

RESULTS

The Board of Directors is pleased to report remarkable growth in both the Group's sales volume and results for the year 2003. Total sales volume of beer was 273,000 tonnes in the year 2003 (2002: 224,000 tonnes), a 21.9% growth over that of the year 2002. The audited consolidated net profit from ordinary activities attributable to shareholders recorded a 39.5% growth to HK\$105 million in the year 2003 (2002: HK\$75.29 million as restated). The basic earnings per share were 8.4 HK cents (2002: 6.0 HK cents as restated), representing a significant growth of 40.0% as compared to the year 2002.

After excluding the financial effects of the value-added tax exemption (such exemption expired in 2003) for beer produced and sold in Shenzhen granted to Kingway Plant no. 1 at Luo Hu and the adoption of SSAP 12 "Income taxes", the adjusted consolidated net profit from ordinary activities attributable to shareholders was HK\$115 million in the year 2003 (2002: HK\$57.89 million), a significant increase of approximately 100% over that of the last year.

DIVIDENDS

The Board of Directors recommends a final dividend of 1.5 HK cents per share for the year ended 31 December 2003. This, together with the interim dividend of 1.0 HK cent per share paid during the year, gives a total dividend of 2.5 HK cents per share for the year 2003 (2002: a total dividend of 2.0 HK cents per share). The proposed final dividend will be paid on 30 June 2004, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

BUSINESS REVIEW

Notwithstanding the difficulties and challenges encountered by the Group in 2003 including, to count just a few, the negative impacts on sales of beer caused by SARS, increase of price levels of certain raw materials and the intensified market competitions, the Group has achieved strong growth in both the sales volume and operating results.

In 2003, we focused primarily on the following areas and have achieved satisfactory results.

1. Strengthened of Corporate Management

Various measures were implemented to strengthen corporate management, which included: the improvement of the management and operational policies and processes; The implementation of a new appraisal system and a reward system that is tied to sales performance; the implementation of the ERP K3 integrated financial and operational management information system to improve financial management; the optimization of production facilities to improve overall production efficiency; and the emphasis on improving staff quality to cater for the Group's pace of development.

2. Improved Sales and Distribution Management and Strengthened Market Development Efforts

We have been fine-tuning our sales and distribution management in response to the changing market situations, segmenting the markets so as to exercise more effective control over the distribution channels. By building a systematic sales and cost management framework, the selling and promotional expenses were well managed. A closer monitoring of the market situation has enabled quicker reaction to the changes in market conditions.

3. The "Green Manufacturing" Accreditation

Formaldehyde-free brewing was our promotion highlight in 2003 which has added healthy and hi-tech elements to the Kingway brand. These elements were well regarded by the consumers and have promoted the healthy image and recognition of the Kingway brand. We have also established the Kingway art performance troupe, which has performed in more than 100 promotion shows and programmes in various regions which successfully related our brand-building activities with arts and the leisure life of customers.

4. Extending the "Sunshine Programme" to Realise Further Cost Savings

Under the "Sunshine Programme", a transparent and fair public tender programme has been applied for the sourcing of manufacturing and packaging materials. In 2002, a total of approximately HK\$32 million savings in sourcing and procurement related costs were recorded as compared to the year 2001 as a result of the programme. In 2003, a total of approximately HK\$12 million saving was achieved when compared to 2002.

5. Formulation of the Five-year Strategic Plan

Our strategic goal for the coming five years is: To "Excel, empower and expand" and to speed up our pace of development. With our base market rooted in Guangdong, we shall join force with international beer enterprises to strengthen our market position and further develop our business. Through mergers and acquisitions, as well as the construction of new production facilities, we shall expand our annual production capacity and sales volume of beer to over 1 million tonnes in five years' time, and aim to have Kingway to become the market leader in Guangdong and a top-5 brewer in China. Our strategic positioning in Guangdong will be focused on a market and sales oriented initiative to develop strong sales forces to market beer products that are produced locally in the five core regional markets covering Eastern, Southern, Western, Northern and Central parts of Guangdong.

