell within the band of "Not more than HK\$1,000,000" for the year ended 31 December 2002.

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

During the year, no share options (2001: 17,000,000) were granted to the directors in respect of their services to the Group. Further details of the share option scheme are set out in note 23 to the financial statements. No value in respect of the share options granted has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

**9. FIVE HIGHEST PAID INDIVIDUALS**

The five highest paid individuals of the Group included one former director who resigned during the year (2001: two directors), details of whose remuneration while as a director are included in note 8 above. The details of the remuneration of the aforesaid former director (2001: Nil) and remaining four (2001: three) non-directors, highest paid employees are as follows:

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	2001
		HK\$'000
Salaries, allowances and benefits in kind	<b>1,542</b>	962
Bonuses paid and payable	<b>594</b>	124
Pension scheme contributions	<b>87</b>	52
	<b>2,223</b>	1,138

The remuneration of the above five (2001: three) highest paid employees all fell within the band of "Not more than HK\$1,000,000" for the year ended 31 December 2002.

During the year, no share options were granted to any of the above highest paid employees (2001: 400,000 share options were granted to the above two highest paid employees), in respect of their services to the Group. Further details of the share option scheme are included in note 23 to the financial statements. No value in respect of the share options granted has been charged to the profit and loss account, or otherwise included in the above five highest paid employees' remuneration disclosures.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 10. TAX

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Company and subsidiaries:		
Hong Kong	<b>2,545</b>	1,301
Mainland China	<b>8,784</b>	10,766
	<b>11,329</b>	12,067
Associate:		
Mainland China	-	-
Tax charge for the year	<b>11,329</b>	12,067

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

Enterprise Income Tax of Shenzhen Kingway Brewery Co., Ltd., ("Shenzhen Brewery") has been provided at the rate of 15% (2001: 15%) on the estimated assessable profits. Shenzhen Kingway Brewing Co., Ltd., ("Shenzhen Brewing") is entitled to a tax exemption for the first two profit-making years and a tax relief of 50% in the succeeding three years under the approval of the local tax authority. As Shenzhen Brewing did not generate any accumulated assessable profit since its establishment, accordingly, the tax exemption period has not commenced.

At the balance sheet date, the Group and the Company had no material unprovided deferred tax liabilities (2001: Nil).

### 11. NET PROFIT / (LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$1,812,000 (2001: HK\$37,595,000).

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Profit/(loss) for the year attributable to:		
Company and subsidiaries	<b>82,440</b>	47,858
Associate	<b>(4,437)</b>	(13,424)
	<b>78,003</b>	34,434

**12. DIVIDENDS**

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Interim – 1.0 HK cent (2001: Nil) per share	<b>12,500</b>	–
Proposed final – 1.0 HK cent (2001: 1.0 HK cent) per share	<b>12,500</b>	12,500
	<b><u>25,000</u></b>	<b><u>12,500</u></b>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**13. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$78,003,000 (2001: HK\$34,434,000), and the weighted average number of 1,250,000,000 (2001: 1,250,000,000) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$78,003,000. The weighted average number of shares used in the calculation is 1,254,191,136 shares, comprising 1,250,000,000 shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 4,191,136 shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

No diluted earnings per share is presented for the year ended 31 December 2001, as the effect of the Company's outstanding share options was anti-dilutive.



# NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

## 14. FIXED ASSETS

### Group

	Land and buildings	Plant, machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:						
At beginning of year	438,905	1,212,933	5,531	43,129	15,683	1,716,181
Additions	688	1,239	–	321	7,348	9,596
Disposals	–	(1,136)	(3,725)	(152)	–	(5,013)
Reclassifications	705	823	–	–	(1,528)	–
Exchange adjustments	(184)	(517)	–	(18)	(10)	(729)
At 31 December 2002	440,114	1,213,342	1,806	43,280	21,493	1,720,035
Accumulated depreciation:						
At beginning of year	91,996	482,871	2,673	25,931	–	603,471
Provided during the year	18,836	56,876	377	6,390	–	82,479
Disposals	–	(983)	(1,833)	(100)	–	(2,916)
Exchange adjustments	(47)	(237)	–	(14)	–	(298)
At 31 December 2002	110,785	538,527	1,217	32,207	–	682,736
Net book value:						
At 31 December 2002	329,329	674,815	589	11,073	21,493	1,037,299
At 31 December 2001	346,909	730,062	2,858	17,198	15,683	1,112,710

