

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 2004.

#### **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.

#### **CHANGE OF COMPANY NAME**

Pursuant to the special resolution approved by the shareholders of the Company and the approval of the Registrar of Companies in Bermuda, the name of the Company was changed from "Guangdong Brewery Holdings Limited" to "Kingway Brewery Holdings Limited" on 1 July 2004 and the Chinese name adopted by the Company was changed from "粵海啤酒集團有限公司" to "金威啤酒集團有限公司".

#### **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 80.

An interim dividend of 1.5 HK cents per share was paid on 29 October 2004. The Directors recommend the payment of a final dividend of 2.0 HK cents per share for the year ended 31 December 2004. 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 Wednesday, 15 June 2005, is expected to be paid on 30 June 2005 to shareholders whose names appear on the register of members of the Company on 15 June 2005.

## REPORT OF THE DIRECTORS (Cont'd)

### 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

	<b>Year Ended 31 December</b>				
	<b>2004</b>	2003	2002	2001	2000
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<b>924,528</b>	684,574	593,052	543,922	613,892
Cost of sales	<b>(481,550)</b>	(373,398)	(351,680)	(332,691)	(386,172)
Gross profit	<b>442,978</b>	311,176	241,372	211,231	227,720
Other revenue and gains	<b>22,365</b>	21,547	34,034	43,880	53,872
Selling and distribution expenses	<b>(206,710)</b>	(146,765)	(133,960)	(133,586)	(98,151)
Administrative expenses	<b>(70,001)</b>	(44,335)	(36,504)	(45,537)	(68,774)
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	<b>188,632</b>	141,623	100,331	70,388	73,165
Finance costs	–	–	–	(7,857)	(30,483)
Share of loss of an associate	–	–	(4,437)	(13,424)	(14,496)
PROFIT BEFORE TAX	<b>188,632</b>	141,623	95,894	49,107	28,186
Tax	<b>(18,183)</b>	(26,102)	(14,653)	(11,020)	(10,112)
PROFIT BEFORE MINORITY INTERESTS	<b>170,449</b>	115,521	81,241	38,087	18,074
Minority interests	<b>(4,287)</b>	(10,460)	(5,950)	(2,576)	34
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>166,162</b>	105,061	75,291	35,511	18,108

**ASSETS, LIABILITIES AND MINORITY INTERESTS**

	<b>As at 31 December</b>				
	<b>2004</b>	2003	2002	2001	2000
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	<b>1,865,225</b>	1,479,535	1,452,345	1,390,299	1,627,731
Total liabilities	<b>(204,873)</b>	(191,714)	(220,349)	(217,115)	(486,608)
Minority interests	<b>(21,257)</b>	(22,627)	(44,004)	(38,067)	(35,467)
	<b><u>1,639,095</u></b>	<u>1,265,194</u>	<u>1,187,992</u>	<u>1,135,117</u>	<u>1,105,656</u>

**FIXED ASSETS**

Movements in 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 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 2004, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$247,895,000, of which HK\$27,911,000 has been proposed as a final dividend for the year.

In addition, the Company's share premium of HK\$974,705,000 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 (2003: Nil).

## REPORT OF THE DIRECTORS (Cont'd)

### 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*)

#### *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

HO LAM Lai Ping, Theresa

Michael WU

FUNG Sing Hong, Stephen

LI Wai Keung (resigned on 27 February 2004)

#### *Independent Non-Executive Directors*

Alan Howard SMITH

V-nee YEH

Rafael GIL-TIENDA (appointed on 29 November 2004)

CHENG Mo Chi, Moses (resigned on 29 November 2004)

The Company has received annual confirmations of independence from the Independent Non-Executive Directors, namely: Mr. Alan Howard Smith, Mr. V-nee Yeh and Mr. Rafael Gil-Tienda, and considers them to be independent.

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Rafael Gil-Tienda, who was appointed Director of the Company after the last annual general meeting of the Company, shall hold office until the forthcoming annual general meeting and, being eligible, shall offer himself for re-election at the meeting.

In accordance with bye-law 87 of the Company's bye-laws, Mr. Ye Xuquan, Mr. Jiang Guoqiang, Mr. Fung Sing Hong, Stephen and Mr. V-nee Yeh 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 49, 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 the Beer Association of China and the Music and Literature Association of China.

