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 2012

HIGHLIGHTS

	For the six months ended 30 June		
	2012	2011	Change
	(Unaudited)	(Unaudited)	
Beer sales volume, in tonne	**398,000**	475,000	-16.2%
Profit/(loss) for the period, in thousand HK$	**(101,589)**	1,456	N/A
Basic earnings/(loss) per share, in HK cent	**(5.9)**	0.1	N/A
Earnings/(loss) before interest, tax, depreciation and amortisation, in thousand HK$	**(13,842)**	89,646	N/A
	As at 30 June 2012	As at 31 December 2011	
	(Unaudited)	(Audited)	
Current ratio	**1.02 times**	1.14 times	-10.5%
Gearing ratio[1]	**net cash**	net cash	-
Total assets, in million HK$	**4,283**	3,709	+15.5%
Net asset value per share, in HK$	**1.75**	1.83	-4.4%
Period-end number of employees	**2,922**	2,864	+2.0%

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 2012 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 2012

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
REVENUE	*2*	**768,673**	892,254
Cost of sales		**(704,155)**	(729,559)
Gross profit		**64,518**	162,695
Other income and gains		**31,290**	33,477
Selling and distribution expenses		**(103,098)**	(123,957)
Administrative expenses		**(93,331)**	(68,456)
Finance costs	*3*	**(260)**	(357)
PROFIT/(LOSS) BEFORE TAX	*4*	**(100,881)**	3,402
Income tax expense	*5*	**(708)**	(1,946)
PROFIT/(LOSS) FOR THE PERIOD		**(101,589)**	1,456
EARNINGS/(LOSS) PER SHARE	*6*		
Basic		**(5.9) HK cent**	0.1 HK cent
Diluted		**N/A**	N/A

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE PERIOD	**(101,589)**	1,456
OTHER COMPREHENSIVE INCOME/(LOSS)		
Gains on property revaluation	**3,913**	-
Income tax effect	**(978)**	-
	2,935	-
Exchange differences on translation of foreign operations	**(19,175)**	65,893
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PREIOD	**(16,240)**	65,893
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(117,829)**	67,349

Condensed Consolidated Balance Sheet
30 June 2012

	Notes	30 Jun 2012 (Unaudited) HK$'000	31 Dec 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,668,301**	2,751,334
Investment properties		**47,841**	39,965
Prepaid land lease payments		**249,884**	254,899
Goodwill		**9,384**	9,384
Reusable packaging materials		**8,497**	7,630
Deferred tax assets		**5,116**	5,209
Total non-current assets		**2,989,023**	3,068,421
CURRENT ASSETS			
Inventories		**282,925**	297,282
Trade receivables	*8*	**26,459**	16,279
Prepayments, deposits and other receivables		**24,221**	28,143
Pledged bank balances		**491**	7,401
Restricted bank balances		**6,869**	-
Cash and cash equivalents		**952,951**	291,889
Total current assets		**1,293,916**	640,994
CURRENT LIABILITIES			
Trade payables	*9*	**(196,395)**	(117,725)
Deferred revenue		**(72,854)**	(75,930)
Tax payable		**(1,799)**	(2,653)
Other payables and accruals		**(908,706)**	(329,076)
VAT payable		**(12,172)**	(4,766)
Dividend payable		**(17,115)**	-
Due to the immediate holding company		**(70)**	(239)
Due to fellow subsidiaries		**(37,223)**	(32,851)
Interest-bearing bank borrowing		**(24,534)**	-
Total current liabilities		**(1,270,868)**	(563,240)
NET CURRENT ASSETS		**23,048**	77,754
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,012,071**	3,146,175
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(8,565)**	(7,725)
Net assets		**3,003,506**	3,138,450
EQUITY			
Issued capital		**171,154**	171,154
Reserves		**2,832,352**	2,950,181
Proposed final dividend		**-**	17,115
Total equity		**3,003,506**	3,138,450

Notes:

(1) Accounting Policies

The unaudited condensed consolidated interim financial information of Kingway Brewery Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2012 has 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 2011, 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) as disclosed below.

<u>Changes in Accounting Policy and Disclosures</u>

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards –Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendment to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

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 and overseas; and

(c) the Corporate segment engages in providing corporate services to the Mainland China segment and the Overseas and Hong Kong segment.

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 sales of beer by the Mainland China segment to the Overseas and Hong Kong segment which were 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 2012 and 2011.

