

## UNAUDITED INTERIM RESULTS

The Board of Directors of Guangdong Brewery Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 1998 (the "Period") together with comparative amounts for the same period in 1997 are as follows:

		<b>Unaudited Six months ended 30 June</b>		<b>Increase %</b>
	<i>Notes</i>	<b>1998 HK\$'000</b>	<b>1997 HK\$'000</b>	
TURNOVER		<u>265,671</u>	<u>241,043</u>	10.2
OPERATING PROFIT		54,303	54,009	0.5
Share of profit of an associated company		<u>1,050</u>	<u>—</u>	
PROFIT BEFORE TAXATION		55,353	54,009	2.5
Taxation	(2)	<u>(5,033)</u>	<u>(3,828)</u>	
PROFIT BEFORE MINORITY INTERESTS		50,320	50,181	0.3
Minority interests		<u>(2,586)</u>	<u>(12,205)</u>	
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>47,734</u>	<u>37,976</u>	25.7
Transfer to reserves		<u>6,607</u>	<u>3,990</u>	
Interim dividends		<u>6,250</u>	<u>—</u>	
EARNINGS PER SHARE	(3)	<u>3.8 cents</u>	<u>4.2 cents</u>	(9.5)

*Notes:*

### 1. Basis of Presentation

The unaudited consolidated results of the Group for the six months ended 30 June 1998 have been prepared on the basis of acquisition accounting.

The unaudited proforma combined results for the six months ended 30 June 1997 include the unaudited results of the companies now comprising the Group as if the current Group structure had been in existence throughout the corresponding period in 1997, or since the dates of their incorporation or registration where this is a shorter period

All material intra-group transactions and balances have been eliminated on consolidation.

## 2. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the relevant periods. Tax on assessable profit of a subsidiary of the Company operating in Mainland China has been calculated at the rate of enterprise income tax applicable to that subsidiary.

The Group did not have any significant unprovided deferred taxation in respect of each of the relevant periods.

	<b>Unaudited Six months ended 30 June</b>	
	<b>1998</b>	<b>1997</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Hong Kong	—	—
Mainland China	<u>5,033</u>	<u>3,828</u>

## 3. Earnings Per Share

The Group has adopted the provisions of the revised Statement of Standard Accounting Practice No. 5 "Earnings per share" issued by the Hong Kong Society of Accountants in May 1998 in the calculation of the current and previous periods' basic and diluted earnings per share.

The calculation of the basic earnings per share is based on the Group's unaudited net profit attributable to shareholders for the six months ended 30 June 1998 of HK\$47,734,000 (1997: HK\$37,976,000) and a total of 1,250,000,000 (1997: 900,000,000) shares in issue during the Period. The shares of 900,000,000 were assumed to be in issue throughout the previous period.

Diluted earnings per share for the Period reflecting the exercise of all outstanding share options is not presented because the impact is anti-dilutive. The diluted earnings per share for the previous period is not presented as no options entitling the holders thereof to subscribe for shares of the Company were granted prior to 30 June 1997.

## **INTERIM DIVIDEND FOR THE SIX MONTHS ENDED 30 JUNE 1998**

The Board of Directors has resolved to declare the payment of an interim dividend of 0.5 HK cents (1997: Nil) per share for the six months ended 30 June 1998. The interim dividend will be paid to the shareholders whose names appear on the Register of Members on Friday, 23 October 1998. The interim dividend will be paid on Monday, 16 November 1998.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed on Thursday, 22 October 1998 and Friday, 23 October 1998, during these two days no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Tengis Limited, of 1601 Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Wednesday, 21 October 1998.

## **BUSINESS REVIEW**

The brewery business in Mainland China experienced intense competition in the first half of 1998 due to the continued decline in consumer spending which resulted in many breweries reducing the prices of their products in order to strive for greater market shares. Stemming from its good quality products, outstanding brand image and effective management, the Group was able to maintain its competitive edge even in an environment of increasingly intense price competition. During the six months ended 30 June 1998, the Group reported a 10.2% increase in unaudited turnover to HK\$266 million and a 25.7% increase in unaudited net profit attributable to shareholders to HK\$47,734,000, when compared with the same period of 1997. The Group is one of the few breweries which have sustained growth in such difficult market conditions.

### **Market Development and Brand Publicity**

The sales volume of Kingway Plant I for the first half of 1998 was 69,600 tonnes, representing an increase of 12.3% over the corresponding period in 1997. Kingway Plant II was in trial production and the volume of beer launched to the market during the period was 8,200 tonnes.

The Group has embarked on a series of advertising and promotion campaign this year, highlighted by the advertisement of Kingway beer as starred by Mr. Ke Shouliang, who is renowned for his heroic feat of the "Yellow River Leap". Since its launches in Mainland China and Hong Kong, the advertisement has been well received and proven successful. Kingway beer was recently designated as an official beer of the Great Hall of the People for state banquets as a good illustration of its enhanced brand recognition following various promotions.