**Mr. Jiang Guoqiang**, aged 52, 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.

**Non-Executive Directors**

**Mr. Koh Poh Tiong**, aged 58, 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 the Agri-food and Veterinary Authority and a Director of National Healthcare Group Pte Ltd, PSA International Pte Ltd and PSA Corporation Ltd. He was 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-APB (China) Pte Ltd ("HAPBC"), a substantial shareholder of the Company and a Director of DB Breweries Co. Ltd. ("DB Breweries") (a company delisted from the New Zealand Stock Exchange with effect from 14 September 2004).

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

#### Non-Executive Directors (cont'd)

**Dr. Han Cheng Fong**, aged 63, 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 ("F&N Group") in May 2001 as Deputy Chairman of Centrepoint 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, Centrepoint 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 55, 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 51, 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 the 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 49, 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 the People's High Court of Guangdong Province.

**Mrs. Ho Lam Lai Ping, Theresa**, aged 49, 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.

**Mr. Michael Wu**, aged 53, 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.

**DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)****Non-Executive Directors (cont'd)**

**Mr. Fung Sing Hong, Stephen**, aged 40, was re-designated from an Executive Director to a Non-Executive Director of the Company in April 2005. Mr. Fung was Executive Director of the Company from December 2002 to April 2005 and served as the Chief Financial Officer of the Company from December 2002 to November 2004. Mr. Fung holds a Master's degree of Business Administration from the University of Wales, United Kingdom. Mr. Fung is a member of both the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Fung has served as a director and senior executive in a number of principal subsidiaries of GDH in different business sectors focused on mergers and acquisitions, capital market financing, corporate restructuring and financial management. Mr. Fung was appointed a Director and the Chief Financial Officer of GDI in December 2004, and is responsible for all financial and treasury matters of GDI and its subsidiaries.

**Independent Non-Executive Directors**

**Mr. Alan Howard Smith**, aged 61, 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 46, 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.

**Mr. Rafael Gil-Tienda**, aged 52, was appointed an Independent Non-Executive Director of the Company in November 2004. He joined Marsh & McLennan Companies Inc. as chairman for Asia in October 2003. He is also an Independent Non-Executive Director of CITIC International Financial Holdings Limited and CITIC Ka Wah Bank Limited in Hong Kong; an advisor to several bodies and a visiting professor at China Europe International Business School, in Shanghai, China. Mr. Gil-Tienda has worked primarily in banking, with a career of over 25 years, 17 of which in Asia. He was at Citibank for 20 years and at Standard Chartered Bank for five. Mr. Gil-Tienda obtained a B.A. in Philosophy, Politics and Economics from Oxford University and an M.B.A. from the University of California, Berkeley.

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

#### Alternate Directors

**Mr. Frederik Willem Kurt Linck**, aged 48, was appointed an Alternate Director to Mr. Koh Poh Tiong, a director of the Company, in April 2004. Mr. Linck 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. In 1995, he joined Heineken which brought him to positions in APB in Cambodia and Papua New Guinea. He has worked in the People's Republic of China ("PRC") from 2000 and was appointed from 1 April 2004 as Regional Director (China) and oversees the operations under HAPBC in the PRC. He is also a Director of HAPBC.

**Mr. Huang Hong Peng**, aged 46, was appointed an Alternate Director to Dr. Han Cheng Fong, a director of the Company, in April 2004. Mr. Huang is currently the Chief Operating Officer, Food & Beverage of F&N Group. He sits on the boards of subsidiaries of APB Group and F&N Group. Before his transfer to the F&N Group, he was the deputy Regional Director, China of APB, a subsidiary of Fraser and Neave, Limited and was responsible for brewery operations of the APB Group in the PRC now consolidated under HAPBC. 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, France.

**Mr. Kenneth Choo Tay Sian**, aged 38, was appointed an Alternate Director to Mr. Herman Petrus Paulus Maria Hofhuis, a director 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

**Mr. Fung Chi Kwan, Nicholas**, aged 45, was appointed the Chief Financial Officer of the Company in November 2004. Mr. Fung is a fellow member of Hong Kong Institute of Certified Public Accountants. He graduated from the University of Toronto in Canada with the Degree of Bachelor of Commerce, majoring in Finance & Economics. Mr. Fung has served in international accounting firm & worked as financial controller or finance manager of various Multinational Corporations such as Westinghouse Electric Corporation, Merck & Co. Inc. of U.S.A., The Grande Group, and Lee Kum Kee of Hong Kong. He has professional experience in financial management of more than 18 years. He has sound knowledge in financial & accounting of corporations, especially in manufacturing cost accounting. He has practical experience in finance, accounting and taxation regulations in the PRC.

