

BRAND



金威啤酒集團有限公司
KINGWAY BREWERY HOLDINGS LIMITED

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

中期報告 2005

Interim Report 2005



金威
純

金威啤酒

淨含量: 600 ml

Adopting the most advanced brewing technology, the new high-quality product, limpid and palatable, mild and refreshing.



中國馳名商標 中國名牌產品 綠色食品
全面通過HACCP、ISO9001、ISO14001、OHSAS18001綜合管理體系認證

CONTENTS

2	CORPORATE INFORMATION
3	HIGHLIGHTS
	UNAUDITED INTERIM FINANCIAL REPORT
4	Condensed Consolidated Income Statement
5	Condensed Consolidated Balance Sheet
7	Condensed Consolidated Statement of Changes in Equity
8	Condensed Consolidated Cash Flow Statement
9	Notes to Condensed Consolidated Interim Financial Statements
20	INDEPENDENT REVIEW REPORT
21	MANAGEMENT DISCUSSION AND ANALYSIS
24	DIRECTORS' INTERESTS IN SECURITIES
27	SUBSTANTIAL SHAREHOLDERS' INTERESTS
29	CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE INFORMATION*(As at 16 September 2005)***Board of Directors***Executive Directors*YE Xuquan (*Chairman*)JIANG Guoqiang (*Managing Director*)HUI Wai Man, Lawrence (*Chief Financial Officer*)*Non-Executive Directors*

KOH Poh Tiong

HAN Cheng Fong

Sijbe HIEMSTRA

ZHAO Lili

LUO Fanyu

HO LAM Lai Ping, Theresa

Michael WU

Independent Non-Executive Directors

Alan Howard SMITH

V-nee YEH

Rafael GIL-TIENDA

Company Secretary

LAM Yee Mei, Katherine

Auditors

Ernst & Young

Principal Bankers

Standard Chartered Bank

Shenzhen Development Bank

Shareholders' Calendar

Closure of Register of Members 24 and 25 October 2005

Interim Dividend 1.5 HK cents per share

Payable 16 November 2005

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Place of Business in Hong Kong

Office A1, 19th Floor

Guangdong Investment Tower

148 Connaught Road Central

Hong Kong

Telephone: (852) 2165 6262

Facsimile: (852) 2815 2020

Principal Share Registrar

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Branch Share Registrar in Hong Kong

Tengis Limited

G/F

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Share InformationPlace of Listing: Main Board of The Stock
Exchange of Hong Kong Limited

Stock Code: 124

Board lot: 2000 shares

Financial year end: 31st December

Website Address<http://www.kingwaybeer.hk>

HIGHLIGHTS

	For the six months ended 30 June		Changes
	2005 (Unaudited)	2004 (Restated)	
Beer sales volume, in tonne	216,000	158,000	+36.7%
Turnover, in thousand HK\$	516,363	399,146	+29.4%
Gross profit, in thousand HK\$	237,051	194,751	+21.7%
Profit for the period, in thousand HK\$	81,372	72,504	+12.2%
EBITDA, in thousand HK\$	135,795	129,630	+4.8%
Basic earnings per share, in HK cent	5.8	5.2	+11.5%
Interim dividend per share, in HK cent	1.5	1.5	–
Average unit selling price per tonne, in HK\$	2,391	2,526	-5.3%
Average unit costs per tonne, in HK\$	1,293	1,294	-0.1%
Gross profit margin	45.9%	48.8%	-2.9%
Net profit margin	15.8%	18.2%	-2.4%
Production capacity utilisation rate	72.0%	79.0%	-7.0%
	30 June 2005 (Unaudited)	31 December 2004 (Restated)	
Current ratio	2.3 times	3.3 times	-30.3%
Gearing ratio	Net cash	Net cash	–
Total liabilities to total assets	10.8%	11.0%	-0.2%
Total assets, in thousand HK\$	1,928,065	1,865,225	+3.4%
Net asset value per share, in HK\$	1.23	1.19	+3.4%
Period-end number of employees	1,347	1,240	+8.6%

UNAUDITED INTERIM FINANCIAL REPORT

The Board of Directors of Kingway Brewery Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "Period") together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee and the Company's auditors, Ernst & Young.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

