GDH

金威啤酒集團有限公司
KINGWAY BREWERY HOLDINGS LIMITED

（於百慕達註冊成立之有限公司）
(Incorporated in Bermuda with limited liability)

股份代號 Stock Code : 0124

2007
ANNUAL REPORT 年報

中國馳名商標

CONTENTS

Corporate Information (as at 18 April 2008)

Board of Directors

Executive Directors

YE Xuquan *(Chairman)*
JIANG Guoqiang *(Managing Director)*
LIANG Jianqin *(Chief Financial Officer)*

Non-Executive Directors

KOH Poh Tiong*(Note 1)*
Sijbe HIEMSTRA*(Note 2)*
Anthony CHEONG Fook Seng*(Note 3)*
ZHAO Leili
LUO Fanyu
Michael WU
Theresa HO LAM Lai Ping

Independent Non-Executive Directors

Alan Howard SMITH
V-nee YEH
Felix FONG Wo

Company Secretary

Vanessa WONG Kin Yan

Qualified Accountant

LIANG Jianqin

Auditors

Ernst & Young

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Website Address

http://www.kingwaybeer.hk

Principal Bankers

Rabobank International
DBS Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Shenzhen Development Bank

Head Office & Principal Place of Business in Hong Kong

Office A1, 19th Floor
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong
Telephone : (852) 2165 6262
Facsimile: (852) 2815 2020

Principal Share Registrar

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Branch Share Registrar in Hong Kong

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Share Information

Place of Listing:	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code:	124
Board Lot:	2,000 shares
Financial year end:	31st December

Note 1: KOH Poh Tiong has appointed HUANG Hong Peng as his alternate director.
Note 2: Sijbe HIEMSTRA has appointed Kenneth CHOO Tay Sian as his alternate director.
Note 3: Anthony CHEONG Fook Seng has appointed LEE Meng Tat as his alternate director.

Simplified Corporate Structure Chart

Note: The above subsidiaries are wholly-owned by Kingway Brewery Holdings Limited.

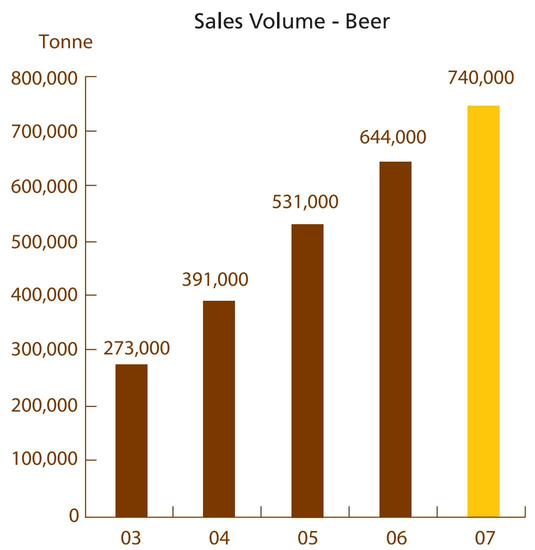
Highlights

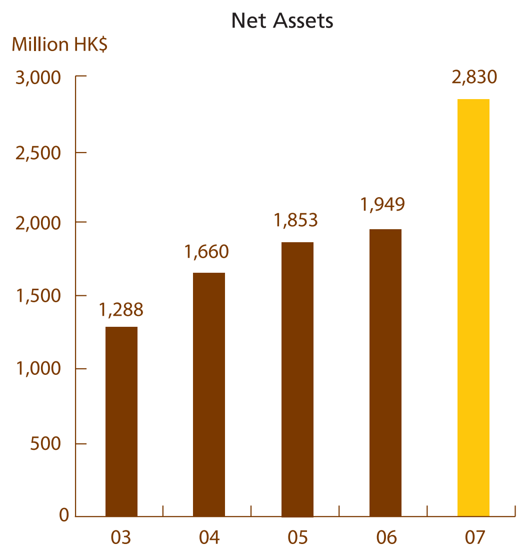
	For the year ended 31 December		
	2007	2006	Change
Beer sales volume, in tonne	**740,000**	644,000	+14.9%
Gross profit, in thousand HK$	**508,225**	571,203	–11.0%
Profit/(loss) for the year, in thousand HK$	**(23,573)**	110,445	–121.3%
Basic earnings/(loss) per share, in HK cent	**(1.5)**	7.5	–120.0%
EBITDA, in thousand HK$	**201,477**	264,273	–23.8%

	As at 31 December		
	2007	2006	
Current ratio	**0.8 times**	1.1 times	–27.3%
Gearing ratio[1]	**8.5%**	19.0%	–10.5%
Total assets, in million HK$	**3,970**	3,099	+28.1%
Net asset value per share, in HK$	**1.66**	1.40	+18.6%
Year-end number of employees	**2,388**	2,105	+13.4%

Note:

[1] Gearing ratio = (Interest-bearing debt – cash and cash equivalents)/net assets





Results

The Group continued to record growth in the sales volume of beer in 2007, which amounted to 740,000 tonnes or an increase of 14.9% from the previous year. This marked the sixth consecutive year of achieving a double-digit growth. With the substantial increase in fixed charges including depreciation and amortization and market expansion expenses incurred as a result of the commencement of operation of 3 brewery plants outside Guangdong Province, the increase in the costs of raw and supplemental materials and packaging materials, and the increase in finance costs resulting from the increase of bank loans, the year recorded a loss of HK$23.57 million, compared with a profit of HK$110 million for the previous year.

