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KINGWAY BREWERY HOLDINGS LIMITED

金威啤酒集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0124)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

HIGHLIGHTS

	For the six months ended 30 June		
	2011 (Unaudited)	2010 (Unaudited)	Change
Beer sales volume, in tonne	475,000	442,000	+7.5%
Profit for the period, in thousand HK\$	1,456	9,227	-84.2%
Basic earnings per share, in HK cent	0.1	0.5	-80.0%
EBITDA, in thousand HK\$	89,646	99,549	-9.9%
	As at 30 June 2011 (Unaudited)	As at 31 December 2010 (Audited)	
Current ratio	1.03 times	0.97 times	+6.2%
Gearing ratio ¹	net cash	net cash	-
Total assets, in million HK\$	3,807	3,574	+6.5%
Net asset value per share, in HK\$	1.78	1.75	+1.7%
Period-end number of employees	2,823	2,817	+0.2%
Note:			
1 Gearing ratio = (Interest-bearing debt - cash and cash equivalents)/Net assets			

* For identification purpose only

UNAUDITED INTERIM RESULTS

The board of directors (the “Board of Directors”) of Kingway Brewery Holdings Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011 together with comparative figures are as follows. The interim financial information has not been audited, but has been reviewed by the Company's audit committee and the Company's auditors, Ernst & Young.

Condensed Consolidated Income Statement

For the six months ended 30 June 2011

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	Notes		
REVENUE	2	892,254	783,497
Cost of sales		(729,559)	(604,298)
Gross profit		162,695	179,199
Other income and gains		33,477	33,302
Selling and distribution expenses		(123,957)	(135,504)
Administrative expenses		(68,456)	(65,127)
Finance costs	3	(357)	(433)
PROFIT BEFORE TAX	4	3,402	11,437
Income tax expense	5	(1,946)	(2,210)
PROFIT FOR THE PERIOD		1,456	9,227
EARNINGS PER SHARE	6		
Basic		0.1 HK cent	0.5 HK cent
Diluted		N/A	N/A

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	1,456	9,227
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Exchange differences on translation of foreign operations	65,893	20,299
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	67,349	29,526

Condensed Consolidated Balance Sheet
30 June 2011

		30 Jun 2011 (Unaudited) HK\$'000	31 Dec 2010 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		2,725,291	2,718,645
Investment properties		38,600	37,371
Prepaid land lease payments		251,658	249,151
Goodwill		9,384	9,384
Reusable packaging materials		7,338	9,061
Deferred tax assets		5,068	5,130
Total non-current assets		3,037,339	3,028,742
CURRENT ASSETS			
Inventories		286,356	305,789
Trade and bills receivables	8	32,237	14,676
Prepayments, deposits and other receivables		26,710	32,553
Due from fellow subsidiaries		3,641	-
Tax recoverable		746	1,469
Pledged bank balances		6,734	7,051
Cash and cash equivalents		413,104	183,733
Total current assets		769,528	545,271
CURRENT LIABILITIES			
Trade and bills payables	9	(207,357)	(98,767)
Deferred revenue		(71,833)	(84,930)
Tax payable		(1,538)	(1,144)
Other payables and accruals		(325,456)	(329,852)
VAT payable		(16,532)	(901)
Dividend payable		(17,115)	-
Due to the immediate holding company		(64)	(209)
Due to fellow subsidiaries		(5,279)	(46,659)
Interest-bearing bank borrowing		(100,000)	-
Total current liabilities		(745,174)	(562,462)
NET CURRENT ASSETS/(LIABILITIES)		24,354	(17,191)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,061,693	3,011,551
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(7,721)	(7,813)
Net assets		3,053,972	3,003,738
EQUITY			
Issued capital		171,154	171,154
Reserves		2,882,818	2,815,469
Proposed final dividend		-	17,115
Total equity		3,053,972	3,003,738

Notes:

(1) Accounting Policies

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2010, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations).

Changes in Accounting Policy and Disclosures

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

HKFRS 1 Amendment	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation - Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, while the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC) - Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

The adoption of these new and revised HKFRSs has had no significant financial effect on the unaudited interim financial information.

(2) Operating Segment Information

For management purpose, the Group is organised into business units based on their products and services and has three reportable operating segments 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 Hong Kong, Macau and overseas; and
- (c) the Corporate segment engages in providing corporate services to the Mainland China segment and the Overseas and Hong Kong segment in Hong Kong.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income and finance costs are excluded from such measurement.

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

(2) Operating Segment Information (cont'd)

The following table presents revenue and results of the Group's operating segments for the six months ended 30 June 2011 and 2010.

