



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)

ANNUAL REPORT
年報 2003

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中国名牌



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Board of Directors*Executive Directors*YE Xuquan (*Chairman*)JIANG Guoqiang (*Managing Director*)FUNG Sing Hong, Stephen (*Chief Financial Officer*)*Non-Executive Directors*

KOH Poh Tiong

HAN Cheng Fong

Herman Petrus Paulus Maria HOFHUIS

ZHAO Leili

LUO Fanyu

HO LAM Lai Ping, Theresa

Michael WU

Independent Non-Executive Directors

CHENG Mo Chi, Moses

Alan Howard SMITH

V-nee YEH

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

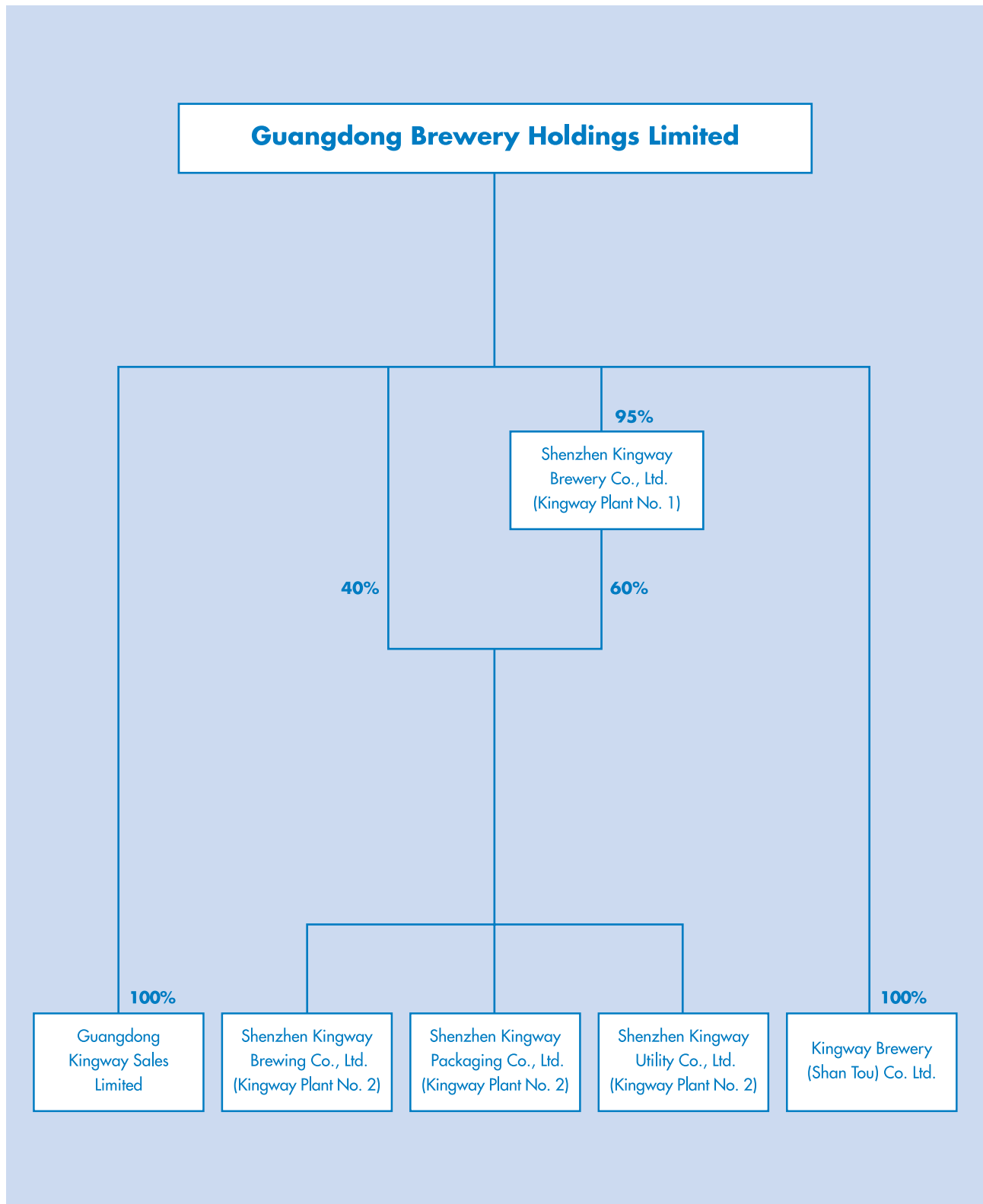
56 Gloucester Road

Wanchai

Hong Kong

Stock Code

124



Notes:

The percentages shown represent the attributable interest of the Company or its subsidiaries as of 15 April 2004.

Guangdong Brewery Holdings Limited (the “Company”) has been listed on the main board of The Stock Exchange of Hong Kong Limited since 1997. The Company and its subsidiaries (the “Group”) engage in the production and distribution of beer products under the brand name Kingway (“金威”) with approximately 30 product variants. The Group is the market leader in Shenzhen and a top-three brewery group in Guangdong Province, the People’s Republic of China (the “PRC”).

The Group has two production plants in Shenzhen, each with an annual production capacity of 200,000 tonnes respectively. All of the key production facilities were imported from leading German equipment suppliers. The total annual production capacity of the Group is 400,000 tonnes.

A new brewing plant with a planned annual production capacity of 200,000 tonnes situated in Shantou, the PRC, is under construction with a total investment of RMB400 million. It is expected to commence operation in the year 2005.

The Kingway brand was awarded the “China Top Brand” title for the beer category in 2002, the highest award in the PRC beer industry. In 2003, the Group was the first brewer in the PRC promoting Formaldehyde-free brewing technology.

As at 15 April 2004, GDH Limited, the controlling shareholder which holds approximately 52.68% interests in the Company is an investment holding company incorporated in Hong Kong and is currently the largest conglomerate of Guangdong Province operating outside the Mainland China with total asset value amounting to approximately HK\$38.9 billion.

On 19 February 2004, Heineken Asia Pacific Breweries (China) Pte Ltd became the strategic partner of the Company and held approximately 21.46% interests in the Company’s issued share capital.

	2003	2002 (Restated)	Change (%)
OPERATIONAL DATA			
Beer sales volume, in tonnes	273,000	224,000	+21.9%
Debtors average collection period, in days	13	20	-35.0%
Creditors average payment period, in days	54	49	+10.2%
Stock turnover (exclude spare parts and consumables), in days	53	52	+1.9%
Year-end number of staff	1,030	925	+11.4%
FINANCIAL DATA			
Turnover, in thousand dollars	684,574	593,052	+15.4%
EBITDA (Earning before finance costs, tax, depreciation and amortisation, include write-off of fixed assets), in thousand dollars	233,603	185,040	+26.2%
Net profit attributable to shareholders, in thousand dollars	105,061	75,291	+39.5%
Basic earnings per share, in cents	8.4	6.0	+40.0%
Current ratio, times	2.8	1.9	+47.4%
Gearing ratio (debt less cash and cash equivalents), %	Net cash	Net cash	—
SHAREHOLDERS' WEALTH			
Issued shares, in thousand shares	1,250,600	1,250,000	—
Shareholders' equity, in thousand dollars	1,265,194	1,187,992	+6.5%
Net asset value per share, in HK\$	1.01	0.95	+6.3%

RESULTS

The Board of Directors is pleased to report remarkable growth in both the Group's sales volume and results for the year 2003. Total sales volume of beer was 273,000 tonnes in the year 2003 (2002: 224,000 tonnes), a 21.9% growth over that of the year 2002. The audited consolidated net profit from ordinary activities attributable to shareholders recorded a 39.5% growth to HK\$105 million in the year 2003 (2002: HK\$75.29 million as restated). The basic earnings per share were 8.4 HK cents (2002: 6.0 HK cents as restated), representing a significant growth of 40.0% as compared to the year 2002.

After excluding the financial effects of the value-added tax exemption (such exemption expired in 2003) for beer produced and sold in Shenzhen granted to Kingway Plant no. 1 at Luo Hu and the adoption of SSAP 12 "Income taxes", the adjusted consolidated net profit from ordinary activities attributable to shareholders was HK\$115 million in the year 2003 (2002: HK\$57.89 million), a significant increase of approximately 100% over that of the last year.

DIVIDENDS

The Board of Directors recommends a final dividend of 1.5 HK cents per share for the year ended 31 December 2003. This, together with the interim dividend of 1.0 HK cent per share paid during the year, gives a total dividend of 2.5 HK cents per share for the year 2003 (2002: a total dividend of 2.0 HK cents per share). The proposed final dividend will be paid on 30 June 2004, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

BUSINESS REVIEW

Notwithstanding the difficulties and challenges encountered by the Group in 2003 including, to count just a few, the negative impacts on sales of beer caused by SARS, increase of price levels of certain raw materials and the intensified market competitions, the Group has achieved strong growth in both the sales volume and operating results.

In 2003, we focused primarily on the following areas and have achieved satisfactory results.

1. Strengthened of Corporate Management

Various measures were implemented to strengthen corporate management, which included: the improvement of the management and operational policies and processes; The implementation of a new appraisal system and a reward system that is tied to sales performance; the implementation of the ERP K3 integrated financial and operational management information system to improve financial management; the optimization of production facilities to improve overall production efficiency; and the emphasis on improving staff quality to cater for the Group's pace of development.

2. Improved Sales and Distribution Management and Strengthened Market Development Efforts

We have been fine-tuning our sales and distribution management in response to the changing market situations, segmenting the markets so as to exercise more effective control over the distribution channels. By building a systematic sales and cost management framework, the selling and promotional expenses were well managed. A closer monitoring of the market situation has enabled quicker reaction to the changes in market conditions.

3. The "Green Manufacturing" Accreditation

Formaldehyde-free brewing was our promotion highlight in 2003 which has added healthy and hi-tech elements to the Kingway brand. These elements were well regarded by the consumers and have promoted the healthy image and recognition of the Kingway brand. We have also established the Kingway art performance troupe, which has performed in more than 100 promotion shows and programmes in various regions which successfully related our brand-building activities with arts and the leisure life of customers.

4. Extending the "Sunshine Programme" to Realise Further Cost Savings

Under the "Sunshine Programme", a transparent and fair public tender programme has been applied for the sourcing of manufacturing and packaging materials. In 2002, a total of approximately HK\$32 million savings in sourcing and procurement related costs were recorded as compared to the year 2001 as a result of the programme. In 2003, a total of approximately HK\$12 million saving was achieved when compared to 2002.

5. Formulation of the Five-year Strategic Plan

Our strategic goal for the coming five years is: To "Excel, empower and expand" and to speed up our pace of development. With our base market rooted in Guangdong, we shall join force with international beer enterprises to strengthen our market position and further develop our business. Through mergers and acquisitions, as well as the construction of new production facilities, we shall expand our annual production capacity and sales volume of beer to over 1 million tonnes in five years' time, and aim to have Kingway to become the market leader in Guangdong and a top-5 brewer in China. Our strategic positioning in Guangdong will be focused on a market and sales oriented initiative to develop strong sales forces to market beer products that are produced locally in the five core regional markets covering Eastern, Southern, Western, Northern and Central parts of Guangdong.