Business Review

The brewery plants in Xian and Chengdu with an annual production capacity of 200,000 tonnes each were put into operation in February and April 2007 respectively. Coupled with the facilities in Tianjin, the Group's three brewery plants located outside Guangdong Province with an annual production capacity of 200,000 tonnes each are all in operation, signifying Kingway's expansion strategy of reaching beyond Guangdong.

With satisfactory progress, construction of the brewery plant with an annual production capacity of 200,000 tonnes in Foshan was completed by the end of 2007 and production was commenced in January 2008, further enhancing our competitive advantage in Guangdong. We now command a total of 5 brewery plants in Guangdong Province with an aggregate production capacity of 1.1 million tonnes per year. To date, the 6 brewery plants with an annual production capacity of 200,000 tonnes each that we have put in place in recent years allows us to engage fully in operation without the need of simultaneous involvement in the construction of infrastructure.

In a challenging business environment in the PRC during the year, the beer industry saw a general increase in the purchase price of raw and supplemental materials. In particular, the price of malt, the major raw material for beer production, saw the most remarkable upswing. The relatively low average price of beer outside Guangdong Province also affect the average selling price of our beer products of the Group. In addition, the commencement of operation of our new brewery plants, which has swelled our management structure and raised our fixed costs in terms of increased depreciation of the newly added fixed assets and amortization charges, coupled with increase in finance costs, all play a role in the operating results of the Group for the current year.

As regards the beer industry and the Group's internal operations, we have adopted a series of measures to alleviate the effects resulting from the aforesaid factors, including (i) implement of a series of cost-cutting measures as well as efficiency enhancement through a sophisticated management approach to achieve a cost-leadership strategy; (ii) enhancement of market consolidation by adhering to the localized marketing and sales strategy, including the formulation of sales strategy catering to particular needs of individual markets; (iii) shorten our management hierarchy to enhance efficiency in our decision-making in response to the rapid changes in the market; and (iv) appropriate upward adjustment of product prices in line with the rise in purchase costs of raw and supplemental materials and price levels in the market, with a view to increasing our operating profit.

Outlook

With the commencement of operation of our brewery plant in Foshan in January 2008, a total of 8 modern beer production facilities with an aggregated annual production capacity of 1.7 million tonnes are now in place to serve as a solid foundation for the Group's future development and profit.

Against the backdrop of excessive capacity and fierce competition in the beer industry in the PRC, it will be the management's focus this year to proactively explore new beer distribution networks and consolidate existing markets, enhance our management standard, optimize our cost structure, shorten the lead time before full-scale running of new brewery plants to speed up return on investment, and generate positive economic returns in new facilities within the shortest possible timeframe, with a view to ultimately boosting the overall profitability of the Group.

Finally, I would like to express my sincere gratitude for the strong support from our shareholders, consumers and distributors, our staff members who exemplified their wholehearted commitment during our years of robust growth and development, and our suppliers from various industries.

Ye Xuquan
Chairman

Hong Kong, 18 April 2008

Results and Key Operating Data

In 2007, production, distribution and sales of Kingway beer remained the core business of the Group. Approximately 81% of the beer sold was produced in Guangdong Province, the PRC, while the remaining was produced in Tianjin, Xian and Chengdu cities respectively.

The Group's consolidated revenue for the year from sales of beer was HK$1,579 million (2006: HK$1,408 million), representing an increase of 12.1% from the last year. The average price per tonne of beer sold declined by 2.4% from the previous year, primarily due to the reduction in the weighted average selling price as a result of the increase in the sales from new markets outside Guangdong Province. Domestic sales accounted for 95.5% of the consolidated revenue, representing an increase of 12.8% from the previous year. Overseas and Hong Kong sales accounted for 4.5% of the consolidated revenue, representing an increase of 0.3% from the last year. A consolidated loss after tax of HK$23.57 million (2006: a profit of HK$110 million) was recorded for the year.

The average unit costs per tonne of beer increased by HK$148, or 11.4% from HK$1,300 in 2006. The increase was primarily resulted from the increase in the depreciation and amortisation charges incurred due to the commencement of operation of certain production facilities during the year and the increase in the costs of raw materials and packaging materials. Due to low utilization rate of new brewery plants, the decrease in average selling price per tonne of beer sold and increase in costs during the year, the Group's gross profit margin decreased from 40.6% in previous year to 32.2% for the year.

The Board of Directors did not recommend the payment of a final dividend for the year ended 31 December 2007.

Operating Expenses and Finance Costs

With the commencement of operation of the Group's Xian and Chengdu facilities during the year and increase in sales volume in Tianjin plant, selling and distribution expenses of the Group went up from the previous year, amounting to HK$411 million (2006: HK$370 million), representing an increase of 11.1% from the previous year. Average selling and distribution expenses per tonne of beer sold for the year was HK$555 (2006: HK$574), representing a decrease of 3.3% year-on-year.

Administrative expenses for the year was HK$130 million (2006: HK$99 million), representing an increase of 31.3% from 2006. The increase was primarily attributable to the increase in human resources and administrative expenses which were in turn resulted from the expansion of operation scale with the commissioning of two new brewery plants during the year and the construction-in-progress of another new plant in Foshan.

In respect of finance costs, as a result of the additional bank loans of HK$400 million granted in the 4th quarter of 2006, finance costs for the year was HK$24.67 million, representing an increase of HK$20.95 million year-on-year.