		For the six months ended 30 June	
	<i>Notes</i>	2005 (Unaudited) HK\$'000	2004 (Restated) HK\$'000
REVENUE			
Sale of goods	2	516,363	399,146
Cost of sales		(279,312)	(204,395)
Gross profit		237,051	194,751
Other income and gains		8,944	6,055
Selling and distribution costs		(130,596)	(86,680)
Administrative expenses		(30,316)	(28,992)
PROFIT BEFORE TAX	3	85,083	85,134
Tax	4	(3,711)	(12,630)
PROFIT FOR THE PERIOD		81,372	72,504
ATTRIBUTABLE TO:			
Equity holders of the parent		80,607	70,056
Minority interests		765	2,448
		81,372	72,504
EARNINGS PER SHARE			
Basic	5	5.8 cents	5.2 cents
Diluted		5.7 cents	5.1 cents
DIVIDEND – Interim	6	20,934	20,922

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2005

	<i>Notes</i>	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,304,734	1,075,602
Prepaid land premiums/land lease payments		101,933	93,357
Negative goodwill		–	(10,247)
Available-for-sale investment		–	–
Reusable packaging materials		38,690	25,235
Deferred tax assets		6,410	5,445
		<hr/>	<hr/>
Total non-current assets		1,451,767	1,189,392
CURRENT ASSETS			
Inventories		119,553	107,860
Trade receivables	7	52,761	38,865
Prepayments, deposits and other receivables		21,157	22,173
Tax recoverable		–	2,298
Pledged and restricted bank balances		45,867	6,825
Cash and cash equivalents		236,960	497,812
		<hr/>	<hr/>
Total current assets		476,298	675,833
CURRENT LIABILITIES			
Trade payables	8	(57,308)	(41,724)
Tax payable		(2,402)	(78)
VAT payable		(12,264)	(5,599)
Other payables and accruals		(123,458)	(138,336)
Due to the immediate holding company	14(b)	(688)	(142)
Due to a fellow subsidiary	14(b)	(5,942)	(12,102)
Due to a minority equityholder of a subsidiary	14(b)	(3,130)	(4,377)
		<hr/>	<hr/>
Total current liabilities		(205,192)	(202,358)
NET CURRENT ASSETS			
		<hr/> 271,106 <hr/>	<hr/> 473,475 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/> 1,722,873 <hr/>	<hr/> 1,662,867 <hr/>

CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)

30 June 2005

	<i>Notes</i>	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		<u>(2,514)</u>	<u>(2,515)</u>
		<u>1,720,359</u>	<u>1,660,352</u>
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Issued capital	9	139,557	139,557
Other reserves	11	1,038,329	1,066,721
Retained profits	11	502,660	404,906
Proposed dividends		<u>20,934</u>	<u>27,911</u>
		1,701,480	1,639,095
Minority interests	11	<u>18,879</u>	<u>21,257</u>
		<u>1,720,359</u>	<u>1,660,352</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Restated) HK\$'000
Total equity at 1 January:			
As previously reported as equity		1,639,095	1,265,194
As previously reported separately as minority interests		21,257	22,627
		<u>1,660,352</u>	<u>1,287,821</u>
Opening adjustment on adoption of HKFRS 3	1(e)	10,247	–
As restated		1,670,599	1,287,821
Changes in equity during the period:			
Exchange differences on translation of the financial statements of subsidiaries in Mainland China, and net income recognised directly in equity	11	(563)	6,571
Profit for the period	11	81,372	72,504
Total recognised income and expense for the period		<u>80,809</u>	<u>79,075</u>
Issue of shares, including share premium		–	251,301
Share issue expenses	11	–	(3,714)
Dividend paid		(27,911)	(20,916)
Dividends to minority interests declared	11	(3,138)	–
Total equity at 30 June		<u>1,720,359</u>	<u>1,593,567</u>
Total recognised income and expense for the period attributable to:			
Equity holders of the parent		80,049	76,484
Minority interests		760	2,591
		<u>80,809</u>	<u>79,075</u>
Effects of opening adjustment on adoption of HKFRS 3 attributable to equity holders of the parent		10,247	–

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2005*

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOWS FROM OPERATING ACTIVITIES	82,917	75,950
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	(339,763)	(137,415)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(4,387)	247,587
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(261,233)	186,122
Cash and cash equivalents at beginning of period	497,812	347,668
Effect of foreign exchange rate changes, net	381	1,469
CASH AND CASH EQUIVALENTS AT END OF PERIOD	236,960	535,259
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	119,977	295,642
Non-pledged time deposits with original maturity of less than three months when acquired	116,983	239,617
	236,960	535,259

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 16, 18, 19, 20, 21, 23, 24, 33, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) *HKAS 1 – Presentation of Financial Statements and HKAS 27 – Consolidated and Separate Financial Statements*
Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the consolidated income statement as a deduction before arriving at the net profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the condensed consolidated balance sheet as at 31 December 2004 and in the condensed consolidated income statement and condensed consolidated statement of changes in equity for the comparative period ended 30 June 2004 has been restated accordingly.