In line with the Group's growth strategies, we are pleased to report the following achievements in the year 2003:

(i) Commencement of the Construction Work at the new Shantou Plant

On 19 July 2003, the Group signed an investment agreement with the Shantou government to build a new brewery plant with an annual production capacity of 200,000 tonnes of beers. The construction work has been well on schedule. Under one master design and construction plan, it is expected that the first phase with an annual capacity of 100,000 tonnes will commence production in the first half of the year 2005, and that the second phase with an annual production capacity of another 100,000 tonnes will be completed in late 2005. The total investment of this 200,000 tonnes new plant were revised to RMB400 million. The increase of RMB50 million from our previous announced budget is mainly due to the price increase of construction materials especially iron and steel products, and the increased construction cost related to the complicated geological condition of the land where the plant is located. With the Shantou new plant coming into operation in 2005, the Group will be in a strong competitive position to capture the market share in Eastern Guangdong.

(ii) Introduction of Heineken Asia Pacific Breweries (China) Pte Ltd ("Heineken APB") as Strategic Partner

In view of the PRC brewery industry going through consolidation and the strong competition from the domestic and international brewery groups in the PRC, the Group decided to introduce a strategic investor to further strengthen its market position and further develop its business in Guangdong Province, with a specific aim to (i) raise the Group's corporate profile and enhance the Kingway brand; (ii) capture any business opportunities as a result of the PRC beer industry consolidation; and (iii) improve the production and management effectiveness of the Group through the introduction of advanced technology and management skills. The strategic partnership agreement between the Group and Heineken APB was signed on 28 January 2004. With a total consideration of approximately HK\$554 million, Heineken APB acquired an approximately 21.46% stake in the Company (comprising of 133,768,000 newly issued shares and 165,496,280 shares acquired from GDH Limited) and became a strategic shareholder of Guangdong Brewery on 19 February 2004. This collaboration is an important step forward in the Group's strategic development plan.

(iii) Exploration of Investment Opportunities for Growth

During the year, we had been in discussion with a number of breweries in the Guangdong Province to explore business development opportunities and to study the feasibility of building new plants. Working on this foundation, we will continue to explore and evaluate opportunities in mergers and acquisition proposals and also in building new plant, in Guangdong and other provinces.

OUTLOOK

China has become the largest beer market in the world. With the increasing participation of international players, the Chinese beer industry is consolidating rapidly. Although competition in the Guangdong beer market is expected to become more intense, we are confident that, with our advanced corporate culture, substantial financial resources, comprehensive and efficient distribution network and highly motivated staff, we will achieve yet another year of satisfactory growth in sales volume and profits in the year 2004.

Heineken is an internationally famous brand of beer which has been maintaining a leadership in brand image and brewing technology. There are a lot for Kingway to learn from its innovative approach and success experience in shaping a brand name. We will have strategic co-operation with Heineken in many areas, for example, in the improvement of production technology and management, brand building, and in market development. The China beer industry is undergoing significant consolidation with the players striving to capture market shares and to build up their respective product portfolio. In this critical moment of industry consolidation, the strategic alliance with Heineken APB will add a lot of value in our way to achieve our mission to excel, to strengthen and to become a leader, and will expedite our aim in becoming one of the top five brewers in China.

I would like to take this opportunity to extend my warmest welcome to Mr. Koh Poh Tiong, Dr. Han Cheng Fong and Mr. Herman Petrus Paulus Maria Hofhuis who were recently nominated by Heineken APB to join the Board of Directors, as well as to Mr. Frederik Willem Kurt Linck, Mr. Huang Hong Peng and Mr. Kenneth Choo Tay Sian as their respective alternate directors.

Finally, I would like to thank all of our distributors and customers for their support. I would also like to express my heart-felt gratitude to our management and staff members for their diligence and contribution to the excellent results achieved during the year.

Ye Xuquan

Chairman

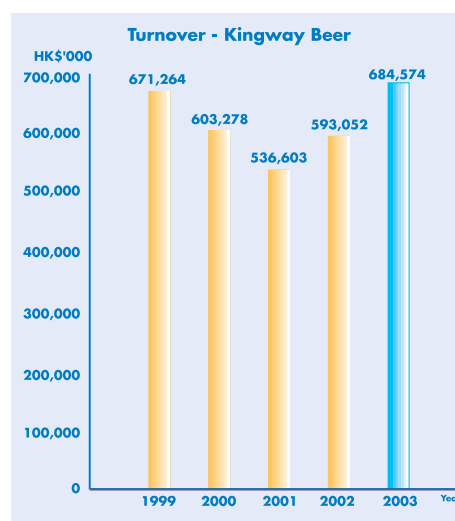
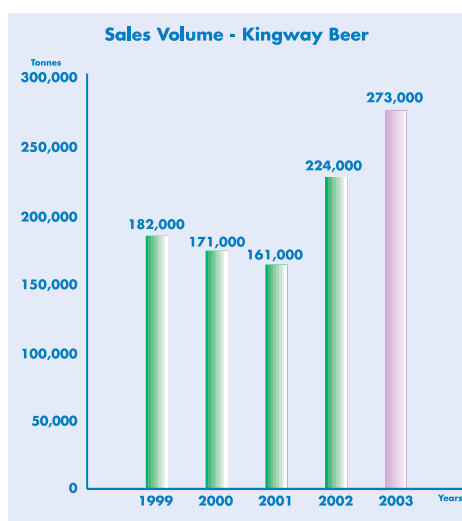
Hong Kong, 15 April 2004

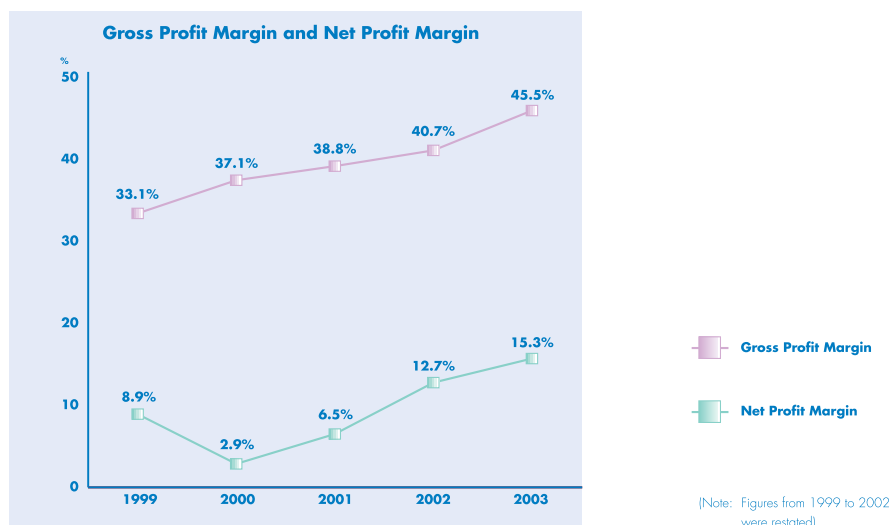
OPERATING RESULTS

In 2003, the core business of the Group remains the production and sale of Kingway beer. The Group's sales are principally conducted in the Guangdong Province, Mainland China. Notwithstanding the outbreak of SARS during the year in which the consumption market of both Mainland China and Hong Kong had been severely discouraged, the sales volume of Kingway Beer has recorded a remarkable growth of 21.9% as compared to that of the last year. The total sales volume for the year was 273,000 tonnes (2002: 224,000 tonnes). The premium products, middle-range products and mass-market products represent 5%, 52% and 43% of the total sales volume.

The consolidated turnover for the year was HK\$685 million (2002: HK\$593 million), representing an increase of 15.5% over the year 2002. The average price per tonne of beer sold was HK\$2,508 (2002: HK\$2,648), decreased by 5.3% year on year, and was a result of an adjustment in product mix in response to changing market demand and the drive for sales of the mass-market products to capture market share. The sales in Mainland China increased by 14.9% as compared to that of last year and contributed 90.5% of the Group's turnover; whereas the sales in Overseas and Hong Kong increased by 20.7% and contributed 9.5% of the Group's turnover. The Group will continue to explore the Overseas and Hong Kong markets and to enlarge the Group's market shares.

The average unit selling price decreased during the year, but the effect was more than set off by a drop in average unit costs. The gross profit margin was improved to 45.5% from 40.7% in the last year. The average unit costs per tonne of beer dropped from HK\$1,570 in 2002 to HK\$1,368 in 2003, representing a decrease of 12.9%. This improvement was a result of a series of cost control measures carried out by management, including the sourcing of raw materials and packaging materials by way of public tender under the "Sunshine Programme". These measures, together with the economies of scale resulting from higher volume turnover and bulk purchases which enhanced our bargaining power, the better control on the production process which minimised wastage, and the drop in unit fixed overheads are the main reasons for the significant drop in average unit costs. Management will strive to counter the effect of decreasing average selling price and to maintain the gross margin by adopting effective cost control measures.





OPERATING EXPENSES AND FINANCE COSTS

During the year, the Group focused on building and enhancing the recognition and image of the Kingway brand by organising a series of arts and recreational programmes, and promoting Kingway as “The Healthy Beer Brewed by Green Technology”. While selling and distribution expenses increased by 9.7% to HK\$147 million (2002: HK\$134 million), the average selling and distribution expenses per tonne of beer sold dropped by 10.0% to HK\$538 (2002: HK\$598). Notwithstanding the keen market competition of beer sale, the fall in selling and distribution expenses per tonne of beer sold proved the improvement of the efficiency in advertising and promotion with an improved degree of brand awareness and recognition.

Administrative expenses increased by 21.5% to HK\$44.34 million (2002: HK\$36.50 million). The increase was mainly due to the addition of administrative and managerial staff in coping with the growth of business, and write-off of certain obsolete operating fixed assets. As the Group did not have any interest-bearing debt, no finance cost was incurred in the year (2002: nil).

TAXES

The adoption of the revised Hong Kong SSAP 12 “Income taxes” has resulted in additional deferred tax charged to the profit and loss account for the years ended 31 December 2003 and 2002 to the amounts of approximately HK\$13.96 million and HK\$3.32 million respectively. These adjustments have no effects on the Group’s operations or cash flows from operating activities, as further detailed in note 24 to the financial statements.

Enterprise Income Tax exemption for the first two profit-making years and a 50% tax relief in the following three years were granted to Kingway Plant No. 2 at Baoan, Shenzhen. No claim for such exemption has been made yet as there were accumulated losses to set off the taxable profits in the year 2003.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of approximately HK\$37.10 million (2002: HK\$26.00 million) during the year, an increase of 42.7% compared to the last year. The expenditure was mainly for the installation of packaging equipment to improve the efficiency of the packaging process, the addition of quality assurance equipment to strengthen the quality checking process, the improvement of office premises and the purchase of reusable packaging materials to cope with the increase of production volume.

Capital expenditure is expected to increase significantly in 2004 as the construction of the brewery plant in Shantou will be carried out throughout the year. Phase 1 of construction with annual production capacity of 100,000 tonnes is expected to commence production in the first half of 2005 and Phase 2 with an annual production capacity of 100,000 tonnes will be completed in late 2005. The new plant will support the Group's expansion in Eastern Guangdong. Currently there is no sizable brewery in that region. Local production will enjoy competitive advantage in terms of cost savings in transportation.

FINANCIAL RESOURCES AND LIQUIDITY

The Group's net asset value was HK\$1,265 million (2002: HK\$1,188 million as restated) as at 31 December 2003. The net asset value was HK\$1.01 per share based on the number of issued shares as the end of the year (2002: HK\$0.95 per share).