Taxation

The rates of Profits Tax and Corporate Income Tax applicable to the Group's subsidiaries remained unchanged during the year. Corporate Income Tax exemption for the first two profit-making years and a 50% tax relief in the following three years were granted to certain subsidiaries in the PRC. Kingway Plant No. 2 in Shenzhen was in the second year of 50% tax relief, and its Corporate Income Tax rate was 7.5%; Kingway Shantou plant enjoyed its first year of tax exemption, and its Corporate Income Tax rate was 0%; Kingway Dongguan plant enjoyed its second year of tax exemption, and its Corporate Income Tax rate was 0% during the year. Kingway plants in Tianjin, Xian, Chengdu and Foshan had not used its tax exemption during the year.

Capital Expenditure

The Group incurred capital expenditure (cash basis) of approximately HK$550 million (2006: HK$688 million) for the year, a decrease of approximately 20.1% from the previous year. The capital expenditure mainly used in the construction of the brewery plants in Xian, Chengdu and Foshan. With the completion of these brewery plants, it is expected that the capital expenditure of the Group will be significantly reduced in 2008.

Financial Resources and Liquidity

The Group's net asset value was HK$2,830 million (2006: HK$1,949 million) as at 31 December 2007, representing an increase of 45.2% from the previous year, primarily due to the issue of 310,304,000 new shares from the rights issue offering during the year. The net proceeds of HK$741 million were mainly used to finance the construction of new brewery plants and repayment of bank loans. The net asset value per share was HK$1.66 (2006: HK$1.40 per share) based on the number of ordinary shares issued as at the end of the year, representing an increase of 18.6% from last year.

As at the end of the year, the group had total cash and bank balances of HK$351 million (2006: HK$348 million), including pledged and restricted bank balances of HK$3.97 million (2006: HK$21.65 million), representing an increase of 0.9% from the previous year. Of the balances at the end of the year, 55.6% was in USD, 41.4% was in RMB, 2.6% was in HKD and 0.4% was in EUR. Cash used in operations for the year amounted to HK$44 million (2006: cash generated from operations amounted to HK$353 million), mainly attributable to the addition of stocks of raw materials and repayment of trading bills during the year.

There was a net current liabilities of HK$186 million recorded as at 31 December 2007 as a result of the reclassification of certain long term bank loans of HK$279 million due to non-compliance of a covenant in respect of a consolidated interest coverage ratio in the bank loan agreements of a bank. The Group has obtained a waiver up to 31 July 2008 from the relevant bank. In addition, the Group has signed a letter of intent of RMB500 million with another bank in order to make sure there will be sufficient liquidity to the Group. Given the Group's good asset quality and low gearing ratio, management is confident to resolve the net current liabilities situation and return back to net current assets status.

Debts and Contingent Liabilities

As at 31 December 2007, the Group had bank loan balance of HK$587 million (2006: HK$696 million), which bore interest at a rate based on LIBOR or HIBOR. Of the total outstanding bank loan, HK$207 million are denominated in USD and the remaining HK$380 million are denominated in HKD. For the bank loans denominated in USD, a cross-currency interest rate swap contract was entered into for hedging purpose. The aim for this was to lock the interest rate and exchange rate between USD and RMB, thereby mitigating the Group's exposure to movements in interest rate and exchange rate.

As at 31 December 2007, the gearing ratio of the Group was 8.5% (2006: 19.0%), indicating the healthy financial structure of the Group. None of the assets of the Group was pledged to creditors and no contingent liabilities existed as at the end of the year, except for HK$3.97 million of bank deposits which have been pledged or restricted for specific purposes.

Human Resources

As at 31 December 2007, the Group employed 2,388 (2006: 2,105) employees. Total remuneration for the year under review was approximately HK$154 million (2006: HK$120 million). The Group provided various basic benefits to its staff. In addition, there was an incentive policy which links the staff remuneration to the sales volume and results of the Group and their individual performance, which effectively stimulated the initiatives of the staff.

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2007.

Principal Activities

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in investment holding and in the production, distribution and sale of beer.

There were no significant changes in the nature of the Group's principal activities during the year.

Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

Results

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,579,431**	1,408,436	1,200,046	924,528	684,574
Cost of sales	**(1,071,206)**	(837,233)	(670,162)	(481,550)	(373,398)
Gross profit	**508,225**	571,203	529,884	442,978	311,176
Other income and gains	**47,008**	24,026	47,744	22,365	21,547
Selling and distribution expenses	**(410,916)**	(369,594)	(302,454)	(206,710)	(146,765)
Administrative expenses	**(129,526)**	(98,563)	(67,862)	(70,001)	(44,335)
Finance costs	**(24,670)**	(3,722)	(213)	—	—
Profit/(loss) before tax	**(9,879)**	123,350	207,099	188,632	141,623
Tax	**(13,694)**	(12,905)	(6,946)	(18,183)	(26,102)
Profit/(loss) for the year	**(23,573)**	110,445	200,153	170,449	115,521

Assets and Liabilities

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**3,969,634**	3,098,818	2,477,988	1,865,225	1,479,535
Total liabilities	**(1,139,560)**	(1,149,401)	(624,549)	(204,873)	(191,714)
Net assets	**2,830,074**	1,949,417	1,853,439	1,660,352	1,287,821

Results and Dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 94.

