

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

2008

Interim Report 中期報告



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Corporate Information

(As at 4 September 2008)

Board of Directors

Executive Directors

YE Xuquan (*Chief Executive Officer*)
JIANG Guoqiang (*Senior Vice President*)
LIANG Jianqin (*Chief Financial Officer*)

Non-Executive Directors

LI Wenyue (*Chairman*)
ZHAO Leili
LUO Fanyu
Michael WU
KOH Poh Tiong (*Note 1*)
Sijbe HIEMSTRA (*Note 2*)
Anthony CHEONG Fook Seng (*Note 3*)

Independent Non-Executive Directors

Alan Howard SMITH
V-nee YEH
Felix FONG Wo

Company Secretary

Vanessa WONG Kin Yan

Qualified Accountant

LIANG Jianqin

Auditors

Ernst & Young

Principal Bankers

Rabobank International
DBS Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Shenzhen Development Bank

Website Address

<http://www.kingwaybeer.hk>

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 Registrar

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

Branch Share Registrar in Hong Kong

Tricor 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: 2,000 shares
Financial year end: 31st December

Note 1: Mr. KOH Poh Tiong has appointed Mr. HUANG Hong Peng as his alternate director.

Note 2: Mr. Sijbe HIEMSTRA has appointed Mr. Kenneth CHOO Tay Sian as his alternate director.

Note 3: Mr. Anthony CHEONG Fook Seng has appointed Mr. LEE Meng Tat as his alternate director.

Highlights

	For the six months ended 30 June		
	2008 (Unaudited)	2007 (Unaudited)	Change
Beer sales volume, in tonne	309,000	366,000	-15.6%
Profit/(loss) for the period, in thousand HK\$	(24,666)	15,912	-255.0%
Basic earnings/(loss) per share, in HK cent	(1.4)	1.1	-227.3%
EBITDA, in thousand HK\$	87,206	122,394	-28.7%
	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)	
Current ratio	0.9 times	0.8 times	+12.5%
Gearing ratio*	6.5%	8.5%	-2.0%
Total assets, in million HK\$	4,095	3,970	+3.1%
Net asset value per share, in HK\$	1.76	1.66	+6.0%
Period-end number of employees	2,714	2,388	+13.7%

* 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") presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 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 2008

		For the six months ended 30 June	
	Notes	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE	2	655,726	802,666
Cost of sales		(519,253)	(516,274)
Gross profit		136,473	286,392
Other income and gains		28,617	14,079
Selling and distribution expenses		(108,955)	(206,810)
Administrative expenses		(64,778)	(58,367)
Finance costs	3	(14,675)	(12,626)
PROFIT/(LOSS) BEFORE TAX	4	(23,318)	22,668
Tax	5	(1,348)	(6,756)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITYHOLDERS OF THE COMPANY		(24,666)	15,912
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITYHOLDERS OF THE COMPANY	7		
Basic		(1.4) HK cents	1.1 HK cents
Diluted		(1.4) HK cents	1.1 HK cents

Unaudited Interim Financial Report *(Cont'd)*

Condensed Consolidated Balance Sheet

30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,981,805	2,820,882
Investment properties		35,960	33,762
Prepaid land lease payments		253,685	243,367
Goodwill		9,384	9,384
Reusable packaging materials		60,200	72,732
Deferred tax assets		4,846	4,618
		<hr/>	<hr/>
Total non-current assets		3,345,880	3,184,745
CURRENT ASSETS			
Inventories		325,285	318,228
Trade and bills receivables	8	62,807	61,744
Prepayments, deposits and other receivables		34,307	52,855
Tax recoverable		1,009	948
Pledged and restricted bank balances		2,173	3,970
Cash and cash equivalents		323,748	347,144
		<hr/>	<hr/>
Total current assets		749,329	784,889
CURRENT LIABILITIES			
Trade and bills payables	9	(133,962)	(83,053)
Tax payable		(1,705)	(296)
Other payables and accruals		(362,764)	(378,725)
VAT payable		(12,367)	(2,103)
Derivative financial instrument	10	(37,247)	(35,718)
Interest-bearing bank borrowings	11	(228,920)	(427,480)
Due to the immediate holding company	17(b)	(1,153)	(218)
Due to fellow subsidiaries	17(b)	(11,432)	(43,707)
		<hr/>	<hr/>
Total current liabilities		(789,550)	(971,300)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(40,221)	(186,411)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,305,659	2,998,334
		<hr/>	<hr/>

Unaudited Interim Financial Report *(Cont'd)*

Condensed Consolidated Balance Sheet *(Cont'd)* 30 June 2008

	<i>Notes</i>	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,305,659	2,998,334
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	11	(289,100)	(160,000)
Deferred tax liabilities		(8,441)	(8,260)
Total non-current liabilities		(297,541)	(168,260)
Net assets		3,008,118	2,830,074
EQUITY			
Equity attributable to equityholders of the company			
Issued capital	12	170,731	170,667
Reserves	14	2,837,387	2,659,407
Total equity		3,008,118	2,830,074