Backed by effective promotion and our dedicated sales teams, Kingway beer was able to maintain the same pricing policy as last year and has continued to operate profitably with satisfactory growth in sales in the first half of 1998.

During the period, Kingway beer achieved good progress in expanding its presence in the Guangdong market. However, its expansion outside Guangdong suffered drawbacks from greater economic impact from the financial turmoil in certain provinces and contracted market demand as a result of the flood crisis of Changjiang River. In view of this, the Group has reasonably adjusted its market development strategies, focusing its resources on exploration of priority markets including Guangxi, Hunan, Jiangxi and Fujian. Given the improving market response of Kingway beer in Hong Kong both in terms of sales volume and brand recognition, the Group has confidence in developing the Hong Kong market.

### **Research & Development and Cost Control**

The Group is well aware of the importance of product quality to the food and beverage industry. The Group entered into an agreement this year with the China National Research Institute of Food and Fermentation Industries on technological cooperation for a term of three years, as part of our effort to further enhance the quality standards of Kingway beer.

Notwithstanding the increase in budgets for advertising and promotion, the Group implemented various cost reduction measures on all fronts in 1998. As a result of management's effective cost control and the decline in prices of some over-supplied raw materials, Kingway beer has benefited from a substantial drop of more than 10% in production costs as compared to the same period last year.

### **Shandong Amber Brewery – Associated Company**

The sales volume of Shandong Amber brewery for the first half of 1998 was 76,000 tonnes. To compensate the effect from low-price beer arising from the intensified price war, Amber beer had made active attempts to increase the sales proportion of medium-price beer during the period. The Directors are confident that sales for the beer are expected to improve in the second half of 1998.

### **PROSPECTS**

The business environment is not expected to improve in the near future, given that the difficult market conditions of slowing consumer market and keen price competition in Mainland China are expected to continue during the second half of 1998. Following the commissioning of Kingway Plant II this month, the Group's fixed cost expenditure is set to increase. The Group is committed to pursue greater promotional strength, develop new products and increase market shares in order to mitigate the effect from increase in fixed costs.

Notwithstanding the tough challenges of the present economic climate, Kingway beer recorded strong growth in sales volume in July and August. The Group will focus its resources in strengthening the promotion of Kingway beer in order to maintain the market shares in Shenzhen, Bao An and Eastern Guangdong. Also, the Group will implement another round of advertising campaign in Dongguan, Guangzhou and other Pearl River Delta cities, which have huge market potential for Kingway Beer. This year, the Group aims to achieve higher sales in low season and to prolong the peak season sales. The Board of Directors is confident that, with strong and efficient management, the Group will be able to achieve satisfactory sales growth in the second half of 1998.

## **YEAR 2000 COMPLIANCE**

As many computer systems which store date information based on a two-digit year sequence are unable to accurately process dates for the year 2000, the computer systems may not function properly beyond the year 2000.

Having realized the potential risks of the Year 2000 problems, the Group has taken appropriate measures since 1997 to ensure the computer systems are Year 2000 compliant.

Since most of the computer systems currently in use by the Group are Year 2000 compliant, the impact of the Year 2000 problems on the Group will be immaterial. The estimated cost for upgrading the computer softwares of the Group will be insignificant.

To comply with the Year 2000 standards, the Group expects all the modification and replacement work of the computer systems will be completed by mid 1999.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 1998, the interests of the Directors in the equity or debt securities of the Company and its associated corporations (within the meaning of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") recorded in the register required to be kept by the Company pursuant to Section 29 of SDI Ordinance were as follows:

### 1. Shares

#### (i) Guangdong Investment Limited

Name of Director	Type of Interest	Number of Shares Held	Number of Warrants Held
Au Wai Ming	Personal	300,000	50,000
Chen Haotian	Personal	100,000	–
Yuan Youjian	Personal	180,000	–
Zhou Dongxiang	Personal	40,000	10,000
Hou Bojian	Personal	150,000	35,000
Tang Zhen	Personal	666,000	66,600

### 2. Options

#### (i) the Company

Name of Director	Number of options held 01/01/1998	Options granted Jan-Jun 1998 Date granted	Number granted	Period during which option is exercisable	Price per share payable on exercise of option HK\$	Number of options exercised Jan-Jun 1998	Number of options held 30/06/1998
Au Wai Ming	4,500,000	–	–	*20/02/1998-19/02/2003	2 1	–	4,500,000
Ren Qihan	1,200,000	–	–	*20/02/1998-19/02/2003	2 1	–	1,200,000
Chen Haotian	1,200,000	–	–	*20/02/1998-19/02/2003	2 1	–	1,200,000
Yuan Youjian	1,200,000	–	–	*20/02/1998-19/02/2003	2 1	–	1,200,000
Zhou Dongxiang	1,200,000	–	–	*20/02/1998-19/02/2003	2 1	–	1,200,000

\* If 19/02/2003 is not a business day in Hong Kong, the option period shall end on the business day preceding that day.

