

BUSINESS REVIEW

Year 2004 was a strategic turning point of Kingway Group's development history. Despite the intensified market competitions, the Group has achieved record-breaking results in both sales volume and operating results. The results were attributable to the dedication of all staff of the Group coherent around the theme of "Further Development". Every staff sticks to the "results and efficiency oriented" management philosophy, carrying out their works with the sales and market oriented initiatives, motivated by the improvement targets, and achieved by thorough execution and innovative methods.

In 2004, we focused primarily on the following areas and have achieved encouraging results.

1. Sales and operating results grew significantly. The sales volume in 2004 was 391,000 tonnes, which was 43.2% higher than that of 2003. The two breweries in Shenzhen were operating at full capacity level. Both turnover and operating profits recorded strong growths.
2. There were advancements in brand building. The Group launched innovative marketing strategies and actively involved in campaigns for public interests to enhance the Kingway's brand awareness and equity. Kingway was shaped to be a beer effectively associated with healthy and happy life of consumers. The theme of differentiating Kingway being a formaldehyde-free beer and having all its products certified as "National Green Products" had significantly helped our promotional activities. During the first half of the year, the Group co-produced and sponsored the "Kingway 2004 International Supermodel Contest". This was an international event with 46 contestants coming from 33 countries or regions. The various activities of the contest drew significant media coverage and public attention throughout the second quarter of the year in Guangdong. During the year, the Kingway art performance troupe performed more than hundred road shows in various cities and regions, thus effectively associated the Kingway brand to art and leisure life of consumers.
3. The Group has elaborated the "Sunshine Program" to pursue further the transparent and fair public tender program in order to promote ethical business practices and strengthen the corporate internal monitoring and control mechanism. The control measures created an atmosphere among the staff with strong sense of integrity in conducting the business. Employees have confidence in the development of the enterprise and employees themselves. They actively participated in business development under the theme of "Treat enterprise's affairs as own affairs; pursue a career in the enterprise instead of a job whole-heartedly". In early 2005, Kingway launched a "Integrity, Co-operation, Win-win" conference with the Group's suppliers and wholesalers, in which the "Statement of Integrity Business Practices" was announced to the public to strengthen the partner relationship with all suppliers and wholesalers. In respect of our quality policy, to protect consumers' health issues are our primary objectives; hence we have continuously promoted the use of formaldehyde-free brewing technologies to produce healthy beer. This added health and technology elements to Kingway brand equity. The Kingway "Green Technology" has been promoted by the National Technology Bureau as the annual promotion project. Furthermore, Kingway was the only PRC brewery selected to these programs as Kingway was the first enterprise having all its products received the "Green Food" award in year 2004.

CHAIRMAN'S STATEMENT (Cont'd)

4. In 2004, the Group has implemented effective motivating remuneration policies. Production workers are compensated with regard to production volume and salesperson's remunerations are hedged to sales volume. The implementations of such measures have effectively motivated staff morale.
5. The Group has been actively pursuing to strengthen its corporate management abilities as well as to improve operational efficiency by implementing various measures, which included: implementing policies and processes to smoothen operational work flows; developing new products and apply new technologies and skills to shorten the fermentation cycle; further enhance the application of ERP integrated financial and operational management information system; implement Customer Relationship Management (CRM) and Business Intelligent (BI) systems to provide timely business information and market responses to support management decisions and formulation of marketing strategies; emphasise the team building exercise for quality human resources for further business development requirement of the enterprise.
6. We have made breakthrough in our strategic development in 2004. In order to achieve our strategic goal for the coming 5 years of "Excel, empower and expand", and to speed up our pace of development, we consolidate our core markets in Guangdong and penetrate to other regions in the PRC. We shall team up with international breweries to strengthen our market position to en-route to "Strong-strong" alliance. We shall continue to pursue our targets of Group annual production capacity of 1.35 million tonnes and sales volume of 1.20 million tonnes by year 2009 through mergers and acquisitions, as well as construction of new production plants. The development of our new brewery plants was reviewed below:

- (i) The completion of construction and commencement of production of Shantou plant

The first phase of our 200,000-tonne Shantou plant construction was completed within ten months after the start-up work commenced in February 2004 and has been up and running in January 2005. And it is expected to finish the second phase construction of another 100,000 tonnes in the second half of 2005.

- (ii) Dongguan plant construction is underway

In 2004, the Group signed the Letter of Intent with the Songshan Lake Technology Industrial Park Management Committee for the proposed construction of a new brewery plant in Dongguan. The first phase construction work with an annual beer production capacity of 200,000 tonnes has been commenced and it is expected that the construction will be completed and commenced production by the end of 2005. In tandem with any growth in market demand for the Group's products, we shall consider to construct an additional annual production capacity of 200,000 tonnes for the Dongguan plant.

(iii) Step out of Guangdong and land in Tianjin

In December 2004, The Group signed the Letter of Intent with the Tianjin Airport Industrial Park to construct a new brewery plant in Tianjin. The first phase construction work with an annual beer production capacity of 200,000 tonnes is being organized. It is anticipated the opening ceremony of construction would be conducted in April 2005 and commence to produce in mid of 2006. In tandem with any growth in market demand for the Group's products, we shall consider to construct an additional annual production capacity of 200,000 tonnes for the Tianjin plant.

(iv) Heineken-APB (China) Pte Ltd. ("HAPBC") investment in the Group as our strategic partner

In February 2004, HAPBC became a strategic partner of the Group and owned approximately 21% interests in the Company. We hoped the Group to strengthen its market position in the consolidating PRC brewery industry and develop its business in Guangdong through the strategic co-operation: (i) upgrade the Group's image and brand awareness; (ii) seek any business opportunities arising from the consolidating PRC brewery market; and (iii) improve corporate management and production efficiency by importing advance management skills and technologies. The move marked the important strategic development of the Group.

(v) Strategic Planning of Construction of new Plants and Acquisitions

In 2004, the Group also explored the opportunities to acquire or establish new brewery plants both within and outside Guangdong in order to lay a foundation for our five-year strategic expansion plan.

7. In July 2004, HSI Services Limited announced the inclusion of the Company in a series of indexes, including The Hang Seng China-Affiliated Corporations Index, with effect from 9 August 2004. This indicates that the efforts of the management in the last few years and the performance of the Group have been well received by the market.

OUTLOOK

China beer market is now in the fast track of expansion period and has become the largest beer market in the world. With the further national economic development in China and growth of citizens' disposable income, international beer players are expected to participate more actively in the rapidly consolidating PRC beer industry. The Group will capitalize any opportunities arising thereof to achieve the Group's strategic goal of "Excel, empower and expand". Despite it is anticipated that competitions in China beer market will become more intense, we are confident that, with our advance corporate culture, strong financial position, and comprehensive and efficient distribution network teamed up with highly motivated staff, we will achieve another year of satisfactory growth in sales volume and profits in year 2005.

Finally, I would like to extend my tributes to all of our distributors and customers for their support in the past year. 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.

Ye Xuquan

Chairman

Hong Kong, 15 April 2005