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CORPORATE INFORMATION

Board of Directors

Executive Directors

YE Xuquan (*Chairman*)

JIANG Guoqiang (*Managing Director*)

Non-Executive Directors

KOH Poh Tiong

HAN Cheng Fong

Herman Petrus Paulus Maria HOFHUIS

ZHAO Leili

LUO Fanyu

HO LAM Lai Ping, Theresa

Michael WU

FUNG Sing Hong, Stephen

Independent Non-Executive Directors

Alan Howard SMITH

V-nee YEH

Rafael GIL-TIENDA

Company Secretary

LAM Yee Mei, Katherine

Auditors

Ernst & Young

Principal Bankers

Standard Chartered Bank

Shenzhen Development Bank

Shareholders' Calendar

Closure of Register of Members	13 to 15 June 2005 (both dates inclusive)
Annual General Meeting	15 June 2005
Final Dividend	HK\$0.02 per share
Payable	30 June 2005

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Head Office & Principal Place of Business

Office A1, 19th Floor

Guangdong Investment Tower

148 Connaught Road Central

Hong Kong

Telephone: (852) 2165 6262

Facsimile: (852) 2815 2020

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

Principal Share Registrars

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Branch Share Registrars in Hong Kong

Tengis Limited

G/F., Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

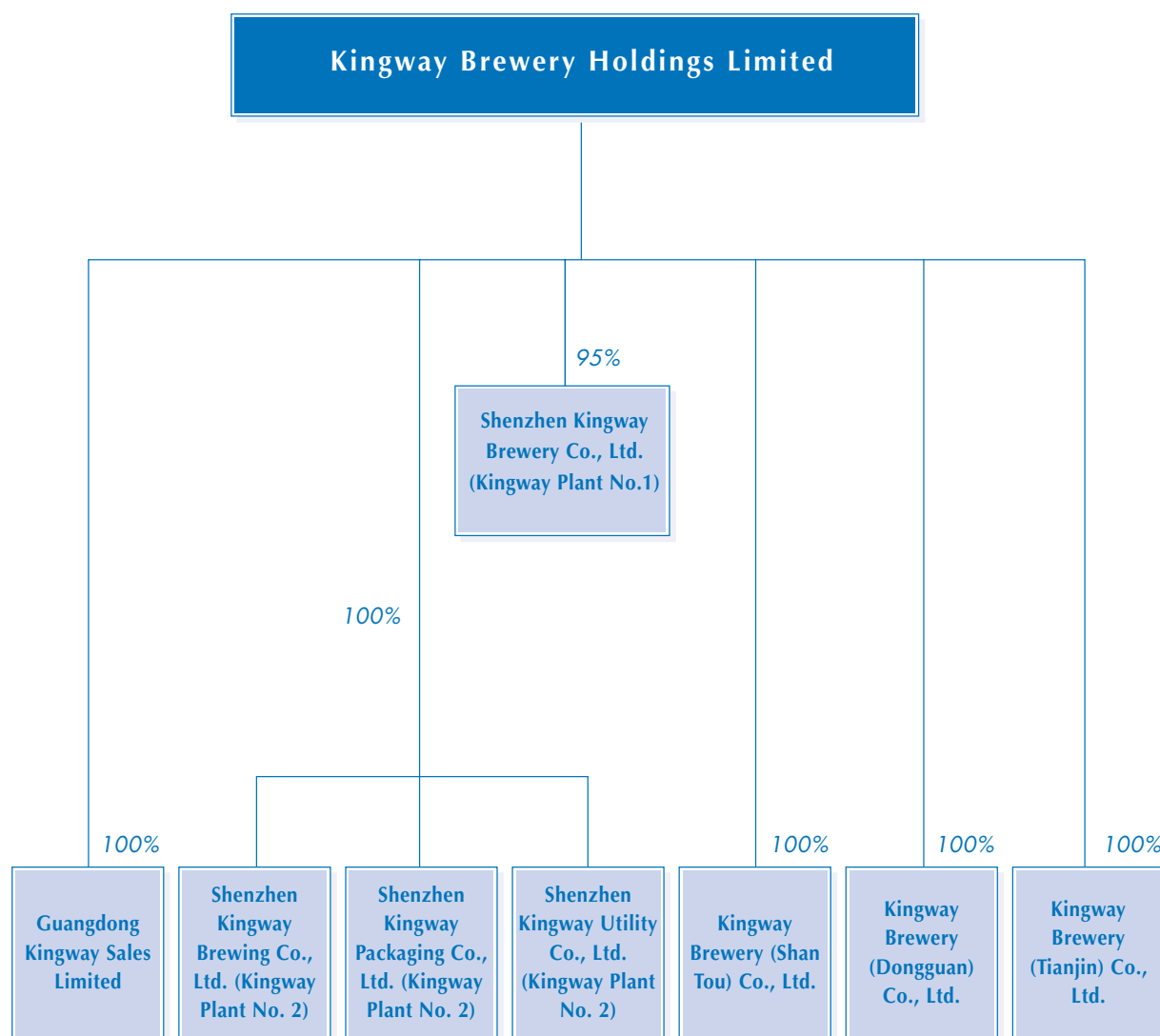
Place of Listing

Main Board of The Stock Exchange of
Hong Kong Limited

Stock Code

124

SIMPLIFIED CORPORATE STRUCTURE CHART



Notes:

The percentage shown represent the attributable interest of the Company in respective subsidiaries as of 15 April 2005.

HIGHLIGHTS – FINANCIAL AND OPERATIONAL DATA

	2004	2003	Change (%)
OPERATIONS			
Beer sales volume, in tonnes	391,000	273,000	+43.2%
Debtors average collection period, in days	12	13	–7.7%
Creditors average payment period, in days	42	54	–22.2%
Stock turnover (exclude spare parts and consumables), in days	49	53	–7.5%
Year-end number of staff	1,240	1,030	+20.4%
FINANCIAL RESULTS			
Turnover, in thousand dollars	924,528	684,574	+35.1%
EBITDA (Earning before finance costs, tax, depreciation, amortisation and write-off of fixed assets), in thousand dollars	279,178	233,603	+19.5%
Net profit attributable to shareholders, in thousand dollars	166,162	105,061	+58.2%
Basic earnings per share, in cents	12.1	8.4	+44.0%
Current ratio, times	3.3	2.8	+17.9%
Gearing ratio (net of cash and cash equivalents), %	Net cash	Net cash	–
SHAREHOLDERS' WEALTH			
Issued shares, in thousand shares	1,395,568	1,250,600	+11.6%
Shareholders' equity, in thousand dollars	1,639,095	1,265,194	+29.6%
Shareholders' equity per share, in HK\$	1.17	1.01	+15.8%

BUSINESS REVIEW

Year 2004 was a strategic turning point of Kingway Group's development history. Despite the intensified market competitions, the Group has achieved record-breaking results in both sales volume and operating results. The results were attributable to the dedication of all staff of the Group coherent around the theme of "Further Development". Every staff sticks to the "results and efficiency oriented" management philosophy, carrying out their works with the sales and market oriented initiatives, motivated by the improvement targets, and achieved by thorough execution and innovative methods.

In 2004, we focused primarily on the following areas and have achieved encouraging results.

1. Sales and operating results grew significantly. The sales volume in 2004 was 391,000 tonnes, which was 43.2% higher than that of 2003. The two breweries in Shenzhen were operating at full capacity level. Both turnover and operating profits recorded strong growths.
2. There were advancements in brand building. The Group launched innovative marketing strategies and actively involved in campaigns for public interests to enhance the Kingway's brand awareness and equity. Kingway was shaped to be a beer effectively associated with healthy and happy life of consumers. The theme of differentiating Kingway being a formaldehyde-free beer and having all its products certified as "National Green Products" had significantly helped our promotional activities. During the first half of the year, the Group co-produced and sponsored the "Kingway 2004 International Supermodel Contest". This was an international event with 46 contestants coming from 33 countries or regions. The various activities of the contest drew significant media coverage and public attention throughout the second quarter of the year in Guangdong. During the year, the Kingway art performance troupe performed more than hundred road shows in various cities and regions, thus effectively associated the Kingway brand to art and leisure life of consumers.
3. The Group has elaborated the "Sunshine Program" to pursue further the transparent and fair public tender program in order to promote ethical business practices and strengthen the corporate internal monitoring and control mechanism. The control measures created an atmosphere among the staff with strong sense of integrity in conducting the business. Employees have confidence in the development of the enterprise and employees themselves. They actively participated in business development under the theme of "Treat enterprise's affairs as own affairs; pursue a career in the enterprise instead of a job whole-heartedly". In early 2005, Kingway launched a "Integrity, Co-operation, Win-win" conference with the Group's suppliers and wholesalers, in which the "Statement of Integrity Business Practices" was announced to the public to strengthen the partner relationship with all suppliers and wholesalers. In respect of our quality policy, to protect consumers' health issues are our primary objectives; hence we have continuously promoted the use of formaldehyde-free brewing technologies to produce healthy beer. This added health and technology elements to Kingway brand equity. The Kingway "Green Technology" has been promoted by the National Technology Bureau as the annual promotion project. Furthermore, Kingway was the only PRC brewery selected to these programs as Kingway was the first enterprise having all its products received the "Green Food" award in year 2004.

CHAIRMAN'S STATEMENT (Cont'd)

4. In 2004, the Group has implemented effective motivating remuneration policies. Production workers are compensated with regard to production volume and salesperson's remunerations are hedged to sales volume. The implementations of such measures have effectively motivated staff morale.
5. The Group has been actively pursuing to strengthen its corporate management abilities as well as to improve operational efficiency by implementing various measures, which included: implementing policies and processes to smoothen operational work flows; developing new products and apply new technologies and skills to shorten the fermentation cycle; further enhance the application of ERP integrated financial and operational management information system; implement Customer Relationship Management (CRM) and Business Intelligent (BI) systems to provide timely business information and market responses to support management decisions and formulation of marketing strategies; emphasise the team building exercise for quality human resources for further business development requirement of the enterprise.
6. We have made breakthrough in our strategic development in 2004. In order to achieve our strategic goal for the coming 5 years of "Excel, empower and expand", and to speed up our pace of development, we consolidate our core markets in Guangdong and penetrate to other regions in the PRC. We shall team up with international breweries to strengthen our market position to en-route to "Strong-strong" alliance. We shall continue to pursue our targets of Group annual production capacity of 1.35 million tonnes and sales volume of 1.20 million tonnes by year 2009 through mergers and acquisitions, as well as construction of new production plants. The development of our new brewery plants was reviewed below:

- (i) The completion of construction and commencement of production of Shantou plant

The first phase of our 200,000-tonne Shantou plant construction was completed within ten months after the start-up work commenced in February 2004 and has been up and running in January 2005. And it is expected to finish the second phase construction of another 100,000 tonnes in the second half of 2005.

- (ii) Dongguan plant construction is underway

In 2004, the Group signed the Letter of Intent with the Songshan Lake Technology Industrial Park Management Committee for the proposed construction of a new brewery plant in Dongguan. The first phase construction work with an annual beer production capacity of 200,000 tonnes has been commenced and it is expected that the construction will be completed and commenced production by the end of 2005. In tandem with any growth in market demand for the Group's products, we shall consider to construct an additional annual production capacity of 200,000 tonnes for the Dongguan plant.

