

**GDH**

**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)

股份代號 Stock Code: 0124

**中期報告 2006**  
Interim Report 2006



中國馳名商標



中國名牌



綠色食品



超級品質

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## Corporate Information

(As at 14 September 2006)

### Board of Directors

#### *Executive Directors*

YE Xuquan (*Chairman*)

JIANG Guoqiang (*Managing Director*)

LIANG Jianqin (*Chief Financial Officer*)

#### *Non-Executive Directors*

KOH Poh Tiong

HAN Cheng Fong

Sijbe HIEMSTRA

ZHAO Leili

LUO Fanyu

HO LAM Lai Ping, Theresa

Michael WU

#### *Independent Non-Executive Directors*

Alan Howard SMITH

V-nee YEH

Rafael GIL-TIENDA

### Company Secretary

WONG Kin Yan, Vanessa

### Auditors

Ernst & Young

### Principal Bankers

Rabobank International

Standard Chartered Bank

Shenzhen Development Bank

### Shareholders' Calendar

Closure of Register

of Members: 26 & 27 October 2006

Interim Dividend: 1.5 HK cents per share

Payable on: 28 November 2006

### Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### Head Office & 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 Registrars

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

### Branch Share Registrars in Hong Kong

Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

### Share Information

Place 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		Change
	2006 (Unaudited)	2005 (Unaudited)	
Beer sales volume, in tonne	<b>295,000</b>	216,000	+36.6%
Gross profit, in thousand HK\$	<b>277,066</b>	237,051	+16.9%
Profit for the period, in thousand HK\$	<b>70,756</b>	81,372	-13.0%
Basic earnings per share, in HK cent	<b>5.1</b>	5.8	-12.1%
EBITDA, in thousand HK\$	<b>139,606</b>	135,795	+2.8%
Average unit selling price per tonne, in HK\$	<b>2,237</b>	2,391	-6.4%
Average unit costs per tonne, in HK\$	<b>1,298</b>	1,293	+0.4%
Gross profit margin	<b>42.0%</b>	45.9%	-3.9%
Net profit margin	<b>10.7%</b>	15.8%	-5.1%

  

	As at 30 June 2006 (Unaudited)	As at 31 December 2005 (Audited)	
	Current ratio	<b>1.0 times</b>	
Gearing ratio <sup>1</sup>	<b>3.7%</b>	Net cash	+3.7%
Total assets, in thousand HK\$	<b>2,680,052</b>	2,477,988	+8.2%
Net asset value per share, in HK\$	<b>1.37</b>	1.33	+3.0%
Period-end number of employees	<b>1,915</b>	1,663	+15.2%

Note:

<sup>1</sup> Gearing ratio = (Interest-bearing debt – Cash and cash equivalents)/Net assets

## Unaudited Interim Financial Report

The board of directors (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 2006 (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 2006

		<b>For the six months ended 30 June</b>	
	<i>Notes</i>	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
<b>REVENUE</b>	2	<b>659,963</b>	516,363
Cost of sales		<b>(382,897)</b>	(279,312)
<b>Gross profit</b>		<b>277,066</b>	237,051
Other income and gains		<b>8,969</b>	8,944
Selling and distribution expenses		<b>(169,958)</b>	(130,596)
Administrative expenses		<b>(38,961)</b>	(30,316)
Finance costs	3	<b>(1,445)</b>	–
<b>PROFIT BEFORE TAX</b>	4	<b>75,671</b>	85,083
Tax	5	<b>(4,915)</b>	(3,711)
<b>PROFIT FOR THE PERIOD</b>		<b>70,756</b>	81,372
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the parent		<b>71,082</b>	80,607
Minority interests		<b>(326)</b>	765
		<b>70,756</b>	81,372
<b>DIVIDENDS – Interim</b>	6	<b>(20,946)</b>	(20,934)
<b>EARNINGS PER SHARE</b>	7		
– Basic		<b>5.1 cents</b>	5.8 cents
– Diluted		<b>5.0 cents</b>	5.7 cents

