UNI-PRESIDENT CHINA HOLDINGS LTD.
統一企業中國控股有限公司*

(a company incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）

(Stock Code 股份編號: 220)

Annual Report 2007
二零零七年年報

*For identification purpose only
僅供識別

Contents

Corporate Information

Registered office
P.O. Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Head office
33/F
1027 Changning Road
Zhaofeng Plaza
Shanghai
China

Place of business in Hong Kong
Suite 803, Sino Plaza,
255-257
Gloucester Road,
Causeway Bay,
Hong Kong

Website address
www.upch.com.cn

Company secretary
Chan Pei Cheong, Andy

Qualified accountant
Chan Pei Cheong, Andy

Audit committee
Mr. Fan Ren-Da, Anthony *(Chairman)*
Mr. Chen Sun-Te
Mr. Lin Lung-Yi

Nomination committee
Mr. Hwang Jenn-Tai *(Chairman)*
Mr. Fan Ren-Da, Anthony
Mr. Lo Chih-Hsien

Remuneration committee
Mr. Chen Sun-Te *(Chairman)*
Mr. Hwang Jenn-Tai
Mr. Lin Chang-sheng

Principal bankers
Agricultural Bank of China
Bank of China
Bank of Shanghai
China Construction Bank
China Merchants Bank

Principal share registrar and transfer office
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman
KY1-1107
Cayman Islands

Hong Kong branch share registrar and transfer office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Summary

Summary of Results

	Year ended 31 December			
	2007 **RMB'000**	2006 RMB'000	2005 RMB'000	2004 RMB'000
Revenue	**8,656,777**	7,883,692	6,537,450	5,691,258
Gross profit	**2,914,680**	2,327,940	2,154,221	1,842,229
Profit before income tax	**484,466**	175,546	279,362	205,595
Income tax expense	**(60,461)**	(29,476)	(24,907)	(20,392)
Profit for the year	**424,005**	146,070	254,455	185,203
Profit attributable to equity holders of the Company	**424,005**	146,070	254,455	185,203
Dividends	**–**	–	27,692	12,017
	RMB cents	RMB cents	RMB cents	RMB cents
Basic earnings per share	**14.04**	4.87	8.48	6.17

	As at 31 December			
	2007 **RMB'000**	2006 RMB'000	2005 RMB'000	2004 RMB'000
Total assets	**6,955,079**	4,606,570	4,495,351	3,726,424
Total liabilities	**1,770,252**	2,074,340	1,972,994	1,438,139
Total equity	**5,184,827**	2,532,230	2,522,357	2,288,285
Cash and cash equivalent	**3,411,868**	841,123	683,149	597,809
Net current assets/(liabilities)	**2,585,485**	(177,691)	221,380	81,780

Chairman's Statement

Dear Shareholders,

Uni-President Enterprise achieved solid development in the PRC in 2007 particularly in the areas such as operational performance, market position and capital structure. In order to facilitate further growth and development, Uni-President China Holdings Ltd. ("**Uni-President China**" and, together with its subsidiaries, the "**Group**") was listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") on 17 December 2007. The listing was well-received by investors, and through it we were able to further enhance the capital structure of the Group and at the same time enlarge our shareholder base. On behalf of the Board of Directors of Uni-President China, I am pleased to report the Group's 2007 audited financial statements and future development plans.

Organizational Restructuring – Strengthening Marketing Efforts

In order to better align our products with customers' preferences, we have been implementing an intensive organizational restructuring program since 2007. We have segmented our original eight markets in the PRC into smaller business units based on the province or other geographic administrative region in which we operate. Our distribution system, which was comprised of the instant noodle and the beverage business groups, has been further divided into five product segments, namely the instant noodle segment, and four beverage segments focusing on tea, juice, mixed drinks and water, respectively. We believe the new system will help us to further develop the PRC market, construct effective sales platforms and enhance our service capability. At the same time, we have also implemented a segmental P&L system, with the aim of enhancing operational capability of the respective product segments. In 2007, Uni-President China continued to achieve significant revenue and profit growth even while undergoing such fundamental organizational restructuring. Furthermore, as the scale of our operations continued to grow, our profitability also greatly improved. This demonstrates the effectiveness of our strategies to implement the restructuring program, to strengthen product specialization, and to enhance production capability. Looking forward to 2008, we will continue to implement our restructuring program with a focus on improving our logistics network, further differentiating the roles of product marketing and logistics. We have also appointed the general managers of the administrative offices in each of our eight original markets to oversee and manage back-office support for the business units within their geographical region. Under this framework, we now have new distribution, production and administrative systems in place; and we believe that these three professional management systems will enable the Group to further refine its organizational structure and enhance its competitiveness.

Operational Improvement – Sustaining Growth

Despite the surge in raw material prices in the past year, the Group was able to offset the negative impact of rising production costs by continuing to improve organizational efficiency, adjusting product mix, improving margin levels, minimizing expenses and increasing economies of scale. The Group's overall gross margin improved with gross margins for the instant noodles and beverage segments reaching 22.9% and 38.2%, respectively (2006: 21.4% and 32.7%, respectively).

Chairman's Statement

In 2007, revenue of Uni-President China reached RMB8,656.8 million, representing an increase of 9.8% over that of 2006. Revenue from instant noodles and beverages rose 10.6% and 9.4%, respectively compared with 2006, reaching RMB2,445.5 million and RMB6,143.0 million, respectively. As to other segments, revenue reached RMB68.3 million, representing an increase of 23.7% over 2006. Profit for the year totaled RMB424.0 million in 2007, representing an increase of 190% when compared to 2006. Most of this profit was contributed by our beverages segment. We believe the effects of our organizational restructuring will gradually be realized from 2008, accelerating our business expansion in the market.

Consolidating and Strengthening Market Position

In 2007, prices of key raw materials of instant noodles, namely palm oil and flour, continued to increase. In order to counter this, we have upgraded our products, adjusted our product mix and pricing to preserve and further increase gross margins.

We believe Uni-President instant noodles has strengthened its claim to being the premium instant noodle brand in the PRC by becoming the only officially designated instant noodles sponsor for the 2008 Beijing Olympics. In addition, the Group sponsors "Project Hope" for the campaign "A Bowl of Noodles Today, a Gold Medal Tomorrow" (今天一碗麵，明天一面金), under which the Group donates one cent to "Project Hope" for every pack of instant noodles sold. A total of RMB13 million has been donated to improve the sports facilities of "Project Hope" primary schools in remote areas. Through interactive communications with customers via "Project Hope" photo exhibitions and Olympics roadshow campaigns in major cities, and visits to a large number of "Project Hope" primary schools in ten provinces across the nation to donate sports equipment and arranging sports days, we believe both the brand name of Uni-President Instant Noodles and the ideal of sportsmanship of the Beijing Olympics have been deeply imprinted in the minds of the Chinese people. In conjunction with the Beijing Olympics, we introduced our "Olympics Noodles" (冠軍榜), a beef noodle product made with our unique ground beef sauce and hand-made noodles. Through our "Olympic Noodles", we aim to provide higher quality products to consumers and to celebrate the 2008 Beijing Olympics bringing a better tomorrow for the country.

In 2007, we focused heavily on brand management of our tea products with the aim of enhancing product value. We increased our exposure in nation-wide media and on local TV channels. Furthermore, we continued to effectively interact with our target customers through integrated marketing campaigns. According to AC Nielsen, sales of Uni-President tea products accounted for 30.3% of the entire market, ranking second in the sector. In the green tea segment, our market share has reached 22.8%. By implementing marketing strategies according to plan, we believe our market share of juice products will increase in 2008.

In 2007, Uni-President China refined the "More" brand of orange juice drink (鮮橙多) and its packaging. Together with a series of new advertising campaign, the new brand image aims to provide consumers with a totally new impression and experience. As the price of orange juice concentrates has generally been increasing, we will continue to refine our product mix and further expand our distribution channels. According to AC Nielsen, sales of Uni-President juice products accounted for 20.6% of the entire juice drink market, ranking second in PRC.

Looking ahead in 2008, we will build on our foundation to further expand the brand asset of our "More" brand of orange juice drink through its association with "beauty". We will also collaborate with China Southern Airlines to hold its up-coming air stewardess recruitment fair in 2008. We believe taking advantage of such events to launch marketing campaigns and enhance brand impact will help us further increase the market share of our juice products in 2008.

Revenue and profit levels of Uni-President mineral water, milk tea and coffee products continued to improve in the past year. We expect that these products will continue to grow steadily and healthily in the coming year.

Strong Capital Structure

Uni-President China was listed on the Main Board of the Hong Kong Stock Exchange in 2007 and its public offering received an oversubscription of 4.56 times. Through the initial public offering, including the exercise of an over-allotment option, the Group raised a total of HK$2,405 million, net of issue expenses. We believe the success of our initial public offering demonstrates that investors are fully confident in Uni-President China's future growth, and we are extremely encouraged. I hereby thank all of our shareholders again for your support and trust. The offering and listing have provided us with sufficient capital for future development, enabled us to access the international capital markets and enhanced our corporate governance structure and improved transparency, which will prepare us to meet the challenges ahead.

Goals & Strategies

The business goal of Uni-President China is to maximize shareholders' value and to introduce more healthy and enjoyable products for consumers. The following key principles will serve as the foundation for our long term growth strategy:

1. **To become a global model enterprise through love and care:**

   To become a localized enterprise operating in harmony with the society and environment. To promote prosperity and development of the local economy through love and care.

2. **Create competitive advantages using our existing network:**

   Our portfolio of products targets specific markets and our various distribution channels have come together to form unique networks complementing our operations. With such synergy, the Group should be able to create competitive strengths.

3. **Customer satisfaction comes first:**

   We will continue to be responsive to changes in market conditions. We have established an effective customer feedback channel for gathering first hand customer information to implement our 'customer-oriented' marketing vision.

4. Propagation and maintenance of core corporate values:

We observe the values of being honest, diligent, innovative, proactive and healthy; these have become the benchmarks for our behaviour and conduct. We should be strong, upright, cheerful, humble, selfless, sincere and morally-committed, show respect to our profession, have team spirit and always express our gratitude to society.

5. Optimal mix of local talent and international management:

We select and cultivate local talent in order to maximize and make use of its ability, whilst internationalizing our operations team, which must be competent in international management.

6. A strategy-and-quality-focused operational management system:

We will adhere to the vision of setting a leading strategy and placing utmost importance on product quality.

Acknowledgement

Thanks to the support and efforts from our stakeholders, Uni-President China has been able to attain sustainable growth over the years. On behalf of the Board of Directors, I would like to express our sincere thanks for the generous support from our customers, suppliers, business partners and shareholders, and in particular, I would like to express our gratitude to our staff for their efforts and contributions over the past year.

Lo Chih-Hsien
Chairman

Tainan, Taiwan
15 April 2008

Management Discussion & Analysis

2007 was an important year in the history of Uni-President China. The listing of the Group on the Main Board of the Hong Kong Stock Exchange not only gave it a solid foundation for future development, but also increased the awareness of the Group's products, allowing the Group to speed up expansion in the China market. Building on its enhanced stature following the listing of Uni-President China, the Group will increase its efforts to explore other opportunities for growth and to deliver good results.

Market Review

The Chinese economy continued to grow rapidly last year, reporting an 11.4% growth in GDP and a 4.8% rise in the consumer price index against the previous year. This strong growth created favourable conditions for the Group's business development.

As living standards in China continue to improve, Chinese consumers have become more demanding of the quality of consumer goods, including beverages and snacks. This phenomenon has presented abundant business opportunities for large food manufacturers and suppliers like the Group. However, at the same time, competition in the food market has become increasingly intense. Instead of traditional competition, which is mainly price-based, players have begun to compete on all aspects of their products, including product quality, which has presented challenges for the industry.

Financial Results

For the year ended 31 December 2007 ("**the year under review**"), the Group recorded revenue of RMB8,656.8 million, representing growth of 9.8% from RMB7,884.0 million the previous year. Revenue from our instant noodles and beverages products amounted to RMB2,445.5 million and RMB6,143.0 million, respectively, increasing by 10.6% and 9.4% as compared to the previous year and accounting for 28.2% and 71.0%, respectively, of the Group's total revenue. During the year under review, gross profit increased by 25.2% to RMB2,914.7 million and gross profit margin rose to 33.7% from 29.5% the previous year. Gross profit for the year grew faster than revenue, which reflects the success of the Group's strategy in focusing on the development of the beverages business, which generally supports higher margins and the successful implementation of effective cost control measures.

Profit attributable to equity holders amounted to RMB424.0 million, an increase of 190% from RMB146.1 million the previous year. During the year under review, earnings per share were RMB14.04 cents (2006: RMB4.87 cents). The strong performance was mainly attributable to the growth in revenue driven by new products and new marketing campaigns.

As revenue increased, total operating expenses and overall staff costs of the Group also increased. The Group actively expanded its customer base in the past few years, thereby increasing selling and marketing expenses to RMB2,147.7 million for the year under review (2006:RMB1,849.0 million). This trend was partially offset by a 6.2% decrease in administrative expenses to RMB263.4 million (2006: RMB280.8 million). As the Group launched certain new projects during the year, the depreciation and amortization expenses that were included in cost of sales, selling and marketing expenses and administrative expenses rose by 12.3% to RMB366.8 million (2006: RMB326.6 million). As the Group held sufficient funds during the year, financing costs were reduced to RMB17.7 million (2006: RMB19.4 million).

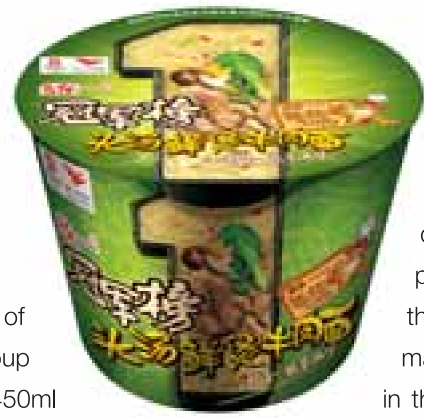
Business Review

Juice Drinks

For the year ended 31 December 2007, the revenue from juice drinks amounted to RMB2,588.2 million (2006: RMB2,600.4 million), accounting for 29.9% of the Group's total revenue.

During the year, the Group improved the quality and packaging of juice drinks to enhance the brand's competitiveness. With regard to product promotion, the Group launched a new advertising campaign to promote the new image of Uni-President China's juice drinks, as a result of which, these products reported outstanding sales.

In response to the rising price of orange juice concentrates, the Group introduced other flavours in the 450ml product series during the year. These included the Uni-President "More" brand of peach juice drink. Benefitting from the "China Top Brand" acclaim earned by the Group, large packet juice products accelerated penetration of the rural market during the year under review.



Tea Drinks

Revenue from tea drinks reached RMB3,045.8 million, representing an increase of 20.1% from RMB2,535.2 million in the previous year, and accounting for 35.2% of the Group's total revenue. The growth in revenue was mainly attributable to the growing health consciousness amongst consumers, increased penetration of the Group's sales network and improved brand influence.

During the year under review, the Group continued to optimize brand management to enhance the value of its products. It also allocated more marketing resources to nationwide media and local TV stations and consolidated above and below the line brand marketing activities to enhance communication with target consumers. To broaden the variety of products, the Group pilot-launched the sugar-free organic flavour of our "Green Tea" (統一綠茶) in a number of cities. The Group believes the product has promising potential as consumers become increasingly health conscious.

Demand for drinks in the 150ml or above product series has been stimulated as the Chinese government has increased the number of statutory holidays and the trend of dining out has become more and more popular amongst consumers. To cater to this rising demand, the Group stepped up marketing efforts for large packet tea drinks in the second half of the year to encourage consumers to share the drinks with family and friends and saw excellent results.

Instant Noodles Business

The price of raw materials for instant noodles, including palm oil and flour, continued to rise in 2007, posing challenges to participants in the instant noodle industry. As a result of rising costs and price pressures, industry players have changed from primarily competing on price to competing on product value.

Instant noodle manufacturers have shifted to introducing high value added products, which led to the rise in the overall selling price of instant noodle products. The sales of packet noodles priced at around RMB1 dropped notably whereas the sales of those priced between RMB1 to RMB1.2 and between RMB1.5 to RMB1.8 increased substantially. Higher priced bowl noodles, which are convenient to prepare and consume, saw the fastest growth amongst all instant noodle product categories. The local manufacturers that compete with low selling prices were the hardest hit by rising costs, threatening their survival. Competition in the instant noodle market has primarily taken place between a few large players.

In terms of flavour preferences, beef flavour noodles generally remained the best selling flavour category, though braised beef and some specific beef flavour noodles made up a smaller portion of sales for the year under review, whereas many more pork and chicken flavour products were sold.

To cope with rising costs, the Group cut production of low gross profit margin products in the first quarter of the year under review. Subsequently, it implemented a series of product upgrading initiatives, including improving the texture of the noodles in order to improve noodle quality, optimizing product packaging designs, and adjusting product prices to stabilize the gross profit margin of its product mix. The effect of these measures was to actually enhance the overall gross profit margin of the Group's products, despite rising costs.

During the year, the Group added the message that Uni-President instant noodles was the official instant noodle sponsor of the 2008 Olympic Games on product packaging and in its advertisements, with the aim of taking advantage of the Olympics to boost customer awareness of its brand. The Group also collaborated with "Project Hope" to launch the "A Bowl of Noodles Today, A Gold Medal Tomorrow" (今天一碗麵，明天一面金) charitable campaign under which the Group donates RMB1 cent to "Project Hope" for every packet of instant noodles sold. The programme raised a total of RMB13 million for the charity to improve sports facilities of primary schools in remote areas.