1. Accounting Policies (Cont'd)*(b) HKAS 17 – Leases*

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premium for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained profits. The comparatives on the condensed consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of leasehold land.

*(c) HKAS 32 and HKAS 39 – Financial Instruments*Equity security

In prior periods, the Group classified its investment in equity security as a long term investment which was held for non-trading purpose and was stated at cost less any impairment loss.

Upon the adoption of HKASs 32 and 39, the security is classified as an available-for-sale investment. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognised in the income statement.

This change in accounting policy has had no effect on the condensed consolidated interim financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(d) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

1. Accounting Policies (Cont'd)*(d) HKFRS 2 – Share-based Payment (Cont'd)*

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined using the Black-Scholes Model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The adoption of HKFRS 2 has had no effect on the condensed consolidated interim financial statements.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated reserves in the year of acquisition and was not recognised in the consolidated income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group’s interest in the net fair value of the acquirees’ identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as “negative goodwill”), after reassessment, is recognised immediately in the consolidated income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained profits. Goodwill previously eliminated against consolidated reserves remains eliminated against consolidated reserves and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

1. Accounting Policies (Cont'd)*(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets (Cont'd)*

The effects of the above changes are the carrying amount of the negative goodwill recognised in the condensed consolidated balance sheet and remained credited to the consolidated capital reserve as at 1 January 2005 of HK\$10,247,000 and HK\$39,620,000, respectively, were derecognised by way of a corresponding adjustment to the opening retained profits as at 1 January 2005 of HK\$49,867,000. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2. 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 the People's Republic of China (the "PRC" or "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.

Geographical segments

The following table presents revenue and results for the Group's geographical segments.

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	485,529	368,151	30,834	30,995	-	-	-	-	516,363	399,146
Intersegment sales	8,815	8,129	-	-	-	-	(8,815)	(8,129)	-	-
Other income and gains	5,539	3,858	-	-	-	-	-	-	5,539	3,858
Total	<u>499,883</u>	<u>380,138</u>	<u>30,834</u>	<u>30,995</u>	<u>-</u>	<u>-</u>	<u>(8,815)</u>	<u>(8,129)</u>	<u>521,902</u>	<u>403,004</u>
Segment results	<u>77,958</u>	<u>76,569</u>	<u>12,631</u>	<u>12,245</u>	<u>(8,911)</u>	<u>(5,877)</u>	<u>-</u>	<u>-</u>	<u>81,678</u>	<u>82,937</u>
Interest income and unallocated gain									<u>3,405</u>	<u>2,197</u>
Profit before tax									<u>85,083</u>	<u>85,134</u>
Tax									<u>(3,711)</u>	<u>(12,630)</u>
Profit for the period									<u>81,372</u>	<u>72,504</u>

3. Profit Before Tax

Profit before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Depreciation	40,345	37,221
Amortisation of prepaid land premium/land lease payments	1,132	952
Amortisation of reusable packaging materials	9,235	6,654
Interest income	(3,405)	(2,197)
Negative goodwill recognised as income	–	(331)
Gain on disposal of an available-for-sale investment	(374)	–
	<u>40,345</u>	<u>37,221</u>

4. Tax

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Current – Hong Kong profits tax	2,211	2,134
Current – PRC corporate income tax (“CIT”):		
Charge for the period	2,469	2,721
Overprovision in prior periods	–	(1,345)
Deferred	(969)	9,120
	<u>2,469</u>	<u>2,721</u>
Total tax charge for the period	<u>3,711</u>	<u>12,630</u>

Hong Kong profits tax has been provided at a rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in the PRC and elsewhere have been calculated at the rates of tax prevailing in those places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC tax laws, the Group’s subsidiaries, Shenzhen Kingway Brewing Co., Ltd. (“Kingway Brewing”), Kingway Brewery (Shantou) Co., Ltd. (“Kingway Shantou”), Kingway Brewery (Dongguan) Co., Ltd. (“Kingway Dongguan”), and Kingway Brewery (Tianjin) Co., Ltd. (“Kingway Tianjian”) are entitled to preferential tax treatment with full tax exemption from CIT for two years starting from the first profitable year of operations, followed by 50% reduction in CIT rate for the next three years.