During the year, Messrs. Ye Xuquan, Jiang Guoqiang, Fung Sing Hong, Stephen and Fung Chi Kwan, Nicholas 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**

As at 31 December 2004, the interests of Directors or their respective associates in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company, namely, the production and sale of beer (the "Competing Business"), as required to be disclosed were as follows:

<b>Name of Director</b>	<b>Name of entity (Note)</b>	<b>Nature of interest (Note)</b>
Koh Poh Tiong	Asia Pacific Breweries Limited	Chief Executive Officer and Director
	Heineken-APB (China) Pte Ltd.	Chairman and Director
Han Cheng Fong	Asia Pacific Breweries Limited	Director
	Asia Pacific Investment Pte Ltd.	Director
	Heineken-APB (China) Pte Ltd.	Director
	Fraser and Neave, Limited	Group Deputy Chief Executive Officer/ Managing Director
	Fraser & Neave Holdings Bhd	Director
Herman Petrus Paulus Maria Hofhuis	Heineken Asia Pacific Pte Ltd.	Chairman and Managing Director
	Asia Pacific Breweries Limited	Director
	Heineken-APB (China) Pte Ltd.	Director

## REPORT OF THE DIRECTORS (Cont'd)

### DIRECTORS' INTERESTS IN COMPETING BUSINESS (cont'd)

<b>Name of Alternate Director</b>	<b>Name of entity (Note)</b>	<b>Nature of interest (Note)</b>
Frederik Willem Kurt Linck	Heineken-APB (China) Pte Ltd.	Director
Huang Hong Peng	Fraser and Neave, Limited	Chief Operating Officer, Food and Beverage
Kenneth Choo Tay Sian	Heineken Asia Pacific Pte Ltd.	Director

*Note:* The entities set out in the column headed "Name of entity" are holding companies or companies listed on various stock exchanges. The interests of the Directors listed in the above table in the businesses of the aforesaid listed entities or holding companies may also arise through their respective directorships in the subsidiaries, associated companies or other forms of investment vehicles of such listed entities or holding companies.

Save as disclosed above, as at 31 December 2004, none of the Directors had any interest in any Competing Business.

**DIRECTORS' INTERESTS IN SECURITIES****Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations**

As at 31 December 2004, 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*

<b>Name of Director</b>	<b>Type of Interest</b>	<b>Number of shares held</b>	<b>Long/Short Position</b>	<b>Approximate Percentage of holding</b>
Jiang Guoqiang	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
Fung Sing Hong, Stephen	Personal	24,000	Long Position	0.0017

*Note:* The number of the issued shares of the Company as at 31 December 2004 was 1,395,568,000.

*(ii) Guangdong Investment Limited*

<b>Name of Director</b>	<b>Type of Interest</b>	<b>Number of shares held</b>	<b>Long/Short Position</b>	<b>Approximate Percentage of holding</b>
Ho Lam Lai Ping, Theresa	Personal	900,000	Long Position	0.0162
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 2004 was 5,561,612,672.

**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 2004 was 524,154,000.

**II. Options**
*(i) The Company*

Name of Director	Number of options held on 01/01/2004	Options granted during the year		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 during the year	Number of options held on 31/12/2004	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
	-	06/02/2004	7,000,000	07/05/2004-06/05/2009	1	1.93	-	7,000,000	Long Position
Jiang Guoqiang	10,000,000	-	-	11/04/2002-10/04/2007	-	0.383	10,000,000	-	Long Position
	2,000,000	-	-	27/08/2003-26/08/2008	1	0.84	-	2,000,000	Long Position
Fung Sing Hong, Stephen	400,000	-	-	27/08/2003-26/08/2008	1	0.84	-	400,000	Long Position
	-	06/02/2004	400,000	07/05/2004-06/05/2009	1	1.93	-	400,000	Long Position
Alan Howard Smith	300,000	-	-	27/08/2003-26/08/2008	1	0.84	-	300,000	Long Position
	-	06/02/2004	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
	-	06/02/2004	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).