Unaudited Interim Financial Report *(Cont'd)*

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Total equity at 1 January		2,830,074	1,949,417
Changes in equity during the period:			
Exchange realignment	14	203,735	76,282
Net loss on cash flow hedge	10	(1,529)	(2,823)
Total income and expense recognised directly in equity		202,206	73,459
Profit/(loss) for the period	14	(24,666)	15,912
Total income and expense for the period		177,540	89,371
Issue of shares		–	740,701
Exercise of share options	12	504	–
Dividend declared		–	(20,946)
Total equity at 30 June		3,008,118	2,758,543

Unaudited Interim Financial Report *(Cont'd)*

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
NET CASH INFLOWS FROM OPERATING ACTIVITIES	106,706	192,717
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	(71,604)	(258,244)
NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES	(68,956)	1,263,386
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(33,854)	1,197,859
Cash and cash equivalents at beginning of period	347,144	325,868
Effect of foreign exchange rate changes, net	10,458	4,888
CASH AND CASH EQUIVALENTS AT END OF PERIOD	323,748	1,528,615
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	271,051	1,508,285
Non-pledged time deposits with original maturity of less than three months when acquired	52,697	20,330
	323,748	1,528,615

Unaudited Interim Financial Report *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

1. Accounting Policies

The unaudited condensed consolidated interim financial statements of Kingway Brewery Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2008 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"; which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) as disclosed below.

Impact of new and revised HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed consolidated interim financial statements.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new and revised standards and interpretation has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statements.

Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these condensed consolidated interim financial statements:

HKFRS 2 Amendment	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 13	Customer Loyalty Programmes

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

1. Accounting Policies *(Cont'd)*

Impact of issued but not yet effective HKFRSs (Cont'd)

HKFRS 8 shall be effective for annual periods beginning on or after 1 January 2009. This standard, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocation resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) shall be effective for annual periods beginning on or after 1 January 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HK(IFRIC)-Int 13 shall be effective for annual periods beginning on or after 1 July 2008. The interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The Group has customer loyalty award credits, which may result in change of accounting policies. The Group is in the process of making assessment of the impact of this new interpretation.

Amendment to HKFRS 2, HKAS 23 (Revised) and amendments to HKAS 32 & HKAS 1 shall be applied for annual periods beginning on or after 1 January 2009. HKFRS 3 (Revised) and HKAS 27 (Revised) shall be applied for annual periods beginning on or after 1 July 2009.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HK(IFRIC)-Int 13 may result in change in accounting policies. Save as disclosed above, the adoption of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

1. Accounting Policies *(Cont'd)*

Change in the estimated economic useful life of property, plant and equipment

In prior years, the Group's certain building and plant & machinery were depreciated on a straight-line basis over a period of 20 years and 15 years, respectively. The directors of the Company have reassessed the estimated economic useful life of the Group's building and plant & machinery, taking into account of current business environment and conditions and the expected pattern of economic benefits from these assets, and have revised the estimated economic useful life of certain building from 20 years to 30 years and useful life of certain plant & machinery from 15 years to 20 years. The change in accounting estimate has been applied prospectively from 1 January 2008. The aggregate effect of this change in accounting estimates is a decrease in the depreciation expenses and an increase in net profit for the six months ended 30 June 2008 of HK\$14,477,000, and HK\$12,295,000 (after tax expenses of HK\$2,182,000), respectively. The reduction in accounting depreciation 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 Hong Kong, Macau and overseas; 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.

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.

Unaudited Interim Financial Report *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)* 30 June 2008

2. Segment Information *(Cont'd)*

Geographical segments

The following table presents revenue and results of the Group's geographical segments for the six months ended 30 June 2008 and 2007.

	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	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	621,388	770,253	34,338	32,413	-	-	-	-	655,726	802,666
Intersegment sales	14,402	11,233	-	-	-	-	(14,402)	(11,233)	-	-
Other revenue and gains	14,807	8,284	-	-	10,326	2,143	-	-	25,133	10,427
Total	650,597	789,770	34,338	32,413	10,326	2,143	(14,402)	(11,233)	680,859	813,093
Segment results	(29,915)	22,594	12,745	11,333	5,043	(2,285)	-	-	(12,127)	31,642
Interest income									3,484	3,652
Finance costs									(14,675)	(12,626)
Profit/(loss) before tax									(23,318)	22,668
Tax									(1,348)	(6,756)
Profit/(loss) for the period									(24,666)	15,912

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

3. Finance Costs

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	9,258	19,161
Fair value loss/(gain) on cash flow hedge (transfer from equity) <i>(note 10)</i>	5,417	(2,926)
	14,675	16,235
Less: Interest capitalised	–	(3,609)
	14,675	12,626