No interim dividend was paid during the year and the Board of Directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2007.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 33 and 34 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity on page 35, respectively.

Distributable Reserves

As at 31 December 2007, the Company's reserves available for distribution to shareholders as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK$178,476,000.

In addition, the Company's share premium of HK$1,685,230,000 may be distributed in the form of fully paid bonus shares.

Charitable Contributions

There were no charitable contributions made by the Group during the year (2006: Nil).

Retirement Benefits Schemes

Particulars of the Group's retirement benefit schemes are set out in note 5 to the financial statements.

Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2007 are set out in note 21 to the financial statements.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors
YE Xuquan *(Chairman)*
JIANG Guoqiang *(Managing Director)*
LIANG Jianqin *(Chief Financial Officer)*

Non-Executive Directors
KOH Poh Tiong
Sijbe HIEMSTRA
Anthony CHEONG Fook Seng (appointed on 30 October 2007)
HAN Cheng Fong (resigned on 30 October 2007)
ZHAO Leili
LUO Fanyu
Michael WU
Theresa HO LAM Lai Ping

Independent Non-Executive Directors
Alan Howard SMITH
V-nee YEH
Felix FONG Wo (appointed on 24 January 2007)
Rafael GIL-TIENDA (resigned on 24 January 2007)

Alternate Directors
HUANG Hong Peng *(Alternate Director to Mr. KOH Poh Tiong)* (appointed as an Alternate Director to Mr. KOH Poh Tiong and ceased to be an Alternate Director to Dr. HAN Cheng Fong on 1 March 2007)

Kenneth CHOO Tay Sian *(Alternate Director to Mr. Sijbe HIEMSTRA)*

LEE Meng Tat *(Alternate Director to Mr. Anthony CHEONG Fook Seng)* (appointed as an Alternate Director to Mr. Anthony CHEONG Fook Seng and ceased to be an Alternate Director to Dr. HAN Cheng Fong on 30 October 2007)

In accordance with bye-law 87 of the Bye-Laws, Mr. YE Xuquan, Mr. JIANG Guoqiang, Mr. Sijbe HIEMSTRA and Mr. V-nee YEH will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. YE Xuquan and Mr. JIANG Guoqiang, Executive Directors, Mr. Sjibe HIEMSTRA, Non-Executive Director, and Mr. V-nee YEH, Independent Non-Executive Director, agree to stand for re-election and if re-elected to hold office from the date of re-election, to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2011 and (ii) 30 June 2011 subject to earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

Directors' and Senior Management's Profile

as at 18 April 2008

Executive Directors

Mr. YE Xuquan, aged 52, was appointed a Director and the Chairman of the Company in January 2002. Mr. Ye graduated from the Department of Chinese Language and Literature and the Institute of Economy Research, South China Normal University and obtained a Master's degree of Economics from South China Normal University. Mr. Ye joined Guangdong Province Dongshen Water Supply Management Bureau (the "Dongshen Water Supply Bureau") in 1978 and has 23 years' experience in the management and operation of water supply business. Mr. Ye was a section chief of the Dongshen Water Supply Bureau in 1984, promoted as Vice Director in 1987, acted as Deputy Director in 1995 and acted as Director from 1997 to 2000. He was Chairman of Guangnan (Holdings) Limited ("Guangnan") from November 2000 to January 2002, Director of Guangdong Investment Limited ("GDI") from May 2000 to February 2004 and Chairman of 廣東粤港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) from August 2000 to July 2003. He is Director and Deputy General Manager of both 廣東粤海控股有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings") and GDH Limited ("GDH"). He is also the Vice President of both the Beer Association of China and the Music and Literature Association of China.

Mr. JIANG Guoqiang, aged 55, was appointed the Managing Director of the Company in January 2002 and was previously appointed a Director and the Chairman of the Company in March 2001. Mr. Jiang graduated from Shanghai Metallurgical Machinery School where he majored in metallurgical machinery. He is an engineer. From 1976 to 1988, Mr. Jiang worked for First Metallurgy Construction Company of the Ministry of Metallurgy. In 1988, he joined Zhongshan Zhongyue Tin-Plate Industrial Company Limited and Shanghai Industrial Co., Ltd. and he became a director and Deputy General Manager of both companies in 1991. Mr. Jiang was a Director and the General Manager of both companies from 1995 to March 2001. He was a Deputy General Manager of the strategic development department of GDH from April 2000 to January 2001.

Ms. LIANG Jianqin, aged 43, was appointed an Executive Director and the Chief Financial Officer of the Company in April 2006. Ms. Liang graduated from the department of accountancy of Jinan University and holds a Master's degree in Economics. She is a fellow member of The Association of Chartered Certified Accountants, a member of The Chinese Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. She worked for Ernst and Young from 1995 to 1997 and GDI from 1997 to 2002 and was the general manager of the finance department of GDH from 2002 to 2006. Ms. Liang was a Non-executive Director of Guangnan from July 2002 to August 2006. She possesses extensive experience in financial management, external and internal audit as well as business management.

Non-Executive Directors

Mr. KOH Poh Tiong, aged 61, was appointed a Director of the Company in April 2004. Mr. Koh is the Chief Executive Officer and Director of Asia Pacific Breweries Limited ("APB"), a company listed in Singapore, and holds directorships in most of the subsidiaries of the Asia Pacific Breweries Group ("APB Group"). He is a Director of National Healthcare Group Pte Ltd, The Great Eastern Life Assurance Company Limited, PSA International Pte Ltd and PSA Corporation Ltd. He is also Chairman and a Director of Heineken-APB (China) Pte Ltd ("HAPBC"), a substantial shareholder of the Company.

