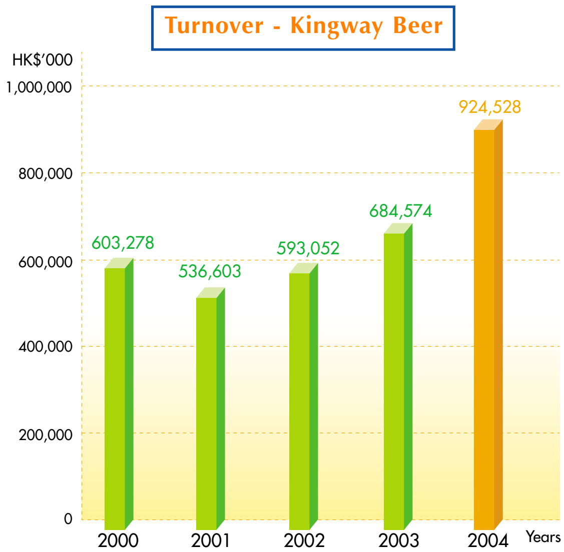
OPERATING RESULTS

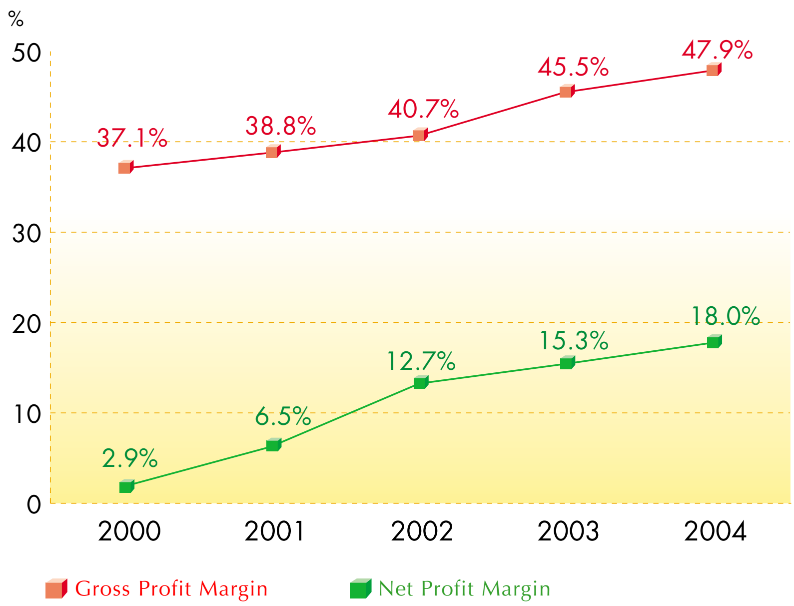
In 2004, the core business of the Group remains the production and sale of Kingway beer. The Group's sales are principally conducted in the Guangdong Province, Mainland China. As a result of the building and expansion of our sales network in the previous two years, the sales volume of Kingway beer has recorded a remarkable growth of 43.2% as compared to that of the last year. The total sales volume for the year was 391,000 tonnes (2003: 273,000 tonnes). The premium products and middle-range products represent 50% of the total sales volume while the remaining market was filled up by the mass-market products. The audited consolidated net profit from ordinary activities attributable to shareholders was HK$166 million (2003: HK$105 million), representing a significant growth of 58.2% as compared to last year.

The consolidated turnover for the year was HK$925 million (2003: HK$685 million), representing an increase of 35.1% over the year 2003. The average price per tonne of beer sold was HK$2,365 (2003: HK$2,508), decreased by 5.7% year on year, and was a result of an adjustment in product mix to adapt to the changing market demand and the drive for sales of the mass-market products to capture market share, except for the Shenzhen city where the product mix sold was stable during the year. The sales in Mainland China increased by 38.7% as compared to that of last year and contributed 92.9% of the Group's turnover; whereas the sales in Overseas and Hong Kong increased by 0.7% and contributed 7.1% of the Group's turnover.

The average unit selling price decreased during the year was set off by a drop in average unit costs. The gross profit margin was improved to 47.9% from 45.5% in the last year. The average unit costs per tonne of beer dropped from HK$1,368 in 2003 to HK$1,232 in 2004, representing a decrease of 9.9% year on year. 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.



Gross Profit Margin and Net Profit Margin



OPERATING EXPENSES AND FINANCE COSTS

During the year, despite the keen competition in the PRC beer market, the Group focused on promoting Kingway as a healthy brand that was produced by the use of Green Technology. Together with the localised marketing strategy that gave maximum flexibility and quick response to the changing market, a highly effective marketing and sales strategy was attained. While selling and distribution expenses increased by 40.8% to HK$207 million (2003: HK$147 million), the average selling and distribution expenses per tonne of beer sold dropped by 1.7% to HK$529 (2003: HK$538).