Apart from leveraging the Olympics platform, the Group also implemented strategies around the specific characteristics and needs of different product series to maintain its leadership in the high-price packet noodle market. For example, selling points for the "Uni-President 100" (統一100) brand noodles, which contains Chinese sauerkraut, include unique indigenous tastes and the skill involved in the stir-fry preparation. For "Lai Yi Tong" (來一桶) bowl noodles, convenience is the promotional focus and sales were pushed at dedicated channels and traffic intersections. The "Qiao Mian Guan" (巧麵館) brand continued to boast offers of different local tastes including the sautéed spicy pork flavour series in south western China to reinforce its local delicacy image. As for products under the "Good Economy" (好勁道) brand, building on the stable sales of "Big Bone Soup Noodle" (上湯大骨麵), the Group strove to increase the portion of bowl noodles in total noodle sales and to improve the gross profit margin of brand products by adjusting the product mix. The promotion of snack noodles was centered around the Olympics. Products were bundled with specially designed drawing books and free gifts as students were the target of marketing efforts. The Group also launched a new product series branded "Ka Duo Wei" (咔多味) to enrich its product portfolio and provide customers with more choice.

Benefiting from the effect of the Olympics, revenue of instant noodles grew by 13.8% in the second half of 2007 when compared with the same period in the previous year.

Quality Control

Uni-President China has always striven to develop more tasty and healthy products, strengthen quality control, build up cutting-edge technologies in the industry and satisfy customers' demands. Its research and development (R&D) centre in the PRC is its most important R&D department responsible for developing various products for the Group to be sold in domestic and overseas markets, and for safeguarding product quality throughout the supply chain, from sourcing of ingredients from farmhouses all the way to when products are ready for consumption.

All 12 instant noodle and beverage production enterprises under the Group have obtained QS certificates and are equipped with ISO9001: 2000 international quality management systems and have implemented the HACCP food safety and management system. These measures are taken to ensure safety throughout the production process and compliance with the highest hygiene standards, and the delivery of high quality and delicious foods to customers. The beverages and instant noodles produced by the Group were awarded the Certificate for Product Exemption from Quality Surveillance Inspection in 2005, recognising the Group's leading technologies and the stable quality of its products.

The food testing laboratory of the Group's R&D centre in the PRC is primarily responsible for food safety and quality analysis. In 2005, it passed examination by the China National Accreditation Service for Conformity Assessment to become one of the few recognized laboratories of its kind in the PRC. The findings of its food safety tests for pesticide residues, preservatives, artificial colorants and heavy metal residues, and its analyses of nutrient contents including amino acids and ingredients meet the international standards used as a reference by 44 major countries and districts. During the year, the Group acquired advanced equipment for the laboratory to ensure that it can continue to provide professional and authoritative food testing services for Uni-President China and its subsidiaries and help to ensure the Group's products are of high quality and comply with food safety standards.

Prospects

We expect 2008 to be another challenging year for the Group. To facilitate tapping market opportunities and staying ahead of the competition, the Group was listed in Hong Kong in December 2007 and raised sufficient funds to support future business development. The Group will continue to adhere to its business strategies of focusing on innovation and R&D and strengthening quality management, thereby seizing more opportunities in the fast growing PRC consumer market.

The Group aims to reduce reliance on major raw materials to reduce the impact of rising material prices. It will also adjust the positioning of its instant noodle products from targeting low-end markets to higher-end market segments, striving for an optimized product mix and stronger competitiveness. For the beverage segment, heeding the rising demand for better quality products amongst Chinese consumers who are enjoying improving living standards and are becoming more health consciousness, the Group will build on the foundation of existing products to develop and provide more new healthy and nutritious beverages to consumers. Our aspiration is to become a leading beverage and food product platform in the PRC.

The Group completed R&D work at the end of 2007 for the 100% Frutiva (100%富堤瓦果汁) juice series which targets office workers and is scheduled to launch in 2008. In addition, the mid-price mineral water product Alkaqua hit the Shanghai and Suzhou markets in April 2008 and will subsequently be introduced in other first-tier coastal cities. The Group is also actively preparing to launch new high-end mineral water products.

Equipped with years of experience in the food and beverage industry and an established brand, management will continue to develop more new products, improve product quality and reduce production costs, with the aim of achieving long-term steady growth for Uni-President China and generating better returns for its shareholders.

Financial Position

As at 31 December 2007, the Group had RMB3,411.9 million in cash at bank and in hand and short-term bank deposits. Current assets amounted to approximately RMB4,340.3 million (2006: RMB1,840.4 million) and current liabilities were approximately RMB1,754.8 million (2006: RMB2,018.1 million). Contingent liabilities were approximately RMB150.3 million (2006: approximately RMB 116.8 million). With net current assets of RMB2,585.5 million, the Group maintained strong liquidity. The Group's total borrowings comprised bank borrowings of RMB296.2 million (2006: RMB714.5 million), all of which were repayable within one year. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 **RMB'000**	2006 RMB'000
Total borrowings	**1,730,245**	2,017,172
Less: cash and cash equivalent	**(3,411,868)**	(841,123)
Net debt	**(1,681,623)**	1,176,049
Total equity	**5,184,827**	2,532,230
Total capital	**3,503,204**	3,708,279
Gearing ratio	**(48.00%)**	31.71%

As at 31 December 2007, the Group had not created any charges on its assets.

Treasury Policy

The Group has consistently exercised financial prudence, and it continued to enjoy a strong financial standing during the year under review with low gearing and a net cash position. The Group financed its operations and business development with a combination of internally generated resources and banking facilities provided by its principal bankers. The borrowings of the Group were used by its subsidiaries and were interest-bearing loans. Large amount of cash in bank and some borrowings were denominated in foreign currencies, the Group will, in the future, use appropriate tools to hedge against potential currency risks.

Human Resources and Remuneration Policy

As at 31 December 2007, the Group had 15,867 employees, of whom approximately 470 were engineers or technicians who received education in professional institutions or holding higher qualifications.

Staff deployment as at 31 December 2007 is set out as follows:

Positions	
Production	5,495
Sales and marketing	7,079
Management and other administrative duties (including procurement and supply)	2,024
R&D (including quality control)	434
Finance and accounting	835
Total	15,867

The Group enters into individual employment contracts with its employees, covering remuneration, statutory subsidies, social security welfare, employee benefits, workplace safety and hygienic conditions, confidentiality obligations and termination conditions. Except for employment contracts with middle and senior management staff, our employment contracts have a term of one to three years, while the probation period of new employees ranges from one to three months.

We will continue to enhance the skills and techniques of our management staff and other employees and increase investment in continuing education and training schemes. We arrange internal and external on-the-job training for our employees to improve their skills and techniques. The scope of training programmes ranges from basic production methods, to advanced skills training and the professional development of management staff.

Report of the Directors

The board of directors of the Company (the "Board") is pleased to present its first report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

Principal activities

The Company is an investment holding company. The principal activities of the Group comprise the manufacturing and sales of beverages and instant noodles in the PRC. The principal activities of the subsidiaries are set out in Note 10 to the financial statements.

An analysis of the Group's performance for the year by business segments is set out in Note 6 to the financial statements.

Results

The results of the Group for the year are set out in the consolidated income statement on page 36 of the annual report.

Dividends

The Board does not recommend to declare or pay any final dividend for 2007.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 8 to the financial statements.

Share capital

Details of the share capital of the Company are set out in Note 19 to the financial statements.

Reserves

Movements in the reserves of the Group during the year are set out in Note 20 to the financial statements.

Distributable reserves

As at 31 December 2007, the Company's distributable reserves calculated under Companies Law of the Cayman Islands comprise the share premium and contributed surplus, less accumulated losses totalling approximately RMB3,990,714,000.

Report of the Directors

Four year financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 3 of the annual report.

Short-term loans

Particulars of the short-term loans of the Group are set out in Note 27 to the financial statements.

Borrowing costs

No interest was capitalised by the Group during the year.

Donations

Donations made by the Group during the year amounted to RMB 7 million (2006: Nil).

Directors

The directors during the year were:

Non-executive Directors	
Kao Chin-Yen	(appointed on 8 August 2007)
Lin Chang-Sheng	(appointed on 4 July 2007)
Lin Lung-Yi	(appointed on 8 August 2007)
Su Tsung-Ming	(appointed on 8 August 2007)
Executive Directors	
Lo Chih-Hsien *(Chairman)*	(appointed on 8 August 2007)
Lin Wu-Chung *(President)*	(appointed on 8 August 2007)
Independent Non-executive Directors	
Chen Sun-Te	(appointed on 9 August 2007)
Fan Ren-Da, Anthony	(appointed on 9 August 2007)
Hwang Jenn-Tai	(appointed on 9 August 2007)
Yang Ing-Wuu	(appointed on 14 November 2007)
Lo Peter	(appointed on 14 November 2007)

In accordance with Article 114 of the articles of association of the Company, Kao Chin-Yen, Lin Lung-Yi, Su Tsung-Ming, Lo Chih-Hsien, Lin Wu-Chung, Chen Sun-Te, Fan Ren-Da, Anthony, Hwang Jenn-Tai, Yang Ing-Wuu and Lo Peter will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 130 of the articles of association of the Company, Lin Chang-Sheng will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received the annual confirmation on independence from each of the independent non-executive directors in accordance with Rule 3.13 of the Listing Rules and the Company considers each independent non-executive director is independent.

Biographical details of directors

The biographies of the directors are set out on pages 23 to 25 of the annual report.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions in the shares of associated corporations

	Number of shares				
Name of corporation and name of its relevant shareholder	**Personal Interest**	**Interest of child under 18 or spouse**	**Corporate Interest**	**Total**	**Percentage of shareholding as at 31 December 2007**
Uni-President Enterprises Corporation					
Kao Chin-Yen	106,487	217,050	–	323,537	0.01%
Lin Chang-Sheng	31,486,166	2,192,418	–	33,678,584	0.95%
Lin Lung-Yi	1,096,276	929,657	–	2,025,933	0.06%
Lo Chih-Hsien	2,675,013	58,289,342	–	60,964,355	1.71%
Lin Wu-Chung	652	–	–	652	0.00%

Save as disclosed above, as at 31 December 2007, none of the directors nor the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Director's rights to acquire shares or debentures

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their respective associates (as defined under the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Director's interests in contracts and service contracts

Each of the directors has entered into a service contract with the Company for a term of three years and may be re-elected upon expiry of their term.

Except from the service contracts with the Company, in the year ended 31 December 2007, no other contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in competing business

As at the date of the annual report, none of the directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Substantial Shareholders

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company:

Name	Capacity/Nature of interest	Number of shares	Percentage of shareholding
Cayman President Holdings Ltd.	Beneficial owner	2,645,090,000	75.00%
Uni-President Enterprises Corporation[(1)]	Interest of a controlled corporation	2,645,090,000	75.00%

Note:

(1) Cayman President Holdings Ltd. is a direct wholly-owned subsidiary of Uni-President Enterprises Corporation and therefore, Uni-President Enterprises Corporation is deemed or taken to be interested in the 2,645,090,000 shares which are beneficially owned by Cayman President Holdings Ltd. under the purposes of the SFO.

Save as disclosed above, as at 31 December 2007, no other person had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Connected transactions

Uni-President Enterprises Corporation ("Uni-President") is the holding company of Cayman President Holdings Ltd. ("Cayman President") which in turn is a substantial shareholder of the Company. As Cayman President is a connected person of the Company and Uni-President is an associate of Cayman President, Uni-President is also a connected person of the Company.

Details of the continuing connected transactions entered into by the Group with Uni-President and its associates during the year and which are not exempt under Rule 14A.33 of the Listing Rules are set out below:

1. **Framework services agreement**

   On 23 November 2007, the Company and Uni-President entered into a framework services agreement pursuant to which Uni-President (either by itself or through its other subsidiaries) agreed to provide to the Company ERP system consultancy services and technical support services. The pricing basis is at Uni-President's actual employment cost of the personnel providing the service plus other disbursements and other expenses incurred. The consideration for these services is determined on arm's length basis and no more favourable than that charged by independent third parties. The framework services agreement will expire on 31 December 2009 and is renewable at the Company's option for another term of three years.

2. **Framework sales agreement**

   On 23 November 2007, the Company entered into a framework sales agreement with Uni-President pursuant to which the Company agreed to sell beverage and instant noodle products and bakery products to Uni-President and its associates at prices no less than the market price at which the Company sell to independent third parties. The framework sales agreement will expire on 31 December 2009 and is renewable at the Company's option for another term of three years.

3. **Framework purchase agreement**

   On 23 November 2007, the Company entered into a framework purchase agreement with Uni-President pursuant to which the Company agreed to purchase raw materials and other ingredients from Uni-President and its associates. Under the framework purchase agreement, the quality and price of the materials supplied to the Company must not exceed market price. The framework purchase agreement will expire on 31 December 2009 and is renewable at the Company's option for another term of three years.

The Company has obtained a waiver from the Stock Exchange from the announcement requirement in respect of the transactions under the framework services agreement and a waiver from the Stock Exchange from the announcement and independent shareholders' approval requirements in respect of the transactions under the framework sales agreement and the framework purchase agreement. Such waivers will expire on 31 December 2009. The maximum aggregate annual value ("cap") permitted by the Stock Exchange and the aggregate annual value actually occurred for each of the above mentioned continuing connected transactions for the year ended 31 December 2007 are set out below:

Transaction	**Actual amount (RMB million)**	**Annual cap (RMB million)**
Framework services agreement		
– ERP system consultancy services	0	3.0
– Technical support services	0.2	3.2
Framework sales agreement		
– Total sales value	22.9	61.0
Framework purchase agreement		
– Total purchase value	533.3	652.7

In the opinion of the independent non-executive directors, the above transactions were carried out in the ordinary and usual course of business of the Group, on normal commercial terms and were in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole.

The auditors have confirmed that the above transactions:

- had been approved by the Board;
- were in accordance with the pricing policies of the Group;
- were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- had not exceeded their respective caps as set out in the prospectus of the Company dated 4 December 2007.

Non-competition confirmation

The Company has received written confirmation from Uni-President confirming that Uni-President and its subsidiaries have not breached the terms of the non-competition deed entered between the Company and Uni-President on 23 November 2007.

Major suppliers and customers

During the year, the Group sold less than 30% of its goods to its five largest customers and purchased less than 30% of its goods and services from its five largest suppliers.

Share option scheme

The Company adopted a share option scheme (the "Scheme") pursuant to a written resolution passed on 23 November 2007. The purpose of the Scheme is to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to employees (whether full-time or part-time), directors or non-executive directors (including independent non-executive directors) of any member of the Group.

The total number of shares which may be issued under the Scheme must not exceed 352,681,000 shares, representing approximately 10% of the total number of shares issued by the Company as at the 17 December 2007 (Listing Date). Unless approved by shareholders of the Company in the manner as set out in the Scheme, the total number of shares issued and to be issued upon exercise of the options granted to each eligible person (including exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at the date of grant of the option. During the year, no share options were granted under the Scheme.

The general vesting period for options granted under the Scheme is set out in the table below unless the Board specified a different vesting period under the terms of the offer and in any event, the vesting period should be a period to commence not less than one year and not to exceed 10 years from the date of the grant of the option:

Anniversary of grant date	Vesting
First	20%
Second	20%
Third	20%
Fourth	20%
Fifth	20%

The exercise price shall be the price determined by the Board being the higher of: (a) the average closing price of the shares for the five business days immediately preceding the date of grant of the option as stated in the Stock Exchange's daily quotation sheets; (b) the closing price of the shares as stated on the Stock Exchange's daily quotation sheet of the shares on the date of grant of the option; or (c) the nominal value of the shares. No amount will be payable for the acceptance of an option.

The Scheme will remain in force until 16 December 2017.

Pre-emptive rights

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Public float

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of the annual report, the Company has maintained the prescribed public float under the Listing Rules.

Use of net proceeds from the Company's initial public offering

In 2007, the Company completed its global offering. Through the initial public offering, including the exercise of an over-allotment option, the Group issued 599,445,000 shares at an offer price of HK$4.22 per share, raising approximately HK$2,405 million of net proceeds. The proceeds are being used in accordance with the purposes disclosed in the prospectus of the Company dated 4 December 2007.

Audit committee

The audit committee comprises Mr. Fan Ren-Da, Anthony, Mr. Chen Sun-Te and Mr. Lin Lung-Yi, a majority of whom are independent non-executive directors. The audit committee examined the accounting principles and practices adopted by the Group and discussed with management its internal controls and financial statements. The audit committee has reviewed the audited financial statements for the year ended 31 December 2007.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

Lo Chih-Hsien
Chairman

Tainan, Taiwan
15 April 2008

Director's Profile

Non-Executive Directors

Mr. KAO Chin-Yen（高清愿）, aged 78, is our non-executive Director. Mr. Kao joined our Group in August 2007. He joined the Uni-President Group in July 1967 and is currently the chairman and director of Uni-President and a director of 14 members of Uni-President Group (excluding our Group). With over 35 years of experience in the food and beverage industry, Mr. Kao is currently a director of Prince Housing and Development Corp.（太子建設開發（股）公司）, Tainan Spinning Co., Ltd.（台南紡織（股份）公司）, President Chain Store Corp.（統一超商（股）公司）, Ton Yi Industrial Corp.（統一實業（股）公司）and TTET Union Corp.（大統益（股）公司）, all of which are listed on the Taiwan Stock Exchange. He obtained a doctorate in Business Administration with honours from National Cheng Kung University in 2001. Mr. Kao Chin-Yen is the father-in-law of Mr. Lo Chih-Hsien.