For the six months ended 30 June 2005, Kingway Brewing was exempted from CIT. For the prior period, part of the Group’s deferred tax assets relating to tax losses of Kingway Brewing were utilised as a deferred tax charge during that period.

Kingway Shantou, Kingway Dongguan, Kingway Tianjian have not generated any profit since their establishments, thus the tax exemption period has not commenced. Deferred tax assets have been recognised during the current period in respect of the tax losses incurred by these subsidiaries to the extent that it is probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by these subsidiaries.

7. 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 to 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 the Group's trade receivables at the respective balance sheet dates, based on payment due date, is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within 3 months	52,516	38,764
More than 3 months and less than 6 months	235	–
More than 6 months and less than 1 year	34	655
More than 1 year	857	834
	<u>53,642</u>	<u>40,253</u>
Less: Provision for doubtful debts	(881)	(1,388)
	<u>52,761</u>	<u>38,865</u>

8. Trade Payables

An aged analysis of the Group's trade payables, based on invoice date, is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within 3 months	54,977	38,846
More than 3 months and less than 6 months	122	301
More than 6 months and less than 1 year	216	356
More than 1 year	1,993	2,221
	<u>57,308</u>	<u>41,724</u>

9. Share Capital

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
<i>Authorised:</i>		
2,000,000,000 (31 December 2004: 2,000,000,000) ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,395,568,000 (31 December 2004: 1,395,568,000) ordinary shares of HK\$0.10 each	<u>139,557</u>	<u>139,557</u>

There were no movements in the Company's authorised and issued share capital during the six months ended 30 June 2005.

10. Share Option Scheme

The following share options were outstanding under the Company's share option scheme during the period:

Name or category of participant	Number of share options at 1 January and 30 June 2005	Date of grant of share options*	Exercise period of share options #	Exercise price of share options**	Price of Company's shares at date of grant of options***
				HK\$	HK\$
Directors					
Ye Xuquan	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	7,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
Jiang Guoqiang	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
Alan Howard Smith	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
V-nee Yeh	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
	<u>12,200,000</u>				
Others					
Former director (Note)	400,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	400,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
Employees	4,500,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	12,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
	<u>17,300,000</u>				
Total	<u>29,500,000</u>				

* 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 its closing price on the Stock Exchange on the business day prior to the date of the grant of the options.

If the last day of the exercise 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).

Note: As at 1 January 2005, Mr. Fung Sing Hong Stephen, a director of the Company who resigned during the period, had a total of 800,000 share options. These share options were reclassified and included in the "Former director" category in the above movement schedule.

KINGWAY BREWERY HOLDINGS LIMITED

Interim Report 2005

11. Reserves

	Share premium account HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Enterprise development fund# HK\$'000	Reserve fund# HK\$'000	Total HK\$'000	Retained profits HK\$'000	Minority interests HK\$'000
At 1 January 2004	739,844	53,444	26	216	30,683	824,213	295,005	22,627
Issue of shares	234,094	-	-	-	-	234,094	-	-
Share options exercised	2,830	-	-	-	-	2,830	-	-
Share issue expenses	(3,714)	-	-	-	-	(3,714)	-	-
Profit for the period	-	-	-	-	-	-	70,056	2,448
Interim 2004 dividend declared	-	-	-	-	-	-	(20,922)	-
Exchange realignment	-	-	6,428	-	-	6,428	-	143
At 30 June 2004 and 1 July 2004	973,054	53,444	6,454	216	30,683	1,063,851	344,139	25,218
Share options exercised	1,651	-	-	-	-	1,651	-	-
Profit for the period	-	-	-	-	-	-	96,106	1,839
Proposed final 2004 dividend	-	-	-	-	-	-	(27,911)	-
Dividends to minority interests declared	-	-	-	-	-	-	-	(4,386)
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	(538)
Transfer from retained profits	-	-	-	-	7,428	7,428	(7,428)	-
Exchange realignment	-	-	(6,209)	-	-	(6,209)	-	(876)
At 31 December 2004	974,705	53,444	245	216	38,111	1,066,721	404,906	21,257
	Note							
At 1 January 2005:								
As previously reported								
Opening adjustment on adoption of HKFRS 3	1(e)	(39,620)	-	-	-	(39,620)	49,867	-
As restated		13,824	245	216	38,111	1,027,101	454,773	21,257
Profit for the period	-	-	-	-	-	-	80,607	765
Transfer from retained profits	-	-	-	-	11,786	11,786	(11,786)	-
Interim 2005 dividend declared	-	-	-	-	-	-	(20,934)	-
Dividends to minority interests declared	-	-	-	-	-	-	-	(3,138)
Exchange realignment	-	-	(558)	-	-	(558)	-	(5)
At 30 June 2005		13,824	(313)	216	49,897	1,038,329	502,660	18,879

Pursuant to the relevant laws and regulations for joint venture enterprises, a portion of the profits of the Group's subsidiaries which are registered in the PRC has been transferred to the enterprise development funds and the reserve funds which are restricted as to use. The amounts transferred from the retained profits are determined by the board of directors of these subsidiaries. These funds are not available for distribution.

12. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to two years (31 December 2004: two years).

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within one year	656	341
In the second to fifth years, inclusive	57	228
	713	569

13. COMMITMENTS

In addition to the operating lease commitments detailed in note 12 to the financial statements, the Group had the following commitments at the balance sheet date:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Capital commitments on the acquisition of fixed assets:		
Contracted, but not provided for	377,164	252,353
Authorised, but not contracted for	209,220	593,649
	586,384	846,002

14. RELATED PARTY TRANSACTIONS

(a) *Transactions with related parties*

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Transactions with fellow subsidiaries:		
Purchase of malt from Guangzhou Malting Co., Ltd.	62,890	37,720
Purchase of malt from Ningbo Malting Co., Ltd.	1,436	–
Rental of office premises paid to Bateson Developments Limited	–	217
Rental of office premises paid to Global Head Developments Limited	171	–

(b) *Outstanding balances with related parties*

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Balances due to:		
The immediate holding company	688	142
A fellow subsidiary	5,942	12,102
A minority equityholder of a subsidiary	3,130	4,377

14. RELATED PARTY TRANSACTIONS (Cont'd)(c) *Compensation of key management personnel of the Group*

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Short term employee benefits	2,338	2,067
Post-employment benefits	315	246
Share-based payments	—	—
	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>2,653</u>	<u>2,313</u>

15. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 20 July 2005, the Company entered into an agreement with the Management Committee of the Xian Economic and Technological Development Zone for the establishment of an indirect wholly-foreign owned enterprise in Xian to engage in the production and sale of Kingway beer. The total investment for the first phase with an annual production capacity of 200,000 tonnes would be approximately USD50 million and is expected to commence production in the first half of 2007.

16. LITIGATION

In December 2004, Baligold Developments Limited ("Baligold"), a wholly-owned subsidiary of the Company, commenced legal proceedings in the High Court of the Hong Kong Special Administrative Region against Best Concepts Consultants Limited as the first defendant and Central China (Asia) Investment Limited as the second defendant to recover, inter alia, the final payment of HK\$12.23 million and interest thereon under an agreement for sale and purchase dated 9 August 2002 (the "Agreement") in respect of the disposal of the entire shares of the second defendant, the shareholder of 50% interest in Shandong Huazhong Amber Brewery Co. Ltd., to the first defendant and a supplemental agreement dated 7 August 2003 (the "Supplemental Agreement"); and the enforcement of a share mortgage which is the entire shares of the second defendant as the security provided by the first defendant under the Supplemental Agreement. Moreover, Baligold's claim against the second defendant also included the damages for failure to repay the loan of HK\$35.65 million by the second defendant, which should be conditionally waived by Baligold subject to the completion of the Agreement.

In the prior year, a provision of HK\$7,000,000 was made against the final payment. The loan of HK\$35.65 million due from the second defendant had also been fully provided for in a prior year. The directors considered that adequate provisions have been made in the condensed consolidated interim financial statements for these receivable balances.

In February 2005, the defendants submitted a counterclaim against Baligold claiming, inter alia, damages for breach of the Agreement by Baligold.

Up to the date of approval of these condensed consolidated interim financial statements, the above proceedings are still in progress.

The directors, having considered the advice from legal counsel, are of the opinion that the counterclaim is without merit and should have no material adverse impact to the Group.

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 16 September 2005.

INDEPENDENT REVIEW REPORT



To The Board of Directors

Kingway Brewery Holdings Limited

(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 4 to 19.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Ernst & Young

Certified Public Accountants

Hong Kong
16 September 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Board of Directors is pleased to report a continuous growth in Group's results for the first half of 2005. The unaudited consolidated profit for the period was HK\$81.37 million (2004: HK\$72.50 million), representing an increase of 12.2% over the same period of 2004. Basic earnings per share was 5.8 HK cents (2004: 5.2 HK cents), representing an increase of 11.5% over the same period of 2004.