No consideration has been paid by the Directors for the options granted by the Company.

**(ii) Guangdong Investment Limited**

Name of Director	Number of options held 01/01/1998	Options granted Jan-Jun 1998 Date granted	Number granted	Period during which option is exercisable	Price per ordinary share payable on exercise of option HK\$	Number of options exercised Jan-Jun 1998	Number of options held 30/06/1998
Au Wai Ming	-	18/02/1998	500,000	**19/08/1998-18/08/2003	2 892	-	500,000
Ren Qihan	-	16/03/1998	150,000	**17/09/1998-16/09/2003	3 024	-	150,000
Chen Haotian	50,000	-	-	**10/06/1997-09/06/2002	4 536	-	50,000
	-	16/03/1998	150,000	**17/09/1998-16/09/2003	3 024	-	150,000
Yuan Youjian	-	16/03/1998	150,000	**17/09/1998-16/09/2003	3 024	-	150,000
Zhou Dongxiang	-	16/03/1998	150,000	**17/09/1998-16/09/2003	3 024	-	150,000
Ding Xun	-	18/02/1998	350,000	**19/08/1998-18/08/2003	2 892	-	350,000
Hui Ho Ming Herbert	6,000,000	-	-	**01/11/1997-31/10/2002	5 392	-	6,000,000
	-	18/02/1998	6,000,000	**19/08/1998-18/08/2003	2 892	-	6,000,000
Hou Bojian	-	18/02/1998	500,000	**19/08/1998-18/08/2003	2 892	-	500,000
Tang Zhen	350,000	-	-	**10/06/1997-09/06/2002	4 536	-	350,000
	-	18/02/1998	500,000	**19/08/1998-18/08/2003	2 892	-	500,000

\*\* If the last day of any of the option period is not a business day in Hong Kong, the option period shall end on the business day preceding that day.

No consideration has been paid by the Directors for the options granted by Guangdong Investment Limited.

**(iii) Guangdong Building Industries Limited**

Name of Director	Number of options held 01/01/1998	Options granted Jan-Jun 1998 Date granted	Number granted	Period during which option is exercisable	Price per share payable on exercise of option HK\$	Number of options exercised Jan-Jun 1998	Number of options held 30/06/1998
Au Wai Ming	770,000	-	-	# 26/08/1993-30/06/1998	2.00	-	770,000
Hou Bojian	770,000	-	-	## 11/09/1995-10/09/2000	2.25	-	770,000
Tang Zhen	770,000	-	-	# 26/08/1993-30/06/1998	2.00	-	770,000

# Expired and lapsed at 5:00 p.m. Australia Eastern Standard Time on 30/06/1998

## If 10/09/2000 is not a business day in Australia, the option period shall end on the business day preceding that day.

The consideration paid by the Directors for each of the options granted by Guangdong Building Industries Limited was HK\$0.005.

**(iv) Guangdong Tannery Limited**

Name of Director	Number of options held 01/01/1998	Options granted Jan-Jun 1998 Date granted	Number granted	Period during which option is exercisable	Price per share payable on exercise of option HK\$	Number of options exercised Jan-Jun 1998	Number of options held 30/06/1998
Hou Bojian	1,100,000	-	-	*# 15/07/1997-14/01/2002	1.3936	-	1,100,000
Tang Zhen	1,100,000	-	-	*# 15/07/1997-14/01/2002	1.3936	-	1,100,000



\*# If 14/01/2002 is not a business day in Hong Kong, the option period shall end on the business day preceding that day.

No consideration has been paid by any of the Directors for the options granted by Guangdong Tannery Limited.

Save as disclosed above, as at 30 June 1998, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

### **SUBSTANTIAL SHAREHOLDER**

As at 30 June 1998, the following interest of 10% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of SDI Ordinance:

<b>Name of shareholder</b>	<b>Number of Shares Held</b>	<b>Percentage Holding</b>
Guangdong Enterprises (Holdings) Limited ( <i>Note</i> )	937,500,000	75%
Guangdong Investment Limited	900,000,000	72%

*Note:* The shares beneficially held by Guangdong Enterprises (Holdings) Limited comprise the 900,000,000 shares held by Guangdong Investment Limited and 37,500,000 shares held directly by it.

### **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

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

## **CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period except that the Non-Executive Directors are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Board of Directors of the Company has established an Audit Committee in accordance with the Code of Best Practice. 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.

By order of the Board  
**Au Wai Ming**  
*Chairman*

Hong Kong, 25 September 1998