Mr. LIN Chang-Sheng（林蒼生）, aged 64, is our non-executive Director. Mr. Lin joined our Group in December 1991. He joined the Uni-President Group in January 1968 and is currently a CEO of Uni-President Group and a director of 62 members of the Uni-President Group (excluding our Group). He has over 35 years of experience in the food and beverage industry. Mr. Lin is currently a director of Tong Ren Corp. Limited（統仁實業股份有限公司）and each of our PRC subsidiaries. He is also the director of President Chain Store Corp., Ton Yi Industrial Corp., Prince Housing and Development Corp., TTET Union Corp., Uni-President and Kang Na Hsiung Enterprise Co., Ltd.（康那香企業股份有限公司）, all of which are listed on the Taiwan Stock Exchange. Mr. Lin graduated from National Cheng Kung University with a bachelor's degree in Electronic Engineering.

Mr. LIN Lung-Yi（林隆義）, aged 64, is our non-executive Director. Mr. Lin joined our Group in December 1991. He is currently a director of each of our PRC subsidiaries. He joined the Uni-President Group in March 1971 and has over 36 years of experience in financial and accounting management. Mr. Lin is currently the Vice CEO of Uni-President Group and a director of 40 members of the Uni-President Group (excluding our Group). He is also the director of Prince Housing and Development Corp., Ton Yi Industrial Corp., and President Chain Store Corp., all of which are listed on the Taiwan Stock Exchange. Mr. Lin graduated from National Cheng Kung University with a bachelor's degree in accounting and statistics.

Mr. SU Tsung-Ming（蘇崇銘）, aged 50, is our non-executive Director. Mr. Su joined our Group in August 2007. He joined the Uni-President Group in August 2000, and is currently the vice-president of Uni-President and a director of 6 members of the Uni-President Group (excluding our Group). Mr. Su is currently a director of President Chain Store Corp., which is listed on the Taiwan Stock Exchange. He has over 22 years of experience in banking and financial management. Before joining the Uni-President Group, he was the vice-president of the Taipei branch of Citibank. Mr. Su was the financial specialist of Seibu Department Store in Tokyo in 1988 and the senior specialist of Nortel Networks Asia/Pacific in Tokyo in 1990. Mr. Su holds a Master of Business Administration degree from the University of Iowa.

Director's Profile

Executive Directors

Mr. LO Chih-Hsien (alias LO, Alex C.) (羅智先), aged 51, is our chairman and executive Director. Mr. Lo joined our Group in September 1998 and is responsible for overall strategic planning and management of our Group. Except for Sichuan Hongtong Commercial Trading Co., Ltd. (四川弘通商貿有限責任公司), he is currently a director of each of our PRC subsidiaries. He is also a director of Yantai North Andre Juice Co., Ltd. (煙台北方安德利果汁股份有限公司). He has over 21 years of experience in the food and beverage industry. Mr. Lo is a director of President Chain Store Corp., Tait Marketing & Distribution Co., Ltd (德記洋行(股)公司) and Ton Yi Industrial Corp., all of which are listed on the Taiwan Stock Exchange. He is also the president of Uni-President and a director of 43 members of the Uni-President Group (excluding our Group). Mr. Lo was awarded a Master's Degree in Business Administration from the University of California, Los Angeles, U.S.A. in 1993. He is the son-in-law of Mr. Kao Chin-Yen.

Mr. LIN Wu-Chung (林武忠), aged 56, is our president and executive Director. Mr. Lin joined our Group in August 1995 and is primarily responsible for business management. He joined the Uni-President Group in January 1978 and has over 29 years of experience in beverage and instant noodle businesses. He was the head of Uni-President's beverages department from 1991 to July 1995. He has been appointed as the director of President Enterprises (China) Investment Co. Ltd. (統一企業(中國)投資有限公司) since 2004 and the general manager of President Enterprises (China) Investment Co., Ltd. since 2005. He was also appointed as the general manager of Tong Ren Corp. Limited in 2007. Except for Nanchang President Enterprises Co., Ltd. (南昌統一企業有限公司), he is currently a director of Tong Ren Corp. Limited and each of our PRC subsidiaries. He is also a director of Beijing President Kirin Beverage Corporation (北京統一麒麟飲料有限公司) and Heilongjiang Wondersun Dairy Co., Ltd. (黑龍江省完達山乳業股份有限公司). Mr. Lin graduated from Tamkang University with a bachelor's degree in international trade in 1975.

Independent Non-executive Directors

Mr. CHEN Sun-Te (陳聖德), aged 53, was appointed as our independent non-executive Director in August 2007. He has over 25 years of experience in the banking and financial industry. He is currently the president of North Asia and Greater China of Fullerton Financial Holdings Pte. Ltd., and an independent director of China Shenhua Group Co., Ltd.. Prior to that, Mr. Chen served as the president of Chinatrust Financial Holdings Co., Ltd. in 2005, the chairman of Chinatrust Securities Co., Ltd. between 2003 and 2005, the country officer and country head of the corporate bank in Taiwan of Citigroup between 2001 and 2003, and the regional head of financial market in Asia Pacific of Citigroup between 1998 and 2001. He gained extensive financial management experience from various positions held with Citibank and Citigroup and has acquired general knowledge about the food and beverage industry through dealing with clients from that industry. Mr. Chen holds a Master's degree in Business Administration from University of Missouri and a bachelor's degree in political science from National Chengchi University.

Mr. FAN Ren-Da, Anthony (范仁達), aged 47, was appointed as our independent non-executive Director in August 2007 and is currently a PhD candidate at Shanghai Jiao Tung University. He holds a Master's Degree in Business Administration from the United States of America. Mr. Fan has over 12 years of experience in corporate finance, business management, corporate restructuring, mergers and acquisitions and venture capital. He is currently the chairman and managing director of Asialink Capital Limited and an independent non-executive director of CITIC Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange. He is also an independent non-executive director and a member of the audit committee, nomination committee and remuneration committee of Raymond Industrial Ltd, which is also a company listed on the Hong Kong Stock Exchange. Mr. Fan was an independent non-executive director of Roly International Holdings Limited from July 2002 to August 2007, a company which was voluntarily delisted from the Singapore Exchange Securities Trading Limited in April 2007. He is a member of the All-China Federation of Industry and Commerce. He has previously held senior positions with various international financial institutions and has gained extensive experience in reviewing and analysing financial statements of public and private companies from these positions.

Mr. HWANG Jenn-Tai(黃鎮台), aged 59, was appointed as our independent non-executive Director in August 2007. He holds a Ph.D. in chemical physics from Columbia University and a bachelor's degree in chemistry from National Taiwan University. He is currently a professor at Feng Chia University. Prior to this, Mr. Hwang was Minister of National Science Council, Executive Yuan(行政院國家科學委員會), President of Feng Chia University, Vice Minister of Ministry of Education(教育部)and president of Chinese Chemical Society(中國化學會), President of National Tsing-Hua University.

Mr. YANG Ing-Wuu(楊英武), aged 63, was appointed as an independent non-executive Director in November 2007. He holds a Bachelor and a Masters degree in Law from National Chengchi University. Mr. Yang is currently the secretary general of Taiwan Vegetable Oil Manufacturers Association(台灣區植物油製煉工業同業公會)and the Executive Counsel of Guangda Cereals Joint Stock Limited Company(光大穀物股份有限公司). Prior to this, Mr. Yang was the executive director of Taiwan Soya Bean Importers Joint Committee(台灣區進口黃豆聯合工作委員會), the chairman of the board of Huanguo International Trade Company(環國國際貿易公司), the secretary general of General Chamber of Commerce of Taiwan, the secretary general of China Food Industry Competitiveness Enhancement Association(中華食品產業競爭策進會)and a part-time lecturer at Chihlee Institute of Commerce and Shih Hsin University. Mr. Yang has over 32 years' experience in the food industry and 3 years' experience in the beverage industry.

Mr. LO, Peter(路嘉星), aged 52, was appointed as our independent non-executive Director in November 2007. He is currently a director of China Enterprise Capital Limited and the chairman and an executive director of Wealthmark International (Holdings) Ltd (a company which was previously engaging in the production and sale of handbags, accessories and dairy products and has recently started its ethanol business), a company listed on the Hong Kong Stock Exchange. Mr. Lo is also an independent non-executive director of Ajisen (China) Holdings Ltd (a company engaging in the operating of a large chain of ramen noodle restaurants across the PRC, Hong Kong and Macau) and China Infrastructure Machinery Holdings Ltd, both of which are listed on the Hong Kong Stock Exchange. Mr. Lo was the chief executive officer and an executive director of Harbin Brewery Group Limited (a company engaging in the production and distribution of beer) from 1998 to 2004. From 1994 to 1997, Mr. Lo was the deputy general manager and a director of Acheng Relay Company Limited, a company listed on the Shenzhen Stock Exchange. Mr. Lo holds a bachelor's degree in Mathematical Economics and Econometrics from the London School of Economics and Political Science and is a member of the China People's Consultative Conference of Harbin City.

Senior Management's Profile

Senior Management

Mr. LIN Wu-Chung (林武忠), aged 55, is our president and executive Director. Mr. Lin joined our Group in August 1995 and is primarily responsible for business management. He joined the Uni-President Group in January 1978 and was the head of the beverages department of Uni-President from 1991 to July 1995. He has been appointed as the director of President Enterprises (China) Investment Co., Ltd. since 2004 and the general manager of President Enterprises (China) Investment Co., Ltd. since 2005 and the general manager of Tong Ren Corp. Limited since 2007. Except for Nanchang President Enterprises Co., Ltd., he is currently a director of Tong Ren Corp. Limited and each of our PRC subsidiaries. He is also a director of Beijing President Kirin Beverage Corporation and Heilongjiang Wondersun Dairy Co., Ltd.. Mr. Lin graduated from Tamkang University with a bachelor's degree in international trade in 1975.

Mr. CHEN Chia-Heng (陳嘉珩), aged 50, who joined our Group in June 2003, was the head of instant noodle products business from June 2003 to September 2006 and has been the head of combined drink products business of our Group since September 2006. He joined Uni-President Group in 1982 and has over 25 years of experience in the food and beverage industry. He is also currently a director of Shenyang President Enterprises Co., Ltd., Beijing Food President Food Co., Ltd., Kunshan President Enterprises Food Co., Ltd., Hefei President Enterprises Co., Ltd., Guangzhou President Enterprises Corp., Fuzhou President Enterprises Co., Ltd, Wuhan President Enterprises Food Co., Ltd and Chengdu President Enterprises Food Co., Ltd.. Mr. Chen holds a master's degree in business administration from National Cheng Kung University.

Mr. WU Yi-Ting (吳一挺), aged 48, who joined our Group in August 1998, is our head of instant noodle products business. He joined Uni-President Group in 1986 and has over 18 years of experience in the instant noodle industry. Mr. Wu was the general manager of southern China region from May 2000 to April 2004, the special assistant to the general manager of President Enterprises (China) Investment Co., Ltd. from May 2004 to June 2006 and has been the general manager of the food department of President Enterprises (China) Investment Co., Ltd. and the head of instant noodle products business of our Group since July 2006. He was the general manager of Guangzhou President Enterprises Corp. from August 1998 to February 2004 and a director of Guangzhou President Enterprises Corp. until July 2004. He was also a director of Guangzhou President Health Biotechnology Corp. in 2004 to March 2005. Mr. Wu graduated from National Taiwan Ocean University with a bachelor's degree in Marine Affairs.

Mr. LO Chiu-Tien (羅秋田), aged 45, who joined our Group in January 2004, is our head of tea drinks business. He joined Uni-President Group in 1986 and has over 21 years of experience in beverage industry. Mr. Lo was the general manager of the dairy drinks and beverage products business of President Enterprises (China) Investment Co., Ltd. from January 2004 to August 2006. Since September 2006, he has been the head of tea drinks business of our Group. He also currently serves as a director of Hebei Jinmailang Noodles Co., Ltd.. He holds a master's degree in business administration from National Kaohsiung First University of Science and Technology.

Mr. LI Shih-Cheng (李世政), aged 50, who joined our Group in April 1992, is our head of juice drinks business. He joined Uni-President Group in 1985 and has 22 years of experience in the food and beverage industry, Mr. Li was also the general manager of Chengdu President Enterprises Food Co., Ltd. between 1997 and 2005. Since August 2005, he has been the head of juice drinks business of our Group. He obtained a bachelor's degree in industrial management from Lunghwa University of Science and Technology.

Senior Management's Profile

Ms. HSIEH Ling-Ling (謝玲玲), aged 45, is the head of accounting and finance and the assistant to the general manager of President Enterprises (China) Investment Co., Ltd.. Ms. Hsieh joined our Group in December 2002 and is responsible for general financial management and banking relationship maintenance. She joined Uni-President Group in 1986 and has 21 years of experience in financial management. She was relocated to our Group in December 2002. She is also a director of Heilongjiang Wondersun Dairy Co., Ltd.. She holds a bachelor's degree in business administration from National Chung Hsing University.

Company Secretary and Qualified Accountant

Mr. CHAN Pei Cheong, Andy (陳庇昌), 47, is our qualified accountant and company secretary. He is also the head of investor relations and financial controller of our Company. Mr. Chan received a Master's degree in Business Administration from the University of Durham, England and an honors diploma in accountancy. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Institute of Chartered Secretaries. Prior to his appointment, Mr. Chan had worked in an international accounting firm and had held senior positions in some Hong Kong listed companies and a securities firm. Mr. Chan has over 20 years' work experience in auditing, corporate finance, and project finance. He joined our Group in July 2007 and is a member of our senior management in accordance with Rule 3.24 of the Listing Rules.

Corporate Governance Report

The Company was incorporated on 4 July 2007 and its ordinary shares were listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 17 December 2007 ("Listing Date"). The Company is committed to ensuring high standards of corporate governance and understands good corporate governance is crucial to enhancing investors' confidence in the Company.

For the year 2007, the Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the period from the Listing Date to 31 December 2007.

Board of Directors

The board of directors of the Company ("Board") consists of four non-executive directors, two executive directors and five independent non-executive directors. The composition of the Board is as follows:

- Non-executive Directors
  Mr. Kao Chin-Yen
  Mr. Lin Chang-Sheng
  Mr. Lin Lung-Yi
  Mr. Su Tsung-Ming

- Executive Directors
  Mr. Lo Chih-Hsien *(Chairman)*
  Mr. Lin Wu-Chung *(President)*

- Independent Non-executive Directors
  Mr. Chen Sun-Te
  Mr. Fan Ren-Da, Anthony
  Mr. Hwang Jenn-Tai
  Mr. Yang Ing-Wuu
  Mr. Lo Peter

The biographies of the directors are set out on pages 23 to 25 of the annual report.

The Company has received the annual confirmation on independence from each of the independent non-executive directors in accordance with Rule 3.13 of the Listing Rules and the Company considers each independent non-executive director as independent.

The term of office of directors (including independent non-executive directors) is three years. In accordance with the articles of association of the Company, all directors shall only hold office until the 2007 annual general meeting to be held on 27 May 2008 and shall then be eligible for re-election. All the directors have offered themselves for re-election by shareholders. At each subsequent annual general meeting of the Company, one third of the directors for the time being or, if their number is not three or a multiple of three, the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The directors remuneration are determined with reference to their duties, responsibilities and experience, and to the prevailing market conditions.

The Board is responsible for the formulation of long term business objectives, strategies and plans, and to monitor and control the operating and financial performance of the Group. There are currently three committees established under the Board, being the audit committee, the nomination committee and the remuneration committee. Each committee has its terms of reference and reports to the Board regularly.

The Company does not have a chief executive officer, whose role is instead performed by the President. The roles of the Chairman of the Board and President of the Company are performed by separate persons. The Chairman of the Board is responsible for ensuring that the directors perform their duties properly and ensuring discussions on material matters take place on a timely basis. The day-to-day operations and implementation of business objectives are delegated to the President. The management is delegated with power and authority to carry out daily operations and duties.

No Board meeting was held from the Listing Date up to 31 December 2007. Board meetings for 2008 have been scheduled to take place at least four times a year. The Board shall meet more frequently as and when required.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have fully complied with the Model Code since the Listing Date.

Remuneration Committee

The Board established a remuneration committee on 23 November 2007 comprising Mr. Chen Sun-Te and Mr. Hwang Jenn-Tai, who are both independent non-executive directors, and Mr. Lin Chang-Sheng, who is a non-executive director. The remuneration committee is chaired by Mr. Chen Sun-Te.

The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of the directors and senior management and evaluate and make recommendations on other employee benefit arrangement. The terms of reference of the remuneration committee are available for inspection upon request at the principal office of the Company in Hong Kong.

No remuneration committee meeting was held during the period from the Listing Date to 31 December 2007.

Nomination Committee

The Board established a nomination committee on 23 November 2007 comprising Mr. Hwang Jenn-Tai and Mr. Fan Ren-Da, Anthony, who are both independent non-executive directors, and Mr. Lo Chih-Hsien, who is an executive director. The nomination committee is chaired by Mr. Hwang Jenn-Tai.