Key Operating Data

The sales volume of Kingway beer for the first half of the year was 216,000 tonnes (2004: 158,000 tonnes), representing an increase of 36.7% over the same period of 2004. The consolidated revenue was HK\$516 million (2004: HK\$399 million), representing an increase of 29.4% as compared to the same period of 2004. The gross profit for the first half of the year was HK\$237 million (2004: HK\$195 million), representing an increase of 21.7% as compared to the same period last year. The gross profit margin was 45.9% (2004: 48.8%), representing a minor decrease over the same period of 2004 as a result of the change in product mix.

Business Review

The production and sale of Kingway beer continued to be the principal business of the Group during the first half of the year. The sales were primarily conducted in the Guangdong Province, Mainland China.

During the first half of the year, the Group successfully consolidated and expanded the coverage of Kingway beer in the Guangdong market by adopting specific marketing strategies for each subdivided market. It is expected that the market share of Kingway beer in Guangdong Province will experience further growth upon full operation of the brewery plants in Shantou and Dongguan.

Food safety has always been of great concern to the Group. As such, no formaldehyde is used in the brewing processes of all our beer products. In April 2005, both Kingway plants located in Shenzhen were granted ISO 14001 Environmental Management System Certificate, HACCP Food Safety Management System Specification and OHSAS 18001 Occupational Health and Safety Management System Certificate. This reflected the efforts and commitment of the Group in the areas of environmental protection, food safety and occupational safety.

Subsequent to receiving accolades such as "Chinese Top Brand" and "National Green Products", the Kingway brand was recognised as a product with "China Well-Known Trademark" in June 2005. This reinforced our endeavour of establishing and elevating the Kingway brand as a national brand. To this end, the Group will capitalise on the advantage brought by such awards and accolades to distinguish the Kingway brand from its competitors.

The first phase of the new brewery plant located in Shantou commenced smooth operation in January 2005, with an increasing production volume every month. It is expected that the second phase will commence operation in the second half of the year. Construction of brewery plants in Dongguan and Tianjin progressed smoothly and is expected to complete by the end of this year and second quarter of the next year respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Financial Review

Average energy and utility prices in the first half of the year recorded a year-on-year increase. Nevertheless, the Company managed to alleviate the pressure of rise in costs by implementation of "Sunshine Programme", which involves the sourcing of packaging materials by way of public tender. The resulted average costs per tonne of beer sold was HK\$1,293 (2004: HK\$1,294), largely unchanged from the corresponding period last year.

During the first half of 2005, the Group stepped up its marketing efforts in various markets. In particular, the Group was committed to developing the Tianjin market through the establishment of a distribution network and expansion of marketing teams, building a solid platform to calibrate for the continuous growth of beer sales. Selling and distribution expenses recorded a year-on-year increase of 50.6% to HK\$131 million (2004: HK\$87 million), while average selling and distribution expenses per tonne of beer sold increased by 10.2% year on year to HK\$605 (2004: HK\$549).

Administrative expenses for the first half of the year was HK\$30.32 million (2004: HK\$28.99 million), representing an increase of 4.6% from the corresponding period last year. This was primarily attributable to the increase in administrative expenses of Kingway Shantou Plant and the pre-operating expenses of brewery plants in Dongguan and Tianjin. As the Group had no interest-bearing debt, there was no finance cost for the first halves of both 2005 and 2004.

Financial Resources and Liquidity

As at 30 June 2005, the Group had cash and bank balances of HK\$283 million (including pledged and restricted bank balances of HK\$46 million), of which 35.1% was in USD, 8.2% was in EUR, 1.1% was in HKD and 55.6% was in RMB. Cash generated from operations for the period was HK82.92 million.

Cash generated from operating activities for the first half of the year was satisfactory. However, as construction of certain new brewery plants including, amongst others, Kingway Xian plant commences, the existing capital resources is insufficient to cater for the Group's rapid development. The Company is currently engaged in negotiation with banks regarding a long-term loan arrangement. It is expected that a loan agreement will be reached within this year.

As at 30 June 2005, the Group had no bank loan or contingent liability. The Group was in net cash position, reflecting a sound financial structure of the Group.

Capital Expenditure

For the first half of 2005, capital expenditures of the Group was HK\$301 million (2004: HK\$110 million), mainly comprising construction costs of new brewery plants in Shantou, Dongguan and Tianjin. It is expected that capital expenditures on construction projects for the second half of the year will increase slightly when comparing to that of the first half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Outlook

The two breweries currently operated in Shenzhen with an annual production capacity of 200,000 tonnes each were incapable of fully satisfying the market demand for Kingway beer. In recent years, upgrades and modifications were made to the brewing and packaging facilities of both plants with an aim of boosting their capacity. As a result, each of the breweries will be equipped with an enhanced annual production capacity of 250,000 tonnes.

