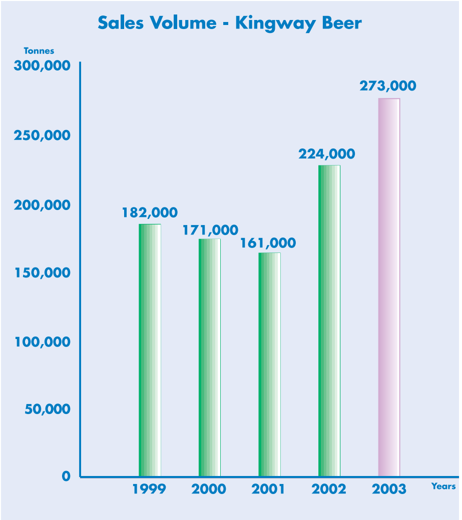
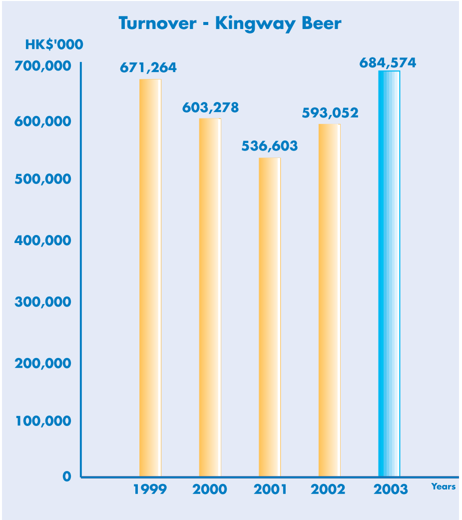
OPERATING RESULTS

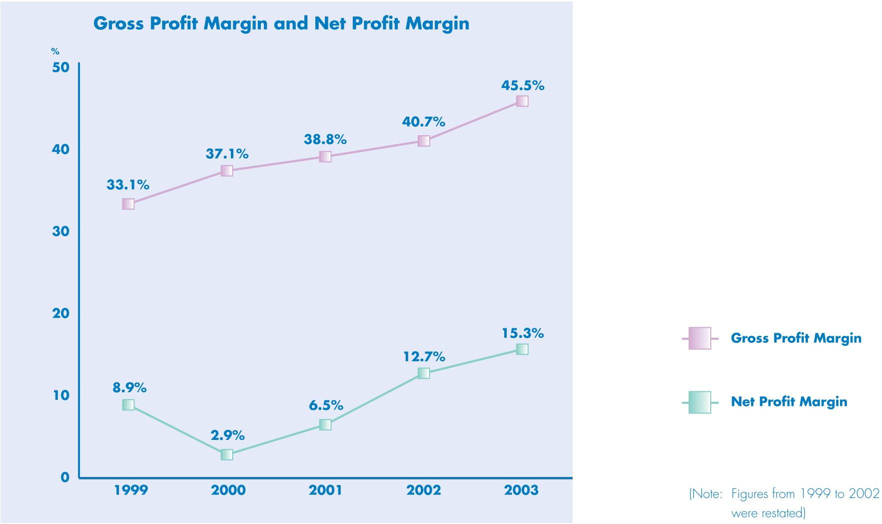
In 2003, the core business of the Group remains the production and sale of Kingway beer. The Group's sales are principally conducted in the Guangdong Province, Mainland China. Notwithstanding the outbreak of SARS during the year in which the consumption market of both Mainland China and Hong Kong had been severely discouraged, the sales volume of Kingway Beer has recorded a remarkable growth of 21.9% as compared to that of the last year. The total sales volume for the year was 273,000 tonnes (2002: 224,000 tonnes). The premium products, middle-range products and mass-market products represent 5%, 52% and 43% of the total sales volume.

The consolidated turnover for the year was HK$685 million (2002: HK$593 million), representing an increase of 15.5% over the year 2002. The average price per tonne of beer sold was HK$2,508 (2002: HK$2,648), decreased by 5.3% year on year, and was a result of an adjustment in product mix in response to changing market demand and the drive for sales of the mass-market products to capture market share. The sales in Mainland China increased by 14.9% as compared to that of last year and contributed 90.5% of the Group's turnover; whereas the sales in Overseas and Hong Kong increased by 20.7% and contributed 9.5% of the Group's turnover. The Group will continue to explore the Overseas and Hong Kong markets and to enlarge the Group's market shares.