(iii) Step out of Guangdong and land in Tianjin

In December 2004, The Group signed the Letter of Intent with the Tianjin Airport Industrial Park to construct a new brewery plant in Tianjin. The first phase construction work with an annual beer production capacity of 200,000 tonnes is being organized. It is anticipated the opening ceremony of construction would be conducted in April 2005 and commence to produce in mid of 2006. In tandem with any growth in market demand for the Group's products, we shall consider to construct an additional annual production capacity of 200,000 tonnes for the Tianjin plant.

(iv) Heineken-APB (China) Pte Ltd. ("HAPBC") investment in the Group as our strategic partner

In February 2004, HAPBC became a strategic partner of the Group and owned approximately 21% interests in the Company. We hoped the Group to strengthen its market position in the consolidating PRC brewery industry and develop its business in Guangdong through the strategic co-operation: (i) upgrade the Group's image and brand awareness; (ii) seek any business opportunities arising from the consolidating PRC brewery market; and (iii) improve corporate management and production efficiency by importing advance management skills and technologies. The move marked the important strategic development of the Group.

(v) Strategic Planning of Construction of new Plants and Acquisitions

In 2004, the Group also explored the opportunities to acquire or establish new brewery plants both within and outside Guangdong in order to lay a foundation for our five-year strategic expansion plan.

7. In July 2004, HSI Services Limited announced the inclusion of the Company in a series of indexes, including The Hang Seng China-Affiliated Corporations Index, with effect from 9 August 2004. This indicates that the efforts of the management in the last few years and the performance of the Group have been well received by the market.

OUTLOOK

China beer market is now in the fast track of expansion period and has become the largest beer market in the world. With the further national economic development in China and growth of citizens' disposable income, international beer players are expected to participate more actively in the rapidly consolidating PRC beer industry. The Group will capitalize any opportunities arising thereof to achieve the Group's strategic goal of "Excel, empower and expand". Despite it is anticipated that competitions in China beer market will become more intense, we are confident that, with our advance corporate culture, strong financial position, and comprehensive and efficient distribution network teamed up with highly motivated staff, we will achieve another year of satisfactory growth in sales volume and profits in year 2005.

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

Ye Xuquan

Chairman

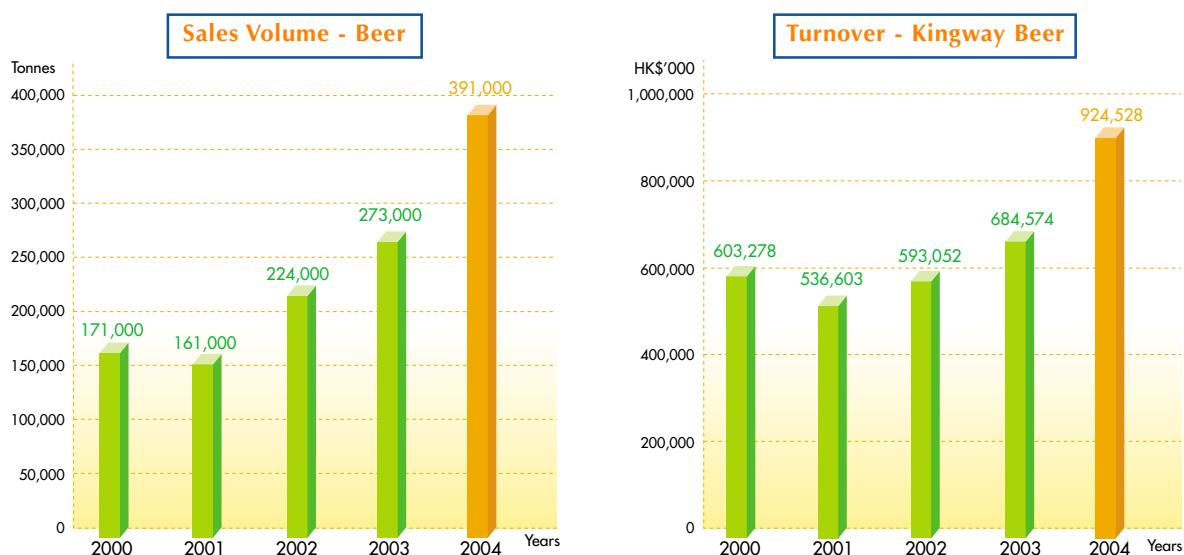
Hong Kong, 15 April 2005

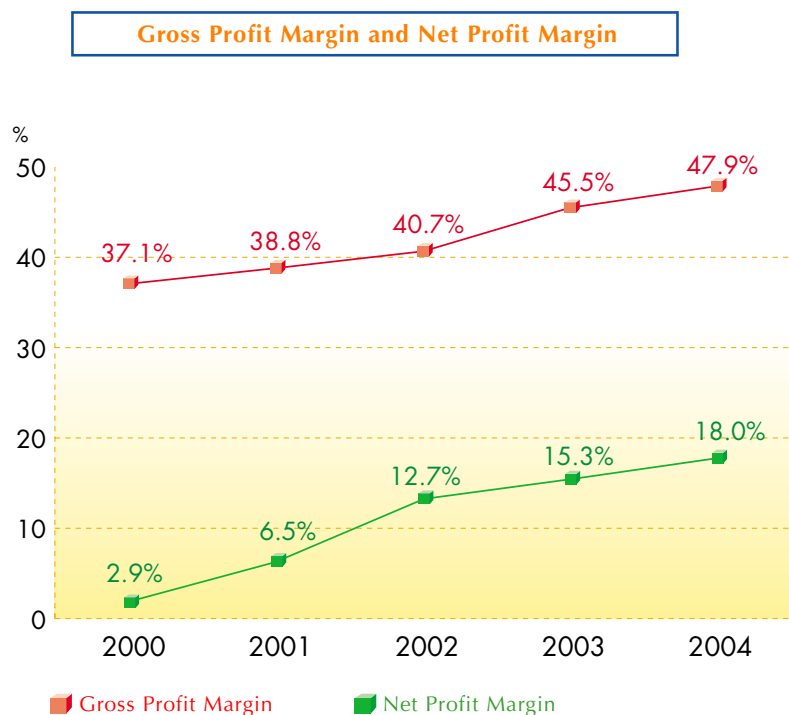
OPERATING RESULTS

In 2004, the core business of the Group remains the production and sale of Kingway beer. The Group's sales are principally conducted in the Guangdong Province, Mainland China. As a result of the building and expansion of our sales network in the previous two years, the sales volume of Kingway beer has recorded a remarkable growth of 43.2% as compared to that of the last year. The total sales volume for the year was 391,000 tonnes (2003: 273,000 tonnes). The premium products and middle-range products represent 50% of the total sales volume while the remaining market was filled up by the mass-market products. The audited consolidated net profit from ordinary activities attributable to shareholders was HK\$166 million (2003: HK\$105 million), representing a significant growth of 58.2% as compared to last year.

The consolidated turnover for the year was HK\$925 million (2003: HK\$685 million), representing an increase of 35.1% over the year 2003. The average price per tonne of beer sold was HK\$2,365 (2003: HK\$2,508), decreased by 5.7% year on year, and was a result of an adjustment in product mix to adapt to the changing market demand and the drive for sales of the mass-market products to capture market share, except for the Shenzhen city where the product mix sold was stable during the year. The sales in Mainland China increased by 38.7% as compared to that of last year and contributed 92.9% of the Group's turnover; whereas the sales in Overseas and Hong Kong increased by 0.7% and contributed 7.1% of the Group's turnover.

The average unit selling price decreased during the year was set off by a drop in average unit costs. The gross profit margin was improved to 47.9% from 45.5% in the last year. The average unit costs per tonne of beer dropped from HK\$1,368 in 2003 to HK\$1,232 in 2004, representing a decrease of 9.9% year on year. This improvement was a result of a series of cost control measures carried out by management, including the sourcing of raw materials and packaging materials by way of public tender under the "Sunshine Programme". These measures, together with the economies of scale resulting from higher volume turnover and bulk purchases which enhanced our bargaining power, the better control on the production process which minimised wastage, and the drop in unit fixed overheads are the main reasons for the significant drop in average unit costs.





OPERATING EXPENSES AND FINANCE COSTS

During the year, despite the keen competition in the PRC beer market, the Group focused on promoting Kingway as a healthy brand that was produced by the use of Green Technology. Together with the localised marketing strategy that gave maximum flexibility and quick response to the changing market, a highly effective marketing and sales strategy was attained. While selling and distribution expenses increased by 40.8% to HK\$207 million (2003: HK\$147 million), the average selling and distribution expenses per tonne of beer sold dropped by 1.7% to HK\$529 (2003: HK\$538).

Administrative expenses for the year increased by 57.9% to HK\$70.00 million (2003: HK\$44.34 million). The increase was mainly due to (i) the pre-operating expenses of HK\$7.39 million recorded for the Kingway Shantou and Dongguan new brewery plant, (ii) the provision of receivables from the purchaser of Amber Brewery of HK\$7.00 million and (iii) the addition of administrative and managerial staff in coping with the growth of business and the increase of performance linked bonus. As the Group did not have any interest-bearing debt during 2004, no finance cost was incurred for the year (2003: Nil).

TAXES

The tax rates of Profits Tax and Corporate Income Tax applicable to the Group's subsidiaries were not changed during the year. Corporate Income Tax exemption for the first two profit-making years and a 50% tax relief in the following three years were granted to Kingway Plant No. 2, Kingway Shantou plant and Kingway Dongguan plant. Year 2004 was the first year of full exemption of the taxable profits of Kingway Plant No. 2.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of approximately HK\$266.00 million (2003: HK\$37.10 million) during the year, an increase of 617% as compared to that of last year. The expenditure was mainly consumed by the new Kingway plant construction in Shantou.

Capital expenditure is expected to increase continuously as the construction of the brewery plant in Shantou (phase 2), Dongguan and Tianjin will be carried out throughout 2005.

FINANCIAL RESOURCES AND LIQUIDITY

On 19 February 2004, HAPBC has become the strategic shareholder of the Company. The Company allotted 133,768,000 new ordinary shares with an issue price of HK\$1.85 per share and received a total of HK\$244 million, net of share issue expenses. The fund raised was used to build new brewing plants in the PRC.

The Group's net asset value was HK\$1,639 million (2003: HK\$1,265 million) as at 31 December 2004, representing an increase of 29.6%. The net asset value was HK\$1.17 per share based on the number of ordinary shares issued at the end of the year (2003: HK\$1.01 per share).

As at 31 December 2004, the Group had total cash and bank balances of HK\$505 million (2003: HK\$348 million), including pledged and restricted bank balances of HK\$6.83 million as detailed in note 19 to the financial statements, representing an increase of 45.1% year on year. Of the balances, 11.0% was in USD, 6.4% was in EUR, 3.6% was in HKD and 79.0% was in RMB. Cash generated from operations for the year amounted to HK\$243 million (2003: HK\$251 million), decreased by 3.2% over that of the last year. The decrease was attributable to the increase in working capital to cater for the commencement production of the Shantou brewery plant in January 2005.