The primary function of the nomination committee is to make recommendations to the Board on the appointment of directors and the management of the Board succession. The terms of reference of the nomination committee are available for inspection upon request at the principal office of the Company in Hong Kong.

No nomination committee meeting was held during the period from the Listing Date to 31 December 2007.

Audit Committee

The Board established an audit committee on 23 November 2007 comprising Mr. Fan Ren-Da, Anthony and Mr. Chen Sun-Te, who are both independent non-executive directors, and Mr. Lin Lung-Yi, who is a non-executive director. Based on the education and experience of Mr. Fan Ren-Da, Anthony and Mr. Chen Sun-Te, the Board is of the view that both of them possess the appropriate qualification requirements under Rule 3.10(2) of the Listing Rules. The audit committee is chaired by Mr. Fan Ren-Da, Anthony.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors and provide advice and comments to the directors. The terms of reference of the audit committee are available for inspection upon request at the principal office of the Company in Hong Kong.

No audit committee meeting was held during the period from the Listing Date to 31 December 2007.

Auditors' Remuneration

PricewaterhouseCoopers is the auditor of the Company. During 2007, the Group paid to the auditor RMB3,500,000 for 2007 statutory audit services of the Company.

The Company also incurred approximately RMB350,000 for the services provided by PricewaterhouseCoopers in respect of tax planning advisory services.

The Board proposes to re-appoint PricewaterhouseCoopers as the auditors of the Company for the year 2008, which is subject to shareholders approval at the forthcoming annual general meeting.

Accountability

The directors are responsible for overseeing the preparation of financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities is set out on page 31 of the annual report. In preparing the financial statements for the year ended 31 December 2007, the directors have selected suitable accounting policies and applied them consistently and have made prudent and reasonable judgements and estimates and have prepared the financial statements on a going concern basis.

Internal Control

In preparation for the Company's initial public offering in 2007, the Board engaged a consulting firm to conduct internal control assessment, which covers, among other things, financial, operational and compliance controls and risk management functions. Based on that report, the directors reviewed the effectiveness of the system of internal control of the Group.

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UNI-PRESIDENT CHINA HOLDINGS LTD.
(Incorporated in the Cayman Islands as an exempted company with limited liability)

We have audited the consolidated financial statements of Uni-President China Holdings Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 96, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
15 April 2008

Consolidated Balance Sheet

As at 31 December 2007

	Note	**2007 RMB'000**	2006 RMB'000
ASSETS			
Non-current assets			
Leasehold land	7	**158,438**	122,312
Property, plant and equipment	8	**1,889,691**	2,059,412
Intangible assets	9	**56,258**	111,181
Interests in jointly controlled entities	11	**235,382**	276,182
Available-for-sale financial assets	12	**231,164**	183,696
Deferred income tax assets	13	**43,895**	13,398
		2,614,828	2,766,181
Current assets			
Inventories	14	**567,087**	502,716
Trade and bills receivables	15	**239,536**	268,066
Prepayments, deposits and other receivables	16	**121,760**	152,168
Loans due from related parties	40(c)	**–**	55,000
Pledged bank deposits	17	**–**	21,316
Cash and cash equivalents	18	**3,411,868**	841,123
		4,340,251	1,840,389
Total assets		**6,955,079**	4,606,570

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**33,370**	28,385
Share premium	19	**1,960,248**	(28,385)
Other reserves	20	**2,091,829**	1,769,487
Retained earnings	21	**1,099,380**	762,743
Total equity		**5,184,827**	2,532,230
LIABILITIES			
Non-current liabilities			
Deferred government grants	23	**8,673**	10,041
Other long-term liability	24	**–**	45,644
Deferred income tax liabilities	13	**6,813**	575
		15,486	56,260
Current liabilities			
Trade and bills payables	25	**471,218**	467,846
Other payables and accruals	26	**916,660**	734,183
Borrowings	27	**296,175**	714,511
Dividends payable	40(c)	**–**	39,709
Other long-term liability – current portion	24	**46,192**	54,988
Current income tax liabilities		**24,521**	6,843
		1,754,766	2,018,080
Total liabilities		**1,770,252**	2,074,340
Total equity and liabilities		**6,955,079**	4,606,570
Net current assets/(liabilities)		**2,585,485**	(177,691)
Total assets less current liabilities		**5,200,313**	2,588,490

LO Chih-Hsien
Executive Director

LIN Wu-Chung
Executive Director

The notes on page 39 to 96 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2007

	Note	2007 RMB'000
ASSETS		
Non-current assets		
Investment in a subsidiary	10	**2,054,310**
Property, plant and equipment		**11**
		2,054,321
Current assets		
Prepayments, deposits and other receivables	16	**13,217**
Cash and cash equivalents	18	**2,023,765**
		2,036,982
Total assets		**4,091,303**
EQUITY		
Capital and reserves attributable to the equity holders of the Company		
Share capital	19	**33,370**
Share premium	19	**1,960,248**
Other reserves	20	**2,054,310**
Accumulated losses	21	**(23,844)**
Total equity		**4,024,084**
LIABILITIES		
Current liabilities		
Other payables and accruals	26	**67,219**
Total liabilities		**67,219**
Total equity and liabilities		**4,091,303**
Net current assets		**1,969,763**
Total assets less current liabilities		**4,024,084**

LO Chih-Hsien
Executive Director

LIN Wu-Chung
Executive Director

The notes on pages 39 to 96 are an integral part of this financial statement.

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Revenue	6	**8,656,777**	7,883,692
Cost of sales	30	**(5,742,097)**	(5,555,752)
Gross profit		**2,914,680**	2,327,940
Other losses-net	28	**(1,062)**	(1,104)
Other income	29	**40,365**	68,791
Selling and marketing expenses	30	**(2,147,668)**	(1,849,036)
Administrative expenses	30	**(263,366)**	(280,780)
Operating profit		**542,949**	265,811
Finance income		**22,676**	13,708
Finance costs		**(40,359)**	(33,064)
Finance costs-net	32	**(17,683)**	(19,356)
Share of losses of jointly controlled entities	11	**(40,800)**	(70,909)
Profit before income tax		**484,466**	175,546
Income tax expense	33	**(60,461)**	(29,476)
Profit for the year		**424,005**	146,070
Profit attributable to equity holders of the Company		**424,005**	146,070
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic	35	**14.04 cents**	4.87 cents
– Diluted	35	**14.04 cents**	4.87 cents
Dividends	36	**–**	–

The notes on page 39 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2007

	Share capital	Share premium	Other reserves	Retained earnings	Total
	RMB'000 (Note 19)	RMB'000 (Note 19)	RMB'000 (Note 20)	RMB'000 (Note 21)	RMB'000
Balance at 1 January 2006	28,385	(28,385)	1,878,884	643,473	2,522,357
Contributions from equity holder	–	–	2,170	–	2,170
Distribution to equity holder in relation to the Reorganisation	–	–	(117,150)	–	(117,150)
Appropriation to statutory reserves	–	–	26,800	(26,800)	–
Arising from acquisition of a subsidiary	–	–	1,161	–	1,161
Profit for the year	–	–	–	146,070	146,070
Dividends declared	–	–	(27,692)	–	(27,692)
Revaluation of available-for-sale financial assets-gross	–	–	5,670	–	5,670
Revaluation of available-for-sale financial assets-tax	–	–	(356)	–	(356)
Balance at 31 December 2006	**28,385**	**(28,385)**	**1,769,487**	**762,743**	**2,532,230**
Contributions from equity holder in relation to the Reorganisation	**–**	**–**	**193,730**	**–**	**193,730**
Disposal transfer-revaluation reserve of property, plant and equipment acquired in business combinations	**–**	**–**	**(382)**	**382**	**–**
Appropriation to statutory reserves	**–**	**–**	**87,750**	**(87,750)**	**–**
Profit for the year	**–**	**–**	**–**	**424,005**	**424,005**
Issue of shares, net off issue expenses	**4,985**	**1,988,633**	**–**	**–**	**1,993,618**
Revaluation of available-for-sale financial assets-gross	**–**	**–**	**47,468**	**–**	**47,468**
Revaluation of available-for-sale financial assets-tax	**–**	**–**	**(6,224)**	**–**	**(6,224)**
Balance at 31 December 2007	**33,370**	**1,960,248**	**2,091,829**	**1,099,380**	**5,184,827**

The notes on page 39 to 96 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	**2007 RMB'000**	2006 RMB'000
Cash flows from operating activities:			
Cash generated from operations	37	**1,215,242**	575,100
Interest income on cash and cash equivalent received		**19,264**	13,708
Interest expenses paid		**(25,384)**	(42,744)
Income tax paid		**(72,653)**	(29,002)
Net cash generated from operating activities		**1,136,469**	517,062
Cash flows from investing activities:			
Investments in jointly controlled entities	11	**–**	(300,000)
Acquisition of subsidiaries, net of cash acquired		**–**	29,818
Payments for leasehold land	7	**(8,880)**	–
Purchase of property, plant and equipment		**(220,135)**	(259,056)
Purchases of intangible assets		**(57,534)**	(27,637)
Loans collected back from related parties, net		**55,000**	525,000
Interest income received on loans to related parties		**3,318**	25,360
Proceeds from disposal of property, plant and equipment		**41,784**	28,050
Proceeds from equity holder in respect of the Reorganisation	20(a)	**193,730**	–
Payments to equity holder in respect of the Reorganisation	20(a)	**(117,150)**	–
Additions of available-for-sales financial assets		**–**	(136,364)
Net cash used in investing activities		**(109,867)**	(114,829)
Cash flows from financing activities:			
Proceeds from issue of shares, net of share issue expenses	19	**1,993,618**	–
Proceeds from bank borrowings		**1,073,232**	1,564,763
Repayments of bank borrowings		**(1,491,568)**	(1,799,525)
Dividends received from companies of Other Business		**8,570**	640
Payment of previous years' dividends to equity holder of the Company		**(39,709)**	(10,137)
Net cash generated from/(used in) financing activities		**1,544,143**	(244,259)
Net increase in cash and cash equivalents		**2,570,745**	157,974
Cash and cash equivalents at beginning of the year	18	**841,123**	683,149
Cash and cash equivalents at end of the year	18	**3,411,868**	841,123

The notes on page 39 to 96 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

Uni-President China Holdings Ltd. (the "Company") was incorporated in the Cayman Islands on 4 July 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Company and its subsidiaries (together the "Group") are principally engaged in the manufacturing and sale of non-carbonated beverages and instant noodles in the People's Republic of China (the "PRC") (the "PRC Beverages and Instant Noodles Businesses").

The Company completed its global initial public offering and the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 December 2007.

These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 15 April 2008.

2 Group reorganisation and application of merger accounting

The ultimate holding company of the Group is 統一企業股份有限公司 (Uni-President Enterprises Corporation*) ("Uni-President"), a company whose shares are listed on the Taiwan Stock Exchange Corporation. Prior to the establishment of the Company, Uni-President operated the PRC Beverages and Instant Noodles Businesses and other businesses, including the production of flour, edible oils, animals feeds, aquatic and livestock products, trading and retailing of food and carbonated beverages (collectively "Other Businesses") in the PRC through various subsidiaries. The Other Businesses have been managed separately from the PRC Beverages and Instant Noodles Businesses.

To prepare for the global offering and listing of the Company's shares, Uni-President conducted a reorganisation of the PRC Beverages and Instant Noodles Businesses (the ''Reorganisation''). Pursuant to the Reorganisation, which was completed on 20 July 2007, the PRC Beverage and Instant Noodles Businesses were transferred to the Company such that the Company became the holding company of the subsidiaries now comprising the Group as set out in Note 10.

The Reorganisation involved companies under common control. Accordingly, these consolidated financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 ''Merger Accounting for Common Control Combinations'' issued by the Hong Kong Institute of Certified Public Accountants (the ''HKICPA'') and presented the results of the Group as if the structure of the Group resulting from the Reorganisation had been in existence throughout the year. Comparative figures for the year ended 31 December 2006 have been prepared on the same basis.

Accounting adjustments under common control combination are set out in Note 22.

* The English name represents the best effort by management of the Company in translating the Chinese name.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the ''HKFRS''). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5 below.

(a) Standards, amendment and interpretations to existing standards that are effective for 2007

Relevant to the Group:

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.

- HK(IFRIC)-Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have an impact on the Group's financial statements.

Not relevant to the Group:

- HK(IFRIC)-Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies'.

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2.

- HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective for 2007 and have not been early adopted by the Group

Relevant to the Group:

- HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

- HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. It is not expected to have a material impact on the Group's financial statements, as the Group has already chosen the allowed alternative treatment to capitalise borrowing cost attributable to qualifying assets under the original HKAS 23.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. It is not expected to have a material impact on the Group's financial statements, as the present operating segments were already identified on the basis of internal reports reviewed by the decision maker.

- HK(IFRIC)-Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). It clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group is assessing the impact of this accounting standard and it is not expected to have a material impact to the Group's financial statements.

- HK(IFRIC)-Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). It provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. It is not expected to have a material impact to the Group's financial statements.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective for 2007 and have not been early adopted by the Group (continued)

Relevant to the Group: (continued)

- HKAS 27 (Revised) "Consolidated and separate financial statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have material impact on the Group's accounts.

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration) and each identifiable asset and liability to be measured at its acquisition-date fair value, except for leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs including income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Not relevant to the Group:

- HKAS 32 and HKAS 1 Amendments, 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. This standard is not relevant to the Group's operations.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective for 2007 and have not been early adopted by the Group (continued)

Not relevant to the Group: (continued)

- HK(IFRIC)-Int 12, 'Service concession arrangements' (effective from 1 January 2008). HK(IFRIC)-Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC)-Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

3.2 Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

3.3 Consolidation and subsidiaries

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.3 Consolidation and subsidiaries (continued)

Other than merger accounting for common control combination of the Group, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 3.8). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses. The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

3.4 Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Jointly controlled entities are accounted for in the consolidated financial statements using equity method of accounting and are initially recognised at cost. The Group's interests in the jointly controlled entities include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profit or losses, including any impairment loss on goodwill, is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.5 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions of each of the Group's entities are translated into the functional currency using the applicable exchange rates quoted by the People's Bank of China prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserves in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognised as a separate component of equity.

3.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress (the "CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statements during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.7 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20 years
Machinery and factory equipment	10 years
Vehicle, office equipment and fixtures	3-5 years
Leasehold improvements	5 years or shorter of lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised within other losses – net, in the income statements. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

3.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/jointly controlled entities at the date of acquisition. Goodwill on acquisitions of these subsidiaries is included in intangible assets. Goodwill on acquisition of jointly controlled entities is included in interests in jointly controlled entities and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed. Gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Computer Software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of 5 years.

(c) Sponsorship fee

Sponsorship fee for the 2008 Beijing Olympic Games has been capitalised and stated at historical cost less accumulated amortisation. The sponsorship fee is initially measured at the fair value of the expected future payments and costs of products to be provided. Amortisation is calculated using the straight-line method to allocate the cost of sponsorship fee over the contractual period under the sponsorship program of 28 months.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.9 Impairment of investments in subsidiaries and jointly controlled entities and other non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.10 Financial assets

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and bills receivable, other receivables and loans due from related parties in the balance sheet.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.10 Financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method. The cost of finished goods comprises raw materials, labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

3.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

3.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.16 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.18 Employee benefits

(a) Pension obligations (defined contribution plan)

A defined contribution plan is a pension plan under which the Group pays contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

The Group has participated in defined contribution plans administered by the relevant authorities in the PRC and Taiwan for its employees. The Group is required to pay monthly contributions to these plans at certain percentages of the relevant portion of the payroll of the employees to fund the benefits. The relevant authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees of the Group under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

(b) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(a) Sales of goods
Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Consultation service income
Consultation service income is recognised in the accounting period in which the services are rendered.

(c) Operating lease income (as a lessor)
Lease income is recognised over the terms of leases on a straight-line basis.

(d) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(e) Dividend income
Dividend income is recognised when the right to receive payment is established.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies (continued)

3.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to leasehold land and property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

3.22 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

All land in Mainland China is state-owned and no individual land ownership right exists. The Group made upfront payments to obtain operating leases of land use rights. The upfront payments of the land use rights are recorded as assets and amortised over the lease periods varying from 20 to 70 years on a straight-line basis.

3.23 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the Group's financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3.24 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

Notes to the Consolidated Financial Statements

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk, and cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) *Foreign currency risk*

Most of the Group entities' functional currency is RMB since majority of the revenues of these entities are derived from operations in Mainland China. Foreign exchange risk arises when the future purchases from overseas and recognised assets or liabilities, such as cash and cash equivalent (Note 18) and borrowings (Note 27), which are denominated in United States dollar ("USD") and Hong Kong dollar ("HKD").

The Group's cash and cash equivalent comprised proceeds from the global initial public offering, which is denominated in HKD at the amount of approximately HKD2.1 billion (equivalent to approximately RMB2 billion). Management has undertaken several methods to mitigate the foreign currency risk, including but not limited to import of raw material from overseas market directly, entering into currency swap contracts with overseas bankers to fix the foreign currency rates.

As at 31 December 2007, if RMB had strengthened/weakened by 5% against USD and HKD with all other variables held constant, the post-tax profit for the year ended 31 December 2007 would have been approximately RMB102,106,000 lower/higher (2006: RMB9,594,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and cash equivalent and borrowings.