## Unaudited Interim Financial Report *(Cont'd)*

### Condensed Consolidated Balance Sheet

30 June 2006

	<i>Notes</i>	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,939,081</b>	1,693,329
Prepaid land lease payments		<b>147,054</b>	143,460
Reusable packaging materials		<b>77,690</b>	55,443
Deferred tax assets		<b>10,584</b>	9,000
		<hr/>	<hr/>
Total non-current assets		<b>2,174,409</b>	1,901,232
<b>CURRENT ASSETS</b>			
Inventories		<b>172,849</b>	123,827
Trade and bills receivables	8	<b>51,517</b>	50,386
Prepayments, deposits and other receivables		<b>35,577</b>	20,951
Derivative financial instrument	10	<b>3,198</b>	–
Pledged and restricted bank balances		<b>17,239</b>	7,980
Cash and cash equivalents		<b>225,263</b>	373,612
		<hr/>	<hr/>
Total current assets		<b>505,643</b>	576,756
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	<b>(141,776)</b>	(69,502)
Tax payable		<b>(5,576)</b>	(2,302)
VAT payable		<b>(10,317)</b>	(5,474)
Dividend payable		<b>(34,889)</b>	–
Other payables and accruals		<b>(248,422)</b>	(239,620)
Derivative financial instrument	10	–	(97)
Interest-bearing bank loan		<b>(44,460)</b>	–
Due to the immediate holding company	16(b)	<b>(698)</b>	(1,363)
Due to fellow subsidiaries	16(b)	<b>(23,076)</b>	(4,651)
Due to a minority equityholder of a subsidiary	16(b)	<b>(2,593)</b>	(2,566)
		<hr/>	<hr/>
Total current liabilities		<b>(511,807)</b>	(325,575)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			
		<b>(6,164)</b>	251,181
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>2,168,245</b>	2,152,413

## Unaudited Interim Financial Report *(Cont'd)*

### Condensed Consolidated Balance Sheet *(Cont'd)*

30 June 2006

	<i>Notes</i>	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loan		<b>(251,940)</b>	(296,400)
Deferred tax liabilities		<b>(2,773)</b>	(2,574)
Total non-current liabilities		<b>(254,713)</b>	(298,974)
Net Assets		<b><u>1,913,532</u></b>	<u>1,853,439</u>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital	<i>11</i>	<b>139,557</b>	139,557
Reserves	<i>13</i>	<b>1,732,656</b>	1,658,516
Proposed dividends		<b>20,946</b>	34,889
		<b>1,893,159</b>	1,832,962
Minority interests	<i>13</i>	<b>20,373</b>	20,477
Total Equity		<b><u>1,913,532</u></b>	<u>1,853,439</u>

## Unaudited Interim Financial Report *(Cont'd)*

### Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Total equity at 1 January		1,853,439	1,670,599
Changes in equity during the period:			
Exchange realignment	13	20,931	(563)
Net gain on cash flow hedge	10	3,295	–
Total income and expense recognised directly in equity		24,226	(563)
Profit for the period	13	70,756	81,372
Total income and expense for the period		94,982	80,809
Dividend paid		–	(27,911)
Dividend declared		(34,889)	–
Dividends declared to a minority equityholder	13	–	(3,138)
Total equity at 30 June		1,913,532	1,720,359
Total income and expense for the period attributable to:			
Equity holders of the parent		95,086	80,049
Minority interests		(104)	760
		94,982	80,809



## Unaudited Interim Financial Report *(Cont'd)*

### Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
<b>NET CASH INFLOWS FROM OPERATING ACTIVITIES</b>	<b>142,858</b>	82,917
<b>NET CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>(291,302)</b>	(339,763)
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>	<b>(2,871)</b>	(4,387)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(151,315)</b>	(261,233)
Cash and cash equivalents at beginning of period	<b>373,612</b>	497,812
Effect of foreign exchange rate changes, net	<b>2,966</b>	381
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>225,263</u></b>	<u>236,960</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>194,973</b>	119,977
Non-pledged time deposits with original maturity of less than three months when acquired	<b>30,290</b>	116,983
	<b><u>225,263</u></b>	<u>236,960</u>

# Unaudited Interim Financial Report *(Cont'd)*

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2006

### 1. Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2005.

The Amendment to HKAS 21 "Net Investment in a Foreign Operation" is adopted for the first time for the current period's financial statements. The adoption of the amendment has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidation interim financial statements.