4. Profit/(Loss) Before Tax

This is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Depreciation	74,236	68,843
Recognition of prepaid land lease payments	3,092	2,365
Amortisation of reusable packaging materials	18,521	15,892
Interest income	(3,484)	(3,652)

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

5. Tax

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	1,538	1,808
Current – Mainland China:		
Charge for the period	–	3,692
Overprovision in prior periods	(97)	(164)
Deferred	(93)	1,420
Total tax charge for the period	<u>1,348</u>	<u>6,756</u>

Hong Kong profits tax has been provided at a rate of 16.5% (Six months ended 30 June 2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China 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.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Tax Law"), which is effective from 1 January 2008. Under the New CIT Tax Law, corporate income tax rate for domestic companies and foreign-invested enterprises will decrease from 33% to 25% since 1 January 2008. In addition, for those enterprises benefiting from lower preferential tax rates, such preferential rates will be gradually phased out by increasing them over the next five years.

Pursuant to the PRC tax laws, certain subsidiaries of the Group are entitled to preferential tax treatment with full tax exemption from PRC corporate income tax ("CIT") for two years, 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 2008 and 2007.

Kingway Brewery (Dongguan) Co., Ltd. is entitled to a 50% tax relief for the six months ended 30 June 2008 and was exempted from CIT for the six months ended 30 June 2007.

Kingway Brewery (Shan Tou) Co., Ltd. is exempted from CIT for the six months ended 30 June 2008 and 2007.

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

5. Tax *(Cont'd)*

Kingway Brewery (Tianjin) Co., Ltd., Kingway Brewery (Xian) Co., Ltd., Kingway Brewery Group (Chengdu) Co., Ltd. and Kingway Brewery (Foshan) Co., Ltd. have not generated any accumulated assessable profits since their establishments. These companies are entitled to full tax exemption from CIT for two years commencing from 1 January 2008, followed by 50% reduction in CIT rate for the next three years.

6. Dividends

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2008 (2007: Nil).

7. Earnings/(Loss) Per Share

The calculation of the basic and diluted earnings/(loss) per share for the six months ended 30 June 2007 and 2008 are based on:

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Earnings/(loss):		
Profit/(loss) attributable to ordinary equityholders of the Company, used in the basic and diluted earnings/(loss) per share calculation	<u>(24,666)</u>	<u>15,912</u>
	For the six months ended 30 June	
	2008 (Unaudited)	2007 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares in issue during the period for the purpose of basic earnings per share calculation	1,706,783,569	1,479,305,414
Effect of dilution - weighted average number of ordinary shares that would have been issued on deemed exercise of all share options with dilutive effects at nil consideration	<u>4,241,678</u>	<u>15,372,313</u>
For the purpose of diluted earnings/(loss) per share	<u>1,711,025,247</u>	<u>1,494,677,727</u>

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

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 dates, is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 3 months	34,124	16,800
3 to 6 months	328	750
6 months to 1 year	503	486
Over 1 year	426	367
	35,381	18,403
Less: Impairment	(415)	(390)
Trade receivables	34,966	18,013
Bills receivable	27,841	43,731
	62,807	61,744

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

9. Trade and Bills Payables

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 3 months	118,668	69,950
3 to 6 months	10,531	8,111
6 months to 1 year	3,557	2,137
Over 1 year	1,206	2,855
	<hr/> 133,962 <hr/>	<hr/> 83,053 <hr/>
Trade payables		

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

	30 June 2008 Liability (Unaudited) HK\$'000	31 December 2007 Liability (Audited) HK\$'000
Cross currency interest rate swap	37,247	35,718
	<hr/> 37,247 <hr/>	<hr/> 35,718 <hr/>

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

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

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

Cross currency interest rate swap

At 30 June 2008, the Group held a cross currency interest rate swap with a notional amount of US\$38,000,000 (equivalent to HK\$296,400,000) (31 December 2007: 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% (31 December 2007: LIBOR plus 0.413%) per annum, and pays interest at a fixed rate of 1.96% (31 December 2007: 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.

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 loss on cash flow hedge included in the hedging reserve was HK\$1,529,000 (2007: HK\$2,823,000).