	For the six months ended 30 June 2011				
	Mainland China (Unaudited)	Overseas and Hong Kong (Unaudited)	Corporate (Unaudited)	Eliminations (Unaudited)	Consolidated (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:					
Sales to external customers	854,269	37,985	-	-	892,254
Intersegment sales	23,217	-	-	(23,217)	-
Other income and gains	28,472	336	3,234	-	32,042
Total	<u>905,958</u>	<u>38,321</u>	<u>3,234</u>	<u>(23,217)</u>	<u>924,296</u>
Segment results	<u>(3,369)</u>	<u>8,520</u>	<u>(2,827)</u>	<u>-</u>	<u>2,324</u>
Interest income					1,435
Finance costs					(357)
Profit before tax					3,402
Income tax expense					(1,946)
Profit for the period					<u>1,456</u>

	For the six months ended 30 June 2010				
	Mainland China (Unaudited)	Overseas and Hong Kong (Unaudited)	Corporate (Unaudited)	Eliminations (Unaudited)	Consolidated (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:					
Sales to external customers	750,292	33,205	-	-	783,497
Intersegment sales	17,849	-	-	(17,849)	-
Other income and gains	24,713	-	6,747	-	31,460
Total	<u>792,854</u>	<u>33,205</u>	<u>6,747</u>	<u>(17,849)</u>	<u>814,957</u>
Segment results	<u>1,343</u>	<u>8,237</u>	<u>448</u>	<u>-</u>	<u>10,028</u>
Interest income					1,842
Finance costs					(433)
Profit before tax					11,437
Income tax expense					(2,210)
Profit for the period					<u>9,227</u>

(3) Finance Costs

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	357	433

(4) Profit Before Tax

This is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	79,276	75,869
Recognition of prepaid land lease payments	3,149	3,055
Amortisation of reusable packaging materials	3,462	8,755
Interest income	(1,435)	(1,842)
Foreign exchange gains, net	(3,234)	(6,747)
Fair value gains of investment properties	(655)	(1,245)

(5) Income Tax

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current - Hong Kong	720	927
Current - Mainland China:		
Charge for the period	1,203	1,937
Underprovision/(overprovision) in prior periods	48	(465)
Deferred	(25)	(189)
Total tax charge for the period	1,946	2,210

(5) Income Tax (cont'd)

Hong Kong profits tax has been provided at a rate of 16.5% (Six months ended 30 June 2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in local jurisdictions in which the Group operates.

Kingway Brewery (Shan Tou) Co., Ltd. and Kingway Brewery (Foshan) Co., Ltd. are entitled to a 50% tax relief for the six months ended 30 June 2011 and 2010.

Kingway Brewery (Dongguan) Co., Ltd. was entitled to a 50% tax relief for the six months ended 30 June 2010.

Kingway Brewery (Tianjin) Co., Ltd., Kingway Brewery (Xian) Co., Ltd. and Kingway Brewery Group (Chengdu) Co., Ltd. have not generated any accumulated assessable profits since their establishment. Pursuant to the New Corporate Income Tax Law, these companies are entitled to full tax exemption from Corporate Income Tax ("CIT") for two years commencing from 1 January 2008, followed by a 50% reduction in CIT rate for the next three years.

(6) Earnings Per Share

The calculation of the basic earnings per share for the six months ended 30 June 2011 and 2010 are based on:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	1,456	9,227
	1,711,536,850	1,711,536,850
	1,711,536,850	1,711,536,850

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2011 and 2010.

(7) Interim Dividend

The Board of Directors of the Company resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011 (2010: nil).

(8) Trade and Bills Receivables

The Group's trading terms with customers are either on a cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30 to 180 days of issuance. Credit limits are set for each customer. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on payment due date, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 3 months	31,803	12,600
3 to 6 months	437	994
6 months to 1 year	131	469
Over 1 year	474	456
	32,845	14,519
Less: Impairment	(608)	(592)
Trade receivables	32,237	13,927
Bills receivables	-	749
	32,237	14,676

Bills receivables were all bank acceptance notes with a maturity period within six months and had aged less than six months.

(9) Trade and Bills Payables

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 3 months	206,291	76,770
3 to 6 months	282	17,731
6 months to 1 year	569	3,539
Over 1 year	215	657
Trade payables	207,357	98,697
Bills payable	-	70
	207,357	98,767

The trade payables are non-interest-bearing and are normally settled on a 30-day term.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Key Operating Data

The total sales volume of the Group for the first half of 2011 was 475,000 tonnes (2010: 442,000 tonnes), representing an increase of 7.5% over the same period last year. The consolidated revenue was HK\$892 million (2010: HK\$783 million), representing an increase of 13.9% over the same period last year. The Group's sales in Mainland China accounted for 95.7% of the consolidated revenue, whereas the sales in overseas and Hong Kong accounted for 4.3% of the consolidated revenue. The unaudited consolidated profit of the Group for the period under review was HK\$1.46 million (2010: HK\$9.23 million), representing a decrease of 84.2% over the same period last year. The drop in profit was mainly due to the increase in the costs of production of approximately HK\$80 million, and the additional payment of the newly imposed city construction tax and education surcharge by the Group's subsidiaries in Mainland China of approximately HK\$20 million.

The Board of Directors of the Company resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011 (2010: nil).