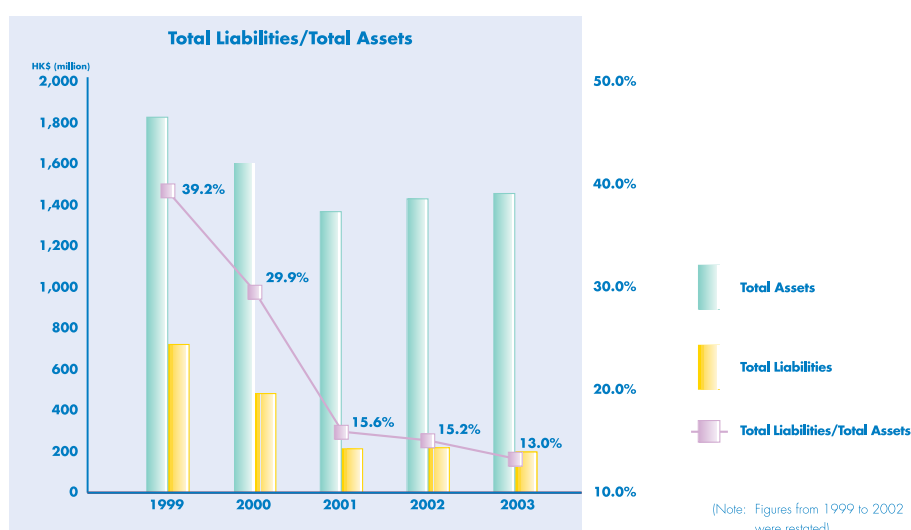
As at 31 December 2003, the Group had cash and cash equivalents of HK\$348 million (2002: HK\$233 million), an increase of 49.4% as compared to the same period in the last year. Of the balances, 4.8% was in USD, 10.7% was in HKD and 84.5% was in RMB. Cash generated from operations for the year amounted to HK\$251 million (2002: HK\$209 million), increased by 20.1% over that of the last year.

With the current cash reserve of the Group, its recurrent operating cash flow, and the strategic investment in the Company by Heineken APB completed in February 2004, the Group has sufficient cash and financial resources to fund its current operations as well as capital investments required for the Shantou plant.

DEBTS AND CONTINGENT LIABILITIES

The Group had no bank borrowing as at the end of 2003. The only debts of the Group outstanding consist of amounts due to minority shareholders of certain subsidiaries totalling HK\$26.82 million (2002: HK\$84.38 million). None of the fixed assets of the Group were pledged to creditors and there were no contingent liabilities recorded as at the end of 2003.

The total liabilities to total assets ratio at the end of the year was 13.0% (2002: 15.2% as restated), reflecting the robust financing position of the Group.



KEY AREAS OF COOPERATION WITH HEINEKEN APB

Heineken APB became a strategic shareholder of the Group on 19 February 2004. Pursuant to the agreement, the Group has been actively discussing with Heineken APB on the detailed arrangements of strategic cooperation. The main areas of cooperation include:

- (i) The establishment of a Strategic Sub-Committee of the Board to consider and discuss issues of key strategic importance to the Company and provide strategic guidance for consideration by the Board;
- (ii) The possibility of distribution of each other's beers in the Guangdong Province, Hong Kong and Macau;
- (iii) The possibility of contract brewing Heineken branded beer on behalf of Heineken APB (the Company have a right of first refusal to require Heineken APB to engage it to contract brew through the beer production facilities of the Group any beer which Heineken APB proposes to produce in the Guangdong Province); and
- (iv) Heineken APB will provide cooperation and assistance to the Group's beer production, marketing and/or distribution business by certain secondment arrangements and training to key personnel of the Company.

AMBER BREWERY

Pursuant to the agreement dated 9 August 2002 and the supplemental agreement dated 7 August 2003 entered into between the Group and the purchaser of Amber Brewery (the "Purchaser"). The Purchaser should settle the outstanding balance of HK\$12.23 million together with interest thereon for late payment on or before 24 October 2003. Subsequently, the Group agreed, with the request of the Purchaser, to extend the settlement date to 31 December 2003. However, the purchaser failed to settle the same, and further requested an extension for settlement to 31 March 2004, and subsequently to 30 September 2004. Based on legal advice, the Group enforced the shares charge granted and transferred the legal title of all the shares of Central China (Asia) Investment Limited, which directly holds a 50% interest in Amber Brewery, back to a wholly-owned subsidiary of the Group.

The Group is currently seeking legal advice on further action to be taken for the resale of the shares of Central China (Asia) Investment Limited. Additional information will be disclosed according to the Listing Rules as and where appropriate.

HUMAN RESOURCES

The Group currently employs approximately 1,030 (2002: 925) staff. The remuneration of the staff was HK\$67.31 million for 2003. The Group places strong emphasis on improving quality of its staff and their productivity. In addition to organising regular internal training courses for its staff, the Group also encourages them to attend professional training programmes organised by external bodies. On top of the basic benefits provided to its staff members, the Group has a performance appraisal system and a bonus allocation scheme to measure and reward individual's achievements in terms of sales volume and contributions to the Group's businesses.

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 2003.

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 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 78.

An interim dividend of 1.0 HK cent per share was paid on 17 October 2003. The Directors recommend the payment of a final dividend of 1.5 HK cents per share for the year ended 31 December 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits 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 15 June 2004, is expected to be paid on 30 June 2004 to shareholders whose names appear on the register of members of the Company on 15 June 2004.

FINANCIAL SUMMARY

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

RESULTS

	2003 HK\$'000	Year Ended 31 December			
		2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
TURNOVER	684,574	593,052	543,922	613,892	682,454
Cost of sales	(373,398)	(351,680)	(332,691)	(386,172)	(456,477)
Gross profit	311,176	241,372	211,231	227,720	225,977
Other revenue and gains	21,547	34,034	43,880	53,872	71,707
Selling and distribution expenses	(146,765)	(133,960)	(133,586)	(98,151)	(108,932)
Administrative expenses	(44,335)	(36,504)	(45,537)	(68,774)	(73,114)
Impairment of investment in an associate	—	—	(5,600)	(31,367)	—
Impairment of an investment security	—	(4,611)	—	(1,000)	—
Impairment of goodwill arising from an acquisition of an associate previously dealt with in reserves	—	—	—	(9,135)	—
PROFIT FROM OPERATING ACTIVITIES	141,623	100,331	70,388	73,165	115,638
Finance costs	—	—	(7,857)	(30,483)	(45,250)
Share of loss of an associate	—	(4,437)	(13,424)	(14,496)	(8,401)
PROFIT BEFORE TAX	141,623	95,894	49,107	28,186	61,987
Tax	(26,102)	(14,653)	(11,020)	(10,112)	(754)
PROFIT BEFORE MINORITY INTERESTS	115,521	81,241	38,087	18,074	61,233
Minority interests	(10,460)	(5,950)	(2,576)	34	(318)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	105,061	75,291	35,511	18,108	60,915

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2003 HK\$'000	As at 31 December			
		2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
Total assets	1,479,535	1,452,345	1,390,299	1,627,731	1,857,110
Total liabilities	(191,714)	(220,349)	(217,115)	(486,608)	(728,485)
Minority interests	(22,627)	(44,004)	(38,067)	(35,467)	(40,386)
Net assets	<u>1,265,194</u>	<u>1,187,992</u>	<u>1,135,117</u>	<u>1,105,656</u>	<u>1,088,239</u>

FIXED ASSETS

Movements in the fixed assets of the Company and the Group during the year are set out in note 13 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 25 and 26 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 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$292,641,000, of which HK\$20,916,000 has been proposed as a final dividend for the year.

In addition, the Company's share premium of HK\$739,844,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

There were no charitable contributions made by the Group during the year (2002: HK\$437,000).

DIRECTORS

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

Executive Directors

YE Xuquan (*Chairman*)

JIANG Guoqiang (*Managing Director*)

FUNG Sing Hong, Stephen (*Chief Financial Officer*)

Non-Executive Directors

KOH Poh Tiong	(appointed on 13 April 2004)
HAN Cheng Fong	(appointed on 13 April 2004)
Herman Petrus Paulus Maria HOFHUIS	(appointed on 13 April 2004)
ZHAO Leili	(appointed on 27 February 2004)
LUO Fanyu	(appointed on 23 October 2003)
HO LAM Lai Ping, Theresa	
Michael WU	(appointed on 23 October 2003)
ZHANG Yaping	(resigned on 23 October 2003)
WANG Man Kwan, Paul	(resigned on 23 October 2003)
LI Wai Keung	(resigned on 27 February 2004)

Independent Non-Executive Directors

CHENG Mo Chi, Moses

Alan Howard SMITH

V-nee YEH

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Koh Poh Tiong, Dr. Han Cheng Fong, Mr. Herman Petrus Paulus Maria Hofhuis, Mr. Zhao Leili, Mr. Luo Fanyu and Mr. Michael Wu, who were appointed 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, will offer themselves for re-election at the meeting.

In accordance with bye-law 87 of the Company's bye-laws, Mrs. Ho Lam Lai Ping, Theresa and Mr. Alan Howard Smith will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Mr. Frederik Willem Kurt Linck was appointed as an alternate director to Mr. Koh Poh Tiong on 13 April 2004.

Mr. Huang Hong Peng was appointed as an alternate director to Dr. Han Cheng Fong on 13 April 2004.

Mr. Kenneth Choo Tay Sian was appointed as an alternate director to Mr. Herman Petrus Paulus Maria Hofhuis on 13 April 2004.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

Executive Directors

Mr. Ye Xuquan, aged 48, 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 Guangdong Province Dongshen Water Supply Management Bureau (the "Dongshen Water Supply 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 Supply 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 ("Guangnan") from November 2000 to January 2002 and was Chairman of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) from August 2000 to July 2003. 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) ("Yue Gang Investment") and GDH Limited ("GDH"). He is also the Vice President of both Beer Association of China and Music and Literature Association of China.

Mr. Jiang Guoqiang, aged 51, 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. 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 from April 2000 to January 2001.

Mr. Fung Sing Hong, Stephen, aged 39, 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 member of American Institute of Certified Public Accountants and an Associate member of the Hong Kong Society of Accountants. He has extensive experience in mergers & acquisitions, capital market financing, corporate restructuring and financial management. Currently, Mr. Fung is also a Deputy General Manager of the Finance Department of GDH.

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

Non-Executive Directors

Mr. Koh Poh Tiong, aged 57, was appointed a Director of the Company in April 2004. Mr. Koh is the Chief Executive Officer and Director of Asia Pacific Breweries Limited ("APB"), a company listed in Singapore and holds directorships in most of the subsidiaries of the Asia Pacific Breweries Group ("APB Group"). He is Chairman of Agri-food and Veterinary Authority and a Director of National Healthcare Group Pte Ltd and PSA International Pte Ltd. He is a member of the resource panel for the Government Parliamentary Committee (Finance and Trade & Industry). He was the recipient of the 1998 The Business Times/DHL Outstanding CEO Award and a member of the APEC Business Advisory Council representing Singapore from January 1999 to 31 August 2001. He is also Chairman and a Director of Heineken Asia Pacific Breweries (China) Pte Ltd ("HAPBC"), a substantial shareholder of the Company and director of DB Breweries Co. Ltd. ("DB Breweries"), a company listed in New Zealand.

Dr. Han Cheng Fong, aged 62, was appointed a Director of the Company in April 2004. Dr. Han was appointed to the Board of Directors of APB in September 2002. He joined the Fraser and Neave Group in May 2001 as Deputy Chairman of Centrepont Properties Ltd, as Director and Joint Managing Director of Fraser and Neave Limited in April 2002, a company listed in Singapore and was appointed its Managing Director in October 2002. In addition, he holds directorship in the subsidiaries of Fraser and Neave Group, Centrepont Properties Group, Fraser & Neave Holdings Group, Times Publishing Group, Asia Pacific Investment Pte Ltd, DB Breweries and is the Chairman of Vision Century Corporation Limited, a company listed in Hong Kong. Dr. Han is also a Director of HAPBC.