The current cash reserves and recurrent operating cash flow of the Group is sufficient for the daily operations. Taking into account the funding requirements for the construction of new brewery plants and the projected net operating cash inflow of the Group in 2005, some short-term funding may be required. Having considered the capital structure of the Group which has no interest-bearing debt and the interest rate level of the market, the Group has an intention to raise the required fund for expansion through bank loans. However, we will pay attention to the capital and debt market as well as the latest development of the Group to ensure the efficient use of financial resources.

DEBTS AND CONTINGENT LIABILITIES

The Group had no bank borrowing as at the end of 2004 and 2003. During the year, the amounts due to minority shareholders of certain subsidiaries totalling HK\$26.82 million as at the end of 2003 was fully repaid. None of the fixed assets of the Group was pledged to creditors and there were no contingent liabilities recorded as at the end of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)

The total liabilities to total assets ratio at the end of the year was 11.0% (2003: 13.0%), reflecting the robust financing position of the Group.

AMBER BREWERY

The Group disposed its entire interest in Central China (Asia) Investment Limited, the holding company of the 50% interest in Shandong Huazhong Amber Brewery Co., Ltd., in August 2002. However, as at 31 December 2004, the purchaser still failed to settle the final payment of HK\$12.23 million under the sale and purchase agreement and overdue interest thereon. Accordingly, the Group has made a provision of HK\$7.00 million with respect to the amount receivable.

In December 2004, the Group commenced legal proceedings in the High Court of the Hong Kong Special Administrative Region against the purchaser to recover the outstanding contract sum and interest thereon and the enforcement of the share mortgage provided by the purchaser. However, the purchaser submitted a counterclaim in February 2005 against the Group claiming damages for breach of the agreement by the Group. Having considered the legal advice that the counterclaim is without merit, the directors consider that the counterclaim should have no material adverse effect to the Group. The proceedings are still in progress up to the date of approval of these financial statements.

HUMAN RESOURCES

The Group currently employs approximately 1,240 (2003: 1,030) staff. The remuneration of the staff was HK\$79.23 million for 2004. The Group places strong emphasis on improving quality of its staff and their productivity. In addition to organising regular internal training courses for its staff, the Group also encourages them to attend professional training programmes organised by external bodies. On top of the basic benefits provided to its staff members, the Group has a performance appraisal system and a bonus allocation scheme to measure and reward individual's achievements in terms of sales volume and contributions to the Group's businesses.

The Directors have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in investment holding and in the production, distribution and sale of beer.

There were no significant changes in the nature of the Group’s principal activities during the year.

CHANGE OF COMPANY NAME

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

RESULTS AND DIVIDENDS

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

An interim dividend of 1.5 HK cents per share was paid on 29 October 2004. The Directors recommend the payment of a final dividend of 2.0 HK cents per share for the year ended 31 December 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Wednesday, 15 June 2005, is expected to be paid on 30 June 2005 to shareholders whose names appear on the register of members of the Company on 15 June 2005.

REPORT OF THE DIRECTORS (Cont'd)

FINANCIAL SUMMARY

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

RESULTS

	Year Ended 31 December				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	924,528	684,574	593,052	543,922	613,892
Cost of sales	(481,550)	(373,398)	(351,680)	(332,691)	(386,172)
Gross profit	442,978	311,176	241,372	211,231	227,720
Other revenue and gains	22,365	21,547	34,034	43,880	53,872
Selling and distribution expenses	(206,710)	(146,765)	(133,960)	(133,586)	(98,151)
Administrative expenses	(70,001)	(44,335)	(36,504)	(45,537)	(68,774)
Impairment of investment in an associate	–	–	–	(5,600)	(31,367)
Impairment of an investment security	–	–	(4,611)	–	(1,000)
Impairment of goodwill arising from an acquisition of an associate previously dealt with in reserves	–	–	–	–	(9,135)
PROFIT FROM OPERATING ACTIVITIES	188,632	141,623	100,331	70,388	73,165
Finance costs	–	–	–	(7,857)	(30,483)
Share of loss of an associate	–	–	(4,437)	(13,424)	(14,496)
PROFIT BEFORE TAX	188,632	141,623	95,894	49,107	28,186
Tax	(18,183)	(26,102)	(14,653)	(11,020)	(10,112)
PROFIT BEFORE MINORITY INTERESTS	170,449	115,521	81,241	38,087	18,074
Minority interests	(4,287)	(10,460)	(5,950)	(2,576)	34
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	166,162	105,061	75,291	35,511	18,108

ASSETS, LIABILITIES AND MINORITY INTERESTS

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

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the issued shares and share options of the Company during the year are set out in notes 25 and 26 to the financial statements.

SHARE PREMIUM ACCOUNT AND RESERVES

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$247,895,000, of which HK\$27,911,000 has been proposed as a final dividend for the year.

In addition, the Company's share premium of HK\$974,705,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

There were no charitable contributions made by the Group during the year (2003: Nil).

REPORT OF THE DIRECTORS (Cont'd)

DIRECTORS

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

Executive Directors

YE Xuquan (*Chairman*)

JIANG Guoqiang (*Managing Director*)

Non-Executive Directors

KOH Poh Tiong (appointed on 13 April 2004)

HAN Cheng Fong (appointed on 13 April 2004)

Herman Petrus Paulus Maria HOFHUIS (appointed on 13 April 2004)

ZHAO Leili (appointed on 27 February 2004)

LUO Fanyu

HO LAM Lai Ping, Theresa

Michael WU

FUNG Sing Hong, Stephen

LI Wai Keung (resigned on 27 February 2004)

Independent Non-Executive Directors

Alan Howard SMITH

V-nee YEH

Rafael GIL-TIENDA (appointed on 29 November 2004)

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

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

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

In accordance with bye-law 87 of the Company's bye-laws, Mr. Ye Xuquan, Mr. Jiang Guoqiang, Mr. Fung Sing Hong, Stephen and Mr. V-nee Yeh will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

Executive Directors

Mr. Ye Xuquan, aged 49, was appointed a Director and the Chairman of the Company in January 2002. Mr. Ye graduated from the Department of Chinese Language and Literature and the Institute of Economy Research, South China Normal University and obtained a Master's degree of Economics from South China Normal University. Mr. Ye joined Guangdong Province Dongshen Water Supply Management Bureau (the "Dongshen Water Supply Bureau") in 1978 and has 23 years' experience in the management and operation of water supply. Mr. Ye was a section chief of the Dongshen Water Supply Bureau in 1984, promoted as Vice Director in 1987, acted as Deputy Director in 1995 and acted as Director from 1997 to 2000. He was Chairman of Guangnan (Holdings) Limited ("Guangnan") from November 2000 to January 2002 and was Chairman of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) from August 2000 to July 2003. He is Director and Deputy General Manager of both 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment") and GDH Limited ("GDH"). He is also the Vice President of both the Beer Association of China and the Music and Literature Association of China.

Mr. Jiang Guoqiang, aged 52, was appointed the Managing Director of the Company in January 2002 and previously was appointed a Director and the Chairman of the Company in March 2001. Mr. Jiang graduated from Shanghai Metallurgical Machinery School where he majored in metallurgical machinery. He is an engineer. From 1976 to 1988, Mr. Jiang worked for First Metallurgy Construction Company of the Ministry of Metallurgy. In 1988, he joined Zhongshan Zhongyue Tin-Plate Industrial Company Limited and Shanghai Industrial Co., Ltd. and he became a director and Deputy General Manager of both companies in 1991. Mr. Jiang was a Director and the General Manager of both companies from 1995 to March 2001. He was a Deputy General Manager of the strategic development department of GDH from April 2000 to January 2001.

Non-Executive Directors

Mr. Koh Poh Tiong, aged 58, was appointed a Director of the Company in April 2004. Mr. Koh is the Chief Executive Officer and Director of Asia Pacific Breweries Limited ("APB"), a company listed in Singapore and holds directorships in most of the subsidiaries of the Asia Pacific Breweries Group ("APB Group"). He is Chairman of the Agri-food and Veterinary Authority and a Director of National Healthcare Group Pte Ltd, PSA International Pte Ltd and PSA Corporation Ltd. He was a member of the APEC Business Advisory Council representing Singapore from January 1999 to 31 August 2001. He is also Chairman and a Director of Heineken-APB (China) Pte Ltd ("HAPBC"), a substantial shareholder of the Company and a Director of DB Breweries Co. Ltd. ("DB Breweries") (a company delisted from the New Zealand Stock Exchange with effect from 14 September 2004).

REPORT OF THE DIRECTORS (Cont'd)

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

Non-Executive Directors (cont'd)

Dr. Han Cheng Fong, aged 63, was appointed a Director of the Company in April 2004. Dr. Han was appointed to the Board of Directors of APB in September 2002. He joined the Fraser and Neave Group ("F&N Group") in May 2001 as Deputy Chairman of Centrepont Properties Ltd, as Director and Joint Managing Director of Fraser and Neave Limited in April 2002, a company listed in Singapore and was appointed its Managing Director in October 2002. In addition, he holds directorship in the subsidiaries of Fraser and Neave Group, Centrepont Properties Group, Fraser & Neave Holdings Group, Times Publishing Group, Asia Pacific Investment Pte Ltd, DB Breweries and is the Chairman of Vision Century Corporation Limited, a company listed in Hong Kong. Dr. Han is also a Director of HAPBC.

Mr. Herman Petrus Paulus Maria Hofhuis, aged 55, was appointed a Director of the Company in April 2004. Mr. Hofhuis has held several management positions in Heineken NV Group ("Heineken") as of 1973. Currently he holds the position of Managing Director, Asia Pacific of Heineken. A Dutch citizen located in Singapore, he also holds directorships in a number of subsidiaries of the Asia Pacific Breweries Group and in PT Multi Bintang Indonesia Tbk. He is also a Director of APB, DB Breweries and HAPBC.

Mr. Zhao Leili, aged 51, was appointed a Director of the Company in February 2004. Mr. Zhao was appointed a director of Yue Gang Investment and an executive director of GDH in December 2001. He is also a non-executive director of Guangnan. Mr. Zhao graduated from the Air Force Aviation College of People's Liberation Army. From 1969 to 2001, he worked in a number of positions in the Air Force Aviation of People's Liberation Army and was a commander in the Air Force. Mr. Zhao has extensive experience in personnel management, audit control and construction management.

Mr. Luo Fanyu, aged 49, was appointed a Director of the Company in October 2003. Mr. Luo graduated from the economics department of Zhongshan University. He joined Guangdong Enterprises (Holdings) Limited ("GDE") in 1987 and was responsible for its legal affairs. He is currently a director of GDH and a non-executive director of Guangnan. Prior to joining GDE, he held various positions as judge and a deputy chief judge of the Economic Court of the People's High Court of Guangdong Province.