The average unit selling price decreased during the year, but the effect was more than set off by a drop in average unit costs. The gross profit margin was improved to 45.5% from 40.7% in the last year. The average unit costs per tonne of beer dropped from HK$1,570 in 2002 to HK$1,368 in 2003, representing a decrease of 12.9%. This improvement was a result of a series of cost control measures carried out by management, including the sourcing of raw materials and packaging materials by way of public tender under the "Sunshine Programme". These measures, together with the economies of scale resulting from higher volume turnover and bulk purchases which enhanced our bargaining power, the better control on the production process which minimised wastage, and the drop in unit fixed overheads are the main reasons for the significant drop in average unit costs. Management will strive to counter the effect of decreasing average selling price and to maintain the gross margin by adopting effective cost control measures.







(Note: Figures from 1999 to 2002 were restated)

OPERATING EXPENSES AND FINANCE COSTS

During the year, the Group focused on building and enhancing the recognition and image of the Kingway brand by organising a series of arts and recreational programmes, and promoting Kingway as "The Healthy Beer Brewed by Green Technology". While selling and distribution expenses increased by 9.7% to HK$147 million (2002: HK$134 million), the average selling and distribution expenses per tonne of beer sold dropped by 10.0% to HK$538 (2002: HK$598). Notwithstanding the keen market competition of beer sale, the fall in selling and distribution expenses per tonne of beer sold proved the improvement of the efficiency in advertising and promotion with an improved degree of brand awareness and recognition.

Administrative expenses increased by 21.5% to HK$44.34 million (2002: HK$36.50 million). The increase was mainly due to the addition of administrative and managerial staff in coping with the growth of business, and write-off of certain obsolete operating fixed assets. As the Group did not have any interest-bearing debt, no finance cost was incurred in the year (2002: nil).

TAXES

The adoption of the revised Hong Kong SSAP 12 "Income taxes" has resulted in additional deferred tax charged to the profit and loss account for the years ended 31 December 2003 and 2002 to the amounts of approximately HK$13.96 million and HK$3.32 million respectively. These adjustments have no effects on the Group's operations or cash flows from operating activities, as further detailed in note 24 to the financial statements.

Enterprise Income Tax exemption for the first two profit-making years and a 50% tax relief in the following three years were granted to Kingway Plant No. 2 at Baoan, Shenzhen. No claim for such exemption has been made yet as there were accumulated losses to set off the taxable profits in the year 2003.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of approximately HK$37.10 million (2002: HK$26.00 million) during the year, an increase of 42.7% compared to the last year. The expenditure was mainly for the installation of packaging equipment to improve the efficiency of the packaging process, the addition of quality assurance equipment to strengthen the quality checking process, the improvement of office premises and the purchase of reusable packaging materials to cope with the increase of production volume.

Capital expenditure is expected to increase significantly in 2004 as the construction of the brewery plant in Shantou will be carried out throughout the year. Phase 1 of construction with annual production capacity of 100,000 tonnes is expected to commence production in the first half of 2005 and Phase 2 with an annual production capacity of 100,000 tonnes will be completed in late 2005. The new plant will support the Group's expansion in Eastern Guangdong. Currently there is no sizable brewery in that region. Local production will enjoy competitive advantage in terms of cost savings in transportation.

FINANCIAL RESOURCES AND LIQUIDITY

The Group's net asset value was HK$1,265 million (2002: HK$1,188 million as restated) as at 31 December 2003. The net asset value was HK$1.01 per share based on the number of issued shares as the end of the year (2002: HK$0.95 per share).