Mr. Herman Petrus Paulus Maria Hofhuis, aged 54, was appointed a Director of the Company in April 2004. Mr. Hofhuis has held several management positions in Heineken NV Group ("Heineken") as of 1973. Currently he holds the position of Managing Director, Asia Pacific of Heineken. A Dutch citizen located in Singapore, he also holds directorships in a number of subsidiaries of the Asia Pacific Breweries Group and in PT Multi Bintang Indonesia Tbk. He is also a Director of APB, DB Breweries and HAPBC.

Mr. Zhao Leili, aged 50, was appointed a Director of the Company in February 2004. Mr. Zhao was appointed a director of Yue Gang Investment and an executive director of GDH in December 2001. He is also a non-executive director of Guangnan. Mr. Zhao graduated from Air Force Aviation College of People's Liberation Army. From 1969 to 2001, he worked in a number of positions in the Air Force Aviation of People's Liberation Army and was a commander in the Air Force. Mr. Zhao has extensive experience in personnel management, audit control and construction management.

Mr. Luo Fanyu, aged 48, was appointed a Director of the Company in October 2003. Mr. Luo graduated from the economics department of Zhongshan University. He joined Guangdong Enterprises (Holdings) Limited ("GDE") in 1987 and was responsible for its legal affairs. He is currently a director of GDH and a non-executive director of Guangnan. Prior to joining GDE, he held various positions as judge and a deputy chief judge of the Economic Court of People's High Court of Guangdong Province.

Mrs. Ho Lam Lai Ping, Theresa, aged 48, 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 Guangdong Investment Limited ("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.

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

Non-Executive Directors (cont'd)

Mr. Michael Wu, aged 52, was appointed a Director of the Company in October 2003. Mr. Wu joined GDI in 1992 and had been a Deputy General Manager of GDI from July 1996 to February 2001. He was the Chairman of the Company from March 2000 to January 2001. Mr. Wu is currently a Deputy General Manager of Strategic Development Department of GDH. Mr. Wu graduated from Zhongshan University and obtained a Bachelor's degree in Arts. In 1987, he obtained his Master's degree in Business Administration from the University of Texas in the United States.

Independent Non-Executive Directors

Mr. Cheng Mo Chi, Moses, JP aged 54, 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 the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. He also serves on the boards of many other listed companies as independent non-executive director.

Mr. Alan Howard Smith, aged 60, 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 45, 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 and was a member of the Listing Committee of the China Securities Regulatory Commission from 1999 through 2003.

Alternate Directors

Mr. Frederik Willem Kurt Linck, aged 47, was appointed an alternate director to Mr. Koh Poh Tiong of the Company in April 2004. Mr. Linck was brought up in Asia and studied Business Economics at the Erasmus University in Rotterdam. After finishing his MBA studies, he worked for Procter & Gamble, Haagen-Dazs and Allied Breweries in Holland and Belgium. In 1995, he joined Heineken which brought him to positions in APB in Cambodia and Papua New Guinea. He has worked in the PRC from 2000 for Heineken and joined APB with effect from 1 April 2004 as Regional Director (China) and oversees the operations under HAPBC in the PRC. He is also a Director of HAPBC.

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

Alternate Directors (cont'd)

Mr. Huang Hong Peng, aged 44, was appointed an alternate director to Dr. Han Cheng Fong of the Company in April 2004. Mr. Huang is the deputy Regional Director, China of APB, responsible for brewery operations of the APB Group in the PRC now consolidated under HAPBC. He sits on boards of APB subsidiaries and associates. He joined the APB Group in November 1994 and has served in various positions in Myanmar and the PRC. Before joining the APB Group, Mr. Huang was Assistant Director, Airport Management in the Civil Aviation Authority of Singapore, and has a degree in Air Transport from the Ecole National de l'Aviation Civile, Toulouse.

Mr. Kenneth Choo Tay Sian, aged 36, was appointed an alternate director to Mr. Herman Petrus Paulus Maria Hoffhuis of the Company in April 2004. Mr. Choo is the Director - Business Development (Asia Pacific) of Heineken. He held various positions in multi-national companies prior to joining Heineken. Mr. Choo is a member of Certified Public Accountants of Singapore, and has completed the Advanced Management Program at Harvard Business School. Mr. Choo is also a Director of Heineken Asia Pacific Pte Ltd.

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

During the year and as at the date of this report, none of the Directors and controlling shareholder of the Company had any interest in business which competes or may compete with the Group's businesses under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

DIRECTORS' INTERESTS IN SECURITIES

Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in 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	Long/short position	Approximate percentage of holding
Luo Fanyu	Personal	70,000	Long position	0.0056
Ho Lam Lai Ping, Theresa	Personal	80,000	Long position	0.0064
Michael Wu	Personal	134,000	Long position	0.0107
Fung Sing Hong, Stephen	Personal	24,000	Long position	0.0019

Note: The number of the issued shares of the Company as at 31 December 2003 was 1,250,600,000.

(ii) *Guangdong Investment Limited*

Name of Director	Type of interest	Number of shares held	Long/short position	Approximate percentage of holding
Ho Lam Lai Ping, Theresa	Personal	200,000	Long position	0.0038
Michael Wu	Personal	54,000	Long position	0.0010
	Family*	18,000	Long position	0.0003

* held by the spouse of Mr. Michael Wu

Note: The number of the issued ordinary shares of Guangdong Investment Limited as at 31 December 2003 was 5,244,522,672.

DIRECTORS' INTERESTS IN SECURITIES (cont'd)**Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations (cont'd)****I. Shares (cont'd)**(iii) *Guangdong Tannery Limited*

Name of Director	Type of interest	Number of shares held	Long/short position	Approximate percentage of holding
Luo Fanyu	Personal	70,000	Long position	0.0134
Fung Sing Hong, Stephen	Personal	226,000	Long position	0.0431

Note: The number of the issued shares of Guangdong Tannery Limited as at 31 December 2003 was 524,154,000.

II. Options(i) *The Company*

Name of Director	Number of options held on 01/01/2003	Options granted during the year		Period during which option is exercisable*	Total consideration paid for share options	Price to be paid per share on exercise	Number of options exercised during the year	Number of options held on 31/12/2003	Long/short position
		Date granted	Number granted						
Ye Xuquan	—	26/05/2003	2,000,000	27/08/2003–26/08/2008	1	0.84	—	2,000,000	Long position
Jiang Guoqiang	10,000,000	—	—	11/04/2002–10/04/2007	—	0.383	—	10,000,000	Long position
	—	26/05/2003	2,000,000	27/08/2003–26/08/2008	1	0.84	—	2,000,000	Long position
Cheng Mo Chi, Moses	—	26/05/2003	300,000	27/08/2003–26/08/2008	1	0.84	—	300,000	Long position
Alan Howard Smith	—	26/05/2003	300,000	27/08/2003–26/08/2008	1	0.84	—	300,000	Long position
V-nee Yeh	—	26/05/2003	300,000	27/08/2003–26/08/2008	1	0.84	—	300,000	Long position
Fung Sing Hong, Stephen	—	26/05/2003	400,000	27/08/2003–26/08/2008	1	0.84	—	400,000	Long position

* 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).

DIRECTORS' INTERESTS IN SECURITIES (cont'd)**Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations (cont'd)****II. Options (cont'd)***(ii) Guangdong Investment Limited*

Name of Director	Number of options held on 01/01/2003	Options granted during the year		Period during which options is exercisable*	Total consideration paid for share options HK\$	Price to be paid per share on exercise of options HK\$	Number of options exercised during the year	Number of options lapsed during the year	Number of options held on 31/12/2003	Long/short position
	Date granted	Number granted								
Ye Xuquan	12,000,000	—	—	11/02/2002–10/02/2007	—	0.5312	5,000,000	—	7,000,000	Long position
	9,000,000	—	—	08/11/2002–07/11/2007	—	0.814	—	—	9,000,000	Long position
	6,000,000	—	—	05/03/2003–04/03/2008	1	0.96	—	—	6,000,000	Long position
	—	07/05/2003	3,000,000	08/08/2003–07/08/2008	1	1.22	—	—	3,000,000	Long position
Cheng Mo Chi, Moses	1,000,000	—	—	02/05/2002–01/05/2007	—	0.74	—	—	1,000,000	Long position
	1,000,000	—	—	08/11/2002–07/11/2007	—	0.814	—	—	1,000,000	Long position
	1,000,000	—	—	05/03/2003–04/03/2008	1	0.96	—	—	1,000,000	Long position
	—	07/05/2003	1,000,000	08/08/2003–07/08/2008	1	1.22	—	—	1,000,000	Long position
Li Wai Keung	1,500,000	—	—	02/05/2002–01/05/2007	—	0.74	800,000	—	700,000	Long position
	1,500,000	—	—	08/11/2002–07/11/2007	—	0.814	—	—	1,500,000	Long position
	1,500,000	—	—	05/03/2003–04/03/2008	1	0.96	—	—	1,500,000	Long position
	—	07/05/2003	1,500,000	08/08/2003–07/08/2008	1	1.22	—	—	1,500,000	Long position
Ho Lam Lai Ping, Theresa	500,000	—	—	19/08/1998–18/08/2003	—	2.892	—	500,000	—	Long position
	1,200,000	—	—	11/02/2002–10/02/2007	—	0.5312	1,200,000	—	—	Long position
	1,200,000	—	—	08/11/2002–07/11/2007	—	0.814	200,000	—	1,000,000	Long position
	1,200,000	—	—	05/03/2003–04/03/2008	1	0.96	—	—	1,200,000	Long position
	—	07/05/2003	1,500,000	08/08/2003–07/08/2008	1	1.22	—	—	1,500,000	Long position
Fung Sing Hong, Stephen	400,000	—	—	05/03/2003–04/03/2008	1	0.96	400,000	—	—	Long position

* 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).

Save as disclosed above, as at 31 December 2003, to the knowledge of the Company, none of the directors, chief executive of the Company and their associates had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporations a party to any arrangement 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

In assessing the theoretical aggregate value of the share options granted during the year, the Black-Scholes option pricing model has been used.

Share options granted during the year ended 31 December 2003:

Date of Grant : 26/05/2003
 Vesting Period : 26/05/2003–26/08/2003
 Exercise Period : 27/08/2003–26/08/2008
 Exercise Price : HK\$0.84 per share

	Number of Options At 26/05/03	Options Value At 26/05/03 (Note (2)) HK\$	Number of Options At 31/12/03	Options Value At 31/12/03 (Note (3)) HK\$
Grantee:				
YE Xuquan	2,000,000	660,000	2,000,000	2,200,000
JIANG Guoqiang	2,000,000	660,000	2,000,000	2,200,000
CHENG Mo Chi, Moses	300,000	99,000	300,000	330,000
Alan Howard SMITH	300,000	99,000	300,000	330,000
V-nee YEH	300,000	99,000	300,000	330,000
FUNG Sing Hong, Stephen	400,000	132,000	400,000	440,000
Aggregate total of employees	<u>4,900,000</u>	<u>1,617,000</u>	<u>4,700,000</u>	<u>5,170,000</u>
 Total	 <u>10,200,000</u>	 <u>3,366,000</u>	 <u>10,000,000</u>	 <u>11,000,000</u>

Notes:

(1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.79.