Mrs. Ho Lam Lai Ping, Theresa, aged 49, was appointed a Director of the Company in August 2000. She is also a Director of Guangdong Tannery Limited. She has been the Company Secretary of Guangdong Investment Limited ("GDI") since December 1992. She graduated from the Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

Mr. Michael Wu, aged 53, was appointed a Director of the Company in October 2003. Mr. Wu joined GDI in 1992 and had been a Deputy General Manager of GDI from July 1996 to February 2001. He was the Chairman of the Company from March 2000 to January 2001. Mr. Wu is currently a Deputy General Manager of Strategic Development Department of GDH. Mr. Wu graduated from Zhongshan University and obtained a Bachelor's degree in Arts. In 1987, he obtained his Master's degree in Business Administration from the University of Texas in the United States.

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

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

Independent Non-Executive Directors

Mr. Alan Howard Smith, aged 61, was appointed an Independent Non-Executive Director of the Company in January 1999. Mr. Smith was Vice Chairman in the Pacific Region, of Credit Suisse First Boston ("CSFB"), a leading global investment bank from 1997 to 2001. Prior to joining CSFB, he was the Chief Executive of the Jardine Fleming Group from 1983 to 1994 and was Chairman of the Jardine Fleming Group from 1994 to 1996. Mr. Smith has over twenty-five years' investment banking experience in Asia. He was elected a council member of The Stock Exchange of Hong Kong Limited on two occasions. He was a member of the Hong Kong Special Administrative Region Government's Economic Advisory Committee from 1994 to 2001, and was for 10 years a member of the Hong Kong Government's Standing Committee on Company Law Reform.

Mr. V-nee Yeh, aged 46, was appointed an Independent Non-Executive Director of the Company in January 1999. He is the Chairman of Hsin Chong Construction Group Ltd.; co-founder of Value Partners Limited and VP Private Equity Limited. Mr. Yeh was also a council member of The Stock Exchange of Hong Kong Limited until its merger into the Hong Kong Exchanges and Clearing Ltd. He remains a member of the Listing Committee. He also sits on the Takeovers and Mergers Panel and the Takeovers Appeals Committee of the Securities and Futures Commission and was a member of the Listing Committee of the China Securities Regulatory Commission from 1999 through 2003.

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

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

Alternate Directors

Mr. Frederik Willem Kurt Linck, aged 48, was appointed an Alternate Director to Mr. Koh Poh Tiong, a director of the Company, in April 2004. Mr. Linck studied Business Economics at the Erasmus University in Rotterdam. After finishing his MBA studies, he worked for Procter & Gamble, Haagen-Dazs and Allied Breweries in Holland. In 1995, he joined Heineken which brought him to positions in APB in Cambodia and Papua New Guinea. He has worked in the People's Republic of China ("PRC") from 2000 and was appointed from 1 April 2004 as Regional Director (China) and oversees the operations under HAPBC in the PRC. He is also a Director of HAPBC.

Mr. Huang Hong Peng, aged 46, was appointed an Alternate Director to Dr. Han Cheng Fong, a director of the Company, in April 2004. Mr. Huang is currently the Chief Operating Officer, Food & Beverage of F&N Group. He sits on the boards of subsidiaries of APB Group and F&N Group. Before his transfer to the F&N Group, he was the deputy Regional Director, China of APB, a subsidiary of Fraser and Neave, Limited and was responsible for brewery operations of the APB Group in the PRC now consolidated under HAPBC. He joined the APB Group in November 1994 and has served in various positions in Myanmar and the PRC. Before joining the APB Group, Mr. Huang was Assistant Director, Airport Management in the Civil Aviation Authority of Singapore, and has a degree in Air Transport from the Ecole National de l'Aviation Civile, Toulouse, France.

Mr. Kenneth Choo Tay Sian, aged 38, was appointed an Alternate Director to Mr. Herman Petrus Paulus Maria Hofhuis, a director of the Company, in April 2004. Mr. Choo is the Director – Business Development (Asia Pacific) of Heineken. He held various positions in multi-national companies prior to joining Heineken. Mr. Choo is a member of Certified Public Accountants of Singapore, and has completed the Advanced Management Program at Harvard Business School. Mr. Choo is also a Director of Heineken Asia Pacific Pte Ltd.

Senior Management

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

During the year, Messrs. Ye Xuquan, Jiang Guoqiang, Fung Sing Hong, Stephen and Fung Chi Kwan, Nicholas were members of the Company's senior executives.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a beneficial interest in any contract of significance to the business of the Group, whether directly or indirectly, to which the Company, any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

REPORT OF THE DIRECTORS (Cont'd)

DIRECTORS' INTERESTS IN COMPETING BUSINESS (cont'd)

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

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

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

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

As at 31 December 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

I. Shares*(i) The Company*

Name of Director	Type of Interest	Number of shares held	Long/Short Position	Approximate Percentage of holding
Jiang Guoqiang	Personal	300,000	Long Position	0.0215
Luo Fanyu	Personal	70,000	Long Position	0.0050
Ho Lam Lai Ping, Theresa	Personal	80,000	Long Position	0.0057
Michael Wu	Personal	134,000	Long Position	0.0096
Fung Sing Hong, Stephen	Personal	24,000	Long Position	0.0017

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

(ii) Guangdong Investment Limited

Name of Director	Type of Interest	Number of shares held	Long/Short Position	Approximate Percentage of holding
Ho Lam Lai Ping, Theresa	Personal	900,000	Long Position	0.0162
Michael Wu	Personal	54,000	Long Position	0.0010
	Family*	18,000	Long Position	0.0003

* Held by the spouse of Mr. Michael Wu.

Note: The number of the issued ordinary shares of Guangdong Investment Limited as at 31 December 2004 was 5,561,612,672.

REPORT OF THE DIRECTORS (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (cont'd)

Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations (cont'd)

I. Shares (cont'd)

(iii) Guangdong Tannery Limited

Name of Director	Type of Interest	Number of shares held	Long/Short Position	Approximate Percentage of holding
Luo Fanyu	Personal	70,000	Long Position	0.0134
Fung Sing Hong, Stephen	Personal	226,000	Long Position	0.0431

Note: The number of the issued shares of Guangdong Tannery Limited as at 31 December 2004 was 524,154,000.

II. Options

(i) The Company

Name of Director	Number of options held on 01/01/2004	Options granted during the year	Period during which option is exercisable*	Total consideration paid for share options HK\$	Price to be paid per share on exercise of options HK\$	Number of options exercised during the year	Number of options held on 31/12/2004	Long/Short Position
Ye Xuquan	2,000,000	–	27/08/2003-26/08/2008	1	0.84	–	2,000,000	Long Position
	–	06/02/2004 7,000,000	07/05/2004-06/05/2009	1	1.93	–	7,000,000	Long Position
Jiang Guoqiang	10,000,000	–	11/04/2002-10/04/2007	–	0.383	10,000,000	–	Long Position
	2,000,000	–	27/08/2003-26/08/2008	1	0.84	–	2,000,000	Long Position
Fung Sing Hong, Stephen	400,000	–	27/08/2003-26/08/2008	1	0.84	–	400,000	Long Position
	–	06/02/2004 400,000	07/05/2004-06/05/2009	1	1.93	–	400,000	Long Position
Alan Howard Smith	300,000	–	27/08/2003-26/08/2008	1	0.84	–	300,000	Long Position
	–	06/02/2004 300,000	07/05/2004-06/05/2009	1	1.93	–	300,000	Long Position
V-nee Yeh	300,000	–	27/08/2003-26/08/2008	1	0.84	–	300,000	Long Position
	–	06/02/2004 300,000	07/05/2004-06/05/2009	1	1.93	–	300,000	Long Position

* If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

DIRECTORS' INTERESTS IN SECURITIES (cont'd)

Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations (cont'd)

II. Options (cont'd)

(ii) Guangdong Investment Limited

Name of Director	Number of options held on 01/01/2004	Options granted during the year		Period during which option is exercisable*	Total consideration paid for share options HK\$	Price to be paid per share on exercise of options HK\$	Number of options exercised during the year	Number of options held on 31/12/2004	Long/Short Position
		Date granted	Number granted						
Ye Xuquan	7,000,000	-	-	11/02/2002-10/02/2007	-	0.5312	-	7,000,000	Long Position
	9,000,000	-	-	08/11/2002-07/11/2007	-	0.814	-	9,000,000	Long Position
	6,000,000	-	-	05/03/2003-04/03/2008	1	0.96	-	6,000,000	Long Position
	3,000,000	-	-	08/08/2003-07/08/2008	1	1.22	-	3,000,000	Long Position
	-	06/02/2004	3,000,000	07/05/2004-06/05/2009	1	1.59	-	3,000,000	Long Position
Ho Lam Lai Ping, Theresa	1,000,000	-	-	08/11/2002-07/11/2007	-	0.814	1,000,000	-	Long Position
	1,200,000	-	-	05/03/2003-04/03/2008	1	0.96	300,000	900,000	Long Position
	1,500,000	-	-	08/08/2003-07/08/2008	1	1.22	-	1,500,000	Long Position
	-	06/02/2004	1,500,000	07/05/2004-06/05/2009	1	1.59	-	1,500,000	Long Position
	-	24/05/2004	1,000,000	25/08/2004-24/08/2009	1	1.25	-	1,000,000	Long Position

* If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

Save as disclosed above, as at 31 December 2004, to the knowledge of the Company, none of the directors, chief executive of the Company and their associates had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

REPORT OF THE DIRECTORS (Cont'd)

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporations a party to any arrangement to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTIONS OF THE COMPANY

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

Share options granted by the Company during the year ended 31 December 2004:

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

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

Notes:

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

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

- (2) According to the Black-Scholes model¹, the theoretical aggregate value of the options granted by the Company was estimated at HK\$19,458,000 as at 6 February 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	2.83%, being the approximate yield of a 5-year Exchange Fund Note traded on 06/02/2004.
Expected Volatility	:	59.2%, being the annualised volatility of the closing price of the shares of the Company from 07/02/2003 to 06/02/2004.
Expected Dividend Yield	:	1.30%, being the approximate yield of the shares of the Company over the period from 07/02/2003 to 06/02/2004.
Expected Life of the Options	:	5.25 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period from 07/02/2003 to 06/02/2004.

- (3) According to the Black-Scholes model¹, the theoretical aggregate value of the options granted by the Company was estimated at HK\$20,600,000 as at 31 December 2004 with the following variables and assumptions:

Risk Free Rate	:	2.66%, being the approximate yield of a 5-year Exchange Fund Note traded on 31/12/2004.
Expected Volatility	:	52.7%, being the annualised volatility of the closing price of the shares of the Company from 01/01/2004 to 31/12/2004.
Expected Dividend Yield	:	1.32%, being the approximate yield of the shares of the Company over the period from 01/01/2004 to 31/12/2004.
Expected Life of the Options	:	4.35 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period from 01/01/2004 to 31/12/2004.