	For the six months ended 30 June 2012				
	Mainland China (Unaudited) HK$'000	**Overseas and Hong Kong (Unaudited) HK$'000**	**Corporate (Unaudited) HK$'000**	**Eliminations (Unaudited) HK$'000**	**Consolidated (Unaudited) HK$'000**
Segment revenue:					
Sales to external customers	**731,016**	**37,657**	**-**	**-**	**768,673**
Intersegment sales	**22,753**	**-**	**-**	**(22,753)**	**-**
Other income and gains	**23,360**	**178**	**2,783**	**-**	**26,321**
Total	**777,129**	**37,835**	**2,783**	**(22,753)**	**794,994**
Segment results	**(101,870)**	**7,881**	**(11,601)**	**-**	**(105,590)**
Interest income					**4,969**
Finance costs					**(260)**
Loss before tax					**(100,881)**
Income tax expense					**(708)**
Loss for the period					**(101,589)**

	For the six months ended 30 June 2011				
	Mainland China (Unaudited) HK$'000	Overseas and Hong Kong (Unaudited) HK$'000	Corporate (Unaudited) HK$'000	Eliminations (Unaudited) HK$'000	Consolidated (Unaudited) 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	905,958	38,321	3,234	(23,217)	924,296
Segment results	(3,369)	8,520	(2,827)	-	2,324
Interest income					1,435
Finance costs					(357)
Profit before tax					3,402
Income tax expense					(1,946)
Profit for the period					1,456

(3) Finance Costs

Finance costs represented interest on bank loans wholly repayable within five years.

(4) Profit/(Loss) Before Tax

This is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Depreciation	**80,840**	79,276
Recognition of prepaid land lease payments	**3,254**	3,149
Amortisation of reusable packaging materials	**2,685**	3,462
Provision for inventories *	**5,809**	-
Bank interest income	**(4,969)**	(1,435)
Foreign exchange gains, net	**(2,783)**	(3,234)
Fair value gains of investment properties	**(781)**	(655)

* Provision for inventories is included in "Cost of sales" and "Selling and distribution expenses" in the condensed consolidated income statement.

(5) Income Tax

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Group:		
Current - Hong Kong	**494**	720
Current - Mainland China:		
Charge for the period	**198**	1,203
Underprovision in prior periods	**68**	48
Deferred	**(52)**	(25)
Total tax charge for the period	**708**	1,946

Hong Kong profits tax has been provided at a rate of 16.5% (Six months ended 30 June 2011: 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 (Foshan) Co., Ltd. was entitled to a 50% tax relief for the six months ended 30 June 2012 and 2011.

(5) Income Tax (cont'd)

Kingway Brewery (Shan Tou) Co., Ltd. ("Kingway Shantou") and Kingway Brewery Group (Chengdu) Co., Ltd. ("Kingway Chengdu") did not generate any assessable profits for the six months ended 30 June 2012 and were not subject to PRC corporate income tax ("CIT"). For the six months ended 30 June 2011, Kingway Shantou and Kingway Chengdu were entitled to a 50% tax relief.

Kingway Brewery (Tianjin) Co., Ltd. and Kingway Brewery (Xian) Co., Ltd. have not generated any accumulated assessable profits since their establishment. Pursuant to the PRC Corporate Income Tax Law approved by the National People's Congress on 16 March 2007, these companies were entitled to full tax exemption from CIT for two years commencing from 1 January 2008, followed by a 50% reduction in CIT rate for the next three years.

(6) Earnings/(Loss) Per Share

The calculation of the basic earnings/(loss) per share for the six months ended 30 June 2012 and 2011 are based on:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Profit/(loss) for the period	**(101,589)**	1,456

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares in issue during the period for the purpose of basic earnings/(loss) per share calculation	**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 2012 and 2011.

(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 2012 (2011: Nil).

(8) 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 to 120 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
Within 3 months	**26,071**	15,901
3 to 6 months	**373**	366
6 months to 1 year	**12**	8
Over 1 year	**589**	592
	27,045	16,867
Less: Impairment	**(586)**	(588)
	26,459	16,279

(9) Trade Payables

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

	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
Within 3 months	**170,866**	114,960
3 to 6 months	**18,125**	2,265
6 months to 1 year	**6,439**	244
Over 1 year	**965**	256
	196,395	117,725

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 2012 was 398,000 tonnes (2011: 475,000 tonnes), representing a decrease of 16.2% over the same period last year. The consolidated revenue was HK$769 million (2011: HK$892 million), representing a decrease of 13.8% over the same period last year. The Group's sales in Mainland China accounted for 95.1% of the consolidated revenue, whereas the sales in overseas and Hong Kong accounted for 4.9% of the consolidated revenue. The unaudited consolidated loss of the Group for the period under review was HK$101.6 million (2011: consolidated profit of HK$1.46 million). The drop in profit was mainly attributable to the decline in revenue as a result of the decrease in sales volume of the Group and increase in production costs as a result of rising raw material prices.