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Total fair value gain/(loss) included in the hedging reserve	(6,946)	103
Transferred from the hedging reserve and included in finance costs <i>(note 3)</i>	5,417	(2,926)
Net loss on cash flow hedge <i>(note 14)</i>	(1,529)	(2,823)

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

11. Interest-bearing Bank Borrowings

	Effective interest rate	Maturity	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Current				
US\$38,000,000				
unsecured bank loan	1.96% per annum*	2008	88,920 ^{##}	207,480 [#]
Bank loan – unsecured	HIBOR+0.33% per annum	2008	80,000 ^{##}	200,000 [#]
Bank loan – unsecured	HIBOR+0.30% per annum	2008	60,000	20,000
			228,920	427,480
Non-current				
US\$38,000,000				
unsecured bank loan	1.96% per annum*	2009	74,100 ^{##}	— [#]
Bank loan – unsecured	HIBOR+0.33% per annum	2009-2010	95,000 ^{##}	— [#]
Bank loan – unsecured	HIBOR+0.30% per annum	2009-2010	120,000	160,000
			289,100	160,000
			518,020	587,480

* Includes the effects of a related cross currency interest rate swap as further detailed in note 10 to these financial statements.

[#] In relation to a covenant requirement as set out in two term loan facility letters for certain long term bank loans with an aggregate outstanding principal amount of HK\$407,480,000 as at 31 December 2007, on 27 November 2007, the Group obtained a waiver of that covenant requirement from the bank until 31 July 2008. The non-current portion of the long term bank loans totaling HK\$278,560,000 as at 31 December 2007 was classified as current because the Group might or might not comply with the covenant requirement as stipulated in the loan facility letters if the waiver was not granted after 31 July 2008 and the long term bank loans might be wholly repayable within twelve months from 31 December 2007.

^{##} On 27 June 2008, the Group obtained supplemental banking facilities letters from the bank in which the covenant requirements have been revised. As the Group complied with all covenants stated in the revised banking facilities letters, the non-current portion of long term bank loans totaling HK\$169,100,000 was treated as non-current liabilities as at 30 June 2008.

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

12. Share Capital

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Authorised: 2,000,000,000 (31 December 2007: 2,000,000,000) ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid: 1,707,306,546 (31 December 2007: 1,706,672,000) ordinary shares of HK\$0.10 each	170,731	170,667

Share options

During the six months ended 30 June 2008, the subscription rights attaching to 634,546 share options were exercised at a subscription price of HK\$0.794 per share, resulting in the issuance of 634,546 ordinary shares of the Company of HK\$0.10 each with the issued capital and share premium increased by HK\$64,000 and HK\$440,000 (before issuance expenses), respectively.

Details of the share options issued under the Company's share option scheme are included in note 13 to the interim financial statements.

13. Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain good relationship with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the Share Option Scheme include the directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The Share Option Scheme was adopted on 31 May 2002 and, unless otherwise terminated or amended, will remain in force for a period of 10 years from 10 January 2003.

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

13. Share Option Scheme *(Cont'd)*

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

Name or category of participant	Number of share options held as at 1 January 2008	Exercised during the period	Number of share options held as at 30 June 2008	Date of grant of share options*	Exercise period of share options [#]	Exercise price of share options** <i>HK\$ per share</i>	Price of Company's shares at date of grant of options*** <i>HK\$ per share</i>
Directors and chief executives							
Ye Xuquan	2,115,152	-	2,115,152	26-05-2003	27-08-2003 to 26-08-2008	0.794	0.790
	7,403,033	-	7,403,033	06-02-2004	07-05-2004 to 06-05-2009	1.825	1.900
Jiang Guoqiang	2,115,152	-	2,115,152	26-05-2003	27-08-2003 to 26-08-2008	0.794	0.790
Alan Howard Smith	317,273	(317,273)	-	26-05-2003	27-08-2003 to 26-08-2008	0.794	0.790
	317,273	-	317,273	06-02-2004	07-05-2004 to 06-05-2009	1.825	1.900
V-nee Yeh	317,273	(317,273)	-	26-05-2003	27-08-2003 to 26-08-2008	0.794	0.790
	317,273	-	317,273	06-02-2004	07-05-2004 to 06-05-2009	1.825	1.900
	<u>12,902,429</u>	<u>(634,546)</u>	<u>12,267,883</u>				
Other employees							
In aggregate	3,172,727	-	3,172,727	26-05-2003	27-08-2003 to 26-08-2008	0.794	0.790
	9,518,181	-	9,518,181	06-02-2004	07-05-2004 to 06-05-2009	1.825	1.900
	<u>12,690,908</u>	<u>-</u>	<u>12,690,908</u>				
	<u>25,593,337</u>	<u>(634,546)</u>	<u>24,958,791</u>				

Notes to the reconciliation of share options outstanding during the period under review:

- * 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 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).