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 14. FIXED ASSETS (cont'd)

#### Company

	<b>Furniture and fixtures</b> HK\$'000
Cost:	
At beginning of year	916
Disposals	(916)
	<hr/>
At 31 December 2002	—
Accumulated depreciation:	
At beginning of year	388
Provided during the year	183
Disposals	(571)
	<hr/>
At 31 December 2002	—
Net book value:	
At 31 December 2002	—
	<hr/> <hr/>
At 31 December 2001	528
	<hr/> <hr/>

As at 31 December 2002, the net book value of the Group's leasehold land and buildings is analysed as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Long term leases in Mainland China	<b>31,208</b>	32,990
Medium term leases in Mainland China	<b>298,121</b>	313,919
	<hr/>	<hr/>
	<b>329,329</b>	346,909
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 15. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares/investments, at cost	261,816	261,816
Due from subsidiaries	774,030	857,896
Due to subsidiaries	(52,562)	(52,573)
	983,284	1,067,139
Provision for amounts due from subsidiaries	(84,841)	(80,300)
	<u>898,443</u>	<u>986,839</u>

The balances with subsidiaries are unsecured and not repayable within one year from the balance sheet date. Except for the amounts due from Shenzhen Brewery and Shenzhen Brewing which are interest-bearing, the details of which are set out in notes 29(iv) and 29(v) to the financial statements; and the amount due from Morefit Limited, a wholly-owned subsidiary, of HK\$247,702,000 (2001: HK\$272,779,000) which bears interest at six months' London Inter Bank Offered Rate ("LIBOR") plus 0.75% per annum, the remaining balances are interest-free.

The Group has adopted the transitional provision of SSAP 30 which permits goodwill of HK\$131,099,000 and negative goodwill of HK\$41,969,000 as at 1 January and 31 December 2002 in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against reserves or credited to the capital reserve, respectively.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 15. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the principal subsidiaries at the balance sheet date were as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK\$2	100%	100%	Sale and marketing of beer
Shenzhen Kingway Brewery Co., Ltd.*	Mainland China	US\$50,000,000	–	95%	Production, distribution and sale of beer and investment holding
Shenzhen Kingway Brewing Co., Ltd.*	Mainland China	US\$12,000,000	–	87%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd.*	Mainland China	US\$12,000,000	–	87%	Provision of bottling and packaging services
Shenzhen Kingway Utility Co., Ltd.*	Mainland China	US\$12,000,000	–	87%	Provision of utilities services

\* These subsidiaries are established as Sino-foreign equity joint venture companies.

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.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 16. INTEREST IN AN ASSOCIATE

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Share of net assets	-	80,964
Provision for impairment	-	(37,967)
	<u>-</u>	<u>(37,967)</u>
	<u>-</u>	<u>42,997</u>

In prior years, impairment of goodwill arising from acquisition of the associate previously dealt with in reserves amounting to HK\$9,135,000 was charged to the profit and loss account.

Particulars of the associate are as follows:

Company	Business structure	Place of registration and operation	Percentage of ownership interest		Principal activities
			attributable to the Group		
			2002	2001	
Shandong Huazhong Amber Brewery Co., Ltd.	Corporate	Mainland China	–	50%	Production, distribution and sale of beer

The associate was disposed of as a part of the disposal of a subsidiary during the year.

### 17. INVESTMENT SECURITIES

	<b>Group and Company</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted equity investment, at cost	5,611	5,611
Provision for impairment	(5,611)	(1,000)
	<u>-</u>	<u>(1,000)</u>
	<u>-</u>	<u>4,611</u>

The balance represents investment in a company which was established in Mainland China and is engaged in the distribution and sale of wine and beer in Mainland China.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 18. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	16,064	13,611
Spare parts and consumables	28,616	28,874
Packaging materials	17,330	17,946
Work in progress	9,792	10,625
Finished goods	9,064	5,796
	<u>80,866</u>	<u>76,852</u>

At 31 December 2002 and 2001, all of the inventories were carried at cost.