In prior years, the Group's reusable packaging materials were amortised on a straight-line basis over a period of 3 years. The directors of the Company have reassessed the estimated economic useful lives of the Group's reusable packaging materials, taking into account of current business environment and conditions, and the expected pattern of economic benefits from these reusable packaging materials, and have revised the estimated economic useful lives from 3 years to 4 years. The change in accounting estimate has been applied prospectively from 1 January 2006. The effect of this change in accounting estimates is a decrease in the amortisation charge and an increase in net profit attributable to equity holders of the parent for the six months ended 30 June 2006 of HK\$5,241,000 (before an increase in tax expenses of HK\$303,000), and HK\$4,875,000, respectively. The reduction in accounting amortisation has had no effect on the Group's deferred tax as this change in accounting estimate also applied in the computation of taxable profits of the Group's subsidiaries.

### 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") except for Hong Kong and Macau;
- (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.

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 2. Segment Information *(Cont'd)*

In determining the Group's geographical segment, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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 for the six months ended 30 June 2006 and 2005.

	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	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	626,895	485,529	33,068	30,834	-	-	-	-	659,963	516,363
Intersegment sales	10,274	8,815	-	-	-	-	(10,274)	(8,815)	-	-
Other revenue and gains	5,376	5,539	42	-	1,483	-	-	-	6,901	5,539
Total	642,545	499,883	33,110	30,834	1,483	-	(10,274)	(8,815)	666,864	521,902
Segment results	64,872	77,958	12,192	12,631	(2,016)	(8,911)	-	-	75,048	81,678
Interest income									2,068	3,405
Finance costs									(1,445)	-
Profit before tax									75,671	85,083
Tax									(4,915)	(3,711)
Profit for the period									70,756	81,372

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 3. Finance Costs

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	<b>7,739</b>	–
Fair value gain on cash flow hedge (transfer from equity) <i>(note 10)</i>	<b>(4,868)</b>	–
	<b>2,871</b>	–
<i>Less:</i> Interest capitalised	<b>(1,426)</b>	–
	<b>1,445</b>	–

#### 4. Profit Before Tax

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

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Depreciation	<b>50,933</b>	40,345
Recognition of prepaid land lease payments	<b>1,838</b>	1,132
Amortisation of reusable packaging materials	<b>9,719</b>	9,235
Interest income	<b>(2,068)</b>	(3,405)

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 5. Tax

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	<b>2,134</b>	2,211
Current – Mainland China:		
Charge for the period	<b>4,549</b>	2,469
Overprovision in prior periods	<b>(435)</b>	–
Deferred	<b>(1,333)</b>	(969)
Total tax charge for the period	<b><u>4,915</u></b>	<u>3,711</u>

Hong Kong profits tax has been provided at a rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China 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, certain subsidiaries of the Group established in Mainland China are entitled to preferential tax treatment with full tax exemption from corporate income tax ("CIT") for two years starting from the first profitable year of operations, followed by 50% reduction in CIT rate for the next three years.

Shenzhen Kingway Brewing Co., Ltd. is entitled to a 50% tax relief for the six months ended 30 June 2006. For the six months ended 30 June 2005, Shenzhen Kingway Brewing Co., Ltd. was exempted from CIT.

Kingway Brewery (Dongguan) Co., Ltd. ("Kingway Dongguan") is exempted from CIT for the six months ended 30 June 2006. For the six months ended 30 June 2005, Kingway Dongguan has not generated any accumulated assessable profit since its establishment, and thus, the tax exemption period has not commenced.

Kingway Brewery (Shan Tou) Co., Ltd., Kingway Brewery (Tianjin) Co., Ltd., Kingway Brewery (Xian) Co., Ltd. and Kingway Brewery Group (Chengdu) Co., Ltd. have not generated any accumulated assessable profits since their establishments. Thus, the tax exemption period has not commenced.



## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 8. Trade and Bills 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. In view of aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing and the carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the Group's trade and bills receivables at the respective balance sheet dates, based on payment due date, is as follows:

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within 3 months	<b>20,664</b>	23,358
3 to 6 months	<b>129</b>	237
6 months to 1 year	<b>105</b>	166
Over 1 year	<b>954</b>	873
	<hr/>	<hr/>
	<b>21,852</b>	24,634
Less: Impairment	<b>(575)</b>	(693)
	<hr/>	<hr/>
Trade receivables	<b>21,277</b>	23,941
Bills receivable	<b>30,240</b>	26,445
	<hr/>	<hr/>
	<b>51,517</b>	50,386
	<hr/> <hr/>	<hr/> <hr/>

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 9. Trade and Bills Payables

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within 3 months	<b>108,642</b>	65,617
3 to 6 months	<b>1,693</b>	1,486
6 months to 1 year	<b>262</b>	431
Over 1 year	<b>2,188</b>	1,968
	<hr/>	<hr/>
Trade payables	<b>112,785</b>	69,502
Bills payable	<b>28,991</b>	–
	<hr/>	<hr/>
	<b>141,776</b>	69,502
	<hr/> <hr/>	<hr/> <hr/>

The trade payables are non-interest-bearing and are normally settled on a 30-day term. The carrying amounts of the trade payables approximate to their fair values.

#### 10. Derivative Financial Instrument

	<b>30 June 2006 Asset (Unaudited) HK\$'000</b>	31 December 2005 Liability (Audited) HK\$'000
Cross currency interest rate swap	<b>3,198</b>	(97)
	<hr/> <hr/>	<hr/> <hr/>

The carrying amount of cross currency interest rate swap is the same as its fair value.

##### *Cross currency interest rate swap*

At 30 June 2006, the Group held a cross currency interest rate swap with a notional amount of US\$38,000,000 (equivalent to HK\$296,400,000), designated as a hedge in respect of the Group's bank loan, whereby the Group:

- (i) receives interest at a variable rate of LIBOR plus 0.413% per annum, and pays interest at a fixed rate of 1.96% per annum on the notional amount from the effective date of swap contract to the maturity date of 25 November 2009; and
- (ii) receives the US dollar-denominated loan principal of US\$38,000,000 in six instalments as stipulated in the swap contract, and pays the RMB equivalent amounts at a contracted exchange rate of RMB8.08 to US\$1.



## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 10. Derivative Financial Instrument *(Cont'd)*

##### *Cash flow hedge*

The terms of the swap have been negotiated to match the terms of the bank loan. The cash flow hedge of the bank loan was assessed to be highly effective and the net fair value gain on cash flow hedge of HK\$3,295,000 (30 June 2005: nil) included in the hedging reserve was as follows:

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Total fair value gain included in the hedging reserve	<b>8,163</b>	–
Fair value gain transferred from the hedging reserve and recognised in the income statement <i>(note 3)</i>	<b>(4,868)</b>	–
Net gain on cash flow hedge	<b><u>3,295</u></b>	<u>–</u>

#### 11. Share Capital

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Authorised: 2,000,000,000 (31 December 2005: 2,000,000,000) ordinary shares of HK\$0.10 each	<b><u>200,000</u></b>	<u>200,000</u>
Issued and fully paid: 1,395,568,000 (31 December 2005: 1,395,568,000) ordinary shares of HK\$0.10 each	<b><u>139,557</u></b>	<u>139,557</u>

There were no movements in the Company's authorised and issued share capital during the six months ended 30 June 2006 and 2005.

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 12. 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 2006	Date of grant of share options*	Exercise period of share options <sup>#</sup>	Exercise price of share options** HK\$	Price of Company's shares at date of grant of options*** HK\$
<b>Directors</b>					
YE Xuquan	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.84	0.79
	7,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.93	1.90
JIANG Guoqiang	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.84	0.79
Alan Howard SMITH	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.84	0.79
	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.93	1.90
V-nee YEH	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.84	0.79
	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.93	1.90
	<u>12,200,000</u>				
<b>Others</b>					
Former director	400,000	26-05-2003	27-08-2003 to 26-08-2008	0.84	0.79
	400,000	06-02-2004	07-05-2004 to 06-05-2009	1.93	1.90
Employees (In aggregate)	4,500,000	26-05-2003	27-08-2003 to 26-08-2008	0.84	0.79
	12,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.93	1.90
	<u>17,300,000</u>				
	<u>29,500,000</u>				

\* The vesting period of the share options is from the date of 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 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).