Administrative expenses for the year increased by 57.9% to HK$70.00 million (2003: HK$44.34 million). The increase was mainly due to (i) the pre-operating expenses of HK$7.39 million recorded for the Kingway Shantou and Dongguan new brewery plant, (ii) the provision of receivables from the purchaser of Amber Brewery of HK$7.00 million and (iii) the addition of administrative and managerial staff in coping with the growth of business and the increase of performance linked bonus. As the Group did not have any interest-bearing debt during 2004, no finance cost was incurred for the year (2003: Nil).

TAXES

The tax rates of Profits Tax and Corporate Income Tax applicable to the Group's subsidiaries were not changed during the year. Corporate 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, Kingway Shantou plant and Kingway Dongguan plant. Year 2004 was the first year of full exemption of the taxable profits of Kingway Plant No. 2.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of approximately HK$266.00 million (2003: HK$37.10 million) during the year, an increase of 617% as compared to that of last year. The expenditure was mainly consumed by the new Kingway plant construction in Shantou.

Capital expenditure is expected to increase continuously as the construction of the brewery plant in Shantou (phase 2), Dongguan and Tianjin will be carried out throughout 2005.

FINANCIAL RESOURCES AND LIQUIDITY

On 19 February 2004, HAPBC has become the strategic shareholder of the Company. The Company allotted 133,768,000 new ordinary shares with an issue price of HK$1.85 per share and received a total of HK$244 million, net of share issue expenses. The fund raised was use to build new brewing plants in the PRC.

The Group's net asset value was HK$1,639 million (2003: HK$1,265 million) as at 31 December 2004, representing an increase of 29.6%. The net asset value was HK$1.17 per share based on the number of ordinary shares issued at the end of the year (2003: HK$1.01 per share).

As at 31 December 2004, the Group had total cash and bank balances of HK$505 million (2003: HK$348 million), including pledged and restricted bank balances of HK$6.83 million as detailed in note 19 to the financial statements, representing an increase of 45.1% year on year. Of the balances, 11.0% was in USD, 6.4% was in EUR, 3.6% was in HKD and 79.0% was in RMB. Cash generated from operations for the year amounted to HK$243 million (2003: HK$251 million), decreased by 3.2% over that of the last year. The decrease was attributable to the increase in working capital to cater for the commencement production of the Shantou brewery plant in January 2005.

The current cash reserves and recurrent operating cash flow of the Group is sufficient for the daily operations. Taking into account the funding requirements for the construction of new brewery plants and the projected net operating cash inflow of the Group in 2005, some short-term funding may be required. Having considered the capital structure of the Group which has no interest-bearing debt and the interest rate level of the market, the Group has an intention to raise the required fund for expansion through bank loans. However, we will pay attention to the capital and debt market as well as the latest development of the Group to ensure the efficient use of financial resources.

DEBTS AND CONTINGENT LIABILITIES

The Group had no bank borrowing as at the end of 2004 and 2003. During the year, the amounts due to minority shareholders of certain subsidiaries totalling HK$26.82 million as at the end of 2003 was fully repaid. None of the fixed assets of the Group was pledged to creditors and there were no contingent liabilities recorded as at the end of 2004.

The total liabilities to total assets ratio at the end of the year was 11.0% (2003: 13.0%), reflecting the robust financing position of the Group.

AMBER BREWERY

The Group disposed its entire interest in Central China (Asia) Investment Limited, the holding company of the 50% interest in Shandong Huazhong Amber Brewery Co., Ltd., in August 2002. However, as at 31 December 2004, the purchaser still failed to settle the final payment of HK$12.23 million under the sale and purchase agreement and overdue interest thereon. Accordingly, the Group has made a provision of HK$7.00 million with respect to the amount receivable.

In December 2004, the Group commenced legal proceedings in the High Court of the Hong Kong Special Administrative Region against the purchaser to recover the outstanding contract sum and interest thereon and the enforcement of the share mortgage provided by the purchaser. However, the purchaser submitted a counterclaim in February 2005 against the Group claiming damages for breach of the agreement by the Group. Having considered the legal advice that the counterclaim is without merit, the directors consider that the counterclaim should have no material adverse effect to the Group. The proceedings are still in progress up to the date of approval of these financial statements.

HUMAN RESOURCES

The Group currently employs approximately 1,240 (2003: 1,030) staff. The remuneration of the staff was HK$79.23 million for 2004. 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.