## 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 01/01/2004	Options granted during the year		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 during the year	Number of options held on 31/12/2004	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
	-	06/02/2004	3,000,000	07/05/2004-06/05/2009	1	1.59	-	3,000,000	Long Position
Ho Lam Lai Ping, Theresa	1,000,000	-	-	08/11/2002-07/11/2007	-	0.814	1,000,000	-	Long Position
	1,200,000	-	-	05/03/2003-04/03/2008	1	0.96	300,000	900,000	Long Position
	1,500,000	-	-	08/08/2003-07/08/2008	1	1.22	-	1,500,000	Long Position
	-	06/02/2004	1,500,000	07/05/2004-06/05/2009	1	1.59	-	1,500,000	Long Position
	-	24/05/2004	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).

Save as disclosed above, as at 31 December 2004, 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 by the Company during the year ended 31 December 2004:**

Date of Grant	:	06/02/2004
Vesting Period	:	06/02/2004 – 06/05/2004
Exercise Period	:	07/05/2004 – 06/05/2009
Exercise Price	:	HK\$1.93 per share

	Number of Options At 06/02/2004	Options Value At 06/02/2004 (Note (2)) HK\$	Number of Options At 31/12/2004	Options Value At 31/12/2004 (Note (3)) HK\$
Grantee:				
YE Xuquan	7,000,000	6,580,000	7,000,000	7,210,000
CHENG Mo Chi, Moses	300,000	282,000	–	–
Alan Howard SMITH	300,000	282,000	300,000	309,000
V-nee YEH	300,000	282,000	300,000	309,000
FUNG Sing Hong, Stephen	400,000	376,000	400,000	412,000
Aggregate total of employees	<u>12,400,000</u>	<u>11,656,000</u>	<u>12,000,000</u>	<u>12,360,000</u>
 Total	 <u>20,700,000</u>	 <u>19,458,000</u>	 <u>20,000,000</u>	 <u>20,600,000</u>

## Notes:

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$1.90.

**SHARE OPTIONS OF THE COMPANY (cont'd)****Share options granted by the Company during the year ended 31 December 2004: (cont'd)**

- (2) According to the Black-Scholes model<sup>1</sup>, the theoretical aggregate value of the options granted by the Company was estimated at HK\$19,458,000 as at 6 February 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	2.83%, being the approximate yield of a 5-year Exchange Fund Note traded on 06/02/2004.
Expected Volatility	:	59.2%, being the annualised volatility of the closing price of the shares of the Company from 07/02/2003 to 06/02/2004.
Expected Dividend Yield	:	1.30%, being the approximate yield of the shares of the Company over the period from 07/02/2003 to 06/02/2004.
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 07/02/2003 to 06/02/2004.

- (3) According to the Black-Scholes model<sup>1</sup>, the theoretical aggregate value of the options granted by the Company was estimated at HK\$20,600,000 as at 31 December 2004 with the following variables and assumptions:

Risk Free Rate	:	2.66%, being the approximate yield of a 5-year Exchange Fund Note traded on 31/12/2004.
Expected Volatility	:	52.7%, being the annualised volatility of the closing price of the shares of the Company from 01/01/2004 to 31/12/2004.
Expected Dividend Yield	:	1.32%, being the approximate yield of the shares of the Company over the period from 01/01/2004 to 31/12/2004.
Expected Life of the Options	:	4.35 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 01/01/2004 to 31/12/2004.

- (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.

<sup>1</sup> *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.

## REPORT OF THE DIRECTORS (Cont'd)

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, so far as is known to any director or chief executive of the Company, the following persons (other than the director 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 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 (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.

**CONNECTED TRANSACTIONS**

Details of the connected transactions for the year are set out in note 31 to the financial statements. The Independent Non-Executive Directors of the Company reviewed the connected transactions set out in note 31(i) and (ii) for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules and confirmed that:

- (a) the transactions were entered into by the Group in the ordinary and usual course of its business;
- (b) the transactions were entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the transactions were entered into either (i) in accordance with terms of the agreements governing such transaction, or (ii) on terms no less favourable than terms available to or from independent third parties; and
- (d) the aggregate value of the malt purchased by the Group during the year from Guangzhou Malting Co., Ltd. in which GDH Limited, subsidiary of the Company's holding company has approximately 51.6% interests, did 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 laws of Bermuda, being the jurisdiction in which the Company is incorporated.

### MAJOR CUSTOMERS AND SUPPLIERS

Purchases from the Group's largest supplier and the Group's five largest suppliers represented 22.0% and 43.2% of the Group's total purchases for the year, respectively.

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

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

### POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 32 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.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Director's 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 year.

### PUBLIC FLOAT

As at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

**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. The results of the Group for the year ended 31 December 2004 has been reviewed by the Audit Committee.

**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 2005