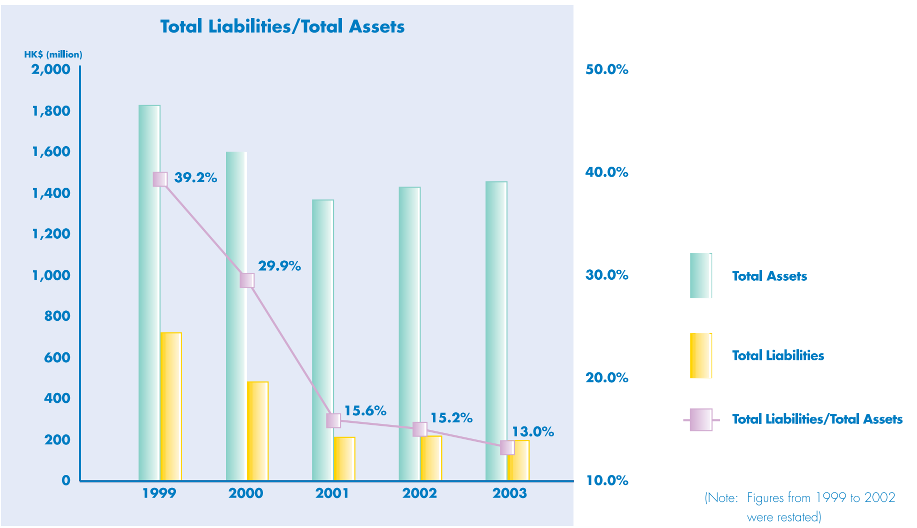
As at 31 December 2003, the Group had cash and cash equivalents of HK$348 million (2002: HK$233 million), an increase of 49.4% as compared to the same period in the last year. Of the balances, 4.8% was in USD, 10.7% was in HKD and 84.5% was in RMB. Cash generated from operations for the year amounted to HK$251 million (2002: HK$209 million), increased by 20.1% over that of the last year.

With the current cash reserve of the Group, its recurrent operating cash flow, and the strategic investment in the Company by Heineken APB completed in February 2004, the Group has sufficient cash and financial resources to fund its current operations as well as capital investments required for the Shantou plant.

DEBTS AND CONTINGENT LIABILITIES

The Group had no bank borrowing as at the end of 2003. The only debts of the Group outstanding consist of amounts due to minority shareholders of certain subsidiaries totalling HK$26.82 million (2002: HK$84.38 million). None of the fixed assets of the Group were pledged to creditors and there were no contingent liabilities recorded as at the end of 2003.

The total liabilities to total assets ratio at the end of the year was 13.0% (2002: 15.2% as restated), reflecting the robust financing position of the Group.



(Note: Figures from 1999 to 2002 were restated)

KEY AREAS OF COOPERATION WITH HEINEKEN APB

Heineken APB became a strategic shareholder of the Group on 19 February 2004. Pursuant to the agreement, the Group has been actively discussing with Heineken APB on the detailed arrangements of strategic cooperation. The main areas of cooperation include:

(i) The establishment of a Strategic Sub-Committee of the Board to consider and discuss issues of key strategic importance to the Company and provide strategic guidance for consideration by the Board;

(ii) The possibility of distribution of each other's beers in the Guangdong Province, Hong Kong and Macau;

(iii) The possibility of contract brewing Heineken branded beer on behalf of Heineken APB (the Company have a right of first refusal to require Heineken APB to engage it to contract brew through the beer production facilities of the Group any beer which Heineken APB proposes to produce in the Guangdong Province); and

(iv) Heineken APB will provide cooperation and assistance to the Group's beer production, marketing and/or distribution business by certain secondment arrangements and training to key personnel of the Company.

AMBER BREWERY

Pursuant to the agreement dated 9 August 2002 and the supplemental agreement dated 7 August 2003 entered into between the Group and the purchaser of Amber Brewery (the "Purchaser"). The Purchaser should settle the outstanding balance of HK$12.23 million together with interest thereon for late payment on or before 24 October 2003. Subsequently, the Group agreed, with the request of the Purchaser, to extend the settlement date to 31 December 2003. However, the purchaser failed to settle the same, and further requested an extension for settlement to 31 March 2004, and subsequently to 30 September 2004. Based on legal advice, the Group enforced the shares charge granted and transferred the legal title of all the shares of Central China (Asia) Investment Limited, which directly holds a 50% interest in Amber Brewery, back to a wholly-owned subsidiary of the Group.

The Group is currently seeking legal advice on further action to be taken for the resale of the shares of Central China (Asia) Investment Limited. Additional information will be disclosed according to the Listing Rules as and where appropriate.

HUMAN RESOURCES

The Group currently employs approximately 1,030 (2002: 925) staff. The remuneration of the staff was HK$67.31 million for 2003. The Group places strong emphasis on improving quality of its staff and their productivity. In addition to organising regular internal training courses for its staff, the Group also encourages them to attend professional training programmes organised by external bodies. On top of the basic benefits provided to its staff members, the Group has a performance appraisal system and a bonus allocation scheme to measure and reward individual's achievements in terms of sales volume and contributions to the Group's businesses.