SHARE OPTIONS OF THE COMPANY (cont'd)**Share options granted during the year ended 31 December 2003: (cont'd)**

- (2) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$3,366,000 as at 26 May 2003 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	: 2.47%, being the approximate yield of 5-year Exchange Fund Note traded on 26/05/2003.
Expected Volatility	: 52.1%, being the annualised volatility of the closing price of the shares of the Company from 26/05/2002 to 26/05/2003.
Expected Dividend Yield	: 2.38%, being the approximate yield of the shares of the Company over the period from 26/05/2002 to 26/05/2003.
Expected Life of the Options	: 5.25 years
Assumptions	: There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period from 26/05/2002 to 26/05/2003.

- (3) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$11,000,000 as at 31 December 2003 with the following variables and assumptions:

Risk Free Rate	: 3.16%, being the approximate yield of 5-year Exchange Fund Note traded on 31/12/2003.
Expected Volatility	: 56.3%, being the annualised volatility of the closing price of the shares of the Company from 01/01/2003 to 31/12/2003.
Expected Dividend Yield	: 1.15%, being the approximate yield of the shares of the Company over the period from 01/01/2003 to 31/12/2003.
Expected Life of the Options	: 4.65 years
Assumptions	: There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period from 01/01/2003 to 31/12/2003.

- (4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the relevant share option scheme.

¹ The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, so far as is known to any director or chief executive of the Company, the following persons (other than the directors or chief executive of the Company) have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as follows:

Name of shareholders	Type of securities	Number of securities held	Long/short position	Approximate percentage of the Company's issued capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)	Shares	900,000,000	Long position	71.97%
GDH Limited ("GDH")	Shares	900,000,000	Long position	71.97%

Note: 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 wholly-owned subsidiary, GDH.

Save as disclosed above, no person (other than the directors or chief executive of the Company) known to any director or chief executive of the Company as at 31 December 2003 had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 32 to the financial statements. The Independent Non-Executive Directors of the Company reviewed the connected transaction set out in notes 32(i) and (ii) for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules and confirmed that:

- the transaction was entered into by the Group in the ordinary and usual course of its business;
- the transaction was entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- 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
- the aggregate value of the malt purchased by the Group during the year from Guangzhou Malting Co., Ltd. and Ningbo Malting Co., Ltd. in which GDH Limited, subsidiaries of the Company's holding company respectively has approximately 51.6% and 51% interests, 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 21.0% and 45.8% 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. and Ningbo Malting Co., Ltd., none of the Directors, their respective associates or shareholders (which, to the knowledge of the Directors own more than 5% of the issued share capital of the Company), had 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 31 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

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 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, 15 April 2004



To the members

Guangdong Brewery Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 30 to 78 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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

15 April 2004

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TURNOVER	5	<u>684,574</u>	<u>593,052</u>
Cost of sales		<u>(373,398)</u>	<u>(351,680)</u>
Gross profit		311,176	241,372
Other revenue and gains	5	21,547	34,034
Selling and distribution expenses		(146,765)	(133,960)
Administrative expenses		(44,335)	(36,504)
Impairment of an investment security		<u>—</u>	<u>(4,611)</u>
PROFIT FROM OPERATING ACTIVITIES	6	141,623	100,331
Share of loss of an associate		<u>—</u>	<u>(4,437)</u>
PROFIT BEFORE TAX		141,623	95,894
Tax	9	<u>(26,102)</u>	<u>(14,653)</u>
PROFIT BEFORE MINORITY INTERESTS		115,521	81,241
Minority interests		<u>(10,460)</u>	<u>(5,950)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>105,061</u>	<u>75,291</u>
DIVIDENDS	11	<u>(33,420)</u>	<u>(25,000)</u>
EARNINGS PER SHARE	12		
— Basic		<u>8.4 cents</u>	<u>6.0 cents</u>
— Diluted		<u>8.3 cents</u>	<u>6.0 cents</u>

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	13	970,139	1,037,299
Negative goodwill	14	(10,371)	—
Investment security	16	—	—
Deferred tax assets	24	16,022	30,072
Reusable packaging materials		23,219	15,778
		999,009	1,083,149
CURRENT ASSETS			
Inventories	17	84,864	80,866
Trade receivables	18	22,602	26,103
Prepayments, deposits and other receivables		23,614	29,493
Tax recoverable		1,778	—
Cash and cash equivalents	19	347,668	232,734
		480,526	369,196
CURRENT LIABILITIES			
Trade payables	20	(35,536)	(42,337)
Tax payable		(1,107)	(1,173)
VAT payable		(10,404)	(7,977)
Other payables and accruals		(98,562)	(84,485)
Due to the immediate holding company	21	(2,319)	—
Due to a fellow subsidiary	22	(16,965)	—
Due to minority equityholders of subsidiaries	23	(6,401)	(60,852)
		(171,294)	(196,824)
NET CURRENT ASSETS		309,232	172,372
TOTAL ASSETS LESS CURRENT LIABILITIES — page 32		1,308,241	1,255,521

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES — page 31		<u>1,308,241</u>	<u>1,255,521</u>
NON-CURRENT LIABILITY			
Due to a minority equityholder of subsidiaries	23	<u>(20,420)</u>	<u>(23,525)</u>
		1,287,821	1,231,996
MINORITY INTERESTS		<u>(22,627)</u>	<u>(44,004)</u>
		<u>1,265,194</u>	<u>1,187,992</u>
CAPITAL AND RESERVES			
Issued capital	25	125,060	125,000
Reserves	27	1,119,218	1,050,492
Proposed final dividend	11	<u>20,916</u>	<u>12,500</u>
		<u>1,265,194</u>	<u>1,187,992</u>

Ye Xuquan
Director

Fung Sing Hong, Stephen
Director

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Total equity at 1 January:			
As previously reported		1,160,848	1,109,050
Prior year adjustments:			
SSAP 12 — restatement of deferred tax	24	27,144	29,856
As restated		1,187,992	1,138,906
Issue of shares, including share premium	25	321	—
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	27	(3,176)	(288)
Release of exchange fluctuation reserve upon disposal of a subsidiary	27	—	(917)
Net profit from ordinary activities attributable to shareholders		105,061	75,291
Dividends paid	11	(25,004)	(25,000)
Total equity at 31 December		1,265,194	1,187,992

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		141,623	95,894
Adjustments for:			
Share of loss of an associate		—	4,437
Interest income	5	(6,201)	(1,261)
Discount on acquisition of amounts due to a minority equityholder of subsidiaries	5	(4,338)	—
Negative goodwill recognised as income	5	(221)	—
Gain on disposal of a subsidiary	5	—	(2,388)
Depreciation	6	79,048	82,479
Amortisation of reusable packaging materials	6	8,896	6,667
Write-off of fixed assets	6	4,257	—
Loss on disposal of fixed assets, net	6	—	2,059
Impairment of an investment security		—	4,611
Operating profit before working capital changes		223,064	192,498
Increase in inventories		(4,342)	(4,048)
Decrease in trade receivables		3,440	11,218
Increase in prepayments, deposits and other receivables		(1,893)	(3,883)
Increase/(decrease) in trade payables		(6,649)	6,399
Increase in VAT payable		2,467	842
Increase in other payables and accruals		16,115	14,540
Increase in an amount due to the immediate holding company		2,319	—
Increase/(decrease) in amount due to a fellow subsidiary		16,965	(8,612)
Cash generated from operations		251,486	208,954
Interest received		5,473	1,261
Hong Kong profits tax paid		(3,973)	(2,456)
Mainland China enterprise income tax paid		(10,026)	(14,726)
Dividends paid	11	(25,004)	(25,000)
Dividends paid to a minority equityholder of subsidiaries	28(a)	—	(3,769)
Net cash inflow from operating activities — page 35		217,956	164,264

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Net cash inflow from operating activities — page 34		<u>217,956</u>	<u>164,264</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	(20,676)	(9,596)
Purchases of reusable packaging materials		(16,424)	(16,478)
Acquisition of minority interests		(14,654)	—
Proceeds from disposal of fixed assets		424	38
Disposal of a subsidiary	28(b)	—	20,000
Repayment of other receivable arising from disposal of a subsidiary in prior year		7,772	—
Interest received on other receivable arising from disposal of a subsidiary in prior year		<u>728</u>	<u>—</u>
Net cash outflow from investing activities		<u>(42,830)</u>	<u>(6,036)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	25	321	—
Repayment of amounts due to minority equityholders of subsidiaries		<u>(59,453)</u>	<u>—</u>
Net cash outflow from financing activities		<u>(59,132)</u>	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		115,994	158,228
Cash and cash equivalents at beginning of year		232,734	74,579
Effect of foreign exchange rate changes, net		<u>(1,060)</u>	<u>(73)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>347,668</u>	<u>232,734</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	272,476	232,734
Non-pledged time deposits with original maturity of less than three months when acquired	19	<u>75,192</u>	<u>—</u>
		<u>347,668</u>	<u>232,734</u>

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	1,117,129	898,443
Investment security	16	—	—
		<u>1,117,129</u>	<u>898,443</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		554	155
Due from subsidiaries	15	155,711	99,093
Cash and cash equivalents	19	33,992	75,551
		<u>190,257</u>	<u>174,799</u>
CURRENT LIABILITIES			
Other payables and accruals		(5,168)	(3,983)
Due to the immediate holding company	21	(2,319)	—
Due to subsidiaries	15	(2,120)	(14,106)
		<u>(9,607)</u>	<u>(18,089)</u>
NET CURRENT ASSETS		<u>180,650</u>	<u>156,710</u>
		<u>1,297,779</u>	<u>1,055,153</u>
CAPITAL AND RESERVES			
Issued capital	25	125,060	125,000
Reserves	27	1,151,803	917,653
Proposed final dividend	11	20,916	12,500
		<u>1,297,779</u>	<u>1,055,153</u>

Ye Xuquan
Director

Fung Sing Hong, Stephen
Director

31 December 2003

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in investment holding, and the production, distribution and sale of beer.

Subsequent to the transaction of introducing a strategic investor as detailed in note 31(a), the equity interest in the Company held by GDH Limited ("GDH"), a company incorporated in Hong Kong, decreased from approximately 72% as at 31 December 2003 to approximately 53% as at the date of approval of these financial statements by the board of directors. In the opinion of the directors, the ultimate holding company of the Company is 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 (the "PRC" or "Mainland China").

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements.

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

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- deferred tax assets have been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries; and
- deferred tax assets have been recognised for tax losses arising in the prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 24 to the financial statements.

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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 2003. The results of subsidiaries 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.

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

Subsidiaries

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

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

Joint venture companies established in the PRC

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

The joint venture agreement 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.

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

Joint venture companies established in the PRC (cont'd)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company 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 Company 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.

Goodwill

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

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

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

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

Negative goodwill

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

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill in an amount not exceeding the fair values 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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

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

Related parties

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

Impairment of assets

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

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

Impairment of assets (cont'd)

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.

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 remaining life of the joint venture companies
Buildings	4.5% – 20%
Plant, machinery and equipment	4.5% – 20%
Furniture and fixtures	18% – 20%
Motor vehicles	18% – 20%

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.

31 December 2003

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

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 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.

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 allowances 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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or if it relates to items that are recognised in the same or a different period in equity, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

31 December 2003

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

Income tax (cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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) rental income, on a time proportion basis over the lease terms;
- (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 Group's right to receive the refund has been established.

31 December 2003

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

Final dividends proposed by the directors are classified as a separate allocation of retained profits 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.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries operating in Mainland China are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into 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 into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries operating in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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.