In July 2005, the Group announced the construction of a brewery plant with an annual capacity of 200,000 tonnes in Xian, Shaanxi Province. The plant is expected to commence operation in the first half of 2007, marking a step forward by Kingway beer towards the national market. To prepare for the operation of the new breweries in Tianjin and Xian, the Group will commit resources in establishing distribution networks for Kingway beer in the new markets.

In 2004, the Group formulated a five-year development strategic plan targeting for an annual beer sales of 1.2 million tonnes within five years. Base on the current growth momentum, the management of the Group is confident that the above strategic goal will be achieved.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2005, 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 ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, were as follows:

I. Shares

(i) The Company

Name of Director	Type of interests	Number of shares held	Long/short position	% of the issued share capital
Jiang Guoqiang	Personal	300,000	Long position	0.0215
Zhao Leili	Personal	300,000	Long position	0.0215
Luo Fanyu	Personal	70,000	Long position	0.0050
Ho Lam Lai Ping, Theresa	Personal	80,000	Long position	0.0057
Michael Wu	Personal	134,000	Long position	0.0096

Note: The number of the issued shares of the Company as at 30 June 2005 was 1,395,568,000.

(ii) Guangdong Investment Limited

Name of Director	Type of interests	Number of shares held	Long/short position	% of the issued share capital
Luo Fanyu	Personal	200,000	Long position	0.0036
Ho Lam Lai Ping, Theresa	Personal	700,000	Long position	0.0125
Michael Wu	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 30 June 2005 was 5,614,492,672.

(iii) Guangdong Tannery Limited

Name of Director	Type of interests	Number of shares held	Long/short position	% of the issued share capital
Luo Fanyu	Personal	70,000	Long position	0.0134

Note: The number of the issued shares of Guangdong Tannery Limited as at 30 June 2005 was 524,154,000.

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)*II. Options**(i) The Company*

Name of Director	Number of options held on 01/01/2005	Options granted Jan-Jun 2005		Period during which option is exercisable*	Total consideration paid for share options HK\$	Price to be paid per share on exercise of options HK\$	Number of options exercised Jan-Jun 2005	Number of options held on 30/06/2005	Long/Short position
		Date granted	Number granted						
Ye Xuquan	2,000,000	-	-	27/08/2003-26/08/2008	1	0.84	-	2,000,000	Long position
	7,000,000	-	-	07/05/2004-06/05/2009	1	1.93	-	7,000,000	Long position
Jiang Guoqiang	2,000,000	-	-	27/08/2003-26/08/2008	1	0.84	-	2,000,000	Long position
Alan Howard Smith	300,000	-	-	27/08/2003-26/08/2008	1	0.84	-	300,000	Long position
	300,000	-	-	07/05/2004-06/05/2009	1	1.93	-	300,000	Long position
V-nee Yeh	300,000	-	-	27/08/2003-26/08/2008	1	0.84	-	300,000	Long position
	300,000	-	-	07/05/2004-06/05/2009	1	1.93	-	300,000	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).

(ii) Guangdong Investment Limited

Name of Director	Number of options held on 01/01/2005	Options granted Jan-Jun 2005		Period during which option is exercisable*	Total consideration paid for share options HK\$	Price to be paid per share on exercise of options HK\$	Number of options exercised Jan-Jun 2005	Number of options held on 30/06/2005	Long/Short position
		Date granted	Number granted						
Ye Xuquan	7,000,000	-	-	11/02/2002-10/02/2007	-	0.5312	-	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
	3,000,000	-	-	08/08/2003-07/08/2008	1	1.22	-	3,000,000	Long position
	3,000,000	-	-	07/05/2004-06/05/2009	1	1.59	-	3,000,000	Long position
Ho Lam Lai Ping, Theresa	900,000	-	-	05/03/2003-04/03/2008	1	0.96	-	900,000	Long position
	1,500,000	-	-	08/08/2003-07/08/2008	1	1.22	-	1,500,000	Long position
	1,500,000	-	-	07/05/2004-06/05/2009	1	1.59	-	1,500,000	Long position
	1,000,000	-	-	25/08/2004-24/08/2009	1	1.25	-	1,000,000	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)