The board of directors of the Company resolved not to declare the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

Business and Financial Review

The Group's average costs of sales per tonne of beer for the first half of the year increased 15.2% over the same period last year, which was mainly attributable to the increase in raw material prices and average fixed costs. The selling and distribution expenses for the first half of the year was HK$103 million (2011: HK$124 million), representing a decrease of 16.9% over the same period last year. The average selling and distribution expenses per tonne of beer was HK$259 (2011: HK$261), representing a decrease of 0.8% over the same period last year, with increased utilization efficiency of the selling and distribution expenses in the period under review. The Group's administrative expenses for the first half of the year was HK$93.33 million (2011: HK$68.46 million), representing an increase of 36.3% over the same period last year. The increase in administrative expenses was mainly attributable to the increases in wages, professional fees incurred in the course of strategic review and other general administrative expenses. The Group's finance costs for the first half of the year was HK$0.26 million (2011: HK$0.36 million), representing a decrease of 27.8%.

Capital Expenditure

The Group's capital expenditure, on a cash basis, for the period under review was approximately HK$20.39 million (2011: HK$25.49 million), which was mainly the expenditure incurred in the 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$960 million as at 30 June 2012 (including restricted bank balances and pledged bank deposits of HK$7.36 million in aggregate), of which 90.9% was in RMB, 8.0% was in USD and 1.1% was in HKD.

Net cash inflow from operating activities for the period under review was HK$44.87 million. As at 30 June 2012, the outstanding balance of interest-bearing bank loan of the Group was HK$24.53 million (31 December 2011: Nil), and the loan was mainly used for working capital purpose. The Group has a strong financial position with sufficient liquidity to finance its daily operations. As at 30 June 2012, the Group did not have any material contingent liabilities.

Human Resources

As at 30 June 2012, the Group had a total of 2,922 (31 December 2011: 2,864) employees. Reasonable remuneration packages based on 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

In the second half of the year, the Group will mainly focus on reinforcing its existing sales channels in respect of brewery business and work hard to reverse the decline in beer sales volume. The Group will also continue to take measures to enhance production efficiency and maintain stringent cost control.

On 20 January 2012, the Company published an announcement in relation to the strategic review of the Group. The Company also provided updates on the strategic review through voluntary announcements dated 14 February 2012, 27 April 2012 and 14 June 2012 respectively as well as in the Chairman Statement in its 2011 Annual Report.

As at the date of this announcement, the strategic review is still ongoing, and no decision has been taken in respect of any actions or transactions referred to in the aforesaid announcements. It is only in the event that (i) the Company is presented with an offer of a value commensurate with the relevant business and assets of the Group; (ii) the result of the strategic review is that the operation and development of the remaining assets and business of the Group will present attractive prospects and opportunities to the Company; and (iii) it is in the interest of the Company and its shareholders as a whole, will the Company take any actions or enter into transactions referred to in the aforesaid announcements.

Further announcement(s) on the strategic review will be made as and when necessary and appropriate.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

The Company has complied with the code provisions and, where appropriate, the applicable recommended best practices set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (collectively the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2012, save for the new code provision A.6.7 of the CG Code as one of the independent non-executive directors and one of the non-executive directors were unable to attend the annual general meeting of the Company held on 15 May 2012 as they had other engagements.

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, upon 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 2012.

Audit Committee

The Audit Committee of the Company was established in September 1998 and its terms of reference 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.

Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial information of the Group and the Company's interim report for the six months ended 30 June 2012. In addition, the Company's external auditors, Ernst & Young, have also reviewed the aforesaid unaudited interim financial information.

Remuneration Committee

The Remuneration Committee of the Company was established in June 2005 and its terms of reference 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 or termination of offices.

Nomination Committee

The Nomination Committee of the Company was established in March 2012 and its terms of reference are in line with the CG Code. The Nomination Committee comprises Mr. HUANG Xiaofeng as the chairman, Mr. Alan Howard SMITH, Mr. Felix FONG Wo and Mr. Vincent Marshall LEE Kwan Ho as members. The principal duties of the Nomination Committee include, inter alia, identifying individuals suitably qualified to become board members, considering the re-appointment of the directors and succession planning for directors and making recommendations to the Board in respect of the aforesaid matters.

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 2012.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 27 August 2012

As at the date of this announcement, the Board comprises three executive directors, namely Mr. YE Xuquan, Mr. LIANG Jiang and Mr. LI Wai Keung; five non-executive directors, namely Mr. HUANG Xiaofeng, Mr. HUANG Zhenhai, Ms. XU Wenfang, 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.