(ii) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. The Group has not hedged its price risk arising from investments in equity securities financial assets (Note 12).

The Group's equity investments are not publicly traded. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

In connection with the investment in unlisted legal person shares of a listed company (Note 12), the Group takes reference to professional valuation and adopts the market approach to assess the fair value by multiplying the listed share price as at the balance sheet dates and a discount rate ranging from 21% to 22% to reflect the unlisted status, risks and nature of the unlisted legal person shares. As at 31 December 2007, if the discounted rates used was 10% higher/lower from management's estimates, the carrying amount of the available-for-sale financial assets would be approximately RMB2,854,000 (2006: RMB1,617,000) lower/higher than the current value.

Notes to the Consolidated Financial Statements

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

In connection with the investment in shares of a non-listed company (Note 12), the Group has adopted the market approach known as the price/earnings ("P/E") and business enterprise value/ earnings before depreciation, interest and tax ("BV/EBDITA") multiple methodology to assess the fair value of the available-for-sale financial assets. Under this methodology, fair value is determined by multiplying the net income and EBITDA of the target company P/E multiple and BV/EBITDA multiple ranging from 35 to 57 with regard to the risks and nature of the business. In estimating the P/E and BV/EBITDA multiples, reference has been made to the historical operating results of certain companies with similar business nature, having operating activities in the PRC and whose ownership interests are publicly traded. At 31 December 2007, if the multiples used were 10% higher/lower from management's estimates, the carrying amounts of the available-for-sale financial assets would be approximately RMB15,034,000 higher/RMB9,454,000 lower than the current value (2006: RMB13,875,000 higher/RMB11,865,000 lower).

(iii) Cash flow and fair value interest rate risk

Except for loans lent to related parties (Note 40(c)), bank deposits (Note 18) and borrowings (Note 27) with interest charges, the Group have no other significant interest-bearing assets and liabilities.

The Group's interest-rate risk arises from bank deposits and borrowings. Bank deposits and borrowings at variable rates expose the Group to cash flow interest-rate risk, and if at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of bank deposits and borrowings are disclosed in Note 18 and Note 27 respectively.

As at 31 December 2007, if interest rates on bank deposits and borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been approximately RMB601,000 decrease/increase (2006: RMB1,783,000 decrease/increase), mainly as a result of higher/lower interest expenses on borrowings which would offset interest income on bank deposits.

Notes to the Consolidated Financial Statements

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and bills receivables and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2007 and 2006, all pledged bank deposits and cash and cash equivalents were deposited in the high quality financial institutions without significant credit risk. The table below shows the bank deposit balances of the three major counterparties as at 31 December 2007:

Counterparty	**Rating ***	**2007 RMB'000**	2006 RMB'000
HSBC	AA	**2,023,765**	–
Agricultural Bank of China	B	**288,838**	113,461
China Construction Bank	A-	**227,163**	169,064
		2,539,766	282,525

* The source of credit rating is from Standard & Poor's.

Management does not expect any losses from non-performance of these counterparties.

Majority of the Group's sales are settled in cash or in bills provided by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that trade and bills receivables are followed up on a timely basis.

Notes to the Consolidated Financial Statements

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Over 5 years RMB'000**
As at 31 December 2006				
Borrowings	714,511	–	–	–
Interests payments on borrowings	10,160	–	–	–
Trade and bills payables	467,846	–	–	–
Other payables and accruals	734,183	–	–	–
Other long-term liability	56,003	48,552	–	–
As at 31 December 2007				
Borrowings	**296,175**	**–**	**–**	**–**
Interests payments on borrowings	**3,912**	**–**	**–**	**–**
Trade and bills payables	**471,218**	**–**	**–**	**–**
Other payables and accruals	**916,660**	**–**	**–**	**–**
Other long-term liability	**46,831**	**–**	**–**	**–**

Interests payments on borrowings are calculated based on borrowings held as at 31 December 2007 and 2006 without taking into account of future issues. Floating-rate interest is estimated using the current interest rate as at 31 December 2007 and 2006, respectively.

Notes to the Consolidated Financial Statements

4 Financial risk management (continued)

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings, trade and bills payables, other payables and accruals and other long-term liabilities, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2007 and 2006 are as follows:

	2007 RMB'000	2006 RMB'000
Total borrowings	**1,730,245**	2,017,172
Less: cash and cash equivalent (Note 18)	**(3,411,868)**	(841,123)
Net debt	**(1,681,623)**	1,176,049
Total equity	**5,184,827**	2,532,230
Total capital	**3,503,204**	3,708,279
Gearing ratio	**(48.00%)**	31.71%

The Group's strategy is to maintain a gearing ratio within 20% to 50%. The significant change in the gearing ratio as at 31 December 2007 was primarily due to the increase in cash and cash equivalent which included the proceeds of approximately HKD 2.1 billion (equivalent to approximately RMB 2 billion) from the global initial public offering of the Company in December 2007 (Note 19).

4.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group takes reference to professional valuations where necessary and uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade and bills receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Consolidated Financial Statements

5 Critical accounting estimates and assumptions

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of available-for-sale financial assets

The fair value of financial instruments that are not traded in an active market, such as equity interest classified as available-for-sale financial assets (Note 12), is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(b) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As at 31 December 2007, the Group has deferred income tax assets in the amount of approximately RMB43,895,000 and deferred income tax liabilities of approximately RMB6,813,000. To the extent it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from impairment provisions on assets, temporary differences arising from depreciation, certain accrual items and unused tax losses, as well as downward adjustment in fair value of available-for-sale financial assets.

6 Revenue and segment information

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary and only reporting format, as over 90% of the Groups sales and business activities are conducted in the PRC.

The Group's operations are mainly organised under two principal business segments: manufacturing and sale of beverages and instant noodles.

Notes to the Consolidated Financial Statements

6 Revenue and segment information (continued)

An analysis by business segments is as follows:

	2007				
	Beverages RMB'000	Instant noodles RMB'000	Others RMB'000	Unallocated RMB'000	Group RMB'000
Segment results					
Revenue	6,143,016	2,445,484	68,277	–	8,656,777
Segment profit/(loss)	655,404	1,230	(23,462)	(90,223)	542,949
Finance costs-net					(17,683)
Share of losses from jointly controlled entities	(40,800)	–	–	–	(40,800)
Profit before income tax					484,466
Income tax expense					(60,461)
Profit for the year					424,005
Other segment terms included in the income statement					
Depreciation and amortisation	212,599	147,401	3,001	3,779	366,780
Segment assets and liabilities					
Assets	1,936,546	979,338	38,192	3,765,621	6,719,697
Interests in jointly controlled entities	235,382	–	–	–	235,382
Total assets					6,955,079
Liabilities	924,321	450,417	14,871	380,643	1,770,252
Total liabilities					1,770,252
Capital expenditure	149,436	49,175	894	18,095	217,600

Notes to the Consolidated Financial Statements

6 Revenue and segment information (continued)

	2006				
	Beverages RMB'000	Instant noodles RMB'000	Other RMB'000	Unallocated RMB'000	Group RMB'000
Segment results					
Revenue	5,617,016	2,211,472	55,204	–	7,883,692
Segment profit/(loss)	380,176	(52,386)	(8,056)	(53,923)	265,811
Finance costs-net					(19,356)
Share of losses from jointly controlled entities	(32,678)	(38,231)	–	–	(70,909)
Profit before income tax					175,546
Income tax expense					(29,476)
Profit for the year					146,070
Other segment terms included in the income statement					
Depreciation and amortisation	209,576	109,760	3,522	3,713	326,571
Impairment of goodwill	–	10,801	1,140	–	11,941
Segment assets and liabilities					
Assets	1,941,495	1,103,776	99,952	1,185,165	4,330,388
Interests in jointly controlled entities	276,182	–	–	–	276,182
Total assets					4,606,570
Liabilities	698,732	462,278	17,846	895,484	2,074,340
Total liabilities					2,074,340
Capital expenditure	189,423	221,838	2,045	24,168	437,474

Segment assets consist primarily of leasehold land, property, plant and equipment, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables, and mainly exclude deferred income tax assets, available-for-sale financial assets, pledged bank deposits and cash and cash equivalents.

Segment liabilities comprise deferred government grants, other long-term liability, trade and bills payables, other payables and accruals, and exclude items such as deferred income tax liabilities, current income tax liabilities, dividends payable and borrowings.

Capital expenditure comprises additions to leasehold land, property, plant and equipment and intangible assets, including additions resulting from acquisition through business combinations.

Notes to the Consolidated Financial Statements

7 Leasehold land-Group

The Group's interests in leasehold land represent prepaid operating lease payments and their net book amounts are analyzed as follows:

	2007 **RMB'000**	2006 RMB'000
At 1 January	**122,312**	125,465
Additions	**8,880**	–
Transfer from property, plant and equipment (Note 8)	**31,206**	–
Amortisation (Note 30)	**(3,960)**	(3,153)
At 31 December	**158,438**	122,312
Cost	**195,267**	155,182
Accumulated amortisation	**(36,829)**	(32,870)
Net book amount	**158,438**	122,312

All of the Group's leasehold land are located in the PRC and are with the lease periods as follows:

	2007 **RMB'000**	2006 RMB'000
In the PRC, held on:		
Leases* of over 50 years	**18,929**	19,829
Leases* of between 10 and 50 years	**139,509**	102,483
Closing net book amount	**158,438**	122,312

* Refer to remaining lease period.

Amortisation of the Group's leasehold land has been charged to administrative expense in the consolidated income statements.

There is no pledge of leasehold land as at 31 December 2007 and 2006.

Notes to the Consolidated Financial Statements

8. Property, plant and equipment – Group

	Buildings RMB'000	Machinery and factory equipment RMB'000	Vehicles, Office equipment and fixtures RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2006						
Cost	900,041	1,992,041	669,772	5,250	34,989	3,602,093
Accumulated depreciation	(246,899)	(879,162)	(376,197)	(3,454)	–	(1,505,712)
Accumulated impairment provision	–	(1,424)	–	–	–	(1,424)
Net book amount	653,142	1,111,455	293,575	1,796	34,989	2,094,957
Year ended 31 December 2006						
Opening net book amount	653,142	1,111,455	293,575	1,796	34,989	2,094,957
Additions	4,115	34,936	52,419	–	182,351	273,821
Transfer upon completion	6,878	60,653	21,130	932	(89,593)	–
Acquisition of subsidiaries	–	18,477	3,953	–	604	23,034
Disposals	(8,090)	(8,481)	(9,902)	–	–	(26,473)
Depreciation (Note 30)	(44,886)	(174,143)	(84,512)	(1,231)	–	(304,772)
Impairment provision (Note 30)	–	(1,155)	–	–	–	(1,155)
Closing net book amount	611,159	1,041,742	276,663	1,497	128,351	2,059,412
At 31 December 2006						
Cost	893,783	2,062,992	718,542	6,182	128,351	3,809,850
Accumulated depreciation	(282,624)	(1,018,671)	(441,879)	(4,685)	–	(1,747,859)
Accumulated impairment provision	–	(2,579)	–	–	–	(2,579)
Net book amount	611,159	1,041,742	276,663	1,497	128,351	2,059,412
Year ended 31 December 2007						
Opening net book amount	**611,159**	**1,041,742**	**276,663**	**1,497**	**128,351**	**2,059,412**
Additions	**9,136**	**41,365**	**45,631**	**39**	**111,723**	**207,894**
Transfer upon completion	**62,756**	**96,084**	**22,624**	**–**	**(181,464)**	**–**
Transfer to leasehold land (Note 7)	**–**	**–**	**–**	**–**	**(31,206)**	**(31,206)**
Disposals	**(5,055)**	**(32,424)**	**(1,959)**	**–**	**–**	**(39,438)**
Depreciation (Note 30)	**(44,501)**	**(178,273)**	**(83,173)**	**(1,124)**	**–**	**(307,071)**
Reversal of provision/(impairment provision) (Note 30)	**–**	**119**	**(19)**	**–**	**–**	**100**
Closing net book amount	**633,495**	**968,613**	**259,767**	**412**	**27,404**	**1,889,691**
At 31 December 2007						
Cost	**957,006**	**2,146,763**	**742,581**	**6,221**	**27,404**	**3,879,975**
Accumulated depreciation	**(323,511)**	**(1,175,690)**	**(482,795)**	**(5,809)**	**–**	**(1,987,805)**
Accumulated impairment provision	**–**	**(2,460)**	**(19)**	**–**	**–**	**(2,479)**
Net book amount	**633,495**	**968,613**	**259,767**	**412**	**27,404**	**1,889,691**

Notes to the Consolidated Financial Statements

8 Property, plant and equipment – Group (continued)

Depreciation expenses have been charged to the consolidated income statements as follows:

	2007 RMB'000	2006 RMB'000
Cost of sales	**225,139**	236,014
Selling and marketing expenses	**36,432**	27,471
Administrative expenses	**45,500**	41,287
	307,071	304,772

There are no pledge of property, plant and equipment as at 31 December 2007 and 2006.

The Group's buildings are located in the PRC.

Lease rental income amounting to approximately RMB3.2 million (2006: RMB2.3 million) is related to the lease of buildings (Note 29).

9 Intangible assets – Group

	Goodwill RMB'000	Computer Software RMB'000	Sponsorship fee RMB'000	Total RMB'000
At 1 January 2006				
Cost	–	2,321	–	2,321
Accumulated amortisation	–	(1,172)	–	(1,172)
Net book amount	–	1,149	–	1,149
Year ended 31 December 2006				
Opening net book amount	–	1,149	–	1,149
Additions (Note (a))	–	1,191	127,078	128,269
Acquisition of subsidiaries (Note (b))	11,941	409	–	12,350
Amortisation (Note 30)	–	(598)	(18,048)	(18,646)
Impairment (Note 30)	(11,941)	–	–	(11,941)
Closing net book amount	–	2,151	109,030	111,181
At 31 December 2006				
Cost	11,941	3,921	127,078	142,940
Accumulated amortisation	–	(1,770)	(18,048)	(19,818)
Accumulated impairment	(11,941)	–	–	(11,941)
Net book amount	–	2,151	109,030	111,181
Year ended 31 December 2007				
Opening net book amount	**–**	**2,151**	**109,030**	**111,181**
Additions	**–**	**826**	**–**	**826**
Amortisation (Note 30)	**–**	**(1,309)**	**(54,440)**	**(55,749)**
Closing net book amount	**–**	**1,668**	**54,590**	**56,258**
At 31 December 2007				
Cost	**11,941**	**4,747**	**127,078**	**143,766**
Accumulated amortisation	**–**	**(3,079)**	**(72,488)**	**(75,567)**
Accumulated impairment	**(11,941)**	**–**	**–**	**(11,941)**
Net book amount	**–**	**1,668**	**54,590**	**56,258**

Notes to the Consolidated Financial Statements

9 Intangible assets – Group (continued)

Notes:

(a) In August 2006, the Group entered into a sponsorship agreement with Beijing Organizing Committee for the Games of the XXIX Olympiad ("BOCOG"), pursuant to which the Group was granted the right to use the 2008 Beijing Olympic Games trademark on the packing of its instant noodle products and in its promotion activities effective from September 2006 to December 2008, at a total sponsorship fee of RMB131 million. The total sponsorship fee included both cash payments of RMB124.45 million to be settled in quarterly installments from October 2006 to July 2008, as well as provision of the Group's instant noodle products at fair value of RMB6.55 million.

The sponsorship fee has been capitalised and initially measured at inception of the sponsorship agreement at the fair value of the expected future payments and products to be provided free of charge and discounted at a rate of 4.97% per annum, which approximated the average bank borrowing rate of the Group. The sponsorship fee is amortised over the contractual period under the sponsorship program of 28 months.

(b) The goodwill of approximately RMB 11,941,000 was derived from the acquisitions of四川弘通商貿有限責任公司 (Sichuan Hongtong Commercial Trading Co., Ltd.*) ("Sichuan Hongtong") and 北京統一食品有限公司 (Beijing President Enterprises Food Co., Ltd. *) ("Beijing Food President") during the year ended 31 December 2006, and had been impaired and fully provided for. The recoverable amount of the goodwill was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period of the two acquired entities.

(c) The amortisation of computer software and sponsorship fee has been charged to administrative expenses and selling and market expenses respectively.

* The English name represents the best effort by management of the Company in translating the Chinese name.