Subsequent to the balance sheet date, on 6 July 2006, a total of 800,000 share options of the Company were exercised and resulted in the issue of 800,000 ordinary shares of the Company and new share capital of HK\$80,000 and share premium of HK\$1,028,000.

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 13. Reserves

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Enterprise development fund <sup>#</sup> <i>HK\$'000</i>	Reserve fund <sup>#</sup> <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 2005	974,705	13,824	-	245	216	38,111	454,773	1,481,874	21,257
Profit for the period	-	-	-	-	-	-	80,607	80,607	765
Transfer from retained profits	-	-	-	-	-	11,786	(11,786)	-	-
Interim 2005 dividend declared	-	-	-	-	-	-	(20,934)	(20,934)	-
Dividends declared to a minority equityholder	-	-	-	-	-	-	-	-	(3,138)
Exchange realignment	-	-	-	(558)	-	-	-	(558)	(5)
At 30 June 2005	<u>974,705</u>	<u>13,824</u>	<u>-</u>	<u>(313)</u>	<u>216</u>	<u>49,897</u>	<u>502,660</u>	<u>1,540,989</u>	<u>18,879</u>
At 1 January 2006	974,705	13,824	(97)	34,528	216	50,003	585,337	1,658,516	20,477
Profit for the period	-	-	-	-	-	-	71,082	71,082	(326)
Transfer from retained profits	-	-	-	-	-	14,953	(14,953)	-	-
Interim 2006 dividend declared	-	-	-	-	-	-	(20,946)	(20,946)	-
Net gain on cash flow hedge	-	-	3,295	-	-	-	-	3,295	-
Exchange realignment	-	-	-	20,709	-	-	-	20,709	222
At 30 June 2006	<u>974,705</u>	<u>13,824</u>	<u>3,198</u>	<u>55,237</u>	<u>216</u>	<u>64,956</u>	<u>620,520</u>	<u>1,732,656</u>	<u>20,373</u>

<sup>#</sup> 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.

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 14. 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 2005: one to two years).

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within one year	<b><u>342</u></b>	<u>228</u>

#### 15. Commitments

In addition to the operating lease commitments detailed in note 14 to the condensed consolidated interim financial statements, the Group had the following commitments at the balance sheet date:

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Capital commitments for the Group's property, plant and equipment:		
Contracted, but not provided for	<b>397,191</b>	177,684
Authorised, but not contracted for	<b><u>354,411</u></b>	<u>453,070</u>
	<b><u>751,602</u></b>	<u>630,754</u>

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 16. Related Party Transactions

*(a) Transactions with related parties*

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Transactions with fellow subsidiaries:		
Purchase of malt from Guangzhou Malting Co., Ltd	<b>51,833</b>	62,890
Purchase of malt from Ningbo Malting Co., Ltd.	<b>40,669</b>	1,436
Purchase of malt from Supertime (Changle) Malting Co., Ltd.	<b>7,968</b>	–
Rental of office premises paid to Global Head Developments Limited	<b>171</b>	171

*(b) Outstanding balances with related parties*

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Balances due to:		
The immediate holding company	<b>698</b>	1,363
Fellow subsidiaries	<b>23,076</b>	4,651
A minority equityholder of a subsidiary	<b>2,593</b>	2,566

*(c) Compensation of key management personnel of the Group*

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Short term employee benefits	<b>1,397</b>	2,338
Post-employment benefits	<b>333</b>	315
Share-based payments	<b>–</b>	–
Total compensation paid to key management personnel	<b>1,730</b>	2,653

## Unaudited Interim Financial Report *(Cont'd)*

### Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2006

#### 17. Post Balance Sheet Event

On 6 July 2006, 800,000 share options of the Company were exercised, as further detailed in note 12 to the condensed consolidated interim financial statements.