31 December 2003

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

Employee benefits

Retirement benefits scheme

The Company and certain of its subsidiaries established in Hong Kong 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. 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 option schemes

The Company operates share option schemes (the "Share Option Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the Share Option Schemes 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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, 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.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

31 December 2003

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No further business segment information is presented as the Group's operations relate solely to the production, distribution and sale of beer. Summary details of the geographical segments are as follows:

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

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

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4. SEGMENT INFORMATION (cont'd)**Geographical segments**

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

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Restated)</i>									
Segment revenue:										
Sales to external customers	619,373	539,028	65,201	54,024	—	—	—	—	684,574	593,052
Intersegment sales	16,420	14,369	—	—	—	—	(16,420)	(14,369)	—	—
Other revenue and gains	13,466	30,385	—	—	1,880	—	—	—	15,346	30,385
Total	649,259	583,782	65,201	54,024	1,880	—	(16,420)	(14,369)	699,920	623,437
Segment results	116,994	88,927	22,247	15,900	(3,819)	(3,534)	—	—	135,422	101,293
Interest income									6,201	1,261
Unallocated gain									—	2,388
Unallocated loss									—	(4,611)
Profit from operating activities									141,623	100,331
Share of loss of an associate	—	(4,437)	—	—	—	—	—	—	—	(4,437)
Profit before tax									141,623	95,894
Tax									(26,102)	(14,653)
Profit before minority interests									115,521	81,241
Minority interests									(10,460)	(5,950)
Net profit from ordinary activities attributable to shareholders									105,061	75,291

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4. SEGMENT INFORMATION (cont'd)**Geographical segments (cont'd)****Group**

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
										(Restated)
Segment assets	1,406,568	1,313,126	19,772	15,112	36,955	95,751	(1,560)	(1,716)	1,461,735	1,422,273
Unallocated assets									17,800	30,072
Total assets									1,479,535	1,452,345
Segment liabilities	180,424	210,457	4,177	4,209	7,566	6,226	(1,560)	(1,716)	190,607	219,176
Unallocated liabilities									1,107	1,173
Total liabilities									191,714	220,349
Other segment information:										
Depreciation and amortisation	87,757	88,933	187	30	—	183	—	—	87,944	89,146
Write-off of fixed assets	4,257	—	—	—	—	—	—	—	4,257	—
Impairment of an investment security									—	4,611
Capital expenditure	37,007	26,074	93	—	—	—	—	—	37,100	26,074

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5. TURNOVER, REVENUE AND GAINS

Turnover represents the invoiced value of goods sold, net of discounts, returns, value-added tax and consumption tax, after elimination of all significant intra-group transactions.

An analysis of the Group's turnover, and other revenue and gains is as follows:

		Group	
		2003	2002
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover			
Sale of goods		684,574	593,052
Other revenue			
Value-added tax exemption*		3,894	24,908
Interest income		6,201	1,261
Net rental income		1,843	1,048
Discount on acquisition of amounts due to a minority equityholder of subsidiaries	32(vii)	4,338	—
Others		5,050	4,429
		21,326	31,646
Gains			
Negative goodwill recognised as income	14	221	—
Gain on disposal of a subsidiary	28(b)	—	2,388
		221	2,388
		21,547	34,034

- * According to a notice from the 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 ceased to be effective on 1 January 2003. On 23 April 2003, the Group received an approval from the Shenzhen tax authority which revised the approved percentage for the aforesaid exemption for the year ended 31 December 2002 and accordingly, a further tax exemption of HK\$3,894,000 was credited to the profit and loss account for the year.

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Notes	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold		373,398	351,680
Depreciation	13	79,048	82,479
Amortisation of reusable packaging materials		8,896	6,667
Minimum lease payments under operating leases in respect of land and buildings		660	748
Auditors' remuneration		775	770
Staff costs (excluding directors' remuneration — note 7):			
Wages and salaries		67,311	50,355
Pension scheme contributions		7,497	6,630
Less: Forfeited contributions*		—	—
Net pension scheme contributions		7,497	6,630
		74,808	56,985
Exchange losses, net		1,793	387
Loss on disposal of fixed assets, net		—	2,059
Write-off of fixed assets		4,257	—

* At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to its pension scheme in future years (2002: Nil).

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7. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Non-executive	90	90
Executive	79	1
	169	91
Other emoluments:		
Salaries, allowances and benefits in kind	2,043	7
Bonuses paid and payable	1,401	6
Pension scheme contributions	445	1
	3,889	14
	4,058	105

Fees include HK\$90,000 (2002: 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 (2002: Nil).

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

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	10	11
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	1	—
	12	11

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

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7. DIRECTORS' REMUNERATION (cont'd)

During the year, 5,300,000 share options (2002: Nil) 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 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group included three directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two non-directors, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,425	1,542
Bonuses paid and payable	386	594
Pension scheme contributions	77	87
	<u>1,888</u>	<u>2,223</u>

In 2002, the five highest paid individuals of the Group included one former director who resigned as director but remained as employee during that year and four non-director, highest paid employees.

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

	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	1	5
HK\$1,000,001 to HK\$1,500,000	1	—
	<u>2</u>	<u>5</u>

During the year, 1,700,000 (2002: Nil) share options were granted to the two (2002: five) highest paid individuals in respect of their services to the Group, further details of which are included in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid individuals' remuneration disclosures.

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9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

Enterprise Income Tax of Shenzhen Kingway Brewery Co., Ltd., ("Shenzhen Brewery") has been provided at the rate of 15% (2002: 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, the tax exemption period has not commenced.

	2003 HK\$'000	2002 HK\$'000 (Restated)
Group:		
Current:		
Hong Kong	3,891	2,545
Mainland China:		
Provision for current year	10,112	8,784
Overprovision of tax for prior years	(1,859)	—
Deferred (note 24)	13,958	3,324
	<hr/> 26,102 <hr/>	<hr/> 14,653 <hr/>
Total tax charge for the year		

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9. TAX (cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>6,517</u>		<u>135,106</u>		<u>141,623</u>	
Tax at the statutory or applicable tax rate	1,140	17.5	20,266	15.0	21,406	15.1
Adjustments in respect of current tax of prior years	—	—	(1,859)	(1.4)	(1,859)	(1.3)
Income not subject to tax	(448)	(6.9)	—	—	(448)	(0.3)
Expenses not deductible for tax	2,445	37.5	3,804	2.8	6,249	4.4
Tax losses not recognised as deferred tax assets	<u>754</u>	<u>11.6</u>	<u>—</u>	<u>—</u>	<u>754</u>	<u>0.5</u>
Tax charge at the Group's effective rate	<u>3,891</u>	<u>59.7</u>	<u>22,211</u>	<u>16.4</u>	<u>26,102</u>	<u>18.4</u>

Group — 2002

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>17,964</u>		<u>77,930</u>		<u>95,894</u>	
Tax at the statutory or applicable tax rate	2,874	16.0	11,690	15.0	14,564	15.2
Income not subject to tax	(1,633)	(9.1)	(248)	(0.3)	(1,881)	(2.0)
Expenses not deductible for tax	922	5.1	666	0.9	1,588	1.7
Tax losses not recognised as deferred tax assets	<u>382</u>	<u>2.1</u>	<u>—</u>	<u>—</u>	<u>382</u>	<u>0.4</u>
Tax charge at the Group's effective rate	<u>2,545</u>	<u>14.1</u>	<u>12,108</u>	<u>15.6</u>	<u>14,653</u>	<u>15.3</u>

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10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$267,309,000 (2002: net loss of HK\$1,812,000) (note 27).

	Group	
	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Profit/(loss) for the year attributable to:		
Company and subsidiaries	105,061	79,728
Associate	—	(4,437)
	105,061	75,291

11. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim — 1.0 HK cent (2002: 1.0 HK cent) per share	12,504	12,500
Proposed final — 1.5 HK cents (2002: 1.0 HK cent) per share	20,916	12,500
	33,420	25,000

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

The total final dividend payable is based on total number of shares as at the approval date of these financial statements by the board of directors which will include the shares issued after the year end.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$105,061,000 (2002: HK\$75,291,000 as restated), and the weighted average of 1,250,367,123 (2002: 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\$105,061,000 (2002: HK\$75,291,000 as restated). The weighted average number of shares used in the calculation is 1,261,680,294 (2002: 1,254,191,136) shares, comprising the 1,250,367,123 (2002: 1,250,000,000) shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 11,313,171 (2002: 4,191,136) shares assumed to have been issued at no consideration on the deemed exercise of the share options expiring on 10 April 2007 and 26 August 2008 (2002: share options expiring on 10 April 2007) outstanding during the year. The share options expired on 19 February 2003 had an anti-dilutive effect on the basic earnings per share and so have not been included in the diluted earnings per share calculation for both years.

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13. FIXED ASSETS**Group**

	Land and buildings	Plant, machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:						
At beginning of year	440,114	1,213,342	1,806	43,280	21,493	1,720,035
Additions	1,229	3,342	93	808	15,204	20,676
Disposals	(335)	(19,361)	—	(3,604)	—	(23,300)
Reclassifications	21,499	1,709	—	—	(23,208)	—
Exchange realignment	(1,861)	(5,000)	(4)	(171)	(66)	(7,102)
At 31 December 2003	<u>460,646</u>	<u>1,194,032</u>	<u>1,895</u>	<u>40,313</u>	<u>13,423</u>	<u>1,710,309</u>
Accumulated depreciation:						
At beginning of year	110,785	538,527	1,217	32,207	—	682,736
Provided during the year	20,330	54,236	187	4,295	—	79,048
Disposals	(204)	(15,297)	—	(3,118)	—	(18,619)
Exchange realignment	(497)	(2,358)	(3)	(137)	—	(2,995)
At 31 December 2003	<u>130,414</u>	<u>575,108</u>	<u>1,401</u>	<u>33,247</u>	<u>—</u>	<u>740,170</u>
Net book value:						
At 31 December 2003	<u>330,232</u>	<u>618,924</u>	<u>494</u>	<u>7,066</u>	<u>13,423</u>	<u>970,139</u>
At 31 December 2002	<u>329,329</u>	<u>674,815</u>	<u>589</u>	<u>11,073</u>	<u>21,493</u>	<u>1,037,299</u>

At 31 December 2003, the Group's land and buildings included above are held under the following lease terms:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Long term leases in Mainland China	29,316	31,208
Medium term leases in Mainland China	300,916	298,121
	<u>330,232</u>	<u>329,329</u>

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14. GOODWILL AND NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

	Group <i>HK\$'000</i>
Cost:	
Acquisition of minority interests and at 31 December 2003	10,592
Accumulated recognition as income:	
Recognised as income during the year and at 31 December 2003	(221)
Net book value:	
At 31 December 2003	10,371

The Group has adopted the transitional provision of SSAP 30 in 2001 which permits goodwill of HK\$126,410,000 (restated) and negative goodwill of HK\$39,620,000 (restated) as at 1 January and 31 December 2003 in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

15. INTERESTS IN SUBSIDIARIES

	Company 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares/investments, at cost	261,816	261,816
Due from subsidiaries	947,108	774,030
Due to subsidiaries	(52,541)	(52,562)
	1,156,383	983,284
Provision for amounts due from subsidiaries	(39,254)	(84,841)
	1,117,129	898,443

The amounts due from/to subsidiaries as included in the Company's current assets and current liabilities are unsecured and have no fixed terms of repayment. All other balances with subsidiaries are unsecured and not repayable within the next twelve months from the balance sheet date.

