MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Board of Directors is pleased to report a steady growth in the Group's results for the first half of 2003. The unaudited consolidated net profit from ordinary activities attributable to shareholders was HK$46.13 million (2002: HK$43.49 million, as restated), increased by 6.1% over the same period of 2002. Basic earnings per share were 3.7 (2002: 3.5) HK cents, increased by 5.7% over the same period of 2002.

After excluding the effect of the exemption of value added tax (expired from 2003) for beer produced and sold in Shenzhen granted to Kingway Plant no.1 at Luohu on the financials, the adjusted consolidated net profit attributable to shareholders was HK$42.98 million (2002: HK$30.21 million), representing a remarkable growth of 42.3% compared to the same period of 2002.

Operating and Financial Review

The production and sale of Kingway beer continued to be the Group's core business during the first half of the year. The Group's sales are primarily conducted in the Guangdong Province, Mainland China. The total sales volume of Kingway beer for the first half of the year amounted to 112,000 tonnes (2002: 95,000 tonnes), representing an increase of 17.9% over the same period of 2002. The consolidated turnover was HK$290 million (2002: HK$276 million), representing an increase of 4.8% over the same period of 2002.

The sales volume of Kingway beer were lower than the management's initial forecast as both Hong Kong and Mainland China were hit by the SARS during the period reported. However, as a result of compounded effort invested to rebuild and expand the distribution network over the past 18 months, the well-managed distribution network have been able to enable Kingway beer to reach consumers more effectively and efficiently, and have resulted in an increase in both the sales volume and turnover compared to the same period of 2002.

Although the average unit selling price has fallen 11.1% to HK$2,586 (2002: HK$2,910) per tonne, and the average unit cost of sales dropped 18.3% to HK$1,449 (2002: HK$1,773) per tonne. As a result, the gross profit has recorded a 17.8% growth to HK$127 million (2002: HK$108 million), and the gross profit margin has also increased to 44.0% (2002: 39.1%) during the period under review. This improvement was a result of the management's effort to control costs through sourcing activities by way of public tender under the "Sunshine Program", and closely monitoring of various production processes to ensure compliance with the economic efficiency criteria. In addition, the increase in the sales volume also led to a decrease in the unit fixed cost, and enabled the Group to have a better bargaining power in bulk purchases.

During the first half of the year, the Group focused on promoting Kingway brand as "Green Technique, Healthy Beer". Besides, the Group strengthened the management on distributors through active participation in certain promotion activities organized by distributors. These promotion activities, such as the employment of more temporary sales personnel to promote beer sales at restaurants and pubs, primarily accounted for the increase of selling and distribution expenses by 20.8% compared to the same period of 2002. As a result of the strict cost control and credit management, administrative expenses for the first half of the year dropped by 25.5% to HK$15.45 million (2002: HK$20.73 million). No finance cost was incurred for the first half of year 2003 and 2002 as the Group has no interest-bearing debt.

Investment, Financial Resources and Liquidity

As at 30 June 2003, the Group had cash and bank balances of HK$248 million (including a pledged bank deposit of HK$28.26 million), of which 21.3% was in USD, 21.4% was in HKD and the remaining 57.3% was in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Investment, Financial Resources and Liquidity *(Cont'd)*

The net cash inflow from operating activities for the period amounted to HK$70.01 million. The Group's cash balances and net cash inflow from operating activities are ample enough to satisfy the working capital requirement for the business operations.

Pursuant to the Group's expansion strategy, the Group will continue to grow and strategically position in Guangdong Province through acquisitions and new constructions. On 19 July 2003, the Group entered into the agreement with the Preparatory Division of Jinping Government to build a new beer production plant in Shantou with annual production capacity of 200,000 tonnes. The total investment will be RMB350 million. The investment will be divided into two phases. Phase 1 plant of annual production capacity of 100,000 tonnes is expected to commence production in the year 2005 (details refer to announcement on 21 July 2003).

New investment will be funded by the Group's internal resources, bank borrowings, and/or debt or equity fund raising exercise, or strategic investment partners introduced.

Tax

Due to the adoption of the revised Hong Kong SSAP 12 "Income taxes", the additional amount of deferred tax charged to the profit and loss account for the period ended 30 June 2003 and 2002 has been increased by HK$7.13 million and HK$0.26 million respectively. These adjustments will neither affect the Group's daily operations nor the cash flows from operating activities (details refer to note 1 of the condensed consolidated financial statements).

Debts and Contingent Liabilities

No bank debts and contingent liabilities were recorded as at 30 June 2003. The gearing of the Group was net cash, reflecting the sound capital structure of the Group.

Amber Brewery

The Group received partial payment of HK$7.77 million and interest of HK$0.73 million charged at 8% per annum from the purchaser on 24 June 2003, with the remaining balance of HK$12.23 million still outstanding as at 30 June 2003. Pursuant to the new supplemental deed signed on 7 August 2003, it is expected that the remaining balance and the interest accrued will be paid on 24 October 2003 (details refer to note 16(b) of the condensed consolidated financial statements).

Human Resources

The Group has employed 1,004 staff with a total remuneration of HK$24.26 million during the period reported. The Group places strong emphasis on raising the quality of its staff and their efficiency. 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.

Business Prospects

The Group will continue to strive for enhanced integration and building of market, brand and distribution network in order to build a solid foundation to facilitate its further expansion in Guangdong Province. Although the competition of the beer market remains intense, the growth momentum generated during the period reported is expected to continue into the second half of the year. The Board of directors and the management are confident in the business development prospects and performance to be achieved in the second half of the year.