



Mr. Michael Wu
Chairman and General Manager

Results of the Year

Competition in the beer industry remained intense for the year 1999. Amid difficult market conditions, the Group actively developed new markets and successfully achieved a satisfactory growth in sales. The consolidated turnover of the Group for the year 1999 was HK\$682 million, representing a growth of 10.3% as compared to last year. Kingway Plant No. 2, which commenced production in September 1998, has not yet reached break-even point. The selling expenses relating to the development of new markets have significantly increased. These factors coupled with the reduction in price of some of the Group's products due to keen market competition have affected the operating results of the Group. The net profit attributable to shareholders for the year was HK\$49 million, representing a decrease of 42.0% as compared to last year. Earnings per share were 3.9 cents, representing a decrease of 42.6% as compared to last year.

Review of Operations

Financial Status

Despite the decrease in profits in the year, the Group's net cash inflow from operations has satisfactorily increased by 19.0% over that of the previous last year. The financial status of the Group remains stable. During the year, the Group continued to lower the amount of total debts and reduced the proportion of foreign currency debts. The non-current liabilities to equity ratio at the end of 1999 was 32.6% reducing from that of 42.1% at the end of last year, which indicates that the financial status of the Group has been further improved since last year.

Market Development and Brand Promotion

The sales volume of Kingway beer for the year amounted to 182,000 tons, representing an increase of 13.0% as compared with that of last year. During the year, Kingway beer continued to focus on increasing sales through brand promotion and market development.

During the year, Kingway beer increased the budget in advertising and promotion with special emphasis on using more effective means of television, outdoor billboards and direct promotion at the points of consumption. The Kingway brand has been further enhanced in different markets.

The growth in sales volume of the Group in the year was mainly gained from the Guangdong markets. Although competition in the Shenzhen market for the year was very intense, Kingway beer successfully maintained its market share in Shenzhen by strengthening the Shenzhen sales force. Kingway beer added a new medium priced beer product in the Eastern Guangdong markets and successfully increased the sales in these areas. The sales of Kingway beer in other Guangdong markets remained stable. The strategy of focusing resources on the development of neighbouring provinces adopted last year has proved to be effective. Although at present the sales volume of Kingway beer in these provinces is relatively small as compared with that of Guangdong, the Kingway brand is becoming popular and the sales distribution network is being gradually built up in the main cities of these provinces. Markets in which Kingway beer achieved satisfactory results include Jiangxi province, Zhejiang province and Fujian province. Kingway beer has satisfactorily increased its sales volume by 36.0% over the last year in the Hong Kong market.

Research, Development and Cost Control

During 1999, a new product – bottled draught beer was introduced to the market. Production of bottled draught beer requires more advanced production facilities and technology. Beer consumers quickly accepted the special fresh taste of the bottled draft beer.

According to new regulations applicable to the beer industry in mainland China, commencing on 1 April 1999 all breweries must use the qualified type "B" bottles which meet certain specified standards promulgated by the authority of the industry. As a consequence of shortage of supply of type "B" bottles, the average bottle price for the year has increased over 10% as compared to that of last year. During the year, Kingway beer continues to strengthen its purchasing function and exercise tight control to reduce production wastage. The savings on the direct production costs resulted from such control measures have largely absorbed the impact of the cost increase on packaging due to the new regulations requiring the use of type "B" bottles. The Group also adopted cost control measures on other areas and the implementation so far has achieved positive results.

Shandong Huazhong Amber Brewery Co., Ltd. ("Amber Brewery") – Associate

The sales volume of Amber beer for the year was 169,000 tons, representing a growth of 15.8% as compared with last year. Owing to the keen price competition in the beer markets in the northern region, cost increases due to the development of new markets and the new regulations for type "B" bottles, Amber Brewery suffered a loss for the year 1999. The demand for Amber beer exceeded supply during the peak seasons of the year and the company is now expanding capacity by 100,000 tons of beer per annum. With the completion of the expansion in April 2000, Amber Brewery will have sufficient capacity to satisfy the demand in the peak seasons of the year 2000.

Business Prospects

It shows that the consumption level in mainland China has picked up after entering the Millennium. With the central government continuing to adopt measures to stimulate the economy in order to increase domestic consumption, the improving consumer market creates better business environment for the sales of beer this year. However, competition in the beer market is expected to remain intense due to industry over-capacity. Kingway beer will continue to increase its efforts in technological advancement to develop new products that suit consumers, advertising and sales force in order to achieve greater market share in Guangdong and to further develop and strengthen its market position in neighbouring provinces. It is expected that the markets developed in neighbouring provinces will become another main source of sales growth of Kingway beer besides Guangdong Province. Meanwhile, the Group will further enhance and strengthen its internal management aiming to achieve higher production efficiency and higher profitability. As sales of Kingway beer grow, the Kingway Plant No. 2 is expected to improve from its loss-making position with the target of breaking even this year. Amber beer is currently planning to restructure its product mix in order to improve its operating margins. With quality products, outstanding brand image, and effective management of the Group, the Board is confident of the business prospects of the Group.

The Group is not included in the standstill arrangements with financial creditors applicable to its controlling shareholder, Guangdong Investment Limited, announced on 4 March 1999.

Michael Wu

Chairman

Hong Kong, 27 March 2000