Included in the amounts due from subsidiaries is the amount of HK\$22,267,000 (2002: HK\$56,063,000) due from Shenzhen Brewery which is interest-bearing, the details of which are set out in note 32(v) to the financial statements. The remaining amounts due from/to subsidiaries are interest-free.

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15. INTERESTS IN SUBSIDIARIES (cont'd)

In 2002, the amount due from Morefit Limited ("Morefit"), a wholly-owned subsidiary, of HK\$247,702,000 bore interest at six months' London Inter Bank Offered Rate ("LIBOR") plus 0.75% per annum. With effect from 1 January 2003, the amount due from Morefit is interest-free.

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 Company	Group	Principal activities
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK\$2	100%	100%	Sale and marketing of beer
Shenzhen Kingway Brewery Co., Ltd.*	The PRC/ Mainland China	US\$50,000,000	—	95%	Production, distribution and sale of beer and investment holding
Shenzhen Kingway Brewing Co., Ltd.*	The PRC/ Mainland China	US\$12,000,000	—	97%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd.*	The PRC/ Mainland China	US\$12,000,000	—	97%	Provision of bottling and packaging services
Shenzhen Kingway Utility Co., Ltd.*	The PRC/ Mainland China	US\$12,000,000	—	97%	Provision of utilities services
Kingway Brewery (Shan Tou) Co., Ltd.#	The PRC/ Mainland China	RMB126,000,000	—	100%	Production, distribution and sale of beer

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

This subsidiary was newly established as a wholly foreign-owned enterprise and has not commenced its operations at 31 December 2003.

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15. INTERESTS IN SUBSIDIARIES (cont'd)

During the year, the Group acquired an additional 10% equity interest in each of Shenzhen Brewing, Shenzhen Kingway Packaging Co., Ltd and Shenzhen Kingway Utility Co., Ltd. (collectively the "SK Companies"), from a minority equityholder of the SK Companies. Further details of this acquisition are included in note 32(vii) to the financial statements.

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.

16. INVESTMENT SECURITY

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted equity investment, at cost	5,611	5,611
Provision for impairment	(5,611)	(5,611)
	<u>—</u>	<u>—</u>

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

17. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	16,460	16,064
Spare parts and consumables	28,443	28,616
Packaging materials	20,565	17,330
Work in progress	11,678	9,792
Finished goods	7,718	9,064
	<u>84,864</u>	<u>80,866</u>

At 31 December 2002 and 2003, all of the inventories were carried at cost.

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18. TRADE RECEIVABLES

The Group's trading terms with customers are either on a 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.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	21,547	24,275
More than 3 months and less than 6 months	3,859	1,236
More than 6 months and less than 1 year	45	848
More than 1 year	2,974	2,977
	28,425	29,336
Less: Provision for doubtful debts	(5,823)	(3,233)
	22,602	26,103

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	272,476	232,734	24,454	75,551
Time deposits	75,192	—	9,538	—
	347,668	232,734	33,992	75,551

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK\$293,809,000 (2002: HK\$146,840,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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20. TRADE PAYABLES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	33,578	37,702
More than 3 months and less than 6 months	3	—
More than 6 months and less than 1 year	—	58
More than 1 year	1,955	4,577
	<u>35,536</u>	<u>42,337</u>

21. DUE TO THE IMMEDIATE HOLDING COMPANY

The balance due to the immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

22. DUE TO A FELLOW SUBSIDIARY

The amount due is unsecured, interest-free and is repayable within 30 days from the date of invoices.

23. DUE TO MINORITY EQUITYHOLDERS OF SUBSIDIARIES

Except for an amount of HK\$6,401,000 (2002: HK\$60,852,000) due to a minority equityholder of subsidiaries, which is repayable within one year, all amounts due to minority equityholders of subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

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24. DEFERRED TAX ASSETS

The movements in deferred tax assets during the year is as follows:

Group

	2003			
	Decelerated tax depreciation HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Loss available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2003				
As previously reported	—	—	—	—
Prior year adjustments:				
SSAP 12 — restatement of deferred tax	<u>7,794</u>	<u>2,645</u>	<u>19,633</u>	<u>30,072</u>
As restated	7,794	2,645	19,633	30,072
Deferred tax credited/(charged) to the profit and loss account during the year (note 9)	(3,502)	51	(10,507)	(13,958)
Exchange differences	<u>(29)</u>	<u>(1)</u>	<u>(62)</u>	<u>(92)</u>
At 31 December 2003	<u>4,263</u>	<u>2,695</u>	<u>9,064</u>	<u>16,022</u>

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24. DEFERRED TAX ASSETS (cont'd)**Group**

		2002		
	Decelerated tax depreciation HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Loss available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2002				
As previously reported	—	—	—	—
Prior year adjustments:				
SSAP 12 — restatement of deferred tax	9,576	2,145	21,675	33,396
As restated	9,576	2,145	21,675	33,396
Deferred tax credited/(charged) to the profit and loss account during the year (note 9)	(1,782)	500	(2,042)	(3,324)
At 31 December 2002	7,794	2,645	19,633	30,072

The Company and the Group have tax losses arising in Hong Kong of HK\$45,446,000 (2002: HK\$41,135,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the directors considered it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Company and the Group.

At 31 December 2003, there was no recognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted based on existing legislation, interpretations and practices.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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24. DEFERRED TAX ASSETS (cont'd)

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements, and prior year adjustments were made to recognise the deferred tax in the consolidated financial statements.

The effects of the prior year adjustments on these consolidated financial statements are summarised as follows:

	As at 1 January 2003 HK\$'000 Increase	As at 1 January 2002 HK\$'000 Increase
Balance sheet		
Deferred tax assets	30,072	33,396
Minority interests	2,928	3,540
Retained profits	24,804	27,516
Goodwill classified under capital reserve	2,340	2,340
		For the year ended 31 December 2002 HK\$'000 Increase/ (decrease)
Profit and loss account		
Deferred tax expenses		3,324
Minority interests, share of profit		(612)
Net profit attributable to shareholders		(2,712)

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25. SHARE CAPITAL**Shares**

	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
2,000,000,000 (2002: 2,000,000,000) shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,250,600,000 (2002: 1,250,000,000) shares of HK\$0.10 each	<u>125,060</u>	<u>125,000</u>

During the year, 400,000 and 200,000 shares of HK\$0.10 each were issued for cash at the respective subscription price of HK\$0.383 and HK\$0.840 per share pursuant to the exercise of the Company's share options for a total cash consideration, net of expenses, of HK\$321,000.

There was no change to the carrying amount or the number of shares of the Company in the prior year.

The movements in the Company's issued share capital is summarised as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2002 and 2003	1,250,000,000	125,000	739,583	864,583
Share options exercised	<u>600,000</u>	<u>60</u>	<u>261</u>	<u>321</u>
At 31 December 2003	<u>1,250,600,000</u>	<u>125,060</u>	<u>739,844</u>	<u>864,904</u>

Share options

Details of the Company's share option schemes and the share options issued under the share option schemes are included in note 26 to the financial statements.

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26. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "New Option Scheme") for the purpose of providing 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 was adopted on 31 May 2002 and, unless otherwise terminated or amended, will remain in force for a period of 10 years from 10 January 2003.

The maximum number 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 in issue 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 a general meeting to refresh the 10% limit under the New Option Scheme. As at 31 December 2003, the total number of shares issuable for options granted under the share option schemes of the Company was 20,000,000 which represented approximately 1.6% of the Company's shares then in issue as at that date.

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 Company's 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 a 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 a general meeting of the Company.

The offer of a grant of share options 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.

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26. SHARE OPTION SCHEMES (cont'd)

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

Prior to the adoption of the New Option Scheme, the Company operated another share option scheme, which was adopted on 22 July 1997 (the "Old Option Scheme"). With effect from 31 May 2002, the Old Option Scheme was terminated and there is no further grant of share options under the Old Option Scheme.

The following share options were outstanding under the Company's share option schemes during the year:

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options [†]	Price of Company's shares***		
	At 1 January 2003	Granted during the year ^{##}	Exercised during the year	Lapsed during the year	Cancelled during the year			Exercise price of share options**	At date of grant of options	At date of exercise of options
						At 31 December 2003		HK\$	HK\$	HK\$
Directors and chief executive										
Mr. Ye Xuquan	—	2,000,000	—	—	—	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
Mr. Jiang Guoqiang	10,000,000	—	—	—	—	10,000,000	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.400
	—	2,000,000	—	—	—	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
Mr. Cheng Mo Chi, Moses	—	300,000	—	—	—	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
Mr. Alan Howard Smith	—	300,000	—	—	—	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
Mr. V-nee Yeh	—	300,000	—	—	—	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
Mr. Fung Sing Hong, Stephen	—	400,000	—	—	—	400,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	<u>10,000,000</u>	<u>5,300,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,300,000</u>				
Other employees										
In aggregate	3,650,000	—	—	(3,650,000)	—	—	20-08-1997	20-02-1998 to 19-02-2003	2.100	2.725
	7,400,000	—	(400,000)	—	(7,000,000)	—	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.400
	—	4,900,000	(200,000)	—	—	4,700,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	1.750
	<u>11,050,000</u>	<u>4,900,000</u>	<u>(600,000)</u>	<u>(3,650,000)</u>	<u>(7,000,000)</u>	<u>4,700,000</u>				
	<u>21,050,000</u>	<u>10,200,000</u>	<u>(600,000)</u>	<u>(3,650,000)</u>	<u>(7,000,000)</u>	<u>20,000,000</u>				

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26. SHARE OPTION SCHEMES (cont'd)*Notes:*

- * *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*
- ** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*
- *** *The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the business day prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices (immediately before the dates on which the options were exercised) over all of the exercises of options within the disclosure line.*
- # *If the last day of the exercise period is not a business day in Hong Kong, the exercise 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 granted on 26 May 2003.*

The 600,000 share options exercised during the year resulted in the issue of 600,000 shares of the Company and new share capital of HK\$60,000 and share premium of HK\$261,000 (net of issue expenses), as detailed in note 25 to the financial statements.

At the balance sheet date, the Company had 20,000,000 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 20,000,000 additional ordinary shares of the Company and additional share capital of HK\$2,000,000 and share premium of HK\$10,230,000 (before issue expenses).

Subsequent to the balance sheet date, a total of 10,000,000 share options under the Old Option Scheme were exercised by a director of the Group at an exercise price of HK\$0.383 per share. This resulted in the issue of 10,000,000 shares of the Company and new share capital of HK\$1,000,000 and share premium of HK\$2,830,000 (net of expenses). In addition, on 6 February 2004, a total of 20,700,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the future. These share options have an exercise price of HK\$1.93 per share and are exercisable for the period from 7 May 2004 to 6 May 2009. The price of the Company's shares at the date of grant was HK\$1.93 per share.