### 19. TRADE RECEIVABLES

The Group's trading terms with customers are either on cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30-180 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

The aged analysis of trade receivables based on payment due date is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 3 months	24,275	34,564
More than 3 months and less than 6 months	1,236	881
More than 6 months and less than 1 year	848	4,797
More than 1 year	2,977	13,612
	<u>29,336</u>	<u>53,854</u>
Less: Provision for doubtful debts	(3,233)	(16,527)
	<u>26,103</u>	<u>37,327</u>

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 20. TRADE PAYABLES

The aged analysis of trade payables based on invoice date is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 3 months	37,702	29,814
More than 3 months and less than 6 months	-	1,324
More than 6 months and less than 1 year	58	245
More than 1 year	4,577	4,572
	<u>42,337</u>	<u>35,955</u>

### 21. DUE TO MINORITY EQUITYHOLDERS OF SUBSIDIARIES

The amounts due to the minority equityholders of subsidiaries were unsecured and interest-free, of which HK\$60,852,000 (2001: Nil) is repayable within one year from the balance sheet date and the remaining balance is not repayable within one year from the balance sheet date.

### 22. SHARE CAPITAL

#### Shares

	Company	
	2002	2001
	HK\$'000	HK\$'000
<i>Authorised:</i>		
2,000,000,000 shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,250,000,000 shares of HK\$0.10 each	<u>125,000</u>	<u>125,000</u>

There were no changes to the carrying amount or the number of shares of the Company for the two years ended 31 December 2002 and 2001.

#### Share options

Details of the Company's share option scheme and the share options issued under the share option scheme are included in note 23 to the financial statements.

**23. SHARE OPTION SCHEME**

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme 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.

On 31 May 2002, the Company terminated its then share option scheme adopted on 22 July 1997 (the "Old Option Scheme") and adopted a new share option scheme (the "New Option Scheme").

Pursuant to the Old Option Scheme, the exercise price of the share options as determined by the directors would be a price equal to the higher of the nominal value of the shares and an amount not less than 80% of the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant of the option.

In response to the amendments by the Stock Exchange in connection with Chapter 17 (Share Option Schemes) of the Listing Rules, the Company terminated the Old Option Scheme and then adopted the New Option Scheme on 31 May 2002 as follows:

The purpose of the New Option Scheme is to provide incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis, to maintain good relationship with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the New Option Scheme include the directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The New Option scheme unless otherwise terminated or amended, will remain in force for a period of 10 years from 10 January 2003.

The maximum numbers of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other schemes of the Company must not exceed 30% of the shares is issued from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the New Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the New Option Scheme, but the Company may seek approval of its shareholders in general meeting to refresh the 10% limit under the New Option Scheme. As at 31 December 2002, the total number of shares issuable for option granted under the share option schemes of the Company was 21,050,000, which represented approximately 1.68% of the Company's share in issue as at that date.



**23. SHARE OPTION SCHEME (cont'd)**

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

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 of the Company. 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 closing price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in general meeting of the Company.

An offer of the grant of a share option may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, but must not be less than the higher of (i) the closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

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

There were no share options granted to or exercised by the directors of the Company under the share option schemes of the Company during the year.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 23. SHARE OPTION SCHEME (cont'd)

The following share options were outstanding under the share option schemes of the Company during the year.

Name or category of participants	Number of share options			Date of grant of share options*	Exercise period of share options#	Exercise price of share options** HK\$	Price of Company's share at date of grant of options*** HK\$
	At 1 January 2002	Cancelled during the year	At 31 December 2002				
Directors and chief executive							
Mr. Jiang Guoqiang	10,000,000	-	10,000,000	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.380
Mr. Zhou Dongxiang	1,200,000	-	1,200,000	20-08-1997	20-02-1998 to 19-02-2003	2.100	2.725
	7,000,000	-	7,000,000	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.380
	<u>18,200,000</u>	<u>-</u>	<u>18,200,000</u>				
Other employees							
In aggregate	2,650,000	(200,000)	2,450,000	20-08-1997	20-02-1998 to 19-02-2003	2.100	2.725
	5,400,000	(5,000,000)	400,000	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.380
	<u>8,050,000</u>	<u>(5,200,000)</u>	<u>2,850,000</u>				
	<u>26,250,000</u>	<u>(5,200,000)</u>	<u>21,050,000</u>				