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

14. Reserves

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Enterprise development funds [#] <i>HK\$'000</i>	Reserve funds [#] <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007 (Audited)	975,733	13,824	-	(13,580)	216	65,092	108,993	638,556	1,788,834
Profit for the period	-	-	-	-	-	-	-	15,912	15,912
Transfer from retained profits	-	-	-	-	-	3,452	-	(3,452)	-
Issue of shares	709,671	-	-	-	-	-	-	-	709,671
Net loss on cash flow hedge <i>(note 10)</i>	-	-	-	(2,823)	-	-	-	-	(2,823)
Exchange realignment	-	-	-	-	-	-	76,282	-	76,282
At 30 June 2007 (Unaudited)	<u>1,685,404</u>	<u>13,824</u>	<u>-</u>	<u>(16,403)</u>	<u>216</u>	<u>68,544</u>	<u>185,275</u>	<u>651,016</u>	<u>2,587,876</u>
At 1 January 2008 (Audited)	1,685,230	13,824	10,377	(35,718)	216	78,866	305,403	601,209	2,659,407
Loss for the period	-	-	-	-	-	-	-	(24,666)	(24,666)
Exercise of share options <i>(note 12)</i>	440	-	-	-	-	-	-	-	440
Net loss on cash flow hedge <i>(note 10)</i>	-	-	-	(1,529)	-	-	-	-	(1,529)
Exchange realignment	-	-	-	-	-	-	203,735	-	203,735
At 30 June 2008 (Unaudited)	<u>1,685,670</u>	<u>13,824</u>	<u>10,377</u>	<u>(37,247)</u>	<u>216</u>	<u>78,866</u>	<u>509,138</u>	<u>576,543</u>	<u>2,837,387</u>

[#] Pursuant to the relevant laws and regulations 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 and are not available for distribution. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The amounts transferred from the retained profits are determined by the board of directors of these subsidiaries.

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

15. Operating Lease Arrangements

(a) *As lessor*

The Group leases certain of its investment properties under operating lease arrangements, with leases negotiated for terms ranging from three to ten years (31 December 2007: three to ten years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	2,754	3,122
In the second to fifth year, inclusive	6,758	5,981
After five years	673	1,083
	10,185	10,186

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two years (31 December 2007: two years).

At 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	933	363
In the second to fifth year, inclusive	949	-
	1,882	363

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

16. Commitments

In addition to the operating lease commitments detailed in note 15 to the condensed consolidated interim financial statements, the Group had the following commitments at the balance sheet date:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Capital commitments for the Group's property, plant and equipment:		
Contracted, but not provided for	13,576	25,436
Authorised, but not contracted for	–	1,908
	13,576	27,344

17. Related Party Transactions

(a) *Transactions with fellow subsidiaries:*

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Purchase of malt from Guangzhou Malting Co., Ltd	14,802	45,524
Purchase of malt from Ningbo Malting Co., Ltd.	3,064	43,760
Purchase of malt from Supertime (Baoying) Malting Co., Ltd.	–	3,912
Purchase of malt from Supertime (Changle) Malting Co., Ltd.	2,160	7,329
Purchase of malt from Supertime (Nanjing) Malting Co., Ltd.	18,591	25,521
Purchase of malt from Supertime (Qinhuangdao) Malting Co., Ltd.	–	8,306
Rental of office premises paid to Global Head Developments Limited	292	272

Unaudited Interim Financial Report *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)* 30 June 2008

17. Related Party Transactions *(Cont'd)*

(b) *Outstanding balances with related parties:*

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Balances due to:		
The immediate holding company	1,153	218
Fellow subsidiaries	11,432	43,707

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

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short term employee benefits	873	984
Post-employment benefits	436	313
Total compensation paid to key management personnel	1,309	1,297

Unaudited Interim Financial Report *(Cont'd)*

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

30 June 2008

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 and interest thereon of HK\$510,000 under an agreement for sale and purchase dated 9 August 2002 in respect of disposal of the then issued shares of CCAI (the "Agreement"), the owner of a 50% interest in Shandong Huazhong Amber Brewery Co. Ltd. ("Amber Brewery"), to BCCL and a supplemental agreement dated 7 August 2003 (the "Supplemental Agreement"); and the enforcement of a share mortgage over the 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 (the "Loan"), which should have been conditionally waived by Baligold subject to the completion of the Agreement (collectively referred as the "Proceedings").

In view of the uncertainty over the amount that can be recovered from BCCL and CCAI through the Proceedings, a full provision of HK\$12,740,000 was made in prior years.

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

In June 2007, BCCL proposed an out of court settlement with a sum no more than HK\$50,000 on the basis that Amber Brewery, the only and the most valuable asset of BCCL, has been wound up during the period ended 30 June 2007.

During the six months ended 30 June 2008, the Group accepted the abovementioned settlement proposed by BCCL and the Proceedings were resolved accordingly.

19. Approval of Condensed Consolidated Interim Financial Statements

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 4 September 2008.

Report on Review of Interim Financial Information



**To the Board of Directors of
Kingway Brewery Holdings Limited**
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 4 to 26 which comprises the condensed consolidated balance sheet of Kingway Brewery Holdings Limited as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
4 September 2008

Management Discussion and Analysis

Results and Key Operating Data

The Board of Directors of the Company reports that the sales volume of Kingway beer for the first half of the year was 309,000 tonnes (2007: 366,000 tonnes), representing a decrease of 15.6% over the same period last year. The consolidated revenue was HK\$656 million (2007: HK\$803 million), representing a decrease of 18.3% as compared to the same period last year. The unaudited consolidated loss for the period was HK\$24.67 million (2007: consolidated profit of HK\$15.91 million).