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27. RESERVES**Group**

		Share premium account	Capital reserve*	Exchange fluctuation reserve	Enterprise development fund#	Reserve fund#	Retained profits	Total
	Notes	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002:								
As previously reported		739,583	51,104	4,407	216	15,246	160,994	971,550
Prior year adjustments:								
SSAP 12 — restatement of deferred tax	24	—	2,340	—	—	—	27,516	29,856
As restated		739,583	53,444	4,407	216	15,246	188,510	1,001,406
Net profit for the year (as restated)		—	—	—	—	—	75,291	75,291
Interim dividend	11	—	—	—	—	—	(12,500)	(12,500)
Proposed final dividend	11	—	—	—	—	—	(12,500)	(12,500)
Disposal of a subsidiary	28(b)	—	—	(917)	—	—	—	(917)
Exchange realignment		—	—	(288)	—	—	—	(288)
At 31 December 2002		739,583	53,444	3,202	216	15,246	238,801	1,050,492

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27. RESERVES (cont'd)**Group**

		Share premium account	Capital reserve*	Exchange fluctuation reserve	Enterprise development fund#	Reserve fund#	Retained profits	Total
	Notes	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003:								
As previously reported		739,583	51,104	3,202	216	15,246	213,997	1,023,348
Prior year adjustments:								
SSAP 12 — restatement of deferred tax	24	—	2,340	—	—	—	24,804	27,144
As restated		739,583	53,444	3,202	216	15,246	238,801	1,050,492
Issue of shares		261	—	—	—	—	—	261
Net profit for the year		—	—	—	—	—	105,061	105,061
Interim dividend	11	—	—	—	—	—	(12,504)	(12,504)
Proposed final dividend	11	—	—	—	—	—	(20,916)	(20,916)
Transfer from retained profits		—	—	—	—	15,437	(15,437)	—
Exchange realignment		—	—	(3,176)	—	—	—	(3,176)
At 31 December 2003		739,844	53,444	26	216	30,683	295,005	1,119,218

* The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiaries, are HK\$126,410,000 (restated) and HK\$39,620,000 (restated), respectively, as at 1 January and 31 December 2003. The goodwill was stated at cost as at 31 December 2002 and 2003.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of a Company's subsidiary registered in the PRC has been transferred to the enterprise development fund and the reserve 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.

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27. RESERVES (cont'd)**Company**

	<i>Note</i>	Share premium account <i>HK\$'000 (Note)</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002		739,583	140,234	64,648	944,465
Net loss for the year		—	—	(1,812)	(1,812)
Interim dividend	11	—	—	(12,500)	(12,500)
Proposed final dividend	11	—	—	(12,500)	(12,500)
At 31 December 2002 and 1 January 2003		739,583	140,234	37,836	917,653
Issue of shares		261	—	—	261
Net profit for the year		—	—	267,309	267,309
Interim dividend	11	—	—	(12,504)	(12,504)
Proposed final dividend	11	—	—	(20,916)	(20,916)
At 31 December 2003		739,844	140,234	271,725	1,151,803

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.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Major non-cash transaction**

During the year, a non wholly-owned subsidiary of the Group declared a dividend to its shareholders and the amount of dividend of RMB6,825,000 (equivalent to HK\$6,420,000) attributable to a minority equityholder remained unpaid as at 31 December 2003 and the dividend amount was included in the amounts due to a minority equityholder of subsidiaries in the consolidated balance sheet.

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28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**(b) Disposal of a subsidiary**

	Notes	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:			
Interest in an associate		—	38,529
Amounts due to group companies		—	(121,232)
		—	(82,703)
Amounts due to group companies disposed of		—	121,232
Release of exchange reserve upon disposal	27	—	(917)
		—	37,612
Gain on disposal	5	—	2,388
		—	40,000
Satisfied by:			
Cash		—	20,000
Increase in other receivables		—	20,000
		—	40,000

In 2002, 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 in the prior year contributed nil and net loss of HK\$4,447,000 to the Group's turnover and profit after tax, respectively.

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29. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. 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 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,512	857
In the second to fifth years, inclusive	1,003	—
	2,515	857

(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 2003, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	338	434
In the second to fifth years, inclusive	—	290
	338	724

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

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30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29(b) to the financial statements, the Group had the following commitments at the balance sheet date:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Capital commitments on the acquisition of fixed assets:*		
Contracted, but not provided for	4,766	10,457
Authorised, but not contracted for	329,336	4,981
	334,102	15,438

- * As further detailed in the Company's announcement dated 21 July 2003, the Group has a commitment for the establishment of a new beer production plant in Shantou, the PRC, with a total investment up to RMB350,000,000 (equivalent to approximately HK\$329,784,000). Subsequent to the balance sheet date, on 15 April 2004, the directors of the Company approved an increase in the Group's commitments in respect of the new plant construction in Shantou to RMB400,000,000, as further detailed in note 31(e) to the financial statements.

31. POST BALANCE SHEET EVENTS

- (a) On 28 January 2004, the Company entered into an agreement with Heineken Asia Pacific Breweries (China) Pte Ltd. ("Heineken APB"), an independent third party, under which Heineken APB agree to subscribe for 133,768,000 new ordinary shares of the Company of HK\$0.10 each (the "New Shares"), at a subscription price of HK\$1.85 per share.

The Company was also advised by GDH, that on the same date, GDH and Heineken APB entered into another agreement under which GDH agree to sell 165,496,280 ordinary shares in the issued share capital of the Company (the "Sale Shares") to Heineken APB at a purchase price of HK\$1.85 per share.

The issue of the New Shares to and the purchase of the Sale Shares by Heineken APB were completed on 19 February 2004. At the completion date, Heineken APB holds approximately 21.46% of the Company's then issued share capital.

- (b) On 6 February 2004, 20,700,000 share options were granted to certain directors and employees of the Group at a subscription price of HK\$1.93 per share, as further detailed in note 26 to the financial statements.
- (c) Subsequent to the balance sheet date, on 9 February 2004, 10,000,000 ordinary shares of HK\$0.10 each were issued for cash at a subscription price of HK\$0.383 per share pursuant to the exercise of the Company's share options for a total cash consideration of HK\$3,830,000, as further detailed in note 26 to the financial statements.

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31. POST BALANCE SHEET EVENTS (cont'd)

- (d) On 15 September 2003, Kingway Brewery (Shan Tou) Co., Ltd. ("Kingway Shantou") was established for a term of 50 years with a registered capital of RMB126 million. Kingway Shantou was established for the purpose of investing in the new beer production plant in Shantou, the PRC, as set out in note 30 to the financial statements. Subsequent to balance sheet date, on 15 March 2004, the Group paid up all the registered capital of Kingway Shantou.
- (e) On 15 April 2004, the plan for the construction of a new plant in Shantou has been revised. The 200,000 tonnes of beer production capacity will be built in one step with two phase implementation and the estimated total investment increased to RMB400,000,000. In the opinion of the directors, the first phase of 100,000 tonnes of production capacity will commence production in the first half of year 2005 and the remaining 100,000 tonnes of production capacity is scheduled to be completed in late 2005.
- (f) In 2002, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party for the disposal (the "Disposal") of the Group's entire interest in Central China (Asia) Investment Limited ("CCAIL"), which beneficially owned a 50% equity interest in Shandong Huazhong Amber Brewery Co., Ltd. ("Amber Brewery"), a former associate of the Group, for a total cash consideration of HK\$40,000,000. An amount of HK\$20,000,000 was received in 2002 and HK\$7,772,000 was received in 2003. On 7 August 2003, the Group entered into a supplemental deed to the Agreement and a deed of charge on the shares of CCAIL with the same independent third party for the Disposal pursuant to which the Group agreed to extend the payment of the outstanding consideration for the Disposal to 24 October 2003. However, no payment has been received by the Group since 7 August 2003 and up to the date of approval of these financial statements by the board of directors.

As at 31 December 2003, the total outstanding amount due to the Group was HK\$12,740,000, comprising the principal and overdue interest of HK\$12,228,000 and HK\$512,000, respectively.

Subsequent to the balance sheet date, the purchaser of CCAIL requested to delay the settlement until 30 September 2004. On 31 March 2004, management has notified the said independent third party that the Group enforced the charge and thereafter the Group has caused the legal title of CCAIL be transferred back to a wholly-owned subsidiary of the Group. In the opinion of directors, the value of 50% equity of Amber Brewery exceeds the outstanding amount receivable and it is in the best interest of the Group to resell CCAIL and recover the outstanding amount. Pursuant to the supplemental deed to the Agreement, the maximum amount entitled by the Group from the sale realisation of CCAIL is the total of the outstanding principal plus late payment interest thereon and any cost associated in the course of the resale.

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32. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, 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".

The transactions referred to in items (i), (ii) and (iii) below constituted related party transactions and those referred to in items (i) to (vii) below constituted 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 GDH and a fellow subsidiary of the Company, on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

For the year ended 31 December 2003, the aggregate amount of the malt purchased by the Group was RMB72,044,000 (2002: RMB71,175,000). The balance due to GMCL as at 31 December 2003 is unsecured, interest-free and is repayable within 30 days from the date of invoice.

- (ii) During the year, the Group purchased malt from Ningbo Malting Co., Ltd. ("NMCL") which is a 51% owned subsidiary of Guangdong Investment Limited ("GDI") for the period from 1 January 2003 to 30 March 2003 and became a 51% owned subsidiary of GDH for the period from 31 March 2003 to 31 December 2003, and a fellow subsidiary of the Company, on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

For the year ended 31 December 2003, the aggregate amount of the malt purchased by the Group was RMB13,527,000 (2002: Nil). The balance due to NMCL as at 31 December 2003 was unsecured, interest-free and was fully settled during the year.

- (iii) The Group entered into a tenancy agreement dated 2 February 2001 with Bateson Developments Limited ("BDT"), a wholly-owned subsidiary of GDI and a fellow subsidiary of the Company, 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 commenced on 1 September 2002.

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32. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)

- (iv) As at 31 December 2003, there were advances made by Morefit to the Group's non-wholly-owned subsidiary, Shenzhen Brewing, in which the Group holds a 97% (2002: 87%) equity interest, in the aggregate amount of HK\$305,210,000 (2002: HK\$249,090,000). The loans were used to finance the construction and operation of a plant in Bao An, Mainland China.

The loans were unsecured and interest-free and included in the total amount, (i) HK\$133,445,000 (2002: HK\$63,790,000) which is repayable within one year, (ii) HK\$91,575,000 (2002: HK\$104,776,000) which is repayable within five years from the balance sheet date and (iii) HK\$80,190,000 (2002: HK\$80,524,000) which is not repayable within one year. In the prior year, out of the total loan, HK\$168,566,000 bore interest at six months' LIBOR plus 0.75% per annum.

The total interest income received by Morefit in 2002 amounted to HK\$5,460,000. During the year, Morefit waived the loan interest due from Shenzhen Brewing, which was charged in prior years, amounting to HK\$13,972,000.

- (v) As at 31 December 2003, 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\$144,417,000 (2002: HK\$178,721,000). The loans were used to finance its expansion plan and the construction of a plant in Bao An, Mainland China.

Out of the total balance, HK\$22,267,000 (2002: HK\$56,063,000) is unsecured, bears interest at six months' LIBOR plus 0.75% (2002: six month's LIBOR plus 0.75%) per annum and is repayable within five years. The remaining outstanding loan balance of HK\$122,150,000 (2002: HK\$122,658,000) is unsecured, interest-free and is not repayable within one year.

- (vi) As at 31 December 2003, there were advances made by the Company to Shenzhen Brewing in the aggregate amount of HK\$65,864,000 (2002: HK\$66,137,000). The loans were used to finance its operations.

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

- (vii) On 28 March 2003, Morefit 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 the SK Companies, to acquire SBA's entire interests in each of the SK Companies together with the shareholders' loans of the SK Companies due to SBA for a total cash consideration of RMB75,000,000. The acquisition was completed on 27 August 2003.

Upon completion of the agreement, the Group's interest in each of the SK Companies was increased from 87% to 97% and a discount of HK\$4,338,000 was resulted on the Group's acquisition of amounts due to SBA, which was credited to the current year's profit and loss account.

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33. COMPARATIVE AMOUNTS

As further explained in notes 2 and 24 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.