Mr. Sijbe HIEMSTRA, aged 52, was appointed a Director of the Company in July 2005. He joined the Heineken Group in 1978 and has held senior management positions in Europe, Africa and Asia Pacific. Mr. Hiemstra was Regional Director of APB in South East Asia and Oceania from 1998 to 2001 and was responsible for supervising the operations in New Zealand, Papua New Guinea, Malaysia, Thailand and Cambodia. He was Corporate Director of Heineken Technical Services from 2001 to 2005. Mr. Hiemstra is currently President of Heineken Asia Pacific, member of Heineken Executive Committee on a global basis and Chairman of Heineken Asia Pacific Pte Ltd. Mr. Hiemstra holds directorships in Asia Pacific Investment Pte Ltd and APB Group's subsidiaries and associate companies, including HAPBC, DB Breweries Limited, as well as Heineken Group of companies in Asia Pacific, including PT Multi Bintang Indonesia Tbk.

Directors' and Senior Management's Profile (continued)

as at 18 April 2008

Non-Executive Directors (continued)

Mr. Anthony CHEONG Fook Seng, aged 53, was appointed a Director of the Company in October 2007. He joined the Fraser and Neave Group in Times Publishing Limited as Corporate General Manager (Group Finance) and Company Secretary in 2001. He was appointed the Group Company Secretary of the Fraser and Neave Group on 1 October 2002 and a Director of Fraser and Neave Limited for the period from 1 February 2005 to 31 January 2008. He currently holds directorships in a number of the Fraser and Neave Group's other subsidiaries as well as Frasers Centrepoint Limited group, Fraser & Neave Holdings Bhd Group, Frasers Centrepoint Assets Management Ltd (as Manager of Frasers Centrepoint Trust) and the Asia Pacific Investment Pte Ltd group. Mr. Cheong previously worked in the Audit & Corporate Advisory Services Division of Ernst & Young till 1989 when he joined CarnaudMetalbox Asia Ltd as Internal Audit Manager, later on assuming the position of Company Secretary. Mr. Cheong is a member of the Institute of Chartered Accountants in England & Wales and the Institute of Certified Public Accountants of Singapore.

Mr. ZHAO Leili, aged 54, was appointed a Director of the Company in February 2004. Mr. Zhao has been appointed a director of Guangdong Holdings and an executive director of GDH in December 2001. He is also a non-executive director of Guangnan since February 2004. Mr. Zhao graduated from the Air Force Aviation College of People's Liberation Army. From 1969 to 2001, he worked in a number of positions in the Air Force Aviation of People's Liberation Army and was a commander in the Air Force. Mr. Zhao has extensive experience in personnel management, audit control and construction management.

Mr. LUO Fanyu, aged 52, was appointed a Director of the Company in October 2003. Mr. Luo graduated from the economics department of Zhongshan University. He joined Guangdong Enterprises (Holdings) Limited ("GDE") in 1987 and was responsible for its legal affairs. He is currently a director of GDH and a non-executive director of Guangnan. Prior to joining GDE, he held various positions as judge and a deputy chief judge of the Economic Court of the People's High Court of Guangdong Province.

Mr. Michael WU, aged 56, was appointed a Director of the Company in October 2003. Mr. Wu joined GDI in 1992 and had been a Deputy General Manager of GDI from July 1996 to February 2001. He was the Chairman of the Company from March 2000 to January 2001. Mr. Wu is currently a Deputy General Manager of Strategic Development Department of GDH. Mr. Wu graduated from Zhongshan University and obtained a Bachelor's degree in Arts. In 1987, he obtained his Master's degree in Business Administration from the University of Texas in the United States.

Mrs. Theresa HO LAM Lai Ping, aged 52, was appointed a Director of the Company in August 2000. She is also a Director of Guangdong Tannery Limited since July 2000. She has been the Company Secretary of GDI since December 1992. She graduated from Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

Directors' and Senior Management's Profile (continued)

as at 18 April 2008

Independent Non-Executive Directors

Mr. Alan Howard SMITH, aged 64, was appointed an Independent Non-executive Director of the Company in January 1999. Mr. Smith was Vice Chairman in the Pacific Region, of Credit Suisse First Boston ("CSFB"), a leading global investment bank from 1997 to 2001. Prior to joining CSFB, Mr. Smith was the Chief Executive of the Jardine Fleming Group from 1983 to 1994 and was Chairman of the Jardine Fleming Group from 1994 to 1996. Mr. Smith has over twenty-five years' investment banking experience in Asia. He was elected a council member of The Stock Exchange of Hong Kong Limited on two occasions. He was a member of the Hong Kong Special Administrative Region Government's Economic Advisory Committee from 1994 to 2001, and was for 10 years a member of the Hong Kong Government's Standing Committee on Company Law Reform. Currently, Mr. Smith is a director of China Sunergy Co., Ltd., a listed company on the NASDAQ, a director of KGR Absolute Return PCC Limited, a company listed on the London Stock Exchange, a director of Global Investment House, KSC, a company listed in Kuwait Bahrain, a director of Noble Group Limited and United International Securities Limited, listed companies in Singapore and a director of Asia Credit Hedge Fund, CQS Asia Feeder Fund Limited, CQS Asia Master Fund Limited, CQS Convertible and Quantitative Strategies Feeder Fund Ltd. and LIM Asia Arbitrage Fund Limited, listed companies on the Irish Stock Exchange. Mr. Smith is also a director of Frasers Property (China) Limited, Lei Shing Hong Limited, Star Cruises Limited, The Hong Kong Building and Loan Agency Limited and VXL Capital Limited which are listed companies on The Stock Exchange of Hong Kong Limited.