10 Investment in a subsidiary – Company

	2007 **RMB'000**	2006 RMB'000
Investment, at cost:		
– Unlisted shares	**2,054,310**	–

Notes to the Consolidated Financial Statements

10 Investment in a subsidiary – Company (continued)

The following is a list of the principal subsidiaries as at 31 December 2007:

Company name	Country/Place and date of incorporation	Issued and paid-up capital	Equity interest held		Principal activities/ place of operation
			2007	2006	
Directly owned					
Uni-President Asia Holdings Ltd. ("Asia President")	Cayman Islands, 29 June 2006	USD10,000	**100%**	100%	Investment holding/ Cayman islands
Indirectly owned					
統一企業(中國)投資有限公司 (President Enterprises (China) Investment Co., Ltd.*) ("President China Investment")	Shanghai, PRC. 10 March 1998	USD248,160,000	**100%**	100%	Investment holding/PRC
新疆統一企業食品有限公司 (Xinjiang President Enterprises Food Co., Ltd.*) ("Xinjiang President")	Urumqi, PRC. 13 January 1992	USD15,500,000	**100%**	100%	Manufacturing and sale of beverages, foods and instant noodles/PRC
Beijing Food President	Beijing, PRC. 2 April 1992	USD18,400,000	**100%**	100%	Manufacturing and sale of instant noodles/PRC
成都統一企業食品有限公司 (Chengdu President Enterprises Food Co., Ltd.*) ("Chengdu President")	Chengdu, PRC. 14 April 1993	USD20,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
昆山統一企業食品有限公司 (Kunshan President Enterprises Food Co., Ltd.*) ("Kunshan President")	Kunshan, PRC. 14 May 1993	USD44,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
武漢統一企業食品有限公司 (Wuhan President Enterprises Food Co., Ltd. *) ("Wuhan President")	Wuhan, PRC. 7 July 1993	USD29,600,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
廣州統一企業有限公司 (Guangzhou President Enterprises Corp.*) ("Guangzhou President")	Guangzhou, PRC. 5 December 1994	USD48,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
沈陽統一企業有限公司 (Shenyang President Enterprises Co., Ltd.*) ("Shenyang President")	Shenyang, PRC. 15 June 1995	USD19,900,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
合肥統一企業有限公司 (Hefei President Enterprises Co., Ltd.*) ("Hefei President")	Hefei, PRC. 23 February 1998	USD10,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
哈爾濱統一企業有限公司 (Harbin President Enterprises Co., Ltd.*) ("Harbin President")	Harbin, PRC. 26 February 1998	USD15,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC

Notes to the Consolidated Financial Statements

10 Investment in a subsidiary – Company (continued)

Company name	Country/Place and date of incorporation	Issued and paid-up capital	Equity interest held 2007	Equity interest held 2006	Principal activities/ place of operation
廣州萬盛實業有限公司 (Guangzhou Wan Sheng Industrial Co., Ltd.*) ("Guangzhou Wansheng")	Guangzhou, PRC. 6 May 1999	RMB22,000,000	**100%**	100%	Investment holding and trading of instant noodles/ PRC
北京統一飲品有限公司 (Beijing President Enterprises Drinks & Food Co., Ltd*) ("Beijing Beverages President")	Beijing, PRC. 20 February 2001	USD17,500,000	**100%**	100%	Manufacturing and sale of beverages/PRC
南昌統一企業有限公司 (Nanchang President Enterprises Co., Ltd.*) ("Nanchang President")	Nanchang, PRC. 18 May 2001	USD12,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
福州統一企業有限公司 (Fuzhou President Enterprises Co., Ltd*) ("Fuzhou President")	Fuzhou, PRC. 19 July 2001	USD10,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
Sichuan Hongtong	Chengdu, PRC. 5 February 2002	RMB2,000,000	**100%**	100%	Wholesale of beverages, instant noodles and food products/PRC
鄭州統一企業有限公司 (Zhengzhou President Enterprises Co., Ltd.*) ("Zhengzhou President")	Zhengzhou, PRC. 25 June 2002	USD12,000,000	**100%**	100%	Manufacturing and sale of beverages and instant noodles/PRC
廣州統一健康食品科技有限公司 (Guangzhou President Health Biotechnology Corp. *) ("Guangzhou President Health Biotechnology")	Guangzhou, PRC. 4 November 2003	USD3,500,000	**100%**	100%	Manufacturing and sale of beverages/PRC
統一(上海)商貿有限公司 (President (Shanghai) Trading Co., Ltd.*) ("President Shanghai Trading")	Shanghai, PRC. 17 October 2005	USD600,000	**100%**	100%	Trading of beverages, instant noodles and food products/PRC
統仁實業股份有限公司 (Tong Ren Corp. Limited*) ("Tong Ren")	Taiwan, 28 December 2006	NTD1,000,000	**100%**	100%	Human resource management/Taiwan
昆明統一企業食品有限公司 (Kunming President Enterprises Food Co., Ltd.*) ("Kunming President")	Kunming, PRC. 8 November 2007	USD10,000,000	**100%**	–	Manufacturing and sale of beverages and instant noodles/PRC

All subsidiaries located in the PRC and Taiwan are limited liability entities. One subsidiary incorporated in Cayman Islands is an exempted company with limited liability.

* The English name represents the best effort by management of the Company in translating the Chinese name.

Notes to the Consolidated Financial Statements

11 Interests in jointly controlled entities – Group

	2007 RMB'000	2006 RMB'000
At 1 January	**276,182**	32,728
Investments during the year	**–**	300,000
Share of losses	**(40,800)**	(70,909)
Movements in revaluation reserves (Note 20)	**–**	1,161
Transfer to subsidiary	**–**	13,202
At 31 December	**235,382**	276,182

The particulars of the jointly controlled entities of the Group as at 31 December 2007, all of which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Equity interest attributable to the Group 2007	Equity interest attributable to the Group 2006	Principal activities
北京統一麒麟飲料有限公司 (Beijing President Kirin Beverage Corporation*). ("Beijing Kirin")	Beijing, PRC, 11 February 2004	USD3,000,000	**50%**	50%	Manufacturing and sale of beverages
今麥郎(北京)有限公司 (Jinmailang Beverage (Beijing) Co., Ltd.*) ("jinmailang JV")	Beijing, PRC, 28 October 2005	RMB600,000,000	**50%**	50%	Manufacturing and sale of beverages

* The English name represents the best effort by management of the Company in translating the Chinese name.

Notes to the Consolidated Financial Statements

11 Interests in jointly controlled entities – Group (continued)

The results, assets and liabilities of the Group's jointly controlled entities are as follows:

Name	Current assets RMB'000	Non-current assets RMB'000	Total assets RMB'000	Current liabilities RMB'000	Non-current liabilities RMB'000	Total liabilities RMB'000	Net assets value RMB'000	Net assets value attributable to the Group RMB'000	Revenues RMB'000	Losses RMB'000	Losses attributable to the Group RMB'000
Year ended 31 December 2006											
Jinmailang JV	562,790	16,696	579,486	40,648	–	40,648	538,838	269,419	111,509	(61,170)	(30,585)
Beijing Kirin	15,645	483	16,128	2,602	–	2,602	13,526	6,763	12,076	(4,186)	(2,093)
Beijing Food President	–	–	–	–	–	–	–	–	215,719	(69,511)	(38,231)
	578,435	17,179	595,614	43,250	–	43,250	552,364	276,182	339,304	(134,867)	(70,909)
Year ended 31 December 2007											
Jinmailang JV	**424,687**	**545,249**	**969,936**	**468,813**	**42,000**	**510,813**	**459,123**	**229,562**	**346,896**	**(79,709)**	**(39,855)**
Beijing Kirin	**14,785**	**1,224**	**16,009**	**4,370**	**–**	**4,370**	**11,639**	**5,820**	**21,291**	**(1,890)**	**(945)**
	439,472	**546,473**	**985,945**	**473,183**	**42,000**	**515,183**	**470,762**	**235,382**	**368,187**	**(81,599)**	**(40,800)**

As at 31 December 2007, the Group and the other equity holder of Jinmailang JV provided guarantees in proportion of their respective equity interests in Jinmailang JV for the bank borrowings and finance leases of Jinmailang JV, and the guarantees provided by the Group amounted to approximately RMB150 million.

12 Available-for-sale financial assets – Group

	2007 RMB'000	2006 RMB'000
Unlisted securities:		
At 1 January	**183,696**	41,662
Additions	**–**	136,364
Fair value increase transfer to equity (Note 20)	**47,468**	5,670
At 31 December	**231,164**	183,696

Notes to the Consolidated Financial Statements

12 Available-for-sale financial assets – Group (continued)

As at 31 December 2007, the details of the principal available-for-sale financial assets of the Group are as follows:

Company name	Country/place and date of incorporation, and kind of legal entity	Particulars of issued shares held	Interest held 2007	Interest held 2006	Principal activities
烟台北方安德利果汁股份有限公司 (Yantai North Andre Juice Co., Ltd.*) ("Andre Juice") (Note (a))	Yantai, PRC. 30 March 1996, foreign invested joint stock limited liability company	186,329,594 ordinary shares with par value of RMB0.10 each	**4.37%**	4.37%	Manufacturing and sale of juice and vegetable products
黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd.*) ("Wondersun Dairy") (Note (b))	Heilongjiang Province, PRC. 11 December 1996, foreign invested joint stock limited liability company	34,748,741 ordinary shares with par value of RMB1.00 each	**9%**	9%	Manufacturing and sale of dairy products

* The English name represents the best effort by management of the Company in translating the Chinese name.

The available-for-sale financial assets comprised:

	2007 RMB'000	2006 RMB'000
Andre Juice (Note (a))	**107,552**	56,084
Wondersun Dairy (Note (b))	**119,000**	123,000
Others	**4,612**	4,612
	231,164	183,696

The available-for-sale financial assets are denominated in RMB.

None of the financial assets are impaired. The fair values of the available-for-sale financial assets are as follows:

Notes to the Consolidated Financial Statements

12 Available-for-sale financial assets – Group (continued)

Notes:

(a) In June 2005, the Group acquired 84,695,270 shares, representing 4.99% shareholding of Andre Juice at a cost of approximately HKD44 million (equivalent to approximately RMB46,786,000). Andre Juice, engaged in the manufacturing and sale of juice, is a PRC domestic enterprise listed on the Growth Enterprise Market ("GEM") Board of The Stock Exchange of Hong Kong Limited. The shares held by the Group represent legal person shares which cannot be traded on the GEM Board. From June 2005 to July 2007, the Group's shareholding in Andre Juice has been diluted to 4.37% pursuant to share placements. Pursuant to a capitalisation issue of Andre Juice in November 2007, the number of shares held by the Group increased to 186,329,594 shares.

The fair values of the legal person shares in Andre Juice are determined with reference to a valuation by multiplying the listed share price of Andre Juice on the GEM at the balance sheet dates and the discount rates to reflect the unlisted status, risks and nature of unlisted shares. The discount rates used as at 31 December 2007 is 21% (2006: 22%).

(b) In January 2006, the Group paid approximately RMB136 million to subscribe for 34,748,741 new shares, representing 9% of the enlarged equity interest, of Wondersun Dairy.

The fair values of the unlisted shares in Wondersun Dairy are determined with reference to a valuation by multiplying the net income of Wondersun Dairy and a price/earning multiple. The multiples used as at 31 December 2007 is 35 (2006: 57).

13 Deferred income tax-Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2007 RMB'000	2006 RMB'000
Deferred income tax assets		
– Deferred income tax assets to be recovered within 12 months	**40,284**	10,636
– Deferred income tax assets to be recovered after more than 12 months	**3,611**	2,762
	43,895	13,398
Deferred income tax liabilities		
– Deferred income tax liabilities to be settled within 12 months	**6,813**	575
– Deferred income tax liabilities to be settled after more than 12 months	**–**	–
	6,813	575

Notes to the Consolidated Financial Statements

13 Deferred income tax-Group (continued)

The gross movement in the deferred income tax account is as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	**12,823**	12,889
Recognised in the consolidated income statements (Note 33)	**30,483**	290
Arising from revaluation of available-for-sale financial assets and charged directly to equity (Note 20)	**(6,224)**	(356)
At 31 December	**37,082**	12,823

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Impairment provision of assets RMB'000	Depreciation of equipment RMB'000	Related to accrued expenses (Note) RMB'000	Downward adjustment in fair value of available-for-sale financial assets RMB'000	Unused tax loss benefit RMB'000	Total RMB'000
At 1 January 2006	2,617	1,113	8,429	730	–	12,889
Recognised in the consolidated income statements (Note 33)	257	1,649	(1,616)	–	–	290
Credited directly to equity	–	–	–	620	–	620
At 31 December 2006	**2,874**	**2,762**	**6,813**	**1,350**	**–**	**13,799**
Recognised in the consolidated income statements (Note 33)	**507**	**849**	**20,248**	**–**	**8,879**	**30,483**
Credited directly to equity	**–**	**–**	**–**	**1,915**	**–**	**1,915**
At 31 December 2007	**3,381**	**3,611**	**27,061**	**3,265**	**8,879**	**46,197**

Note:

Deferred income tax assets related to accrued expenses represent miscellaneous operating expenses which will be tax deductible upon actual payment.

Notes to the Consolidated Financial Statements

13 Deferred income tax-Group (continued)

Deferred income tax liabilities

	Upward adjustment in fair value of available-for-sale financial assets RMB'000
At 1 January 2006	–
Charged directly to equity	976
At 31 December 2006	**976**
Charged directly to equity	**8,139**
At 31 December 2007	**9,115**

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB29,077,000 (2006: RMB28,502,000) in respect of tax losses amounting to approximately RMB152,126,000 (2006: RMB170,862,000), because it is estimated that these tax losses cannot be utilised before expiration. Losses amounting to approximately RMB28,860,000 and RMB15,548,000 expired in the year ended 31 December 2007 and 2006, respectively.

14 Inventories – Group

	2007 RMB'000	2006 RMB'000
Raw materials	**131,655**	85,025
Working in progress	**26,461**	22,311
Finished goods	**300,053**	287,720
Consumables	**108,918**	107,660
	567,087	502,716

The cost of inventories recognised as expenses and included in cost of sales amounted to approximately RMB4,990 million (2006: RMB4,822 million).

The Group recognised a loss of approximately RMB4,521,000 (2006: RMB1,205,000) (Note 30) for the year ended 31 December 2007, in respect of the write-down of inventories to their net value. These amounts have been included in cost of sales in the consolidated income statements.

Notes to the Consolidated Financial Statements

15 Trade and bills receivables-Group

	2007 RMB'000	2006 RMB'000
Trade receivables from independent third parties	**250,822**	278,956
Less: provision for impairment	**(13,573)**	(21,879)
Trade receivables from independent third parties, net	**237,249**	257,077
Trade receivables from related parties, net (Note 40(b))	**1,837**	4,352
Bills receivable from independent third parties	**450**	6,637
Trade and bills receivables, net	**239,536**	268,066

The credit terms granted to customers by the Group are usually 60 to 90 days. The ageing analysis of trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
Trade receivables, gross		
– 0-90 days	**213,210**	222,271
– 91-180 days	**27,565**	44,341
– 181-365 days	**9,518**	7,925
– Over 1 year	**2,366**	8,771
	252,659	283,308

The trade and bills receivables are denominated in RMB. Their carrying amounts approximate their fair values as at the balance sheet dates.

As at 31 December 2007, trade receivables of approximately RMB71 million (2006: RMB93 million) are impaired and the amount of the provision for impairment is approximately RMB13.6 million (2006: RMB21.9 million). The impairment is firstly assessed individually for individual significant or long ageing balances, and the remaining balances are grouped for collective assessment according to their ageing and historical default rates as these customers are of similar credit risk characteristics. The ageing of these receivables is as follows:

	2007 RMB'000	2006 RMB'000
Trade receivables, gross		
– 0-90 days	**31,990**	32,099
– 91-180 days	**27,565**	44,341
– 181-365 days	**9,518**	7,925
– Over 1 year	**2,366**	8,771
	71,439	93,136

Notes to the Consolidated Financial Statements

15 Trade and bills receivables-Group (continued)

The Group recognises provision for impairment of trade and bills receivables in the administrative expenses in the consolidated income statements. The movements in provision for impairment are as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	**21,879**	19,668
Acquisition of subsidiaries	**–**	303
Receivables written off as uncollectible	**(3,038)**	(2,288)
(Reversal of provision)/provision for impairment of trade receivables (Note 30)	**(5,268)**	4,196
At 31 December	**13,573**	21,879

The maximum exposure of the Group to credit risk at the reporting date is the fair value of trade and bills receivables as mentioned above. The Group does not hold any collateral as security.

16 Prepayments, deposits and other receivables

	Group		Company
	2007 RMB'000	2006 RMB'000	2007 RMB'000
Prepaid and deductible value added tax	**35,513**	41,152	**–**
Prepayments – advance payments to suppliers	**24,612**	32,799	**–**
Deposits	**15,391**	20,607	**–**
Amounts due from related parties (Note 40(b))	**14,366**	3,486	**10,591**
Prepaid lease, insurance and other operating expenses	**12,189**	18,212	**65**
Prepayments to related parties (Note 40(b))	**5,023**	11,725	**–**
Petty cash borrowed by salesmen	**3,098**	6,042	**–**
Dividends receivable from the Other Businesses (Note 40(b))	**–**	8,570	**–**
Others	**11,568**	9,575	**2,561**
	121,760	152,168	**13,217**

The carrying amounts of deposits and receivables approximate their fair values.

Notes to the Consolidated Financial Statements

17 Pledged bank deposits-Group

The pledged bank deposits as at 31 December 2006 represented deposits at banks pledged as security for the issue of letter of credit facilities and bills.

18 Cash and cash equivalents

As at 31 December 2007, cash and cash equivalents are denominated in the following currencies:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Cash at bank and in hand			
– RMB	**1,061,220**	792,803	**–**
– USD	**15,247**	7,780	**–**
– HKD	**57,924**	–	**57,367**
– Others	**4,200**	240	**–**
	1,138,591	800,823	**57,367**
Short-term bank deposits			
– RMB	**91,620**	40,300	**–**
– USD	**215,259**	–	**–**
– HKD	**1,966,398**	–	**1,966,398**
	2,273,277	40,300	**1,966,398**
Cash and bank balances	**3,411,868**	841,123	**2,023,765**

As at 31 December 2007, the short-term bank deposits have average maturity of approximately 6 days.