#### 18. 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 ("BCCL") as the first defendant and Central China (Asia) Investment Limited ("CCAI") as the second defendant to recover, inter alia, the final payment of HK\$12,230,000 (the "Final Payment") and interest thereon under an agreement for sale and purchase dated 9 August 2002 in respect of disposal of the entire shares of CCAI (the "Agreement"), the shareholder of a 50% interest in Shandong Huazhong Amber Brewery Co. Ltd., to BCCL and a supplemental agreement dated 7 August 2003 (the "Supplemental Agreement"); and the enforcement of a share mortgage which is the entire shares of CCAI as the security provided by BCCL under the Supplemental Agreement. In addition, Baligold's claim against CCAI included the damages for its failure to repay the loan of HK\$35,650,000, which should have been conditionally waived by Baligold subject to the completion of the Agreement.

In view of the uncertainty over the amounts that can be recovered from BCCL and CCAI through legal proceedings, a provision of HK\$7,000,000 against the Final Payment was charged to consolidated income statement in 2004. The loan of HK\$35,650,000 due from CCAI had been fully provided for in 2003. The directors of the Company considered that adequate provisions have been made in the condensed consolidated interim financial statements for these receivable balances.

In February 2005, a counterclaim was submitted by BCCL and CCAI against Baligold for the damage for breaching of the Agreement.

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

The directors of the Company, 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.

#### 19. Approval of the Interim Financial Statements

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 14 September 2006.

# 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 21.

## 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 2006.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
14 September 2006

# Management Discussion and Analysis

## Results and Key Operating Data

The Board of Directors is pleased to report that the sales volume of Kingway beer for the first half of the year was 295,000 tonnes (2005: 216,000 tonnes), representing an increase of 36.6% over the same period of 2005. The consolidated revenue was HK\$660 million (2005: HK\$516 million), representing an increase of 27.9% as compared to the same period of 2005. The gross profit for the first half of the year was HK\$277 million (2005: HK\$237 million), representing an increase of 16.9% as compared to the same period of 2005. The unaudited consolidated profit for the period was HK\$70.76 million (2005: HK\$81.37 million), representing a decrease of 13.0% over the same period of 2005. Basic earnings per share was 5.1 HK cents (2005: 5.8 HK cents), representing a decrease of 12.1% over the same period of 2005. EBITDA was HK\$140 million (2005: HK\$136 million), representing an increase of 2.8% over the same period of 2005.

The sales volume of Kingway beer was satisfactory and reported to have an increase of over 36% during the first half of the year. Profit for the period was lower than the same period last year, which could be attributed to the decrease in average unit-selling price resulted from an aggressive expansion in the new markets, increase in depreciation expenses due to the commencement of operations of the new plants, finance costs and payment of Corporate Income Tax after the expiry of full tax exemption for Shenzhen Kingway Plant 2.

## 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 mainly conducted in Guangdong Province, the PRC. In particular, sales volume in Shantou, Dongguan, Guangzhou and Pearl River Delta areas has delivered satisfactory growth.

The Kingway plant in Dongguan commenced operation in January 2006 with smooth progress. The Kingway Shantou plant, which has commenced operations since last year, and the Kingway Dongguan plant have contributed profits to the Group in the first half of the year. Following the Kingway Tianjin plant commenced operation in May 2006, the sales volume of Kingway beer began to grab the momentum in the Tianjin region.

In February 2006, the Group announced the construction of a new brewery plant with an annual production capacity of 200,000 tonnes in Chengdu, Sichuan Province. It is expected to commence operation in mid 2007, paved the way for Kingway beer to mark a step forward towards the South West region in the PRC.

## Financial Review

Average energy and utility prices in the first half of the year have been increased. Nevertheless, the Company managed to alleviate the pressure of rise in costs by implementing the "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\$1,298 (2005: HK\$1,293), approximately the same as the corresponding period last year.

During the first half of 2006, the Group stepped up its marketing efforts in various markets. In particular, the Group was committed to developing the Tianjin, Xian, and Chengdu new markets through the establishment of distribution networks. Selling and distribution expenses recorded an increase of 29.8% to HK\$170 million (2005: HK\$131 million), while average selling and distribution expenses per tonne of beer sold decreased by 4.8% year-on-year to HK\$576 (2005: HK\$605).