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

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

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

REPORT OF THE DIRECTORS (Cont'd)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, so far as is known to any director or chief executive of the Company, the following persons (other than the director or chief executive of the Company) have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as follows:

Name of shareholder	Type of securities	Number of securities held	Long/Short position	Approximate percentage of the Company's issued capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) <i>(note 1)</i>	Shares	1,033,768,000	Long position	74.08%
GDH Limited ("GDH") <i>(note 1)</i>	Shares	1,033,768,000	Long position	74.08%
Heineken Holding N.V. ("Heineken HNV") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken N.V. ("Heineken NV") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken International B.V. ("Heineken IBV") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Fraser and Neave, Limited ("F & N") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Asia Pacific Investment Pte Ltd ("APIP") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Asia Pacific Breweries Limited ("APB") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken – APB (China) Pte Ltd ("HAPBC") <i>(notes 2 and 3)</i>	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%

SUBSTANTIAL SHAREHOLDERS (cont'd)

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

(1)(b) Of these 1,033,768,000 shares: (i) 734,503,720 shares are beneficially held by GDH, (ii) 165,496,280 shares relate to derivative interests of GDH, and (iii) 133,768,000 shares relate to the deemed interests of GDH under section 318 of the SFO.

(2)(a) Of these 1,033,768,000 shares: (i) 299,264,280 shares are beneficially held by HAPBC and (ii) 734,503,720 shares relate to the deemed interests of HAPBC under section 318 of the SFO.

(2)(b) In addition, by virtue of the SFO, each of Heineken HNV, Heineken NV, Heineken IBV, F & N, APIP and APB is deemed to be interested in the same 1,033,768,000 shares of the Company in which HAPBC is interested, as described in note (2)(a) above.

(3) The short position in respect of 299,264,280 shares arises as a result of the pre-emptive and other rights granted to GDH to, in certain specified circumstances, acquire HAPBC's shareholding in the Company under a share purchase agreement dated 28 January 2004 and entered into between GDH and HAPBC.

CONNECTED TRANSACTIONS

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

- (a) the transactions were entered into by the Group in the ordinary and usual course of its business;
- (b) the transactions were entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the transactions were entered into either (i) in accordance with terms of the agreements governing such transaction, or (ii) on terms no less favourable than terms available to or from independent third parties; and
- (d) the aggregate value of the malt purchased by the Group during the year from Guangzhou Malting Co., Ltd. in which GDH Limited, subsidiary of the Company's holding company has approximately 51.6% interests, did not exceed 30% of the total cost of production of the Group.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year.

REPORT OF THE DIRECTORS (Cont'd)

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws of Bermuda, being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

POST BALANCE SHEET EVENT

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year.

PUBLIC FLOAT

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

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the Code of Best Practice. The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee meets every six months mainly to consider the nature and scope of audit reviews, the effectiveness of the internal control systems and compliance with the relevant rules and regulations. The results of the Group for the year ended 31 December 2004 has been reviewed by the Audit Committee.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ye Xuquan

Chairman

Hong Kong, 15 April 2005

REPORT OF THE AUDITORS



To the members

Kingway Brewery Holdings Limited

(Formerly Guangdong Brewery Holdings Limited)

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 33 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
15 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Year ended 31 December 2004)

	Notes	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
TURNOVER	5	924,528	684,574
Cost of sales		<u>(481,550)</u>	<u>(373,398)</u>
Gross profit		442,978	311,176
Other revenue and gains	5	22,365	21,547
Selling and distribution expenses		(206,710)	(146,765)
Administrative expenses		<u>(70,001)</u>	<u>(44,335)</u>
PROFIT BEFORE TAX	6	188,632	141,623
Tax	9	<u>(18,183)</u>	<u>(26,102)</u>
PROFIT BEFORE MINORITY INTERESTS		170,449	115,521
Minority interests		<u>(4,287)</u>	<u>(10,460)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>166,162</u>	<u>105,061</u>
DIVIDENDS	11	<u>(48,833)</u>	<u>(33,420)</u>
EARNINGS PER SHARE	12		
– Basic		<u>12.1 cents</u>	<u>8.4 cents</u>
– Diluted		<u>12.0 cents</u>	<u>8.3 cents</u>

CONSOLIDATED BALANCE SHEET

(31 December 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	1,168,959	970,139
Negative goodwill	14	(10,247)	(10,371)
Investment security	16	–	–
Reusable packaging materials		25,235	23,219
Deferred tax assets	24	5,445	16,022
		<u>1,189,392</u>	<u>999,009</u>
CURRENT ASSETS			
Inventories	17	107,860	84,864
Trade receivables	18	38,865	22,602
Prepayments, deposits and other receivables		22,173	23,614
Tax recoverable		2,298	1,778
Pledged and restricted bank balances	19	6,825	–
Cash and cash equivalents	19	497,812	347,668
		<u>675,833</u>	<u>480,526</u>
CURRENT LIABILITIES			
Trade payables	20	(41,724)	(35,536)
Tax payable		(78)	(1,107)
VAT payable		(5,599)	(10,404)
Other payables and accruals		(138,336)	(98,562)
Due to the immediate holding company	21	(142)	(2,319)
Due to a fellow subsidiary	22	(12,102)	(16,965)
Due to a minority equityholder of subsidiaries	23	(4,377)	(6,401)
		<u>(202,358)</u>	<u>(171,294)</u>
NET CURRENT ASSETS		<u>473,475</u>	<u>309,232</u>
TOTAL ASSETS LESS CURRENT LIABILITIES – page 35		<u>1,662,867</u>	<u>1,308,241</u>

CONSOLIDATED BALANCE SHEET (Cont'd)

(31 December 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES – page 34		<u>1,662,867</u>	<u>1,308,241</u>
NON-CURRENT LIABILITIES			
Due to a minority equityholder of subsidiaries	23	–	(20,420)
Deferred tax liabilities	24	<u>(2,515)</u>	<u>–</u>
		<u>(2,515)</u>	<u>(20,420)</u>
MINORITY INTERESTS		<u>(21,257)</u>	<u>(22,627)</u>
		<u>1,639,095</u>	<u>1,265,194</u>
CAPITAL AND RESERVES			
Issued capital	25	139,557	125,060
Reserves	27	1,471,627	1,119,218
Proposed final dividend	11	<u>27,911</u>	<u>20,916</u>
		<u>1,639,095</u>	<u>1,265,194</u>

Ye Xuquan
Director

Jiang Guoqiang
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

(Year ended 31 December 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
Total equity at 1 January		1,265,194	1,187,992
Issue of shares, including share premium	25	253,072	321
Share issue expenses	25	(3,714)	—
Exchange differences on translation of the financial statements of subsidiaries in Mainland China, and net gains/(losses) not recognised in the profit and loss account	27	219	(3,176)
Net profit from ordinary activities attributable to shareholders		166,162	105,061
Dividends paid	11	(41,838)	(25,004)
Total equity at 31 December		<u>1,639,095</u>	<u>1,265,194</u>

CONSOLIDATED CASH FLOW STATEMENT

(Year ended 31 December 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		188,632	141,623
Adjustments for:			
Interest income	5	(6,110)	(6,201)
Discount on acquisition of an amount due to a minority equityholder of subsidiaries	5	–	(4,338)
Negative goodwill recognised as income	5	(662)	(221)
Depreciation	6	76,272	79,048
Amortisation of reusable packaging materials	6	14,059	8,896
Write-off of fixed assets, net	6	877	4,257
Provision for other receivables	6	7,000	–
Operating profit before working capital changes		280,068	223,064
Increase in inventories		(22,937)	(4,342)
Decrease/(increase) in trade receivables		(16,270)	3,440
Increase in prepayments, deposits and other receivables		(5,561)	(1,893)
Increase/(decrease) in trade payables		6,157	(6,649)
Increase/(decrease) in VAT payable		(4,829)	2,467
Increase in other payables and accruals		13,192	16,115
Increase/(decrease) in an amount due to the immediate holding company		(2,177)	2,319
Increase/(decrease) in an amount due to a fellow subsidiary		(4,863)	16,965
Cash generated from operations		242,780	251,486
Interest received		6,110	5,473
Hong Kong profits tax paid		(5,044)	(3,973)
PRC corporate income tax paid		(1,518)	(10,026)
Dividends paid		(41,838)	(25,004)
Net cash inflow from operating activities – page 38		200,490	217,956

CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(Year ended 31 December 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
Net cash inflow from operating activities – page 37		<u>200,490</u>	<u>217,956</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(250,087)	(20,676)
Purchases of reusable packaging materials		(16,050)	(16,424)
Increase in pledged and restricted bank balances	19	(6,825)	–
Acquisition of minority interests		–	(14,654)
Proceeds from disposal of fixed assets		–	424
Repayment of other receivable arising from disposal of a subsidiary in prior year		–	7,772
Interest received on other receivable arising from disposal of a subsidiary in prior year		<u>–</u>	<u>728</u>
Net cash outflow from investing activities		<u>(272,962)</u>	<u>(42,830)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	25	253,072	321
Share issue expenses	25	(3,714)	–
Repayment of an amount due to minority equityholders of subsidiaries	28	<u>(26,913)</u>	<u>(59,453)</u>
Net cash inflow/(outflow) from financing activities		<u>222,445</u>	<u>(59,132)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		149,973	115,994
Cash and cash equivalents at beginning of year		347,668	232,734
Effect of foreign exchange rate changes, net		<u>171</u>	<u>(1,060)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>497,812</u>	<u>347,668</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	120,253	272,476
Non-pledged time deposits with original maturity of less than three months when acquired	19	<u>377,559</u>	<u>75,192</u>
		<u>497,812</u>	<u>347,668</u>

BALANCE SHEET

(31 December 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	1,354,957	1,117,129
Investment security	16	—	—
		<u>1,354,957</u>	<u>1,117,129</u>
CURRENT ASSETS			
Due from subsidiaries	15	99,883	155,711
Prepayments, deposits and other receivables		408	554
Cash and cash equivalents	19	70,168	33,992
		<u>170,459</u>	<u>190,257</u>
CURRENT LIABILITIES			
Other payables and accruals		(4,566)	(5,168)
Due to the immediate holding company	21	(142)	(2,319)
Due to subsidiaries	15	(18,317)	(2,120)
		<u>(23,025)</u>	<u>(9,607)</u>
NET CURRENT ASSETS			
		<u>147,434</u>	<u>180,650</u>
		<u>1,502,391</u>	<u>1,297,779</u>
CAPITAL AND RESERVES			
Issued capital	25	139,557	125,060
Reserves	27	1,334,923	1,151,803
Proposed final dividend	11	27,911	20,916
		<u>1,502,391</u>	<u>1,297,779</u>

Ye Xuquan
Director

Jiang Guoqiang
Director

NOTES TO FINANCIAL STATEMENTS

(31 December 2004)

1. CORPORATE INFORMATION

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

In the opinion of the directors, the ultimate holding company of the Company is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), a company established in the People's Republic of China (the "PRC" or "Mainland China").

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

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

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

Joint venture companies established in Mainland China

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distribution of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an investment security, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

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

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

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

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

Related parties

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land in Mainland China	Over the lease terms or the remaining life of the joint venture companies
Buildings	3% – 20%
Plant, machinery and equipment	4.5% – 20%
Furniture and fixtures	18% – 20%
Motor vehicles	18% – 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents building, plant, machinery and equipment under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Reusable packaging materials

Reusable packaging materials currently in use are stated at cost less accumulated amortisation and any impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over a period of three years.