Mr. V-nee YEH, aged 49, was appointed an Independent Non-executive Director of the Company in January 1999. He is the co-founder of Value Partners Limited and the non-executive chairman of Argyle Street Management Limited. Mr. Yeh was also a council member of The Stock Exchange of Hong Kong Limited until its merger into the Hong Kong Exchanges and Clearing Ltd. He remains a member of the Listing Committee from 1996 to 2006. He also sits on the Takeovers and Mergers Panel and the Takeovers Appeals Committee of the Securities and Futures Commission and was a member of the Listing Committee of the China Securities Regulatory Commission from 1999 through 2003. He is also an independent non-executive director of Arnhold Holdings Limited, Next Media Limited and Shun Tak Holdings Limited, all of which are listed on The Stock Exchange of Hong Kong Limited.

Mr. Felix FONG Wo, JP, aged 57, was appointed an Independent Non-executive Director of the Company in January 2007. He is a consultant and founding partner of Arculli Fong & Ng. Mr. Fong received his engineering degree in Canada in 1974 and his law degree from Osgoode Hall Law School in Toronto in 1978. He has practiced law for over twenty-six years, eight of which in Toronto. Mr. Fong is a member of the law societies of Hong Kong, Upper Canada and England, and honorary legal counsels of Hong Kong Institute of Professional Photographers Ltd. and The Chinese Manufactures' Association of Hong Kong. In 1992, Mr. Fong was appointed by the Ministry of Justice of China as one of the China-appointed Attesting Officers in Hong Kong. Mr. Fong undertook a number of community and social roles, such as the past Chairman of the Chinese Canadian Association of Hong Kong, the Chairman of the Liquor Licensing Board, a member of the Betting and Lotteries Commission, a member of the Hong Kong Film Development Council, a member of the Advisory Council on Food and Environmental Hygiene, and a member of the Hong Kong Town Planning Board. He is also the founding member of Democratic Alliance for the Betterment and Progress of Hong Kong and member of its Standing and Central, a director of the Hong Kong Basic Law Institute, a member of Guangdong Provincial Committee of Chinese People's Political Consultative Conference and a director of China Overseas Friendship Association. In the area of education, Mr. Fong is a founding member and the first director of Canadian International School of Hong Kong and a visiting professor of the School of Law of Sun Yat-sen University in China. Currently, Mr. Fong is an independent non-executive director of SPG Land (Holdings) Limited and a non-executive director of Hantec Investment Holdings Limited, both companies are listed on the main board of The Stock Exchange of Hong Kong Limited.

Directors' and Senior Management's Profile (continued)

as at 18 April 2008

Alternate Directors

Mr. HUANG Hong Peng, aged 48, was appointed an alternate director to Mr. KOH Poh Tiong, a director of the Company, in March 2007. Mr. Huang was an alternate director to Dr. HAN Cheng Fong, a director of the Company, for the period from April 2004 to March 2007. Mr. Huang is the Regional Director, China of APB and concurrently the Chief Executive Officer of Heineken-APB (China) Management Services Co., Ltd. He sits on the boards of subsidiaries of APB Group in China. Before his transfer back to APB Group in October 2006, Mr. Huang was the Chief Operating Officer, Food & Beverage at Fraser and Neave, Limited since January 2005. He joined the APB Group in November 1994 and has served in various positions in Myanmar and the PRC. Before joining the APB Group, Mr. Huang was Assistant Director, Airport Management in the Civil Aviation Authority of Singapore, and holds a degree in Air Transport from the Ecole Nationale de l'Aviation Civile, Toulouse, France. He attended the Advanced Management Programme at Harvard Business School in 2004.

Mr. Kenneth CHOO Tay Sian, aged 40, was appointed an alternate director to Mr. Sijbe HIEMSTRA, a director of the Company, in July 2005. Mr. Choo is the Director — Business Development (Asia Pacific) of Heineken. He held various positions in multi-national companies prior to joining Heineken. Mr. Choo is a member of Certified Public Accountants of Singapore, and has completed the Advanced Management Program at Harvard Business School. Mr. Choo is also a Director of Heineken Asia Pacific Pte Ltd and Asia Pacific Brewery (Lanka) Limited and an Alternate Director of APB and DB Breweries Limited.

Mr. LEE Meng Tat, aged 44, was appointed as alternate director to Mr. Anthony Cheong Fook Seng, a director of the Company, in October 2007. He was appointed an alternate director to Dr. HAN Cheng Fong, a director of the Company, for the period from March 2007 to October 2007. Mr. Lee is the Deputy Regional Director, China of APB and concurrently the Chief Operating Officer of Heineken-APB (China) Management Services Co., Ltd. He has been based in Shanghai, China since March 2003 and sits on the boards of subsidiaries of APB Group in China. He has held other appointments in the Fraser & Neave Group ("F&N") before his secondment to APB in June 2002. Before joining F&N, Mr. Lee has held various positions with statutory boards in Singapore (Singapore Tourism Board and Singapore Economic Development Board), Sembawang Leisure Pte Ltd and DBS Bank Ltd. Mr. Lee obtained a Bachelor's degree in Mechanical Engineering from the National University of Singapore and an MBA from Imperial College, London and has completed the Advanced Management Programme at Harvard Business School.

