

Chairman's Statement

RESULTS

The Group continued to record a rapid growth in the sales volume of beer in 2006. The beer sales volume for the year amounted to 644,000 tonnes, representing an increase of 21.3% from the previous year. This marked the fifth consecutive year of achieving a double-digit growth. The level of profit for the year recorded a decrease, and profit for the year amounted to HK\$110 million, representing a decrease of 44.8% compared with the previous year.

The decrease in the profit for the year was mainly due to the increase in resources committed to the new markets. During the year, the Group has put resources to Tianjin, Xian, Chengdu and Pearl River Delta areas in order to develop the beer markets and beef up the sales teams to develop sales channels and brand promotion. The resources committed ensure that there would be considerable sales when the new brewery plants were duly put into operation. These increase the selling and distribution expenses as well as administrative expenses during the year. The beer price and the product mix sold in the new markets affected the unit-selling price. Coupled with a mild increase in the unit costs, the gross profit margin was dropped 3.6% year on year.

These resources committed to the new markets affect the current year results but are considered to be temporary during the course of market development. Following the completion and the increase in sales volume of the new brewery plants, the average unit costs per tonne of beer sold will be reduced through the reduction in the average unit fixed costs and this will be reflected in the Group's results eventually. The management believed that the resources put into the new markets would bring in long-term benefit to the Group.

BUSINESS REVIEW

2006 is a year of significant progress for the Group's reaching beyond Guangdong and expanding its presence across the country. Our brewery in Tianjin with an annual production capacity of 200,000 tonnes was put into operation in May 2006. Construction of our brewery in Xian commenced in March 2006 and was completed by the end of the year and underwent trial production. Construction of our brewery in Chengdu commenced in April 2006, and most of the construction had been completed by the end of 2006 and is expected to commence operation in the second quarter of 2007.

Guangdong province is a premium beer market, and is also the key market of the Group. The Group put more effort this year to develop the Pearl River Delta market (which mainly includes the area encompassing Guangzhou, Foshan, Zhuhai and Zhongshan) with a satisfactory market growth rate. In order to augment our competitive advantages in Guangdong province, the Group announced in November 2006 the construction of a new brewery plant with an annual production capacity of 200,000 tonnes in Foshan with a view to consolidating our market position of the beer market in Guangdong province.

The Kingway Shantou plant commenced operation in January 2005. After the concerted effort of the management team and the staff with a right business direction, the Kingway Shantou plant managed to turnaround during the year which brought invaluable experiences to the development of new breweries within the Group. The Kingway Dongguan plant which was put into operation early this year had already recorded profit during the year.

In order to cope with our increasing scale of operation and the increasing number of subsidiaries, the Group successfully implemented the centralized management structure in which the purchase of materials carried out by centralized tendering system, brand name promotion, coordinated sales and marketing, the deployment of human resources are undertaken and coordinated by the headquarters of the Group.

Chairman's Statement *(Cont'd)*

The Group increased its brand name publicity campaign in 2006. The Group had purchase the naming right of a football team under the name "Shenzhen Kingway Football Team", which thereafter has been the centre of brand name promotion limelight in Shenzhen helping to enhance the national presence of Kingway Beer brand name. Moreover, series of "Thank you, Shenzhen" activities has been orchestrated and promote the corporate social responsibilities of Kingway through the government and coverage by the media. We had also proceeded with the "Artistic Kingway Thousand Miles Walk" activity to create the momentum for our brand name beyond Guangdong.

OUTLOOK

The beer industry in China continues to enjoy a steady growth. Seizing on this opportunity, the Group had invested in new brewery plants within and beyond Guangdong and develop new markets. In spite of the suppressed results this year, the resources committed in the new markets provided a foundation to strengthen the strategic development and competitive advantages of the Group in the market.

In 2007, Kingway Brewery sponsors the Chinese Football Association Super League, being the first Chinese brewer to do so. Since matches of the Kingway China Super League will be broadcasted throughout China, it is expected that the brand awareness will be enhanced and helps to develop Kingway beer as a national brand which coincides with the mission of the Group.

After the commencement of operation of our brewery plants in Xian and Chengdu in 2007 and of our Foshan brewery plant in early 2008, the Group will have 8 modern brewery plants with a 200,000 tonne production capacity grade for each of our brewery plant in China. The aggregated annual production capacity will reach 1.7 million tonnes, and we will also have production and sales centres in the surrounding regions of Bohai area, the northwest and southwest capital cities in China which would lay a solid foundation for the long-term development of the Group in future. With the increase in sales volume and production capacity of the new brewery plants, the advantage in costs will emerge and this will be reflected in the Group's results eventually. The management has confidence in the future development of the Group.

Finally, I would like to express my sincere gratitude to the consumers and distributors for their strong support over the year, and our shareholders and our staff.

YE Xuquan

Chairman

Hong Kong, 20 April 2007