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

Investment securities are non-trading investments in unlisted equity securities intended to be held on a long term basis, which are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of production overheads.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation charge.

Income tax

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

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

Income tax (cont'd)

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

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

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

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

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) value-added tax refund, when the right to receive the refund has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries operating in Mainland China are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

Foreign currencies (cont'd)

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries operating in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Employee benefits

Retirement benefits schemes

The Company and certain of its subsidiaries operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's certain subsidiaries which operate in Mainland China are mandatory to participate in a local pension scheme (the "LPS") operated by the local municipal government. These subsidiaries are required to contribute 8% of their payroll costs to the LPS. The contributions under the LPS are charged to the profit and loss account as they become payable in accordance with the rules of the LPS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Employee benefits (cont'd)***Share option scheme*

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the Share Option Scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

4. SEGMENT INFORMATION

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

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

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

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

4. SEGMENT INFORMATION (cont'd)

Geographical segments

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

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	858,883	619,373	65,645	65,201	-	-	-	-	924,528	684,574
Intersegment sales	17,494	16,420	-	-	-	-	(17,494)	(16,420)	-	-
Other revenue and gains	12,044	13,466	-	-	4,211	1,880	-	-	16,255	15,346
Total	<u>888,421</u>	<u>649,259</u>	<u>65,645</u>	<u>65,201</u>	<u>4,211</u>	<u>1,880</u>	<u>(17,494)</u>	<u>(16,420)</u>	<u>940,783</u>	<u>699,920</u>
Segment results	<u>171,460</u>	<u>116,994</u>	<u>23,027</u>	<u>22,247</u>	<u>(11,965)</u>	<u>(3,819)</u>	<u>-</u>	<u>-</u>	<u>182,522</u>	<u>135,422</u>
Interest income									<u>6,110</u>	<u>6,201</u>
Profit before tax									<u>188,632</u>	<u>141,623</u>
Tax									<u>(18,183)</u>	<u>(26,102)</u>
Profit before minority interests									<u>170,449</u>	<u>115,521</u>
Minority interests									<u>(4,287)</u>	<u>(10,460)</u>
Net profit from ordinary activities attributable to shareholders									<u>166,162</u>	<u>105,061</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

4. SEGMENT INFORMATION (cont'd)

Geographical segments (cont'd)

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,755,211	1,406,568	22,398	19,772	79,873	36,955	-	(1,560)	1,857,482	1,461,735
Unallocated assets									7,743	17,800
Total assets									<u>1,865,225</u>	<u>1,479,535</u>
Segment liabilities	192,457	180,424	2,952	4,177	6,871	7,566	-	(1,560)	202,280	190,607
Unallocated liabilities									2,593	1,107
Total liabilities									<u>204,873</u>	<u>191,714</u>
Other segment information:										
Depreciation and amortisation	90,149	87,757	182	187	-	-	-	-	90,331	87,944
Write-off of fixed assets	877	4,257	-	-	-	-	-	-	877	4,257
Provision for other receivables	-	-	-	-	7,000	-	-	-	7,000	-
Capital expenditure	<u>266,002</u>	<u>37,007</u>	<u>135</u>	<u>93</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,137</u>	<u>37,100</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

5. TURNOVER, OTHER REVENUE AND GAINS

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

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

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover			
Invoiced value of goods sold (net of discounts, returns and value-added tax)		1,010,229	744,663
Beer consumption tax		(85,701)	(60,089)
		<u>924,528</u>	<u>684,574</u>
Sale of goods			
		<u>924,528</u>	<u>684,574</u>
Other revenue			
Gain on sale of scrap materials		5,233	3,462
Interest income		6,110	6,201
Gross rental income		2,914	1,843
Discount on acquisition of an amount due to a minority equityholder of subsidiaries	31(viii)	–	4,338
Value-added tax exemption*		–	3,894
Others		3,002	1,588
		<u>17,259</u>	<u>21,326</u>
Gains			
Negative goodwill recognised as income	14	662	221
Exchange gains, net		4,444	–
		<u>5,106</u>	<u>221</u>
		<u>22,365</u>	<u>21,547</u>

* According to a notice from the Shenzhen tax authority dated 19 December 2002, the policy for value-added tax exemption on the products that are both produced and sold in Shenzhen ceased to be effective from 1 January 2003. On 23 April 2003, the Group received an approval from the Shenzhen tax authority which revised the approved percentage for the aforesaid exemption for the year ended 31 December 2002 and accordingly, a further tax exemption of HK\$3,894,000 was credited to the profit and loss account for the year ended 31 December 2003.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		481,550	373,398
Depreciation#	13	76,272	79,048
Amortisation of reusable packaging materials#		14,059	8,896
Minimum lease payments under operating leases in respect of land and buildings		830	660
Auditors' remuneration		985	868
Staff costs (excluding directors' remuneration – note 7)#:			
Wages and salaries		79,232	67,311
Pension scheme contributions		9,754	7,497
Less: Forfeited contributions*		(175)	–
Net pension scheme contributions		9,579	7,497
		88,811	74,808
Write-off of fixed assets	13	877	4,257
Provision for other receivables	32	7,000	–
Net rental income		2,684	1,843
Exchange losses/(gains), net		(4,444)	1,793

The staff costs, amortisation of reusable packaging materials and depreciation for the year of HK\$36,097,000 (2003: HK\$35,489,000), HK\$14,059,000 (2003: HK\$8,896,000) and HK\$62,767,000 (2003: HK\$63,547,000), respectively, are included in the cost of inventories sold as disclosed above.

* At 31 December 2004, the Group had no forfeited contributions (2003: Nil) available to reduce its contributions to its retirement benefits schemes in future years.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

7. DIRECTORS' REMUNERATION

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Independent non-executive	300	90
Non-executive	—	—
Executive	81	79
	381	169
Other emoluments:		
Salaries, allowances and benefits in kind	2,176	2,043
Bonuses paid and payable	1,667	1,401
Pension scheme contributions	658	445
	4,501	3,889
	4,882	4,058

Fees include HK\$300,000 (2003: HK\$90,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

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

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	12	10
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	2	1
	15	12

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

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

7. DIRECTORS' REMUNERATION (cont'd)

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,297	1,425
Bonuses paid and payable	339	386
Pension scheme contributions	245	77
	<u>1,881</u>	<u>1,888</u>

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>2</u>	<u>2</u>

During the year, 3,200,000 (2003: 1,700,000) share options were granted to the two (2003: two) highest paid employees in respect of their services to the Group, further details of which are included in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Shenzhen Kingway Brewing Co., Ltd. ("Shenzhen Brewing"), Kingway Brewery (Shan Tou) Co., Ltd. ("Kingway Shantou") and Kingway Brewery (Dongguan) Co., Ltd. ("Kingway Dongguan"), subsidiaries of the Group, are entitled to a tax exemption for the first two profit-making years and a tax relief of 50% in the succeeding three years under the approval of respective local tax authorities.

As Shenzhen Brewing is in its first profit-making year, it is entitled to an exemption from PRC corporate income tax for the current year. As Kingway Shantou and Kingway Dongguan did not generate any accumulated assessable profit since their establishments, the tax exemption period has not commenced.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group:		
Current:		
Hong Kong – Charge for the year	4,015	3,891
Mainland China:		
Charge for the year	2,347	10,112
Overprovision in prior years	(1,345)	(1,859)
Deferred (<i>note 24</i>)	13,166	13,958
	<hr/>	<hr/>
Total tax charge for the year	<u>18,183</u>	<u>26,102</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

9. TAX (cont'd)

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

Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>13,295</u>		<u>175,337</u>		<u>188,632</u>	
Tax at the statutory tax rate	2,327	17.5	57,861	33.0	60,188	31.9
Lower tax rates for specific provinces or local authorities	–	–	(31,800)	(18.1)	(31,800)	(16.9)
Adjustment in respect of current tax of prior years	–	–	(1,345)	(0.8)	(1,345)	(0.7)
Profits exempted from PRC corporate income tax	–	–	(10,777)	(6.1)	(10,777)	(5.7)
Income not subject to tax	(1,148)	(8.6)	–	–	(1,148)	(0.6)
Expenses not deductible for tax	1,281	9.6	229	0.1	1,510	0.8
Tax losses not recognised	<u>1,555</u>	<u>11.7</u>	<u>–</u>	<u>–</u>	<u>1,555</u>	<u>0.8</u>
Tax charge at the Group's effective rate	<u>4,015</u>	<u>30.2</u>	<u>14,168</u>	<u>8.1</u>	<u>18,183</u>	<u>9.6</u>

Group – 2003

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

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK\$2,908,000 (2003: net profit of HK\$267,309,000).

11. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim – 1.5 HK cents (2003: 1.0 HK cent) per share	20,922	12,504
Proposed final – 2.0 HK cents (2003: 1.5 HK cents) per share	27,911	20,916
	<u>48,833</u>	<u>33,420</u>

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

The total proposed final dividend as at 31 December 2003 was based on the total number of shares in issue as at the approval date of prior year's financial statements by the board of directors which included the shares issued after the year end.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$166,162,000 (2003: HK\$105,061,000), and the weighted average of 1,375,624,197 (2003: 1,250,367,123) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$166,162,000 (2003: HK\$105,061,000). The weighted average number of shares used in the calculation is the 1,383,908,325 (2003: 1,261,680,294) ordinary shares, comprising 1,375,624,197 (2003: 1,250,367,123) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 8,284,128 (2003: 11,313,171) ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year. The share options expired on 19 February 2003 had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2003 and so had not been included in the diluted earnings per share calculation for that year.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

13. FIXED ASSETS

Group

	Land and buildings <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At beginning of year	460,646	1,194,032	1,895	40,313	13,423	1,710,309
Additions	19,207	4,171	135	1,490	250,145	275,148
Write-off	(668)	(3,228)	–	(1,724)	–	(5,620)
Transfers	105,675	131,063	–	–	(236,738)	–
Exchange realignment	317	1,230	1	52	11	1,611
At 31 December 2004	<u>585,177</u>	<u>1,327,268</u>	<u>2,031</u>	<u>40,131</u>	<u>26,841</u>	<u>1,981,448</u>
Accumulated depreciation:						
At beginning of year	130,414	575,108	1,401	33,247	–	740,170
Provided during the year	20,235	54,143	182	1,712	–	76,272
Write-off	(376)	(2,839)	–	(1,528)	–	(4,743)
Exchange realignment	119	628	1	42	–	790
At 31 December 2004	<u>150,392</u>	<u>627,040</u>	<u>1,584</u>	<u>33,473</u>	<u>–</u>	<u>812,489</u>
Net book value:						
At 31 December 2004	<u>434,785</u>	<u>700,228</u>	<u>447</u>	<u>6,658</u>	<u>26,841</u>	<u>1,168,959</u>
At 31 December 2003	<u>330,232</u>	<u>618,924</u>	<u>494</u>	<u>7,066</u>	<u>13,423</u>	<u>970,139</u>

The Group's land and buildings included above are held under the following lease terms:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Long term leases in Mainland China	27,586	29,316
Medium term leases in Mainland China	<u>407,199</u>	<u>300,916</u>
	<u>434,785</u>	<u>330,232</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

13. FIXED ASSETS (cont'd)

During the year, the Group acquired from the Shantou Land Authority the right to use the land on which a new brewery plant is located. The application for land use right certificate has commenced, however the land use right certificate had not yet been issued by the Shantou Land Authority as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has obtained beneficial title to these assets as at 31 December 2004 and that the land use right certificate will be issued in due course.