In line with the Group's growth strategies, we are pleased to report the following achievements in the year 2003:

(i) Commencement of the Construction Work at the new Shantou Plant

On 19 July 2003, the Group signed an investment agreement with the Shantou government to build a new brewery plant with an annual production capacity of 200,000 tonnes of beers. The construction work has been well on schedule. Under one master design and construction plan, it is expected that the first phase with an annual capacity of 100,000 tonnes will commence production in the first half of the year 2005, and that the second phase with an annual production capacity of another 100,000 tonnes will be completed in late 2005. The total investment of this 200,000 tonnes new plant were revised to RMB400 million. The increase of RMB50 million from our previous announced budget is mainly due to the price increase of construction materials especially iron and steel products, and the increased construction cost related to the complicated geological condition of the land where the plant is located. With the Shantou new plant coming into operation in 2005, the Group will be in a strong competitive position to capture the market share in Eastern Guangdong.

(ii) Introduction of Heineken Asia Pacific Breweries (China) Pte Ltd ("Heineken APB") as Strategic Partner

In view of the PRC brewery industry going through consolidation and the strong competition from the domestic and international brewery groups in the PRC, the Group decided to introduce a strategic investor to further strengthen its market position and further develop its business in Guangdong Province, with a specific aim to (i) raise the Group's corporate profile and enhance the Kingway brand; (ii) capture any business opportunities as a result of the PRC beer industry consolidation; and (iii) improve the production and management effectiveness of the Group through the introduction of advanced technology and management skills. The strategic partnership agreement between the Group and Heineken APB was signed on 28 January 2004. With a total consideration of approximately HK\$554 million, Heineken APB acquired an approximately 21.46% stake in the Company (comprising of 133,768,000 newly issued shares and 165,496,280 shares acquired from GDH Limited) and became a strategic shareholder of Guangdong Brewery on 19 February 2004. This collaboration is an important step forward in the Group's strategic development plan.

(iii) Exploration of Investment Opportunities for Growth

During the year, we had been in discussion with a number of breweries in the Guangdong Province to explore business development opportunities and to study the feasibility of building new plants. Working on this foundation, we will continue to explore and evaluate opportunities in mergers and acquisition proposals and also in building new plant, in Guangdong and other provinces.

OUTLOOK

China has become the largest beer market in the world. With the increasing participation of international players, the Chinese beer industry is consolidating rapidly. Although competition in the Guangdong beer market is expected to become more intense, we are confident that, with our advanced corporate culture, substantial financial resources, comprehensive and efficient distribution network and highly motivated staff, we will achieve yet another year of satisfactory growth in sales volume and profits in the year 2004.

Heineken is an internationally famous brand of beer which has been maintaining a leadership in brand image and brewing technology. There are a lot for Kingway to learn from its innovative approach and success experience in shaping a brand name. We will have strategic co-operation with Heineken in many areas, for example, in the improvement of production technology and management, brand building, and in market development. The China beer industry is undergoing significant consolidation with the players striving to capture market shares and to build up their respective product portfolio. In this critical moment of industry consolidation, the strategic alliance with Heineken APB will add a lot of value in our way to achieve our mission to excel, to strengthen and to become a leader, and will expedite our aim in becoming one of the top five brewers in China.

I would like to take this opportunity to extend my warmest welcome to Mr. Koh Poh Tiong, Dr. Han Cheng Fong and Mr. Herman Petrus Paulus Maria Hofhuis who were recently nominated by Heineken APB to join the Board of Directors, as well as to Mr. Frederik Willem Kurt Linck, Mr. Huang Hong Peng and Mr. Kenneth Choo Tay Sian as their respective alternate directors.

Finally, I would like to thank all of our distributors and customers for their support. I would also like to express my heart-felt gratitude to our management and staff members for their diligence and contribution to the excellent results achieved during the year.

Ye Xuquan

Chairman

Hong Kong, 15 April 2004