The Board of Directors of the Company resolved not to declare the payment of interim dividend for the six months ended 30 June 2008 (2007: nil).

The sales volume for the first half of the year had been decreased as compared to that of the same period last year, on the one hand, was due to the impact of natural disasters such as the rainstorm, snowstorm and earthquake that had occurred in the first half of 2008, particularly the impact of the rainstorm and snowstorm on the sales volume in Guangdong Province. And on the other hand, the adjustment of sales models conducted by the Group during the first half of the year had also affected the sales volume to certain extends.

Business and Financial Review

During the period under review, the principal business of the Group continued to be production, distribution and sale of Kingway beer. 66% of the beer sold was produced in Guangdong Province, whereas the remaining 34% was produced in Tianjin, Xian and Chengdu respectively.

Average costs of sales per tonne of beer for the first half of the year was HK\$1,680 (2007: HK\$1,411), representing an increase of 19.1% over the same period last year. The increase in average unit costs of sales per tonne of beer was primarily resulted from the rise in the prices of raw material, such as malt and rice, packaging materials and power sources, together with the increased depreciation after the commencement of operation of new brewery plants, and raised fixed costs per tonne of beer sold due to low utilization rate of the facilities.

Selling and distribution expenses was HK\$109 million for the first half of the year (2007: HK\$207 million), representing a decrease of 47.3% over the same period last year. The average selling and distribution expenses per tonne decreased by 37.6% as compared to the same period last year. The decrease was primarily attributable to the adjustment of sales models that results in the decrease of sales force.

Administrative expenses for the first half of the year was HK\$64.78 million (2007: HK\$58.37 million), representing an increase of 11.0% over the same period last year. This was primarily due to the increase in administrative expenses after commissioning of the brewery plant in Foshan and full operation of the brewery plants in Xian and Chengdu.

Net finance costs of the Group were HK\$14.68 million for the first half of 2008 (2007: HK\$12.63 million), represented an increase of approximately 16.2%. The main reason for the increase was that all interest expenses were recognised as finance costs after the new brewery plants were fully put into production during the period under review, whereas there were capitalized finance costs of approximately HK\$3.61 million in aggregate for the first half of last year.

Management Discussion and Analysis *(Cont'd)*

Financial Resources, Liquidity and Debt

The Group had cash and bank balances of HK\$326 million as at 30 June 2008 (including pledged and restricted bank balances of HK\$2.17 million), of which 79.6% was in RMB, 15.8% was in USD, 4.1% was in HKD, and 0.5% was in EUR.

Net cash inflow from operating activities during the period under review was HK\$107 million. Capital expenditure (cash outflow) was approximately HK\$73.43 million, which was mainly related to the payment for remaining construction costs of brewery plants in Xian, Chengdu and Foshan. A total of HK\$69.46 million of interest-bearing bank borrowings were repaid during the period.

As at 30 June 2008, the Group had an aggregated amount of outstanding interest-bearing bank borrowings of HK\$518 million (31 December 2007: HK\$587 million). The gearing ratio was 6.5% (31 December 2007: 8.5%), represented a decrease of 2%. Though net current liabilities of approximately HK\$40.22 million was recorded as at the balance sheet date, it had been a substantial improvement as compared with the beginning of the year. With the cash inflow from operating activities and standby banking facilities, the Group will have sufficient financial resources to cover all of the liabilities due and payable. As at 30 June 2008, the Group had no contingent liability.

As at 31 December 2007, there was approximately HK\$279 million of long-term bank borrowings reclassified as short-term bank borrowings because the Group may or may not comply with the covenant requirement as stipulated in the loan facility letters and the long term bank loans may be wholly repayable within twelve months. During the period under review, the Group had reached an agreement with the bank and there was no reclassification of the long-term bank borrowings due to a possible non-compliance of any bank loan agreement.

Human Resources

As at 30 June 2008, the Group had 2,714 employees (31 December 2007: 2,388). Reasonable remuneration packages that take into account business performance, market practices and market conditions are offered to employees in compensation for their contribution. In addition, discretionary bonuses are also granted based on the results of the Group and performance of individual employees.

Management Discussion and Analysis *(Cont'd)*

Outlook

Following the commencement of operation of the new brewery plant in Foshan with an annual production capacity of 200,000 tonnes at the beginning of the year, constructions of the Group's new production facilities were fully completed. The Group will focus on establishing its sales networks, and in enhancing its sales volume and profitability.