14. GOODWILL AND NEGATIVE GOODWILL

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

	Group <i>HK\$'000</i>
Cost:	
At 1 January 2004	10,592
Acquisition of additional interest in subsidiaries	<u>538</u>
At 31 December 2004	<u>11,130</u>
Accumulated recognition as income:	
At 1 January 2004	(221)
Recognised as income during the year	<u>(662)</u>
At 31 December 2004	<u>(883)</u>
Net book value:	
At 31 December 2004	<u><u>10,247</u></u>
At 31 December 2003	<u><u>10,371</u></u>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill of HK\$126,410,000 and negative goodwill of HK\$39,620,000 as at 1 January and 31 December 2004 in respect of acquisitions which occurred prior to the adoption of SSAP 30, to remain eliminated against or credited to the consolidated capital reserve.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares/investments, at cost	261,816	261,816
Due from subsidiaries	1,150,439	947,108
Due to subsidiaries	(18,044)	(52,541)
	<u>1,394,211</u>	<u>1,156,383</u>
Provision for amounts due from subsidiaries	(39,254)	(39,254)
	<u>1,354,957</u>	<u>1,117,129</u>

Except for the balances with subsidiaries as included in the Company's current assets and current liabilities which have no fixed terms of repayment, all balances with subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

As at 31 December 2003, included in the amounts due from subsidiaries was an amount of HK\$22,267,000 due from Shenzhen Kingway Brewery Co., Ltd. ("Shenzhen Brewery") which bore interest at six months' LIBOR plus 0.75% per annum. Such amount due from Shenzhen Brewery was fully repaid during the year.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK\$2	100%	–	Sale and marketing of beer
Shenzhen Kingway Brewery Co., Ltd.*	PRC/Mainland China	US\$50,000,000	–	95%	Production, distribution and sale of beer
Shenzhen Kingway Brewing Co., Ltd.**	PRC/Mainland China	US\$12,000,000	–	100%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd.**	PRC/Mainland China	US\$12,000,000	–	100%	Provision of bottling and packaging services

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

15. INTERESTS IN SUBSIDIARIES (cont'd)

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Kingway Utility Co., Ltd.**	PRC/Mainland China	US\$12,000,000	–	100%	Provision of utilities services
Kingway Brewery (Shan Tou) Co., Ltd.#	PRC/Mainland China	RMB126,000,000	–	100%	Production, distribution and sale of beer
Kingway Brewery (Dongguan) Co., Ltd.##	PRC/Mainland China	US\$11,880,000	–	100%	Production, distribution and sale of beer

* This subsidiary is established as a Sino-foreign equity joint venture company.

** These subsidiaries were established as Sino-foreign equity joint venture companies in prior years. During the year, the Group acquired an additional 3% equity interest in each of these subsidiaries. Upon completion of the acquisition, these subsidiaries have become wholly foreign-owned enterprises.

This subsidiary is established as a wholly foreign-owned enterprise.

This subsidiary was established during the current year as a wholly foreign-owned enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INVESTMENT SECURITY

	Group and Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment, at cost	5,611	5,611
Provision for impairment	(5,611)	(5,611)
	<u>–</u>	<u>–</u>

The balance represents an investment in a company which was established in the PRC and is engaged in the distribution and sale of wine and beer in Mainland China. Due to the continuing non-performance of the investment, the directors considered that the investment was fully impaired.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

17. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	23,373	16,460
Spare parts and consumables	33,784	28,443
Packaging materials	25,146	20,565
Work in progress	13,889	11,678
Finished goods	11,668	7,718
	<u>107,860</u>	<u>84,864</u>

At 31 December 2003 and 2004, all of the inventories were carried at cost.

18. TRADE RECEIVABLES

The Group's trading terms with customers are either on a cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30-180 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	38,764	21,547
More than 3 months and less than 6 months	–	3,859
More than 6 months and less than 1 year	655	45
More than 1 year	834	2,974
	<u>40,253</u>	<u>28,425</u>
Less: Provision for doubtful debts	(1,388)	(5,823)
	<u>38,865</u>	<u>22,602</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

19. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED BANK BALANCES

	Notes	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances		127,078	272,476	379	24,454
Time deposits		377,559	75,192	69,789	9,538
		<u>504,637</u>	<u>347,668</u>	<u>70,168</u>	<u>33,992</u>
Less: Bank balances pledged					
for banking facilities	(i)	(4,008)	–	–	–
Restricted bank balance	(ii)	<u>(2,817)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents	(iii)	<u>497,812</u>	<u>347,668</u>	<u>70,168</u>	<u>33,992</u>

Notes:

- (i) At the balance sheet date, certain bank balances totalling HK\$4,008,000 (2003: Nil) were pledged for banking facilities granted to a subsidiary of the Group.
- (ii) During the year, the Group received a government grant of RMB3,000,000 (approximately equivalent to HK\$2,817,000) (2003: Nil) for future acquisition of certain qualifying assets in connection with the Group's research and development of brewing and related technologies in accordance with the terms of the grant. As at 31 December 2004, the government grant was not utilised and is classified as the Group's restricted bank balance.
- (iii) At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$398,520,000 (2003: HK\$293,809,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

20. TRADE PAYABLES

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	38,846	33,578
More than 3 months and less than 6 months	301	3
More than 6 months and less than 1 year	356	—
More than 1 year	2,221	1,955
	<u>41,724</u>	<u>35,536</u>

21. DUE TO THE IMMEDIATE HOLDING COMPANY

The Group's and the Company's amount due to the immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

22. DUE TO A FELLOW SUBSIDIARY

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

23. DUE TO A MINORITY EQUITYHOLDER OF SUBSIDIARIES

The amount due to a minority equityholder of subsidiaries is unsecured, interest-free and is repayable within one year.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group – 2004

Deferred tax assets

	Decelerated tax depreciation <i>HK\$'000</i>	Fair value adjustments arising from acquisition of subsidiaries <i>HK\$'000</i>	Loss available for offset against future taxable profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	4,263	2,695	9,064	16,022
Deferred tax charged to the profit and loss account during the year (note 9)	(2,456)	(405)	(7,794)	(10,655)
Exchange differences	23	–	55	78
	<u>1,830</u>	<u>2,290</u>	<u>1,325</u>	<u>5,445</u>
Gross deferred tax assets at 31 December 2004				

Deferred tax liabilities

	Accelerated tax depreciation <i>HK\$'000</i>
At 1 January 2004	–
Deferred tax charged to the profit and loss account during the year (note 9)	(2,511)
Exchange differences	(4)
	<u>(2,515)</u>
Gross deferred tax liabilities at 31 December 2004	
Net deferred tax assets at 31 December 2004	<u>2,930</u>

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

24. DEFERRED TAX (cont'd)

Group – 2003

Deferred tax assets

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

The Company and the Group have tax losses arising in Hong Kong of HK\$55,265,000 (2003: HK\$45,446,000) that are available indefinitely for offsetting against their future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the directors considered it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Company and the Group.

At 31 December 2004, there was no recognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted based on existing legislation, interpretations and practices.

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

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

25. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,395,568,000 (2003: 1,250,600,000) ordinary shares of HK\$0.10 each	<u>139,557</u>	<u>125,060</u>

During the year, the movements in share capital were as follows:

- (a) On 19 February 2004, the Company allotted and issued 133,768,000 new ordinary shares of HK\$0.10 each at a subscription price of HK\$1.85 per share to Heineken – APB (China) Pte. Ltd. (formerly Heineken Asia Pacific Breweries (China) Pte. Ltd.) for cash.
- (b) During the year, 10,000,000, 500,000 and 700,000 ordinary shares of HK\$0.10 each were issued for cash at the respective subscription price of HK\$0.383, HK\$0.84 and HK\$1.93 per share pursuant to the exercise of the Company's share options for a total cash consideration, net of expenses, of HK\$5,601,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2003	1,250,000,000	125,000	739,583	864,583
Share options exercised	<u>600,000</u>	<u>60</u>	<u>261</u>	<u>321</u>
At 31 December 2003 and 1 January 2004	1,250,600,000	125,060	739,844	864,904
Issue of new shares (note (a))	133,768,000	13,377	234,094	247,471
Share issue expenses	–	–	(3,714)	(3,714)
Share options exercised (note (b))	<u>11,200,000</u>	<u>1,120</u>	<u>4,481</u>	<u>5,601</u>
At 31 December 2004	<u>1,395,568,000</u>	<u>139,557</u>	<u>974,705</u>	<u>1,114,262</u>

25. SHARE CAPITAL (cont'd)**Share options**

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

26. 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.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the Share Option Scheme. As at 31 December 2004, the total number of shares issuable for options granted under the share option scheme of the Company was 29,500,000 (2003: 20,000,000) which represented approximately 2.1% (2003: 1.6%) of the Company's shares then in issue as at that date.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

26. SHARE OPTION SCHEME (cont'd)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's share at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, but must not be less than the higher of (i) the closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

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

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

26. SHARE OPTION SCHEME (cont'd)

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

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options#	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2004	Granted during the year##	Exercised during the year	At 31 December 2004				At date of grant of options HK\$	At date of exercise of options HK\$
Directors and chief executive									
Mr. Ye Xuquan	2,000,000	-	-	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	7,000,000	-	7,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
Mr. Jiang Guoqiang	10,000,000	-	(10,000,000)	-	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.400	1.930
	2,000,000	-	-	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
Mr. Cheng Mo Chi, Moses	300,000	-	(300,000)	-	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	2.350
	-	300,000	(300,000)	-	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	2.350
Mr. Alan Howard Smith	300,000	-	-	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	300,000	-	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
Mr. V-nee Yeh	300,000	-	-	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	300,000	-	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
Mr. Fung Sing Hong, Stephen	400,000	-	-	400,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	-
	-	400,000	-	400,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	-
	15,300,000	8,300,000	(10,600,000)	13,000,000					

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

26. SHARE OPTION SCHEME (cont'd)

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options#	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2004	Granted during the year##	Exercised during the year	At 31 December 2004				At date of grant of options HK\$	At date of exercise of options HK\$
Other employees									
In aggregate	4,700,000	–	(200,000)	4,500,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	2.425
	–	12,400,000	(400,000)	12,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	2.388
	<u>4,700,000</u>	<u>12,400,000</u>	<u>(600,000)</u>	<u>16,500,000</u>					
	<u>20,000,000</u>	<u>20,700,000</u>	<u>(11,200,000)</u>	<u>29,500,000</u>					

* The vesting period of the share option is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the business day prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices (immediately before the dates on which the options were exercised) over all of the exercises of options within the disclosure line.