Senior Management

The senior management of the Group comprises the three Executive Directors above, namely, Mr. YE Xuquan, Mr. JIANG Guoqiang and Ms. LIANG Jianqin.

Directors' Emoluments

Particulars of the Directors' and senior management's emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 11 to the financial statements.

Directors' Service Contracts

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

Directors' Interests in Contracts of Significance

None of the Directors had a beneficial interest in any contract of significance to the business of the Group, whether directly or indirectly, to which the Company, any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year or as at 31 December 2007.

Directors' interests in Competing Business

As at 31 December 2007, the interests of Directors or their respective associates in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, namely, the production, distribution and sale of beer (the "Competing Business"), as required to be disclosed were as follows:

Name of Director	**Name of entity** *(Note)*	**Nature of interest** *(Note)*
KOH Poh Tiong	Asia Pacific Breweries Limited and Group	Chief Executive Officer and Director
	Heineken-APB (China) Pte Ltd. and Group	Chairman and Director
Sijbe HIEMSTRA	Asia Pacific Breweries Limited and Group	Director
	Asia Pacific Investment Pte Ltd.	Chairman and Director
	Heineken Asia Pacific Pte Ltd.	Chairman
	Heineken-APB (China) Pte Ltd. and Group	Director
Anthony CHEONG Fook Seng	Fraser & Neave, Limited	Director
	Asia Pacific Breweries Limited and Group	Alternate Director
	Asia Pacific Investment Pte Ltd.	Director
	Heineken-APB (China) Pte Ltd.	Director
HUANG Hong Peng	Asia Pacific Breweries Limited	Regional Director, China
	Heineken-APB (China) Pte Ltd. and Group	Director
	Heineken-APB (China) Management Services Co., Ltd.	Chief Executive Officer and Director
Kenneth CHOO Tay Sian	Heineken Asia Pacific Pte Ltd.	Director
	Asia Pacific Investment Pte Ltd.	Alternate Director
	Asia Pacific Breweries Limited and Group	Alternate Director
LEE Meng Tat	Asia Pacific Breweries Limited	Deputy Regional Director, China
	Heineken-APB (China) Management Services Co., Ltd.	Chief Operating Officer and Director

Note: The entities set out in the column headed "Name of entity" are holding companies or companies listed on various stock exchanges. The interests of the Directors listed in the above table in the businesses of the aforesaid listed entities or holding companies may also arise through their respective directorships in the subsidiaries, associated companies or other forms of investment vehicles of such listed entities or holding companies.

Save as disclosed above, as at 31 December 2007, none of the Directors had any interest in any Competing Business.

Directors' Interests and Short Positions in Securities

As at 31 December 2007, the Directors and chief executives of the Company and their respective associates had the following interests and short positions in the shares, underlying shares or debentures of the Company and 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 ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

I. Shares

(i) *The Company*

Name of Director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
JIANG Guoqiang	Personal	366,666	Long Position	0.0215%
LIANG Jianqin	Personal	56,222	Long Position	0.0033%
LUO Fanyu	Personal	86,444	Long Position	0.0051%
Theresa HO LAM Lai Ping	Personal	98,000	Long Position	0.0057%

Note: The total number of issued shares of the Company as at 31 December 2007 was 1,706,672,000.

(ii) *Guangdong Investment Limited*

Name of Director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LIANG Jianqin	Personal	150,000	Long position	0.0025%
Michael WU	Family*	18,000	Long position	0.0003%
Theresa HO LAM Lai Ping	Personal	800,000	Long position	0.0131%

* Held by the spouse of Mr. Michael WU

Note: The total number of issued ordinary shares of Guangdong Investment Limited as at 31 December 2007 was 6,103,938,071.

(iii) *Guangdong Tannery Limited*

Name of Director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LUO Fanyu	Personal	70,000	Long position	0.0130%

Note: The total number of issued shares of Guangdong Tannery Limited as at 31 December 2007 was 537,504,000.

Directors' Interests and Short Positions in Securities (continued)

II. Options

(i) *The Company*

Name of director	Number of options held as at 01/01/2007	Options granted during the year: Date of grant (dd/mm/yyyy)	Options granted during the year: Number granted	Increase in number of options due to adjustment made during the year (Note 1)	Period during which option is exercisable* (dd/mm/yyyy)	Total consideration paid for share options (HK$)	Price to be paid per share on exercise of options (adjusted) (Note 1) (HK$)	Number of options exercised during the year	Number of options held as at 31/12/2007	Long/ Short position
YE Xuquan	2,000,000	—	—	115,152	27/08/2003 – 26/08/2008	1	0.794	—	2,115,152	Long position
	7,000,000	—	—	403,033	07/05/2004 – 06/05/2009	1	1.825	—	7,403,033	Long position
JIANG Guoqiang	2,000,000	—	—	115,152	27/08/2003 – 26/08/2008	1	0.794	—	2,115,152	Long position
Alan Howard SMITH	300,000	—	—	17,273	27/08/2003 – 26/08/2008	1	0.794	—	317,273	Long position
	300,000	—	—	17,273	07/05/2004 – 06/05/2009	1	1.825	—	317,273	Long position
V-nee YEH	300,000	—	—	17,273	27/08/2003 – 26/08/2008	1	0.794	—	317,273	Long position
	300,000	—	—	17,273	07/05/2004 – 06/05/2009	1	1.825	—	317,273	Long position

Note 1: The adjustments were made as a result of the rights issue offering completed on 29 June 2007 which had been ratified, confirmed and approved by the Board on 24 July 2007.