Notes to the Consolidated Financial Statements

18 Cash and cash equivalents (continued)

As at 31 December 2007, the applicable weighted average interest rates per annum of the bank deposits are as follows:

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Current deposits			
– RMB	**1.45%**	1.28%	**–**
– USD	**1.15%**	1.15%	**–**
– HKD	**1.50%**	–	**1.50%**
– Others	**0.81%**	1.99%	**–**
Short-term bank deposits			
– RMB	**3.12%**	2.07%	**–**
– USD	**4.50%**	–	**–**
– HKD	**3.35%**	–	**3.35%**

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

19 Share capital and premium

	Authorised		
	Number of ordinary shares	**Share capital**	
		USD'000	**HKD'000**
At 4 July 2007	**50,000,000,000**	**500,000**	**–**
Creation	**50,000,000,000**	**–**	**500,000**
Cancellation	**(50,000,000,000)**	**(500,000)**	**–**
31 December 2007	**50,000,000,000**	**–**	**500,000**

Notes to the Consolidated Financial Statements

19 Share capital and premium (continued)

	Issued and fully paid				
	Number of shares	Share capital		Share premium	Total
		HK'000	Equivalent to RMB'000	RMB'000	RMB'000
At 4 July 2007	1	–	–	–	–
Issuance	1	–	–	–	–
Repurchase	(1)	–	–	–	–
Issue pursuant to global initial public offering	526,810,000	5,268	4,985	1,988,633	1,993,618
Capitalisation Issue	2,999,999,999	30,000	28,385	(28,385)	–
At 31 December 2007	3,526,810,000	35,268	33,370	1,960,248	1,993,618

Movements in the authorised and issued share capital of the Company during the year ended 31 December 2007 are as follows:

(a) As at the date of incorporation of the Company on 4 July 2007, the authorised share capital of the Company was USD500,000,000 divided into 50,000,000,000 shares with par value of USD0.01. One share was allotted and issued for cash at par value of USD0.01 to the initial subscriber, and was subsequently transferred to Cayman President Holdings Ltd. ("Cayman President") on 7 August 2007. Cayman President is a wholly-owned subsidiary of the Group's ultimate holding company.

(b) Pursuant to written resolutions of the sole shareholder of the Company passed on 23 November 2007:

(i) The authorised share capital of the Company was increased to the aggregate of USD500,000,000 and HKD500,000,000 by the creation of an additional 50,000,000,000 shares of par value HKD0.01;

(ii) One share was issued for cash at par value of HKD0.01 to Cayman President, and the one issued share of par value USD0.01 currently held by Cayman President was repurchased at par by the Company; and

(iii) The authorised share capital of the Company was reduced by the cancellation of 50,000,000,000 share of USD0.01 par value each.

(c) On 17 December 2007, the Company issued 526,810,000 shares of HKD0.01 each at a consideration of HKD4.22 per share through the global initial public offering. The Company raised net issue proceeds amounting to approximately HKD2,107,018,000 (equivalent to approximately RMB1,993,618,000), after offsetting share issue expenses of approximately RMB109,871,000. The Company's shares were listed on the Hong Kong Stocks Exchange Limited on the same date.

(d) Upon the successful global initial public offering of the Company's shares, the Company issued and allotted a total of 2,999,999,999 shares to Cayman President at par value HKD0.01 through the capitalisation of the share premium account of the Company being credited as a result of the issue of shares pursuant to the global initial public offering ("Capitalisation Issue").

Notes to the Consolidated Financial Statements

19 Share capital and premium (continued)

As disclosed in Note 2, these consolidated financial statements have been prepared using the principles of merger accounting. Accordingly, the issued share capital of the Company of HKD 30,000,000 (equivalent to approximately RMB28,385,000) comprising of 3,000,000,000 shares of HKD0.01 each held by Cayman President, the sole shareholder of the Company prior to the global initial public offering as at 17 December 2007 as described above, is deemed to have been in issue throughout the accounting periods presented in these financial statements.

Share option scheme

The Company adopted a share option scheme (the "Scheme") pursuant to a written resolution passed on 23 November 2007. The total number of shares which may be issued under the Scheme must not exceed 352,681,000 shares, representing approximately 10% of the total number of shares issued by the Company as at the 17 December 2007, the listing date of the Company's shares on the Stock Exchange. The general vesting period for the options granted under the Scheme is limited to 20% at each anniversary of grant date and should be a period to commence not less than one year and not to exceed 10 years from the date of the grate of the option. The Scheme will remain in force until 16 December 2017.

During the year ended 31 December, no share options are granted under the Scheme.

20 Other reserves

Group

		Capital reserves RMB'000 (Note a)	Fair value reserves RMB'000 (Note b)	Statutory reserves RMB'000 (Note c)	Total RMB'000
Balance at 1 January 2006		1,762,247	(9,006)	125,643	1,878,884
Contributions from equity holder		2,170	–	–	2,170
Distributions to equity holder in relation to the Reorganisation	(i)	(117,150)	–	–	(117,150)
Appropriation to statutory reserves		–	–	26,800	26,800
Arising from acquisition of a subsidiary (Note 11)		–	1,161	–	1,161
Dividends declared	(ii)	(27,692)	–	–	(27,692)
Revaluation of available-for-sale financial assets-gross (Note 12)		–	5,670	–	5,670
Revaluation of available-for-sale financial assets-tax (Note 13)		–	(356)	–	(356)
Balance at 31 December 2006		**1,619,575**	**(2,531)**	**152,443**	**1,769,487**
Contributions from equity holder in relation to the Reorganisation	(iii)	**193,730**	**–**	**–**	**193,730**
Disposal transfer-revaluation reserve of property, plant and equipment acquired in business combinations		**–**	**(382)**	**–**	**(382)**
Appropriation to statutory reserves		**–**	**–**	**87,750**	**87,750**
Revaluation of available-for-sale financial assets-gross (Note 12)		**–**	**47,468**	**–**	**47,468**
Revaluation of available-for-sale financial assets-tax (Note 13)		**–**	**(6,224)**	**–**	**(6,224)**
Balance at 31 December 2007		**1,813,305**	**38,331**	**240,193**	**2,091,829**

Notes to the Consolidated Financial Statements

20 Other reserves (continued)

Group (continued)

(a) Capital reserves

Capital reserves represent the excess share capital of subsidiaries of the Group and contributions from and distributions to the equity holder of the Group prior to the initial global public offering.

The major movements of capital reserves during the years included:

(i) The distributions to equity holder in relation to the Reorganisation for the year ended 31 December 2006 represented the considerations paid for the acquisition of the entire equity interests in Beijing Beverages President and Fuzhou President, wholly-owned subsidiaries of Uni-President, at a cash considerations amounted to approximately RMB117,150,000. Since the acquisitions involved companies under common control, the cash paid to the then equity holder of the Group was deemed to be distributions to equity holder.

(ii) These represented dividends declared by Fuzhou President and Beijing Beverage President to their then equity holder prior to the transfer of their equity interests to the Group pursuant to the Reorganisation.

(iii) During the period from March to May 2007, the Group completed the transfer of the companies engaged in Other Businesses to the subsidiaries of Uni-President at cash considerations totaling USD25,420,000 (equivalent to approximately RMB193,730,000).

(b) Fair value reserves

Fair value reserves comprise of reserves arising from changes in fair value of available-for-sale financial assets and reserves arising from business combinations.

(c) Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit as reported in their respective statutory financial statements after offsetting accumulated losses from prior years, before profit distributions to equity holder. All statutory reserves are created for specific purposes.

PRC subsidiaries incorporated as wholly-foreign owned enterprises and domestic companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. In addition, at the discretion of the respective boards of directors, the wholly-foreign owned enterprises and domestic companies may allocate a portion of their post-tax profits to the staff welfare and bonus reserve and discretionary surplus reserve respectively.

PRC subsidiaries incorporated as Sino-foreign equity joint ventures may allocate a portion of their statutory post-tax profits to the statutory surplus reserves, staff welfare and bonus reserve and enterprise expansion fund at the discretion of the boards of directors.

The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. The use of the staff welfare and bonus reserve is restricted to employees' welfare benefits.

Notes to the Consolidated Financial Statements

20 Other reserves (continued)

Company

The Company was incorporated on 4 July 2007. Pursuant to an instrument of transfer, on 20 July 2007, Cayman President transferred its 100% equity interests in Asia President to the Company. Asia President holds the entire equity interests of the PRC Beverage and Instant Noodles Businesses. Thereafter, the Company became the holding company of the Group. The other reserves of the Company represented contributed surplus arising from the Reorganisation with the amount equal to the book value of net assets of Asia President on 20 July 2007.

21 Retained earnings/(Accumulated losses)

	Group		Company
	2007	2006	**2007 ***
At beginning of year/period	**762,743**	643,473	**–**
Profit/(loss) for the year/period	**424,005**	146,070	**(23,844)**
Appropriation to statutory reserves (Note 20)	**(87,750)**	(26,800)	**–**
Disposal transfer-revaluation reserve of property, plant and equipment acquired in business combinations (Note 20)	**382**	–	**–**
At end of year/period	**1,099,380**	762,743	**(23,844)**

* Represents to the period from 4 July 2007, the incorporation date of the Company, to 31 December 2007.

22 Accounting adjustments under common control combination-Group

The following is a reconciliation of the effect arising from the common control combination (Note 2) on the consolidated balance sheets. No significant adjustments are made to the net assets and net profit or loss of any entities as a result of the common control combination to achieve consistency of accounting policies.

The consolidated balance sheet as at 31 December 2007:

	The Company RMB'000	The Operating Group (Note a) RMB'000	Adjustment (Note b) RMB'000	Consolidated RMB'000
Investment in a subsidiary	2,054,310	–	(2,054,310)	–
Other assets	1,969,774	3,215,053	–	5,184,827
Net assets	4,024,084	3,215,053	(2,054,310)	5,184,827
Share capital	33,370	–	–	33,370
Share premium	1,960,248	–	–	1,960,248
Contributed surplus	2,054,310	–	(2,054,310)	–
Capital reserves	–	1,813,305	–	1,813,305
Fair value reserves	–	38,331	–	38,331
Statutory reserves	–	240,193	–	240,193
(Accumulated losses)/Retained earnings	(23,844)	1,123,224	–	1,099,380
	4,024,084	3,215,053	(2,054,310)	5,184,827

Notes to the Consolidated Financial Statements

22 Accounting adjustments under common control combination – Group (continued)

The consolidated balance sheet as at 31 December 2006:

	The Operating Group (Note a) RMB'000	Adjustment (Note c) RMB'000	Consolidated RMB'000
Other assets	2,532,230	–	2,532,230
Net assets	2,532,230	–	2,532,230
Share capital	–	28,385	28,385
Share premium	–	(28,385)	(28,385)
Capital reserves	1,619,575	–	1,619,575
Fair value reserves	(2,531)	–	(2,531)
Statutory reserves	152,443	–	152,443
Retained earnings	762,743	–	762,743
	2,532,230	–	2,532,230

Notes:

(a) The Operating Group refers to the subsidiaries engaged in the PRC Beverages and Instant Noodles Businesses.

(b) The adjustment represents the elimination of investment cost of the Company in a subsidiary against the contributed surplus arising from the transfer of Asia President, which held the Operating Group, to the Company during the Reorganisation.

(c) The adjustment represents the Capitalisation Issue of HKD30,000,000 share capital (equivalent to approximately RMB28,385,000), being of 3,000,000,000 shares of HKD0.01 each of the Company which was deemed to be issued throughout the accounting periods presented in these consolidated financial statements.

23 Deferred government grants-Group

	2007 RMB'000	2006 RMB'000
At 1 January	**10,041**	7,873
Addition	**–**	3,535
Amortisation, credited into other income	**(1,368)**	(1,367)
At 31 December	**8,673**	10,041
At end of year		
Cost	**13,371**	13,371
Accumulated amortisation	**(4,698)**	(3,330)
Net book amount	**8,673**	10,041

Notes to the Consolidated Financial Statements

23 Deferred government grants-Group (continued)

The analysis of government grants received by the Group is as follows:

	2007 RMB'000	2006 RMB'000
For acquisition of leasehold land	**1,513**	1,513
For acquisition of property, plant and equipment	**11,858**	11,858
	13,371	13,371

24 Other long-term liability-Group

Other long-term liability represents the payable for 2008 Beijing Olympic Games sponsorship fee, the payment terms of which are as follows:

	2007 RMB'000	2006 RMB'000
Within one year	**46,192**	54,988
In the second year	**–**	45,644
	46,192	100,632

The movement in the sponsorship fee payable during the year is as follows:

	2007 RMB'000	2006 RMB'000
At beginning of the year	**100,632**	–
Addition	**–**	127,078
Payment and imputed interest costs	**(54,440)**	(26,446)
At end of the year	**46,192**	100,632

The sponsorship fee payable was initially recognised at inception of the sponsorship agreement at fair value, which was the present value of the future cash payments and the fair value of products to be provided free of charge, discounted at a rate of 4.97% per annum, which approximated the average bank borrowing rate of the Group.

The carrying amounts of other long-term liability approximate their fair values.

Notes to the Consolidated Financial Statements

25 Trade and bills payables-Group

	2007 **RMB'000**	2006 RMB'000
Trade payables		
– to independent third parties	**437,347**	443,278
– to related parties (Note 40(b))	**31,316**	17,368
	468,663	460,646
Bills payable		
– to independent third parties	**2,555**	7,200
	471,218	467,846

The credit terms granted by suppliers to the Group are usually 30 to 45 days. The ageing analysis of trade payables is as follows:

	2007 **RMB'000**	2006 RMB'000
Trade payables		
– 0 to 180 days	**460,600**	451,643
– 181 to 365 days	**5,394**	3,070
– Over 1 year	**2,669**	5,933
	468,663	460,646

The trade and bills payables are denominated in RMB. Their carrying amounts approximate their fair values.

Notes to the Consolidated Financial Statements

26 Other payables and accruals

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Advance receipts from customers	**153,039**	94,914	**–**
Accruals for promotion and advertising expense	**382,259**	249,600	**–**
Salary and welfare payables	**119,290**	67,405	**652**
Other taxes and levies payable	**25,079**	8,178	**–**
Quality guarantee deposits from suppliers	**56,208**	61,803	**–**
Payables for purchase of equipment	**31,257**	43,498	**–**
Payables for transportation fee	**41,497**	28,341	**–**
Amounts due to related parties (Note 40 (b))	**100**	130,655	**54**
Intra-group balances	**–**	–	**25,382**
Accrued share issue expenses	**37,596**	–	**37,596**
Others (Note)	**70,335**	49,789	**3,535**
	916,660	734,183	**67,219**

Note:

Others comprise payables for machinery maintenance expenses, water and electricity expenses and other miscellaneous operating costs.

The carrying amounts of other payables and accruals approximate their fair values.

27 Borrowings – Group

	2007	2006
	RMB'000	RMB'000
Current:		
Short term bank borrowings		
– secured	**162,569**	177,852
– unsecured	**133,606**	536,659
Total borrowings	**296,175**	714,511

The secured short term bank borrowings represent borrowings with guarantees provided by the Company and certain subsidiaries within the Group.

Notes to the Consolidated Financial Statements

27 Borrowings – Group (continued)

The borrowings are denominated in the following currencies:

	2007 RMB'000	2006 RMB'000
Bank borrowings		
– RMB	**73,000**	498,580
– USD	**223,175**	215,931
Total borrowings	**296,175**	714,511

The effective weighted average interest rates per annum at year end are as follows:

	2007	2006
Bank borrowing, secured		
– RMB	**5.832%**	5.185%
– USD	**6.040%**	5.965%
Bank borrowing, unsecured		
– RMB	**5.711%**	4.677%
– USD	**5.716%**	5.868%

Bank borrowings are at floating interest rates, the carrying amounts of the borrowings approximate their fair value.

The Group has the following undrawn bank borrowing facilities:

	2007 RMB'000	2006 RMB'000
RMB facilities	**1,817,001**	1,640,191
USD facilities	**279,381**	648,773
HKD facilities	**46,819**	50,235
	2,143,201	2,339,199

Notes to the Consolidated Financial Statements

28 Other losses – net

	2007 **RMB'000**	2006 RMB'000
Gains on disposal of property, plant and equipment, net	**2,346**	1,577
Others	**(3,408)**	(2,681)
	(1,062)	(1,104)

29 Other income

	2007 **RMB'000**	2006 RMB'000
Government grants (Note)	**16,592**	22,592
Sales of raw materials	**13,341**	10,461
Interest income on loans lent to related parties (Note 40(a))	**3,290**	25,070
Rental income from lease of property, plant and equipment	**3,220**	2,345
Consultation service income (Note 40(a))	**247**	4,369
Dividend income from available-for-sales financial assets	**1,686**	1,380
Others	**1,989**	2,574
	40,365	68,791

Note:

The government grants income represent both the amortisation of deferred government grants (Note 23) and other subsidy income received from various local governments as rewards to the operation of certain subsidiaries which are credited to the consolidated income statements directly. Grants from government are recognised at their fair value when the Group fulfills the attached conditions.

As the provision of government grants should be approved by local government on a case by case basis, there is no assurance that the Group will continue to enjoy such grants in the future.