## Management Discussion and Analysis *(Cont'd)*

### Financial Review *(Cont'd)*

Administrative expenses for the first half of the year was HK\$38.96 million (2005: HK\$30.32 million), representing an increase of 28.5% from the corresponding period last year. This was primarily attributable to the increase in administrative expenses of Kingway Dongguan Plant and Tianjin Plant and the pre-operating expenses of brewery plants in Xian and Chengdu during the construction period.

The Group borrowed a bank loan of US\$38 million at the end of 2005. The net finance costs for the first half of 2006 was HK\$1.44 million (2005: nil).

### Financial Resources and Liquidity

As at 30 June 2006, the Group had cash and bank balances of HK\$243 million (including pledged and restricted bank balances of HK\$17 million), of which 4.2% was in USD, 8.0% was in EUR, 5.1% was in HKD and 82.7% was in RMB. Cash generated from operations for the period was HK\$143 million.

Cash generated from operating activities for the first half of 2006 was satisfactory. Liquidity ratio decreased since the construction progress of new plants was faster than expected that requires fund to support. In line with the construction of new plants and future 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 signed within this year. As at 30 June 2006, the Group had not recorded any contingent liability. Debt-to-equity ratio was 3.7%, reflecting a sound financial structure of the Group.

### Capital Expenditure

For the first half of 2006, the Group has cash outflow in relation to capital expenditures of HK\$282 million (2005: HK\$301 million), mainly comprising construction costs of new brewery plants in Tianjin, Xian and Chengdu. It is anticipated that capital expenditures on construction projects for the second half of the year will be increased when comparing to that of the first half of the year.

### Human Resources

As at 30 June 2006, the Group had 1,915 employees (2005: 1,347). Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, discretionary bonuses are also granted based on the Group's and individual's performances.

### Outlook

As the construction progress of the new brewery plants in Xian and Chengdu was satisfactory, it is expected to commence operations by the end of 2006 and in the middle of 2007, respectively. After the commencement of operations of the two brewery plants, the Group would have an annual production capacity of 1,500,000 tonnes. The Group will commit resources in new markets including the region of Xian and Chengdu, as well as accelerating the establishment of distribution network of Kingway beer to preparing for the operations of the new brewery plants.

Despite the temporary effect on the results of the Group caused by the operations of the new brewery plants, Kingway has been securing its reputation through the strenuous effort made by staff and well-equipped market strategy implemented by the management. In view of the robust growing momentum of Kingway beer, the management of the Group is optimistic in respect of its market expansion, sales volume and results in the future and confident to the development of the Company.

## Directors' Interests and Short Positions in Securities

As at 30 June 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a director of the Company is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

### I. Shares

#### (i) The Company

Name of director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
JIANG Guoqiang	Personal	300,000	Long Position	0.0215%
LIANG Jianqin	Personal	46,000	Long Position	0.0033%
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 total number of issued shares of the Company as at 30 June 2006 was 1,395,568,000.

#### (ii) Guangdong Investment Limited

Name of director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LIANG Jianqin	Personal	200,000	Long position	0.0033%
ZHAO Leili	Personal	200,000	Long position	0.0033%
HO LAM Lai Ping, Theresa	Personal	1,500,000	Long position	0.0249%
Michael WU	Family*	18,000	Long position	0.0003%

\* Held by the spouse of Mr. Michael WU

Note: The total number of issued ordinary shares of Guangdong Investment Limited as at 30 June 2006 was 6,022,248,071.

#### (iii) Guangdong Tannery Limited

Name of director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LUO Fanyu	Personal	70,000	Long position	0.0134%

Note: The total number of issued shares of Guangdong Tannery Limited as at 30 June 2006 was 524,154,000.

## Directors' Interests and Short Positions in Securities (Cont'd)

### II. Options

#### (i) The Company

Name of director	Number of options held as at 01/01/2006	Options granted January – June 2006		Period during which option is exercisable* (dd/mm/yyyy)	Total consideration paid for share options (HK\$)	Price to be paid per share on exercise of options (HK\$)	Number of options exercised January – June 2006	Number of options held as at 30/06/2006	Long/Short position
		Date granted (dd/mm/yyyy)	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).