If the last day of the exercise period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

HK\$1.00 is payable by the grantee on acceptance of the offer in respect of the option granted on 6 February 2004.

The 11,200,000 share options exercised during the year resulted in the issue of 11,200,000 ordinary shares of the Company and new issued share capital of HK\$1,120,000 and share premium of HK\$4,481,000 (net of expenses), as detailed in note 25 to the financial statements.

At the balance sheet date, the Company had 29,500,000 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 29,500,000 additional ordinary shares of the Company and additional share capital of HK\$2,950,000 and share premium of HK\$43,630,000 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

27. RESERVES

Group

		Share premium account	Capital reserve*	Exchange fluctuation reserve	Enterprise development funds#	Reserve funds#	Retained profits	Total
	Notes	HK\$'000 (Note)	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003		739,583	53,444	3,202	216	15,246	238,801	1,050,492
Share options exercised	25	261	–	–	–	–	–	261
Net profit for the year		–	–	–	–	–	105,061	105,061
Interim dividend	11	–	–	–	–	–	(12,504)	(12,504)
Proposed final dividend	11	–	–	–	–	–	(20,916)	(20,916)
Transfer from retained profits		–	–	–	–	15,437	(15,437)	–
Exchange realignment		–	–	(3,176)	–	–	–	(3,176)
At 31 December 2003 and 1 January 2004		739,844	53,444	26	216	30,683	295,005	1,119,218
Issue of shares	25	234,094	–	–	–	–	–	234,094
Share options exercised	25	4,481	–	–	–	–	–	4,481
Share issue expenses	25	(3,714)	–	–	–	–	–	(3,714)
Net profit for the year		–	–	–	–	–	166,162	166,162
Interim dividend	11	–	–	–	–	–	(20,922)	(20,922)
Proposed final dividend	11	–	–	–	–	–	(27,911)	(27,911)
Transfer from retained profits		–	–	–	–	7,428	(7,428)	–
Exchange realignment		–	–	219	–	–	–	219
At 31 December 2004		<u>974,705</u>	<u>53,444</u>	<u>245</u>	<u>216</u>	<u>38,111</u>	<u>404,906</u>	<u>1,471,627</u>

* Certain amounts of goodwill and negative goodwill arising from the acquisition of subsidiaries in prior years remained eliminated against or credited to the consolidated capital reserve, as explained in note 14 to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

27. RESERVES (cont'd)

Company

	Notes	Share premium account HK\$'000 (Note)	Capital reserve HK\$'000 (Note)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003		739,583	140,234	37,836	917,653
Share options exercised	25	261	—	—	261
Net profit for the year		—	—	267,309	267,309
Interim dividend	11	—	—	(12,504)	(12,504)
Proposed final dividend	11	—	—	(20,916)	(20,916)
At 31 December 2003 and 1 January 2004		739,844	140,234	271,725	1,151,803
Issue of shares	25	234,094	—	—	234,094
Share options exercised	25	4,481	—	—	4,481
Share issue expenses	25	(3,714)	—	—	(3,714)
Net loss for the year		—	—	(2,908)	(2,908)
Interim dividend	11	—	—	(20,922)	(20,922)
Proposed final dividend	11	—	—	(27,911)	(27,911)
At 31 December 2004		974,705	140,234	219,984	1,334,923

Note: On 23 April 1998, a special resolution was passed in a special general meeting of the Company for a reduction of its share premium account in the amount of HK\$140,234,000. This amount was credited to the capital reserve account against which goodwill and negative goodwill arising on the acquisitions of subsidiaries and an associate were eliminated in the Group account.

28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, a non wholly-owned subsidiary of the Group declared a dividend to its shareholders and an amount of dividend of HK\$4,386,000 (2003: HK\$6,420,000) attributable to a minority equityholder remained unpaid as at 31 December 2004 and was included in the amount due to a minority equityholder of subsidiaries in the consolidated balance sheet.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from three to ten years (2003: one to three years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	3,487	1,512
In the second to fifth years, inclusive	8,348	1,003
After five years	3,358	—
	<u>15,193</u>	<u>2,515</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of two years (2003: one to two years).

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	341	338
In the second to fifth years, inclusive	228	—
	<u>569</u>	<u>338</u>

At the balance sheet date, the Company did not have any operating lease arrangements (2003: Nil).

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

30. COMMITMENTS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Capital commitments on the acquisition of fixed assets:		
Contracted, but not provided for	252,353	4,766
Authorised, but not contracted for	593,649	329,336
	<u>846,002</u>	<u>334,102</u>

At the balance sheet date, the Company had no significant commitments (2003: Nil).

31. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, listed below are connected transactions disclosed in accordance with the Rules Governing the Listing of Securities on the main board of the Stock Exchange of Hong Kong Limited (the "Listing Rules") and related party transactions disclosed in accordance with SSAP 20 "Related party disclosures".

The transactions referred to in items (i), (ii) and (iii) below constituted related party transactions and those referred to in items (i) to (ix) below constituted connected transactions disclosed under the Listing Rules.

- (i) During the year, the Group purchased malt from Guangzhou Malting Co., Ltd. ("GMCL") which is a 51.6% owned subsidiary of GDH Limited ("GDH") and a fellow subsidiary of the Company, on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

For the year ended 31 December 2004, the aggregate amount of malt purchased by the Group was RMB108,928,000 (2003: RMB72,044,000). The balance due to GMCL of HK\$12,102,000 (2003: HK\$16,965,000) as at 31 December 2004 is unsecured, interest-free and is repayable within 30 days from date of invoice.

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

- (ii) In the prior year, the Group purchased malt from Ningbo Malting Co., Ltd. ("NMCL") which is a 51% owned subsidiary of GDH and a fellow subsidiary of the Company, on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

The aggregate amount of the malt purchased by the Group during the year ended 31 December 2003 was RMB13,527,000 and the balance due to NMCL was fully settled during that year.

- (iii) The Group entered into a tenancy agreement dated 2 February 2001 with Bateson Developments Limited ("BDT"), a wholly-owned subsidiary of Guangdong Investment Limited ("GDI") and a fellow subsidiary of the Company, whereby the Group agreed to lease a leasehold property (the "Property") owned by BDT as office premises. On 1 November 2002, the tenancy agreement was renewed at a monthly rental of HK\$36,218 for a term of two years which commenced on 1 September 2002.

On 15 March 2005, the Group entered into a new tenancy agreement with Global Head Developments Limited ("GHD"), which is a wholly-owned subsidiary of GDI, a fellow subsidiary of the Company and the new owner of the Property, to lease the Property at a monthly rental of HK\$28,457 for a term of two years which commenced on 1 September 2004.

During the year, the Group paid operating lease rentals to BDT and GHD amounting to HK\$290,000 (2003: HK\$435,000) and HK\$114,000 (2003: Nil), respectively.

- (iv) As at 31 December 2004, there were advances made by the Company to the Group's non-wholly-owned subsidiary, Shenzhen Brewery, in which the Group has a 95% (2003: 95%) equity interest, in the aggregate amount of HK\$122,306,000 (2003: HK\$144,417,000) to finance its working capital. The loans were used to finance its expansion plan and the construction of a brewery plant in Bao An, Mainland China, in prior year. The balance with Shenzhen Brewery is unsecured, interest-free and is not repayable within one year.

As at 31 December 2003, included in the above balance due from Shenzhen Brewery was an amount of HK\$22,267,000, which bore interest at six months' LIBOR plus 0.75% per annum. Such amount due from Shenzhen Brewery was fully repaid during the current year.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

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

- (v) As at 31 December 2003, there were advances made by the Group's wholly-owned subsidiary, Morefit Limited ("Morefit"), to the Group's non-wholly-owned subsidiary, Shenzhen Brewing, in which the Group held a 97% equity interest, in the aggregate amount of HK\$305,210,000. The loans were used to finance the construction and operation of a brewery plant in Bao An, Mainland China. The advances included amounts of (i) HK\$133,445,000 which was repayable within one year; (ii) HK\$91,575,000 which was repayable within five years from 31 December 2003; and (iii) HK\$80,190,000 which was not repayable within one year.

During the year 2003, Morefit waived the loan interest due from Shenzhen Brewing, which was charged in prior years, amounted to HK\$13,972,000.

Upon completion of the acquisition (as further detailed in note 15 to the financial statements), Shenzhen Brewing became a wholly-owned subsidiary of the Group. Since then, these advances do not constitute connected transactions and no disclosure was made in the financial statements for the current year.

- (vi) As at 31 December 2003, there were advances made by the Company to Shenzhen Brewing in the aggregate amount of HK\$65,864,000. The loans were used to finance its operations and were unsecured, interest-free and were not repayable within one year.

Upon completion of the acquisition (as further detailed in note 15 to the financial statements), Shenzhen Brewing became a wholly-owned subsidiary of the Group. Since then, these advances do not constitute connected transactions and no disclosure was made in the financial statements for the current year.

- (vii) On 2 December 2004, Morefit acquired from Shenzhen Brewery 60% interests in each of Shenzhen Brewing, Shenzhen Kingway Packaging Co., Ltd. and Shenzhen Kingway Utility Co., Ltd. (collectively the "SK Companies"), for a total cash consideration of RMB179,239,000. Upon completion of the acquisitions, the Group increased its effective equity interest in each of the SK Companies from 97% to 100%.

The acquisitions were completed on 13 December 2004 and a total negative goodwill of HK\$538,000 (note 14) was recognised in the consolidated balance sheet.

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

- (viii) On 28 March 2003, Morefit entered into a sale and purchase agreement with 深圳市寶安區投資管理有限公司 ("SBA"), a 10% equityholder in each of the SK Companies, to acquire SBA's entire interests in each of the SK Companies together with the shareholder's loans of the SK Companies due to SBA for a total cash consideration of RMB75,000,000. The acquisition was completed on 27 August 2003.

Upon completion of the agreement, the Group's interest in each of the SK Companies was increased from 87% to 97% and a discount of HK\$4,338,000 (note 5) in respect of the shareholder's loans was resulted on the Group's acquisition of amounts due to SBA, which was credited to the profit and loss account for the year ended 31 December 2003.

- (ix) Pursuant to an entrusted loan agreement dated 8 November 2004, Shenzhen Brewery, through a bank, advanced an unsecured loan of RMB65,000,000 to Kingway Brewery (Shan Tou) Co., Ltd., a wholly-owned subsidiary of the Group, to finance its working capital. The unsecured loan is interest-free and repayable by February 2005. On 11 February 2005, the maturity of the loan was extended to August 2005.

32. POST BALANCE SHEET EVENT

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

In view of the uncertainty over the amounts that can be recovered from the said defendants through legal proceedings, a provision of HK\$7,000,000 (note 6) was charged to the current year consolidated profit and loss account. The loan of HK\$35.65 million due from the second defendant had been fully provided for in a prior year. The directors considered that adequate provisions have been made in the financial statements for these receivable balances.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

(31 December 2004)

32. POST BALANCE SHEET EVENT (cont'd)

Subsequent to the balance sheet date, the defendants submitted a counterclaim in February 2005 against Baligold claiming, inter alia, damages for breach of the Agreement by Baligold. The proceedings are still in progress.

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

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2005.