Notes to the Consolidated Financial Statements

30 Expenses by nature

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	2007 RMB'000	2006 RMB'000
Raw materials, packaging materials and consumables used	**4,702,274**	4,509,139
Purchased commodity used	**299,632**	370,038
Changes in inventories of finished goods	**(12,333)**	(57,394)
Promotion and advertising expenses	**1,030,888**	891,146
Employee benefit expenses (Note 31)	**764,472**	626,380
Transportation expense	**427,273**	433,705
Amortisation of leasehold land (Note 7)	**3,960**	3,153
Depreciation of property, plant and equipment (Note 8)	**307,071**	304,772
Amortisation of intangible assets (Note 9)	**55,749**	18,646
Technical know-how and management fees (Note 40(a))	**–**	34,437
Travelling expenses	**60,030**	57,598
Operating lease in respect of land and buildings	**48,750**	44,395
Impairment provision for goodwill arising from business combinations (Note 9)	**–**	11,941
Property tax and other taxes	**19,960**	10,398
(Reversal of provision)/provision for impairment of property, plant and equipment (Note 8)	**(100)**	1,155
Write-down of inventories to net realisable value (Note 14)	**4,521**	1,205
(Reversal of provision)/provision for impairment of trade receivables (Note 15)	**(5,268)**	4,196
Auditors' remunerations for the year	**3,687**	339
Machinery maintenance expenses	**93,317**	97,742
Water and electricity expenses	**91,825**	89,958
Manufacture outsourcing expenses	**116,240**	90,167
Others	**141,183**	142,452
Total	**8,153,131**	7,685,568

31 Employee benefit expenses

	2007 RMB'000	2006 RMB'000
Wages and salaries	**689,625**	562,889
Pension and other social welfare	**58,417**	51,680
Staff quarters and housing benefit	**13,069**	9,486
Other benefit	**3,361**	2,325
	764,472	626,380

Notes to the Consolidated Financial Statements

31 Employee benefit expenses (continued)

(a) Directors' emoluments

During the years ended 31 December 2007 and 2006, the remuneration of directors of the Company is as follows:

Name of Director	Salary and bonuses RMB'000	Fees RMB'000	Travelling allowance RMB'000	Total RMB'000
2007				
Executive directors				
Mr. Lo Chih-Hsien (羅智先)	**–**	**170**	**6**	**176**
Mr. Lin Wu-Chung (林武忠)	**652**	**356**	**6**	**1,014**
Non-executive directors				
Mr. Kao Chin-Yen (高清愿)	**–**	**40**	**–**	**40**
Mr. Lin Chang-Sheng (林蒼生)	**–**	**40**	**6**	**46**
Mr. Lin Lung-Yi (林隆義)	**–**	**33**	**6**	**39**
Mr. Su Tsung-Ming (蘇崇銘)	**–**	**18**	**–**	**18**
Independent Non-executive directors				
Mr. Chen Sun-Te (陳聖德)	**–**	**91**	**–**	**91**
Mr. Fan Ren-Da (范仁達)	**–**	**91**	**–**	**91**
Mr. Hwang Jenn-Tai (黃鎮台)	**–**	**91**	**–**	**91**
Mr. Yang Ing-Wuu (楊英武)	**–**	**27**	**–**	**27**
Mr. Lo Peter (路嘉星)	**–**	**27**	**–**	**27**
2006				
Executive directors				
Mr. Lo Chih-Hsien (羅智先)	–	–	2	2
Mr. Lin Wu-Chung (林武忠)	920	–	2	922
Non-executive directors				
Mr. Lin Chang-Sheng (林蒼生)	–	–	1	1
Mr. Lin Lung-Yi (林隆義)	–	–	1	1

Mr. Lin Wu-Chung (林武忠) receives the above remuneration for his services as both general manager of President China Investment and executive director of the Company.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

(b) Five highest paid individuals

The five individuals whose emoluments are the highest in the Group for the year ended 31 December 2007 include one (2006: one) director, Mr. Lin Wu-Chung (林武忠), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2006: four) individuals during the year are as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,410**	2,280

The emoluments of each of the above four (2006: four) highest paid individuals paid by the Group during the year are below RMB1,000,000 individually.

Notes to the Consolidated Financial Statements

32 Finance costs-net

	2007 RMB'000	2006 RMB'000
Interest expenses on short term borrowings		
– Bank borrowings	**28,990**	41,750
– Borrowings from related parties (Note 40(a))	**–**	163
	28,990	41,913
Net foreign exchange losses/(gains) on financing activities	**11,369**	(8,849)
Finance costs	**40,359**	33,064
Finance income – interest income on cash and cash equivalent	**(22,676)**	(13,708)
Finance costs-net	**17,683**	19,356

33 Income tax expense

	2007 RMB'000	2006 RMB'000
Current income tax		
– Mainland China enterprise income tax ("EIT")	**90,944**	29,766
Deferred income tax (Note 13)	**(30,483)**	(290)
	60,461	29,476

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 33% as follows:

	2007 RMB'000	2006 RMB'000
Profit before income tax	**484,466**	175,546
Tax calculated at the statutory tax rate of 33%	**159,874**	57,930
Effect on change in EIT rate due to the New CIT Law	**(3,641)**	–
Preferential tax rates on the income of certain subsidiaries	**(143,797)**	(79,150)
Tax losses not recognised as deferred tax assets	**24,794**	8,337
Previously unrecognised tax losses recognised as deferred tax assets	**(4,231)**	–
Share of the results of jointly controlled entities	**13,464**	23,400
Expenses not deductible for tax purpose	**13,998**	18,959
Income tax expense	**60,461**	29,476

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Notes to the Consolidated Financial Statements

33 Income tax expense (continued)

Enterprises incorporated in the PRC are normally subject to EIT at rate of 33%, which comprises 30% attributable to national enterprise income tax and 3% attributable to local municipal income tax. Certain subsidiaries of the Group enjoy the preferential EIT rates lower than 33% as approved by the relevant tax authorities or operate in designated area with preferential EIT policies in the PRC. Besides, certain subsidiaries, being incorporated as foreign investment enterprises in the PRC, have obtained approvals from the relevant tax authorities in the PRC for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), with effective date from 1 January 2008 onwards. According to the new CIT Law, the EIT for both domestic and foreign investment enterprises should be unified at 25% effective from 1 January 2008. In December 2007, the State Council announced detailed grandfathering provision, pursuant to which there will be a transition period for enterprises that are currently enjoying qualified preferential tax treatments granted by relevant tax authorities. Enterprises qualified in the grandfathering provision can continue to enjoy the lower EIT rate and gradually transfer to the new EIT rate within five years after the effective date of the new CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term can continue to enjoy such treatment until the fixed term expires. For enterprises that have not yet benefited from such preferential policies due to their accumulated loss positions, the preferential policies shall be deemed to commence from the 2008 tax year to kick-start the grandfathering period.

34 Profit attributable to the equity holders of the Company

As at 31 December 2007, the Company is subject to accumulated losses of approximately RMB23,844,000.

35 Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007 **RMB'000**	2006 RMB'000
Profit attributable to equity holders of the Company	**424,005**	146,070
Weighted average number of ordinary shares in issue (thousands)	**3,020,206**	3,000,000
Basic earnings per share (RMB per share)	**14.04 cents**	4.87 cents

In determining the number of shares in issue, a total of 3,000,000,000 shares issued at the incorporation of the Company and pursuant to the Capitalisation Issue as stated in Note 19 are deemed to have been issued since 1 January 2006.

Diluted earnings per share are the same as basic earnings per share as there are no diluted ordinary shares.

Notes to the Consolidated Financial Statements

36 Dividends

The directors do not recommend a final dividend in respective of the year ended 31 December 2007.

37 Notes to consolidated cash flow statements

Reconciliation of profit before income tax to net cash generated from operations:

	2007 **RMB'000**	2006 RMB'000
Profit before income tax	**484,466**	175,546
Adjustments for:		
– Share of losses of jointly controlled entities	**40,800**	70,909
– Amortisation of leasehold land (Note 7)	**3,960**	3,153
– Depreciation of property, plant and equipment (Note 8)	**307,071**	304,772
– Amortisation of intangible assets (Note 9)	**55,749**	18,646
– Gains on disposal of property, plant and equipment (Note 28)	**(2,346)**	(1,577)
– (Reversal of provision)/provision for impairment of property, plant and equipment (Note 8)	**(100)**	1,155
– Write-down of inventories to net realisable value (Note 14)	**4,521**	1,205
– (Reversal of provision)/provision for impairment of trade receivables (Note 15)	**(5,268)**	4,196
– Interest income on loans lent to related parties (Note 40(a))	**(3,290)**	(25,070)
– Interest income on cash and cash equivalent (Note 32)	**(22,676)**	(13,708)
– Interest expenses (Note 32)	**28,990**	41,913
– Provision for impairment of goodwill (Note 30)	**–**	11,941
	891,877	593,081
Changes in working capital:		
– Decrease/(increase) in pledged bank deposits	**21,316**	(15,509)
– Decrease in financial assets at fair value through profit or loss	**–**	2,000
– Decrease in trade and bills receivables	**33,798**	36,227
– Decrease in prepayments, deposits and other receivables	**24,608**	23,288
– Increase in inventories	**(68,892)**	(47,187)
– Increase/(decrease) in trade and bills payables	**3,372**	(80,782)
– Increase in other payables and accruals	**309,163**	63,982
Cash generated from operations	**1,215,242**	575,100

Notes to the Consolidated Financial Statements

38 Contingent liabilities

	2007 RMB'000	2006 RMB'000
Guarantees to related parties	**150,270**	116,840

As at 31 December 2007, the Group provides guarantees for the bank borrowings and finance leases of Jinmailang JV (Note 11) amounting to approximately RMB150 million.

As at 31 December 2007, the Company provides guarantees for bank borrowings of a subsidiary amounting to approximately RMB65,741,000.

39 Commitments

(a) Operating lease commitments

The Group is the lessee:

The Group leases buildings under non-cancellable lease agreements. The Group's future aggregate minimum lease payments under these non-cancellable operating leases are as follows:

	2007 RMB'000	2006 RMB'000
Not later than 1 year	**20,601**	13,704
Later than 1 year and not later than 5 years	**37,052**	25,119
Later than 5 years	**–**	8,580
	57,653	47,403

The Group is the lessor:

The Group leases out certain office premises, plant and equipment under non-cancellable operating lease agreements. The leases have various terms and renewal rights.

The future aggregate minimum rental receivables under these non-cancellable operating leases are as follows:

	2007 RMB'000	2006 RMB'000
Not later than 1 year	**810**	810
Later than 1 year and not later than 5 years	**3,848**	4,050
Later than 5 years	**–**	608
	4,658	5,468

Notes to the Consolidated Financial Statements

39 Commitments (Continued)

(b) Capital commitments

The Group's capital commitments in respect of property, plant and equipment are as follows:

	2007 **RMB'000**	2006 RMB'000
Contracted but not provided for	**1,035**	6,078
Authorised but not contracted for	**250,837**	131,454
	251,872	137,532

There is no capital commitment of the Company as at 31 December 2007.

(c) Investment commitments

The Group has commitments in respect of capital contribution to investments as follows:

(i) Pursuant to a subscription agreement entered into in July 2005, the Group was committed to subscribe up to 15% equity interests in Wondersun Dairy for a subscription amount of RMB300,000,000 in aggregate. The Group paid the first phase subscription of approximately RMB136,364,000 for 9% equity interests in Wondersun Dairy in 2006 (Note 12). Pursuant to a supplementary subscription agreement entered into on 12 July 2007 among Wondersun Dairy and shareholders of Wondersun Dairy, all parties agreed not to proceed with the second phase subscription as agreed under the original subscription agreement in July 2005. However, the Group retains the first right of refusal to the subscription of new shares of Wondersun Dairy in the future subject to the terms and conditions thereafter.

(ii) In April 2007, the Group entered into a preliminary agreement with 今麥郎食品有限公司 and 河北今麥郎紙品有限公司 (collectively the "Jinmailang Companies") as well as the major equity holder of Jinmailang Companies. Pursuant to this agreement, the Group has the intention to subscribe for 20% of the enlarged share capital of Jinmailang Companies. Jinmailang Companies are engaged in the manufacturing and sale of instant noodles and the related packaging paper boxes in the PRC. The subscription is subject to satisfactory completion of due diligence and conclusion of definitive agreements in the future.

Notes to the Consolidated Financial Statements

40 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The ultimate parent company of the Group is Uni-President. The directors of the Company are of the view that the subsidiaries of Uni-President and the jointly controlled entities of the Group are regarded as related parties.

(a) Transactions with related parties:

The following transactions are carried out with related parties:

	Note	**2007 RMB'000**	2006 RMB'000
Continuing transactions			
Sales of goods:	(i)		
Subsidiaries of Uni-President		**22,873**	25,557
Jointly controlled entities of the Group		**1,118**	7,222
		23,991	32,779
Purchase of raw materials and finished goods:	(i)		
Subsidiaries of Uni-President		**533,310**	287,378
Jointly controlled entities of the Group		**9,595**	441
		542,905	287,819
Purchase of machinery parts:	(i)		
Subsidiaries of Uni-President		**–**	3,185
Consultation service income:	(ii)		
Subsidiaries of Uni-President		**247**	4,369

Notes to the Consolidated Financial Statements

40 Related party transactions (continued)

(a) Transactions with related parties: (continued)

	Note	**2007 RMB'000**	2006 RMB'000
Discontinued transactions			
Technical know-how and management fees:	(iii)		
Immediate holding company		**–**	34,437
Interest income on loans lent to related parties:	(iv)		
Subsidiaries of Uni-President		**3,290**	25,070
Interest expense on loans borrowed from related parties:	(iv)		
Jointly controlled entities of the Group		**–**	163
Royalty expense:	(v)		
Uni-President		**–**	991

Notes:

(i) The above sales and purchases are carried out in accordance with the terms of the underlying agreements.

(ii) Consulting service income from related parties represents management consulting services, IT system maintenance support and staff training service and is charged in accordance with the terms of agreement made between the parties.

(iii) Technical know-how and management fee paid to related parties represent fees paid by the Group for the use of the beverage and instant noodles production technique owned by the immediate holding company and the related training costs, which are charged in accordance with the terms of agreement made between the parties. As the Group has mastered the technique and commenced its own research and development, the fee is no longer charged by the immediate holding company since year 2007.

(iv) Interest income and expenses are charged by related parties in accordance with the terms of agreement made between the parties, which are determined by reference to the prevailing market rates of borrowings.

(v) Royalty expenses are charged by related parties in accordance with the terms of agreement made between the parties, which represent expenses charged for the usage of certain trademarks of Uni-President.

Notes to the Consolidated Financial Statements

40 Related party transactions (continued)

(b) Balances with related parties:

The Group has the following significant balances with its related parties as at 31 December 2007:

	2007 **RMB'000**	2006 RMB'000
Balances due from related parties:		
Trade receivables (Note 15):		
Subsidiaries of Uni-President	**1,837**	4,352
Prepayments (Note 16):		
Subsidiaries of Uni-President	**5,023**	11,725
Non-trade receivables (Note 16):		
Subsidiaries of Uni-President	**14,366**	3,486
Dividends receivable from the Other Businesses (Note 16):		
Subsidiaries of Uni-President	**–**	8,570
Total	**21,226**	28,133
Balances due to related parties:		
Trade payables (Note 25):		
Uni-President	**–**	111
Subsidiaries of Uni-President	**30,689**	17,257
Jointly controlled entities of the Group	**627**	–
Subtotal	**31,316**	17,368
Other payables and accruals (Note 26):		
Immediate holding company	**53**	12,626
Subsidiaries of Uni-President	**47**	118,029
Subtotal	**100**	130,655
Dividends payable:		
Subsidiaries of Uni-President	**–**	39,709
Total	**31,416**	187,732

The above balances due from and due to related parties are unsecured, non-interest bearing and have no fixed repayment terms. The carrying amounts of balances due from and due to related parties approximate their fair value.

All non-trade receivables due from subsidiaries of Uni-President are settled by February 2008.

Notes to the Consolidated Financial Statements

40 Related party transactions (continued)

(c) Loans due from related parties:

	2007 RMB'000	2006 RMB'000
Subsidiaries of Uni-President	–	55,000

The loans due from related parties as at 31 December 2006 were all denominated in RMB. The loans were unsecured, repayable within one year and interest bearing at effective rates of 5.523%. The carrying amounts of the loans due from related parties approximated their fair value. The loans due from related parties had been fully settled by October 2007.

(d) Key management compensation:

	2007 RMB'000	2006 RMB'000
Salaries, bonus and other welfares	**5,604**	4,240

41 Events after the balance sheet date

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2007:

(a) On 4 January 2008, the over-allotment option referred to in the prospectus has been partially exercised by the Global Coordinator on behalf of the International Underwriters in respect of an aggregate of 72,635,000 shares (the "over-allotment shares"), representing 8.2% of the offer shares initially available under the global offering. The number of the shares of the Company after the exercise of the over-allotment option was 3,599,445,000 shares.

(b) Pursuant to a corporate investor agreement entered on 29 February 2008, the Company became a 0.59% corporate investor of Want Want Holdings Limited, one of the leading snack food and beverage manufacturers in the PRC and recently listed on the Main Board of The Hong Kong Stocks Exchange Limited on 17 March 2008 upon the completed of its global initial offering. The Company invested HKD233,526,000 (equivalent to approximately RMB210,820,000) which represented 77,842,000 shares at the initial public offering price of HKD 3 each.