**23. SHARE OPTION SCHEME (cont'd)**

- \* *The vesting period of the share option 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 at the date of the grant of the share options is the closing price on the Stock Exchange on the business day on which the options were granted.*
- # *If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).*

At the balance sheet date, the Company had 21,050,000 share options outstanding under the Old Option Scheme and the New Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 21,050,000 additional shares of the Company and additional share capital of HK\$2,105,000 and share premium of approximately HK\$12,224,000 (before issue expenses).

Subsequent to the balance sheet date, 400,000 share options under the Old Option Scheme were exercised. This resulted in the issue of 400,000 shares of the Company and new issued share capital of HK\$40,000 and share premium of HK\$113,200 (before issue expenses). In addition, 3,650,000 outstanding share options under the Old Option Scheme lapsed automatically at the expiry date of the relevant option period subsequent to the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

## 24. RESERVES

### Group

	Share premium HK\$'000	Capital reserve* HK\$'000 (Note)	Exchange fluctuation reserve HK\$'000	Enterprise development fund# HK\$'000	Reserve fund# HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	739,583	51,104	4,746	216	15,246	139,060	949,955
Net profit for the year	-	-	-	-	-	34,434	34,434
Proposed final dividend	-	-	-	-	-	(12,500)	(12,500)
Exchange adjustments	-	-	(339)	-	-	-	(339)
At 31 December 2001 and 1 January 2002	739,583	51,104	4,407	216	15,246	160,994	971,550
Net profit for the year	-	-	-	-	-	78,003	78,003
Interim dividend	-	-	-	-	-	(12,500)	(12,500)
Proposed final dividend	-	-	-	-	-	(12,500)	(12,500)
Disposal of a subsidiary	-	-	(917)	-	-	-	(917)
Exchange adjustments	-	-	(288)	-	-	-	(288)
<b>At 31 December 2002</b>	<b>739,583</b>	<b>51,104</b>	<b>3,202</b>	<b>216</b>	<b>15,246</b>	<b>213,997</b>	<b>1,023,348</b>
Retained by:							
Company and subsidiaries	739,583	51,104	3,202	216	15,246	213,997	1,023,348
Associates	-	-	-	-	-	-	-
<b>At 31 December 2002</b>	<b>739,583</b>	<b>51,104</b>	<b>3,202</b>	<b>216</b>	<b>15,246</b>	<b>213,997</b>	<b>1,023,348</b>
Company and subsidiaries	739,583	51,104	3,459	216	15,246	197,320	1,006,928
Associates	-	-	948	-	-	(36,326)	(35,378)
At 31 December 2001	739,583	51,104	4,407	216	15,246	160,994	971,550

# Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of a Company's subsidiary operating in Mainland China has been transferred to the reserve fund and the enterprise development fund which are restricted as to use. The amounts transferred from the retained profits are determined by the board of directors of that subsidiary. These funds are not available for distribution.

\* The amounts of goodwill and negative goodwill remaining in reserves, arising from the acquisitions of subsidiaries, are HK\$131,099,000 and HK\$41,969,000, respectively, as at 1 January and 31 December 2002. The amount of goodwill was stated at the cost of HK\$131,099,000 (2001: HK\$140,234,000) less nil impairment (2001: HK\$9,135,000) as at 31 December 2002.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2002

### 24. RESERVES (cont'd)

#### Company

	Share premium HK\$'000	Capital reserve HK\$'000 (Note)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	739,583	140,234	114,743	994,560
Net loss for the year	–	–	(37,595)	(37,595)
Proposed final dividend	–	–	(12,500)	(12,500)
At 31 December 2001 and 1 January 2002	739,583	140,234	64,648	944,465
Net loss for the year	–	–	(1,812)	(1,812)
Interim dividend	–	–	(12,500)	(12,500)
Proposed final dividend	–	–	(12,500)	(12,500)
<b>At 31 December 2002</b>	<b>739,583</b>	<b>140,234</b>	<b>37,836</b>	<b>917,653</b>

*Note:* On 23 April 1998, a special resolution was passed in a special general meeting of the Company for a reduction of its share premium account in the amount of HK\$140,234,000. This amount was for transferring to the credit of the capital reserve account against goodwill arising on the acquisitions of subsidiaries and an associate.