All the major beer brands in China have entered into the Guangdong Province, causing fierce competitions and excessive capacity in the Province. The Group will formulate corresponding measures in respect of marketing and sales, manufacturing process innovation, cost and expense control so as to improve profitability and maintain Kingway's brand presence as well as market share in the Guangdong Province.

Sales from the brewery plants in Chengdu and Xian were dampened in the aftermath of 12 May Wenchuan Earthquake. However, efforts made from our staff in earthquake relief and appropriate adjustments have alleviated the impact of earthquake on the results of these brewery plants. The beer sales volume from the new brewery plants in Chengdu, Xian and Tianjin recorded a growth year-on-year respectively that tally with expectation. It is expected that the new brewery plants will make contribution to the Group gradually in the future with their continuous growth of sales volume.

The Group's management will endeavor to develop sales network for the Group's respective brewery plants and lay down specific strategies according to different marketing and competition conditions in different locations, enlarge market shares, fully utilize the Group's existing capacity, minimize the lead time before full-scale running of the new brewery plants with an aim to improve the Group's results within the shortest possible timeframe, and strive to enhance return for the shareholders.

Directors' Interests and Short Positions in Securities

As at 30 June 2008, 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	1,166,666	Long position	0.0683%
LIANG Jianqin	Personal	56,222	Long position	0.0033%
LUO Fanyu	Personal	86,444	Long position	0.0051%
Theresa HO LAM Lai Ping*	Personal	98,000	Long position	0.0057%
Alan Howard SMITH	Personal	317,273	Long position	0.0186%
V-nee YEH	Personal	317,273	Long position	0.0186%

* Mrs. Theresa HO LAM Lai Ping resigned as a non-executive director of the Company on 25 July 2008.

Note: The total number of issued shares of the Company as at 30 June 2008 was 1,707,306,546.

(ii) Guangdong Investment Limited

Name of director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
YE Xuquan	Personal	6,000,000	Long position	0.0975%
LIANG Jianqin	Personal	150,000	Long position	0.0024%
Michael WU	Family [#]	18,000	Long position	0.0003%
Theresa HO LAM Lai Ping*	Personal	800,000	Long position	0.0130%

* Mrs. Theresa HO LAM Lai Ping resigned as a non-executive director of the Company on 25 July 2008.

[#] Held by the spouse of Mr. Michael WU

Note: The total number of issued ordinary shares of Guangdong Investment Limited as at 30 June 2008 was 6,152,388,071.

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

I. Shares (Cont'd)

(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	0.0130%

Note: The total number of issued shares of Guangdong Tannery Limited as at 30 June 2008 was 537,504,000.

II. Options

(i) The Company

Name of director	Number of options held as at 01/01/2008	Options granted during the period		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 period	Number of options held as at 30/06/2008	Long/ Short position
		Date of grant (dd/mm/yyyy)	Number granted						
YE Xuquan	2,115,152	-	-	27/08/2003- 26/08/2008	1	0.794	-	2,115,152	Long position
	7,403,033	-	-	07/05/2004- 06/05/2009	1	1.825	-	7,403,033	Long position
JIANG Guoqiang	2,115,152	-	-	27/08/2003- 26/08/2008	1	0.794	-	2,115,152	Long position
Alan Howard SMITH	317,273	-	-	27/08/2003- 26/08/2008	1	0.794	317,273	0	N/A
	317,273	-	-	07/05/2004- 06/05/2009	1	1.825	-	317,273	Long position
V-nee YEH	317,273	-	-	27/08/2003- 26/08/2008	1	0.794	317,273	0	N/A
	317,273	-	-	07/05/2004- 06/05/2009	1	1.825	-	317,273	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).

Note 1: The weighted average closing price of the shares immediately before the date on which the options were exercised by Mr. Alan Howard SMITH was HK\$1.51.

Note 2: The weighted average closing price of the shares immediately before the date on which the options were exercised by Mr. V-nee YEH was HK\$1.51.

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 01/01/2008	Options granted during the period		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 during the period	Number of options held as at 30/06/2008	Long/Short position
		Date of grant (dd/mm/yyyy)	Number granted						
YE Xuquan	6,000,000	-	-	05/03/2003–04/03/2008	1	0.96	6,000,000	0	N/A
	3,000,000	-	-	08/08/2003–07/08/2008	1	1.22	3,000,000	0	N/A
	3,000,000	-	-	07/05/2004–06/05/2009	1	1.59	3,000,000	0	N/A

* 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).

Note 1: The weighted average closing prices of the shares immediately before the date on which the options were exercised by Mr. YE Xuquan was HK\$3.585.

(iii) Guangnan (Holdings) Limited

Name of director	Number of options held as at 01/01/2008	Options granted during the period		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 during the period	Number of options held as at 30/06/2008	Long/Short position
		Date of grant (dd/mm/yyyy)	Number granted						
LIANG Jianqin	200,000	-	-	09/06/2006–08/03/2016	1	1.66	-	200,000	Long position
ZHAO Leili	200,000	-	-	09/06/2006–08/03/2016	1	1.66	-	200,000	Long position
LUO Fanyu	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).

