OPERATING RESULTS

In 2005, the core business of the Group remains the production and sales of Kingway beer, primarily in Guangdong Province, the PRC.

Consolidated turnover for the year was HK$1,200 million (2004: HK$925 million), representing an increase of 29.7% over the previous year. The average price per tonne of beer sold was HK$2,260 (2004: HK$2,365), representing a decline of 4.4% from the previous year, which was primarily due to the Group's adoption of localised marketing strategies for each of the subdivided markets and refinement of product mix according to different market demands for full-scale expansion of the Group's shares in various major markets in Guangdong Province. Domestic sales accounted for 94.4% of the consolidated turnover, which percentage increased by 31.9% from the previous year. Overseas and Hong Kong sales accounted for 5.6% of the consolidated turnover, which percentage increased by 2.9% from the previous year.

As a result of the decrease in average price per tonne of beer sold and mild increase in costs during the year, gross profit margin decreased from 47.9% in the last year to 44.2% in the year. The average unit costs per tonne of beer increased modestly by 2.4% from HK$1,232 in 2004 to HK$1,262 in the year. The increase was primarily resulted from the increase in prices of raw materials including malt and fuel. The Group will continue to source materials by way of public tender under the "Sunshine Programme" and exercise strict control over various production costs, so as to relief the pressure on production costs arising from increasing prices of raw materials.

OPERATING EXPENSES AND FINANCE COSTS

Competition in the PRC beer market remained intense. During the year, the Group committed additional resources for market expansion and establishment of sales teams and distribution network in areas such as Tianjin and Xian, as well as for the consolidation of the Dongguan market, with an aim of paving the way for the commencement of operation of its local brewery plants in the coming year. As a consequence, selling expenses of the Group for the year increased tremendously compared with the previous year. Selling and distribution expenses for the year was HK$302 million (2004: HK$207 million), representing an increase of 45.9% from the previous year. Average selling and distribution expenses per tonne of beer sold for the year was HK$570 (2004: HK$529), representing an increase of 7.8% from the previous year.

Administrative expenses for the year was HK$67.86 million (2004: HK$70.00 million), representing a decline of 3.1% from 2004. The decrease was primarily resulted from the provision of receivables of HK$7.00 million in 2004 from the disposal of Central China (Asia) Investment Limited, which held 50% equity interest in Amber Brewery, and exchange losses of approximately HK$3.44 million for the current year. Finance costs for the year was HK$213 thousand (2004: nil).

TAXATION

The tax rates of Profits Tax and Corporate Income Tax applicable to the Group's subsidiaries remained unchanged 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 in Shenzhen, Kingway plants in Shantou, Dongguan, Tianjin and Xian. 2005 was the second year of full tax exemption for Kingway Plant No. 2. Kingway plants in Shantou, Dongguan, Tianjin and Xian had not begun to enjoy the preferential tax treatment by the end of the year.

CAPITAL EXPENDITURE

The Group incurred capital expenditure (cash basis) of approximately HK$680 million (2004: HK$266 million) during the year, an increase of approximately 155.6% from the last year, mainly representing the construction costs of the second phase of brewery plant in Shantou and brewery plants in Dongguan, Tianjin and Xian.

In 2006, the major capital expenditure projects of the Group will include the construction work for brewery plants in Tianjin, Xian and Chengdu. The anticipated capital expenditure for 2006 approximates that of the current year.

FINANCIAL RESOURCES AND LIQUIDITY

The Group's net asset value was HK$1,853 million (2004: HK$1,660 million, as restated) as at 31 December 2005, representing an increase of 11.6% compared with the previous year. The net asset value per share was HK$1.33 based on the number of ordinary shares issued as at 31 December 2005 (2004: HK$1.19 per share, as restated).

As at 31 December 2005, the Group had total cash and bank balances of HK$382 million (2004: HK$505 million), including pledged and restricted bank balances of HK$7.98 million (2004: HK$6.83 million), representing a decrease of 24.4% from the previous year. The decrease was mainly attributable to the significant increase in capital expenditure during the year. Of the balances as at 31 December 2005, 41.2% was in USD, 1.7% was in EUR, 1.7% was in HKD and 55.4% was in RMB. Cash generated from operations for the year amounted to HK$307 million (2004: HK$243 million), representing an increase of 26.3% from the last year.

The current cash balance and cash inflow from operating activities of the Group is sufficient. Taking into account the funding requirements for the construction of new brewery plants in 2006 and the net cash inflow from operating activities of the Group, it is expected that short-term funding may be required for the Group. Since the Group has a low gearing ratio, it is the Group's intention to fund its business expansion by short-term trade finance and long-term bank loans. However, the Group will closely monitor the capital and debt market and the latest developments of the Group to ensure the efficient use of financial resources.

DEBTS AND CONTINGENT LIABILITIES

As at 31 December 2005, the Group had bank loan balance of HK$296 million (2004: nil). The bank loan was denominated in USD and for a term of 4 years bearing floating interest determined with reference to the LIBOR and will be repayable from the 18th month since the grant of the loan. As the USD interest rate exhibited a rising trend and the income of the Group was mainly denominated in Renminbi, the Company has entered into a cross-currency interest rate swap contract in respect of the bank loan for hedging purpose. The aim for this was to lock the interest rate and exchange rate between USD and Renminbi, thereby mitigating the Group's exposure to movements in interest rate and exchange rate as well as lowering the effective loan interest rate by capitalising on the market expectation for the appreciation of Renminbi.

As at 31 December 2005, the Group was in a net cash position (2004: net cash), which represented that the Group's interest-bearing loan at the end of the year was less than its cash and cash equivalents balance, indicating the sound financial structure of the Group. None of the assets of the Group was pledged to creditors and there were no contingent liabilities existed, except for HK$7.98 million of the bank deposits which have been pledged or restricted for specific purposes.

HUMAN RESOURCES

The Group currently employs approximately 1,663 (2004: 1,240) staff. Total remuneration for the year was approximately HK$99.6 million. The Group provided various basic benefits to its staff. In addition, there was an incentive policy which links the staff remuneration to the sales volume and results of the Group, which effectively stimulated the initiatives of the staff.