**25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**
**Disposal of a subsidiary**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Interest in an associate	<b>38,529</b>	—
Amount due to group companies	<b>(121,232)</b>	—
	<b>(82,703)</b>	—
Amount due to group companies disposed of	<b>121,232</b>	—
Release of exchange reserve upon disposal	<b>(917)</b>	—
	<b>37,612</b>	—
Gain on disposal	<b>2,388</b>	—
	<b>40,000</b>	—
Satisfied by:		
Cash	<b>20,000</b>	—
Increase in other receivables	<b>20,000</b>	—
	<b>40,000</b>	—

The net inflow of cash and cash equivalents in respect of the disposal of subsidiary was HK\$20,000,000.

The results of the subsidiary disposed of contributed nil and net loss of HK\$4,447,000 to the Group's turnover and profit after tax, respectively.

## 26. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for one year. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>857</b>	–

At the balance sheet date, the Company did not have such operating lease arrangements.

### (b) As lessee

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

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due were as follow:

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Within one year	<b>434</b>	596	–	355
In the second to fifth years, inclusive	<b>290</b>	–	–	–
	<b>724</b>	596	–	355

**27. COMMITMENTS**

In addition to the operating lease commitments detailed in note 26 to the financial statements, the Group and the Company had the following commitments in respect of property, plant and equipment at the balance sheet date:

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Contracted for	<b>10,457</b>	1,112	–	–
Authorised, but not contracted for	<b>4,981</b>	–	–	–
	<b>15,438</b>	1,112	–	–

**28. POST BALANCE SHEET EVENTS**

- (a) According to a notice from Shenzhen tax authority dated 19 December 2002, the policy for value-added tax exemption on the products that are both produced and sold in Shenzhen has been ceased effective from 1 January 2003. The Group was entitled to value-added tax exemption of HK\$24,908,000 for the year ended 31 December 2002 (note 6).
- (b) On 9 August 2002, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party for the disposal of the Group's 100% interest in Central China (Asia) Investment Limited ("CCAIL"), which has 50% interest in Shandong Huazhong Amber Brewery Co., Ltd. ("Amber Brewery"), for a cash consideration of HK\$40 million. During the year, a non-refundable amount of HK\$20 million was received by the Group and the equity interest in CCAIL was transferred to the purchaser in accordance with the Agreement. As a result, a gain on disposal of HK\$2,388,000 has been credited to the profit and loss account for the year ended 31 December 2002. In accordance with the Agreement, the remaining of HK\$20 million should be received on or before 10 March 2003.

In February 2003, a request from the purchaser to extend the payment date of the remaining balance has been raised. Up to the date of approval of these financial statements, the Group are in the process of negotiation with the purchaser for the possible extension of payment date. According to the recent discussions of the contract parties, the remaining balance is expected to be settled on 9 May 2003.



**28. POST BALANCE SHEET EVENTS (cont'd)**

- (c) In February 2003, GDI, the then immediate holding company of the Company, entered into a conditional sale and purchase agreement with GDH Limited, the then intermediate holding company of the Company, in respect of the disposal of its entire shareholdings in various investments including, amongst others, the Company (the "Disposal Transaction"). The Disposal Transaction was subsequently completed on 31 March 2003. Since then, GDH Limited and GDI became the Company's immediate holding company and fellow company, respectively.
- (d) On 28 March 2003, Morefit Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with 深圳市寶安區投資管理有限公司 ("SBA"), a 10% equityholder in each of Shenzhen Kingway Brewing Co., Ltd., Shenzhen Kingway Packaging Co., Ltd. and Shenzhen Kingway Utility Co., Ltd. (collectively the "SK Companies"), to acquire SBA's 10% interest in each of the SK Companies together with the shareholder's loans of the SK Companies due to SBA for a total consideration of RMB75,000,000 in cash. Payment of the consideration will be funded by internal resources of the Group.