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

Save as disclosed above, as at 30 June 2008, 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 2008, 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
廣東粵海控股有限公司 (Guangdong Holdings Limited) <i>(Note 1)</i>	Shares	1,263,494,221	Long position	74.01%
GDH Limited ("GDH") <i>(Note 1)</i>	Shares	1,263,494,221	Long position	74.01%
Heineken Holdings N.V. ("Heineken HNV") <i>(Notes 2 and 3)</i>	Shares	1,263,494,221	Long position	74.01%
	Shares	365,767,453	Short position	21.42%
Heineken N.V. ("Heineken NV") <i>(Notes 2 and 3)</i>	Shares	1,263,494,221	Long position	74.01%
	Shares	365,767,453	Short position	21.42%
Heineken International B.V. ("Heineken IBV") <i>(Notes 2 and 3)</i>	Shares	1,263,494,221	Long position	74.01%
	Shares	365,767,453	Short position	21.42%
Fraser and Neave, Limited ("F & N") <i>(Notes 2 and 3)</i>	Shares	1,263,494,221	Long position	74.01%
	Shares	365,767,453	Short position	21.42%
Asia Pacific Investment Pte Ltd ("APIP") <i>(Notes 2 and 3)</i>	Shares	1,263,494,221	Long position	74.01%
	Shares	365,767,453	Short position	21.42%
Asia Pacific Breweries Limited ("APB") <i>(Notes 2 and 3)</i>	Shares	1,263,494,221	Long position	74.01%
	Shares	365,767,453	Short position	21.42%
Heineken – APB (China) Pte Ltd ("HAPBC") <i>(Notes 2 and 3)</i>	Shares	1,263,494,221	Long position	74.01%
	Shares	365,767,453	Short position	21.42%
Genesis Asset Managers, LLP <i>(Note 4)</i>	Shares	136,640,219	Long position	8.00%
Genesis Fund Managers, LLP <i>(Note 5)</i>	Shares	133,640,219	Long position	7.83%

Substantial Shareholders' Interests and Short Positions in Securities *(Cont'd)*

Notes: (1)(a) The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its wholly-owned subsidiary, namely GDH.

(1)(b) Of these 1,263,494,221 shares: (i) 897,726,768 shares are beneficially held by GDH, (ii) 231,999,453 shares related to derivative interests of GDH, and (iii) 133,768,000 shares related to the deemed interests of GDH under section 318 of the SFO.

(2)(a) Of the 1,263,494,221 shares: (i) 365,767,453 shares were beneficially held by HAPBC and (ii) 897,726,768 shares related 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 1,263,494,221 shares of the Company in which HAPBC is interested, as described in note (2)(a) above.

(3) The short position in respect of 365,767,453 shares arose 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.

(4) The shares held by Genesis Asset Managers, LLP were held in the capacity of investment manager.

(5) The shares held by Genesis Fund Managers, LLP were held in the capacity of investment manager.

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 2008 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

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules") throughout the six months ended 30 June 2008.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

Audit Committee

The Company established an audit committee ("Audit Committee") in September 1998. The terms of reference of the Audit Committee adopted by the board of directors of the Company are in line with the 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. Felix FONG Wo as members. The principal duties of the Audit Committee include, inter alia, 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 of the Company are in line with the CG Code. The Remuneration Committee comprises Mr. KOH Poh Tiong as the chairman, Mr. V-nee YEH, Mr. Alan Howard SMITH and Mr. Felix FONG Wo 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 2008. 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 2008.

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

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

The Company has entered into three facility letters ("Facility Letters") signed between the Company and two different banks respectively for loan facilities with an aggregate amount of up to approximately HK\$696.4 million. The Facility Letters imposed specific performance obligations on GDH, the controlling shareholder of the Company, and/or HAPBC, a substantial shareholder of the Company. The Facility Letters include, inter alia, a condition to the effect that GDH and/or HAPBC shall in aggregate at all times to own directly or indirectly at least 51% of the issued ordinary shares of the Company. A breach of the above condition would constitute an event of default under the Facility Letters. If such an event of default occurs, the above facilities will become immediately due and repayable.

Details of each of the Facility Letters are summarized in the followings:

Date of the Facility Letters	Facility amount	Outstanding balance as at 30 June 2008	Last repayment date
25 November 2005	US\$38 million	US\$20.9 million	November 2009
27 October 2006	HK\$200 million	HK\$175 million	October 2010
19 December 2006	HK\$200 million	HK\$180 million	December 2010

By Order of the Board
LI Wenyue
Chairman

Hong Kong, 4 September 2008