II. Options (Cont'd)

(iii) Guangnan (Holdings) Limited

Name of Director	Number of options held on 01/01/2005	Options granted Jan-Jun 2005		Period during which option is exercisable*	Total consideration paid for share options HK\$	Price to be paid per share on exercise of options HK\$	Number of options exercised Jan-Jun 2005	Number of options held on 30/06/2005	Long/Short position
		Date granted	Number granted						
Hui Wai Man, Lawrence	2,500,000	-	-	06/05/2004- 05/05/2009	10	0.1582	-	2,500,000	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, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or the chief executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and the chief executive (including their spouses and children under the age of 18) had, as at 30 June 2005, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2005, so far as is known to any director or chief executive of the Company, shareholders who have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of shareholder	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) <i>(note 1)</i>	Shares	1,033,768,000	Long position	74.08%
GDH Limited ("GDH") <i>(note 1)</i>	Shares	1,033,768,000	Long position	74.08%
Heineken Holding N.V. ("Heineken HNV") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken N.V. ("Heineken NV") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken International B.V. ("Heineken IBV") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Fraser and Neave, Limited ("F & N") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Asia Pacific Investment Pte Ltd ("APIP") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Asia Pacific Breweries Limited ("APB") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken – APB (China) Pte Ltd ("HAPBC") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(Cont'd)*

- Notes: (1)(a) 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, namely GDH.
- (1)(b) Of these 1,033,768,000 shares: (i) 734,503,720 shares are beneficially held by GDH, (ii) 165,496,280 shares relate to derivative interests of GDH, and (iii) 133,768,000 shares relate to the deemed interests of GDH under section 318 of the SFO.
- (2)(a) Of these 1,033,768,000 shares: (i) 299,264,280 shares are beneficially held by HAPBC and (ii) 734,503,720 shares relate to the deemed interests of HAPBC under section 318 of the SFO.
- (2)(b) In addition, by virtue of the SFO, each of Heineken HNV, Heineken NV, Heineken IBV, F & N, APIP and APB is deemed to be interested in the same 1,033,768,000 shares of the Company in which HAPBC is interested, as described in note (2)(a) above.
- (3) The short position in respect of 299,264,280 shares arises as a result of the pre-emptive and other rights granted to GDH to, in certain specified circumstances, acquire HAPBC's shareholding in the Company under a share purchase agreement dated 28 January 2004 and entered into between GDH and HAPBC.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has complied with the code provisions of the Code on Corporate Governance Practices (“Code on CG Practices”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) throughout the six months ended 30 June 2005.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors’ securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2005.

Audit Committee

The Company established an audit committee (“Audit Committee”) in September 1998. The terms of reference of the Audit Committee adopted by the board of directors of the Company are in line with the Code on CG Practices. The existing Audit Committee comprises the three independent non-executive directors, Mr. V-nee Yeh as the chairman, Mr. Alan Howard Smith and Mr. Rafael Gil-Tienda as members. The principal duties of the Audit Committee include the review of the effectiveness of the internal control systems and the completeness, accuracy and fairness of the Company’s financial reports.

Remuneration Committee

The Company has also established a remuneration committee (“Remuneration Committee”) in accordance with the Listing Rules. The terms of reference of the Remuneration Committee adopted by the board of directors of the Company are in line with the Code on CG Practices. The existing Remuneration Committee comprises Mr. Ye Xuquan as the chairman, Mr. Koh Poh Tiong, Mr. V-nee Yeh, Mr. Alan Howard Smith and Mr. Rafael Gil-Tienda as members. The principal duties of the Remuneration Committee include the review of the remuneration policy and compensation of the directors and senior management of the Company.

Review of Interim Results

The Group’s interim financial report for the six months ended 30 June 2005 has not been audited, but has been reviewed by the Audit Committee and the Company’s auditors Messrs. Ernst & Young.

Purchase, sale and redemption of listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2005.

Interim Dividend

The board of directors has resolved to declare the payment of an interim dividend of 1.5 HK cents (2004: 1.5 HK cents) per share for the six months ended 30 June 2005. The interim dividend will be paid to the shareholders whose names appear on the Register of Members of the Company on Tuesday, 25 October 2005. The interim dividend will be paid on Wednesday, 16 November 2005.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(Cont'd)*

Closure of Register of Members

The Register of Members will be closed on Monday, 24 October 2005 and Tuesday, 25 October 2005. During these two days, no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 21 October 2005.

By order of the board

Ye Xuquan

Chairman

Hong Kong, 16 September 2005