After the completion of the acquisition, the Group's interest in each of the SK Companies will be increased from 87% to 97%.

The agreement constitutes a connected transaction of the Company under the Listing Rules and is subject to the approval of the shareholders voting at a special general meeting convened to approve the agreement on the terms specified therein. Further details of these are set out in the Company's announcement dated 28 March 2003.

The acquisition has not been completed up to the date of approval of this report and the Group is unable to estimate the goodwill/negative goodwill arising from this acquisition with reasonable accuracy.

**29. CONNECTED AND RELATED PARTY TRANSACTIONS**

Listed below are connected transactions disclosed in accordance with the Listing Rules and related party transactions disclosed in accordance with SSAP 20 "Related Party Disclosures".

**29. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)**

The transactions referred to in items (i) and (ii) below constitute related party transactions and those referred to in items (i) to (v) below constitute connected transactions disclosed under the Listing Rules.

- (i) During the year, the Group purchased malt from Guangzhou Malting Co., Ltd ("GMCL") which is a 51.6% owned subsidiary of GDI, on what the directors believe to be terms similar to those offered to other customers unrelated to GDI. For the year ended 31 December 2002, the aggregate amount of malt purchased by the Group was RMB71,175,000 (2001: RMB58,674,000). The balance due to GMCL as at 31 December 2001 was unsecured, interest-free and was fully settled during the year.
- (ii) The Group entered into a tenancy agreement dated 2 February 2001 with Bateson Developments Limited ("BDT"), a wholly-owned subsidiary of GDI, whereby the Group agreed to lease a leasehold property (the "Property") owned by BDT as office premises at a monthly rental of HK\$44,370 for a term of two years commencing from 1 September 2000 and expiring on 31 August 2002, with an option on the Group's part to renew for a further two years at the then prevailing open market rent to be agreed between the two parties. On 1 November 2002, the tenancy agreement was renewed at a monthly rental of HK\$36,218 for a term of two years commencing from 1 September 2002 and expiring on 31 August 2004.
- (iii) As at 31 December 2002, there were advances made by the Group's wholly-owned subsidiary, Morefit Limited, to the Group's non-wholly-owned subsidiary, Shenzhen Brewing, in which the Group holds 87% equity interest, in the aggregate amount of HK\$249,090,000 (2001: HK\$274,195,000). The loans were used to finance the construction and operation of the plant in Bao An, Mainland China.

Included in the total amount, HK\$168,566,000 (2001: HK\$193,636,000) is unsecured, bears interest at six months' LIBOR plus 0.75% per annum, of which HK\$63,790,000 (2001: HK\$50,136,000) is repayable within one year and the remaining balance of HK\$104,776,000 (2001: HK\$143,500,000) is repayable within five years from the balance sheet date. The remaining balance of HK\$80,524,000 (2001: HK\$80,559,000) is unsecured, interest free and is not repayable within one year.

**29. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)**

- (iv) As at 31 December 2002, there were advances made by the Company to the Group's non-wholly-owned subsidiary, Shenzhen Brewery, in which the Group has a 95% equity interest, in the aggregate amount of HK\$178,721,000 (2001: HK\$212,570,000). The loans were used to finance its expansion plan and the construction of the plant in Bao An, Mainland China.

Out of the total balance, the outstanding loan balance of HK\$56,063,000 (2001: HK\$89,860,000) is unsecured, bears interest at six months' LIBOR plus 0.75% per annum and is repayable within five years. The remaining outstanding loan balance of HK\$122,658,000 (2001: HK\$122,710,000) is unsecured, interest-free and is not repayable within one year.

- (v) As at 31 December 2002, there were advances made by the Company to Shenzhen Brewing in the aggregate amount of HK\$66,137,000 (2001: HK\$66,166,000). The loans were used to finance its operation.

The advances are unsecured, interest-free and are not repayable within one year.

**30. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the 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.

**31. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 11 April 2003.