## Directors' Interests and Short Positions in Securities (Cont'd)

### II. Options (Cont'd)

#### (ii) Guangdong Investment Limited

Name of director	Number of options held as at 01/01/2006	Options granted January – June 2006		Period during which option is exercisable* (dd/mm/yyyy)	Total consideration paid for share options (HK\$)	Price to be paid per share on exercise of options (HK\$)	Number of options exercised January – June 2006	Number of options held as at 30/06/2006	Long/Short position
		Date granted (dd/mm/yyyy)	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	-	-
	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 and Short Positions in Securities *(Cont'd)*

### II. Options *(Cont'd)*

#### (iii) Guangnan (Holdings) Limited

Name of director	Number of options held as at 01/01/2006	Options granted January – June 2006		Period during which option is exercisable* <i>(dd/mm/yyyy)</i>	Total consideration paid for share options <i>(HK\$)</i>	Price to be paid per share on exercise <i>(HK\$)</i>	Number of options exercised January – June 2006	Number of options held as at 30/06/2006	Long/Short position
		Date granted <i>(dd/mm/yyyy)</i>	Number granted						
LIANG Jianqin	-	09/03/2006	200,000	09/06/2006–08/03/2016	1	1.66	-	200,000	Long position
ZHAO Leili	-	09/03/2006	200,000	09/06/2006–08/03/2016	1	1.66	-	200,000	Long position
LUO Fanyu	-	09/03/2006	200,000	09/06/2006–08/03/2016	1	1.66	-	200,000	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 30 June 2006, none of the directors or chief executive of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a director of the Company is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period under review 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 any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

## Substantial Shareholders' Interests and Short Positions in Securities

As at 30 June 2006, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) have an interest or short position 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 or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO:

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 and Short Positions in Securities *(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.

Save as disclosed above, no other person (other than a director or chief executive of the Company) known to any director or chief executive of the Company as at 30 June 2006 had an interest or short position 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 or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO.

## Corporate Governance and Other Information

### **Code on Corporate Governance Practices**

During the six months ended 30 June 2006, the Company has applied the principles and complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

### **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 of the Company 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 2006.

### **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 are in line with the CG Code. The 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 completeness, accuracy and fairness of the Company's financial reports and the Group's internal controls and risk management systems.

### **Remuneration Committee**

The Company established a remuneration committee ("Remuneration Committee") in June 2005. The terms of reference of the Remuneration Committee adopted by the Board of Directors are in line with the CG Code. The 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, inter alia, making recommendations to the Board relating to the Company's policy for directors' and senior management's remuneration, determining the executive directors' and senior management's remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

### **Review of Interim Results**

The Audit Committee has reviewed the unaudited interim financial statements and the interim report of the Group for the six months ended 30 June 2006. In addition, the Company's external auditors, Ernst & Young, have also reviewed the aforesaid unaudited interim financial statements.

### **Purchase, Sale and Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.



## Corporate Governance and Other Information *(Cont'd)*

### **Disclosure Pursuant to Paragraph 13.21 of Chapter 13 of the Listing Rules**

A facility letter (the "Facility Letter") for a 48-month term loan facility of up to US\$38,000,000 was signed between the Company and a bank imposing specific performance obligations on GDH, the controlling shareholder of the Company, and/or HAPBC, a substantial shareholder of the Company. The Facility Letter includes, inter alia, a condition to the effect that GDH and/or HAPBC shall in aggregate at all times to hold directly or indirectly at least 51% of the issued ordinary shares of the Company. A breach of the above condition will constitute an event of default under the Facility Letter. If such an event of default occurs, the above facility will become immediately due and repayable.

The outstanding balance of the loan at the balance sheet date amounted to US\$38,000,000, with the last instalment repayment falling due in November 2009.

### **Interim Dividend**

The Board of Directors has declared an interim dividend of 1.5 HK cents (2005: 1.5 HK cents) per share for the six months ended 30 June 2006. The interim dividend will be payable on Tuesday, 28 November 2006 to the shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 27 October 2006.

### **Closure of Register of Members**

The Register of Members of the Company will be closed on Thursday, 26 October 2006 and Friday, 27 October 2006. 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 registrars in Hong Kong, Tengis Limited, of 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 25 October 2006.

By order of the Board  
**YE Xuquan**  
*Chairman*

Hong Kong, 14 September 2006