Business and Financial Review

The Group's average costs of sales per tonne of beer for the first half of the year increased 12.4% over the same period last year. The Group's selling and distribution expenses for the first half of the year was HK\$124 million (2010: HK\$136 million), representing a decrease of 8.8% over the same period last year. The average selling and distribution expenses per tonne was HK\$261 (2010: HK\$307), representing a decrease of 15.0% over the same period last year, with the utilization efficiency of selling and distribution expenses increased. The Group's administrative expenses for the first half of the year was HK\$68.46 million (2010: HK\$65.13 million), representing an increase of 5.1% over the same period last year. The Group's finance costs for the first half of the year amounted to HK\$0.36 million (2010: HK\$0.43 million), representing a decrease of 16.3%.

Capital Expenditure

Capital expenditure incurred by the Group, on a cash basis, for the period under review was approximately HK\$25.49 million (2010: HK\$23.68 million), mainly in connection with improvement of production equipment for our brewery plants and construction of staff quarters.

Financial Resources, Liquidity and Debt Position

The Group had cash and bank balances of HK\$420 million as at 30 June 2011 (including pledged bank deposits of HK\$6.73 million), of which 92.9% was in RMB, 5.4% was in USD and 1.7% was in HKD.

Net cash inflow from operating activities during the period under review was HK\$148 million. As at 30 June 2011, the outstanding balance of interest-bearing bank loan of the Group amounted to HK\$100 million (31 December 2010: nil), mainly used as working capital. The Group has strong financial position and sufficient liquidity for its ordinary operations. As at 30 June 2011, the Group had no material contingent liabilities.

Human Resources

The Group had a total of 2,823 (31 December 2010: 2,817) employees as at 30 June 2011. Reasonable remuneration packages that take into account business performance, market practices and market conditions are offered to employees by the Group. In addition, discretionary bonuses are also granted based on the results of the Group and the performance of individual employee.

Outlook

The results of the Group for the period under review were affected by the rise in raw material prices and increase in costs and expenses under inflation in Mainland China, and the imposition of city construction tax and education surcharge on foreign-invested enterprises by the government. The management of the Group will improve the Group's operating efficiency by increasing product sales volume, making appropriate upward adjustment to the price of beer products according to market condition to increase the revenue, and continuously implementing stringent cost control measures. We endeavour to improve our operating results and generate higher returns for our shareholders.

The Group has been appointed as the sole beer sponsor of the Summer Universiade 2011 held in Shenzhen in August 2011. It does not only facilitate the marketing of our brand, but also complements to the healthy and vibrant image of Kingway and further enlightens the brand awareness of Kingway among consumers.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the six months ended 30 June 2011.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2011.

Controlling Shareholder’s Interest

During the period under review, the shareholding interest of GDH Limited (“GDH”), the controlling shareholder of the Company, in the Company has increased from 897,726,768 shares at the beginning of the year, representing approximately 52.45% of the total issued share capital of the Company, to 1,263,494,221 shares representing approximately 73.82% of the issued share capital of the Company following completion of the acquisition by GDH of the shares of the Company disposed by Heineken-APB (China) Pte Ltd on 5 May 2011. Please refer to the announcements of the Company dated 11 March 2011, 4 April 2011 and 5 May 2011 for details.

Audit Committee

The Company established an audit committee (“Audit Committee”) in September 1998. The terms of reference of the Audit Committee adopted by the board of directors of the Company are in line with the CG Code. The Audit Committee comprises the three independent non-executive directors, Mr. Vincent Marshall LEE Kwan Ho as the chairman, Mr. Alan Howard SMITH and Mr. Felix FONG Wo as members. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

Remuneration Committee

The Company established a remuneration committee (“Remuneration Committee”) in June 2005. The terms of reference of the Remuneration Committee adopted by the board of directors of the Company are in line with the CG Code. The Remuneration Committee comprises Mr. Felix FONG Wo as the chairman, Mr. Alan Howard SMITH and Mr. Vincent Marshall LEE Kwan Ho as members. The principal duties of the Remuneration Committee include, inter alia, making recommendations to the Board relating to the Company’s policy for directors’ and senior management’s remuneration, determining the executive directors’ and senior management’s remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

Review of Interim Results

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements and the interim report of the Group for the six months ended 30 June 2011. In addition, the Company’s external auditors, Ernst & Young, have also reviewed the aforesaid unaudited interim condensed consolidated financial statements.

Purchase, Sale and Redemption of the Listed Securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2011.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 25 August 2011

As at the date of this announcement, the Board comprises two executive directors, namely Mr. YE Xuquan and Mr. JIANG Guoqiang; five non-executive directors, namely Mr. HUANG Xiaofeng, Ms. XU Wenfang, Mr. HUANG Zhenhai, Mr. LUO Fanyu and Ms. LIANG Jianqin; and three independent non-executive directors, namely Mr. Alan Howard SMITH, Mr. Felix FONG Wo and Mr. Vincent Marshall LEE Kwan Ho.