BUSINESS REVIEW

Operating Results

Competition in the beer industry in the Mainland China remained intense in the first half of the year. The principal markets of Kingway beer are Shenzhen and the Guangdong Province. Most of the beer products sales in the region employ a low price strategy. Together with the wet weather within the Guangdong Province during the period, the sales of Kingway beer in the first half of the year was not as good as expected. The sales volume of Kingway beer for the first half of the year amounted to 72,000 tons, decreased by 11.4% as compared to the same period of year 2000. The unaudited consolidated turnover was HK$254 million, representing a decrease of 11.6% as compared to the same period of year 2000. Notwithstanding the decrease in turnover, the gross profit margin increased to 39.5% as a result of effective cost control. The unaudited consolidated profit attributable to shareholders was HK$10.08 million, representing a decrease of 16.2%. Earnings per share were 0.8 cents and earnings before finance costs, tax, depreciation and amortisation (EBITDA) were HK$81.81 million.

The Group's sales are principally in the Mainland China. During the first half of the year, the sales in the Mainland China represented 93.9% of the Group's turnover. With the proactive development of the Hong Kong market, sales in Hong Kong for the current period have been increased significantly as compared to the same period of year 2000. It accounted for 6.1% of the Group's current period turnover as compared to 2.2% in the same period of year 2000. The product mix of the Group remained similar as in last year.

Operating Expenses and Finance Costs

In order to further promote the Kingway brand and facilitate market development, the Group put more efforts in the advertising and promotion campaign, resulting in an increase in selling expenses of HK$25.8 million as compared to the same period of year 2000. Administrative expenses were reduced by HK$3.34 million due to the implementation of a pervasive cost reduction program. Finance costs were decreased by HK$10.86 million because of the continuous reduction of debts for both the shareholder's loan and bank loans, and an exemption of interest on a portion of minority shareholders' loan.

Cash and Debt Position

The financial position of the Group is healthy as at 30 June 2001. Cash and bank balances on hand amounted to HK$84 million, decreased by HK$92 million as compared to the end of year 2000. The reduction was mainly due to repayment of debts. During the period, repayment of loan due to immediate holding company, Guangdong Investment Limited, amounted to HK$98 million and bank loans amounted to HK$61 million. The resulted total liabilities and minority interests to total assets ratio dropped from 32.3% at the beginning of the year to 25.8% at the end of the period. During the period, the Group repaid its entire USD and DEM loans and the exposure to exchange rate risks arising from the outstanding debts has become minimal because nearly all operating income are received in RMB.

BUSINESS REVIEW *(cont'd)*

Cash and Debt Position *(cont'd)*

The remaining bank borrowings are denoted in RMB, bear interest at the lending rate as announced from time to time by the People's Bank of China. The Group is always looking for a source of financing with the most favourable terms.

Charges on Group Assets and Contingent Liabilities

At 30 June 2001, none of the fixed assets of the Group were pledged to creditors and there was no contingent liability recorded.

Associate – Amber Brewery

The sales volume of Amber Brewery for the first half of the year amounted to approximately 110 thousand tons. Owing to the low beer price, Amber Brewery still recorded an operating loss during the first half of the year. Management is actively looking for potential buyers for Amber Brewery. For the time being, all discussions are in the preliminary stage and no agreement has been entered. An announcement will be made according to the Listing Rules in relation to any progress in these discussions as and when appropriate.

During the period, the Group did not acquire or dispose of any subsidiary or associate.

Human Resources

The Group has employed 962 staff with a total remuneration of HK$23.0 million during the period. The Group places strong emphasis on raising the quality of its staff and their productivity. The Group organizes regular internal training programs to its staff and also encourages them to attend training programs organized by external professional bodies. The Group provides all the basic benefits to its staff and their year-end bonus scheme is directly linked to the Group's results.