* If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

(ii) *Guangdong Investment Limited*

Name of director	Number of options held as at 01/01/2007	Options granted during the year: Date of grant (dd/mm/yyyy)	Options granted during the year: Number granted	Period during which option is exercisable* (dd/mm/yyyy)	Total consideration paid for share options (HK$)	Price to be paid per share on exercise of options (HK$)	Number of options exercised during the year	Number of options held as at 31/12/2007	Long/ Short position
YE Xuquan	6,000,000	—	—	05/03/2003 – 04/03/2008	1	0.96	—	6,000,000	Long position
	3,000,000	—	—	08/08/2003 – 07/08/2008	1	1.22	—	3,000,000	Long position
	3,000,000	—	—	07/05/2004 – 06/05/2009	1	1.59	—	3,000,000	Long position
Theresa HO LAM Lai Ping	1,500,000	—	—	07/05/2004 – 06/05/2009	1	1.59	1,500,000	0	N/A
	1,000,000	—	—	25/08/2004 – 24/08/2009	1	1.25	1,000,000	0	N/A

* If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

Directors' Interests and Short Positions in Securities (continued)

II. Options (continued)

(iii) *Guangnan (Holdings) Limited*

Name of director	Number of options held as at 01/01/2007	Options granted during the year		Period during which option is exercisable* *(dd/mm/yyyy)*	Total consideration paid for share options *(HK$)*	Price to be paid per share on exercise of options *(HK$)*	Number of options exercised during the year	Number of options held as at 31/12/2007	Long/ Short position
		Date of grant *(dd/mm/yyyy)*	Number granted						
LIANG Jianqin	200,000	—	—	09/06/2006 – 08/03/2016	1	1.66	—	200,000	Long position
ZHAO Leili	200,000	—	—	09/06/2006 – 08/03/2016	1	1.66	—	200,000	Long position
LUO Fanyu	200,000	—	—	09/06/2006 – 08/03/2016	1	1.66	—	200,000	Long position

* If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

Save as disclosed above, as at 31 December 2007, to the knowledge of the Company, none of the Directors or chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept 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.

Save as disclosed above, at no time during the year was the Company or its holding companies, or any of its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' Interests

As at 31 December 2007, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests in five per cent. or more of the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and details of the interests in the shares or underlying shares of the Company as notified to the Company are set out below:

Name of shareholder	Type of securities	Number of securities held	Long/Short position	Approximate percentage of the Company's issued capital
廣東粵海控股有限公司 (Guangdong Holdings Limited) *(Note 1)*	Shares	1,263,494,221	Long position	74.03%
GDH Limited ("GDH") *(Note 1)*	Shares	1,263,494,221	Long position	74.03%
Heineken Holdings N.V. ("Heineken HNV") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	74.03% 21.43%
Heineken N.V. ("Heineken NV") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	74.03% 21.43%
Heineken International B.V. ("Heineken IBV") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	74.03% 21.43%
Fraser and Neave, Limited ("F & N") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	74.03% 21.43%
Asia Pacific Investment Pte Ltd ("APIP") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	74.03% 21.43%
Asia Pacific Breweries Limited ("APB") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	74.03% 21.43%
Heineken-APB (China) Pte Ltd ("HAPBC") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	74.03% 21.43%
Genesis Fund Managers, LLP *(Note 4)*	Shares	133,640,219	Long position	7.83%

Notes:

(1)(a) The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its wholly-owned subsidiary, namely GDH.

(1)(b) Of these 1,263,494,221 shares: (i) 897,726,768 shares are beneficially held by GDH, (ii) 231,999,453 shares related to derivative interests of GDH, and (iii) 133,768,000 shares related to the deemed interests of GDH under section 318 of the SFO.

(2)(a) Of the 1,263,494,221 shares: (i) 365,767,453 shares were beneficially held by HAPBC and (ii) 897,726,768 shares related to the deemed interests of HAPBC under section 318 of the SFO.

(2)(b) In addition, by virtue of the SFO, each of Heineken HNV, Heineken NV, Heineken IBV, F & N, APIP and APB is deemed to be interested in the same 1,263,494,221 shares of the Company in which HAPBC is interested, as described in note (2)(a) above.

(3) The short position in respect of 365,767,453 shares arose as a result of the pre-emptive and other rights granted to GDH to, in certain specified circumstances, acquire HAPBC's shareholding in the Company under a share purchase agreement dated 28 January 2004 and entered into between GDH and HAPBC.

(4) The shares held by Genesis Fund Managers, LLP were held in the capacity of investment manager.

Substantial Shareholders' Interests (continued)

Save as disclosed above, no other person (other than a director or chief executive of the Company) known to any director or chief executive of the Company as at 31 December 2007 had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Connected and Related Party Transactions

Details of the connected and related party transactions disclosed in compliance with the disclosure requirements in accordance with Chapter 14A of the Listing Rules are set out in note 40 to the financial statements.

Disclosure Pursuant to Paragraph 13.21 of Chapter 13 of the Listing Rules

The Company has entered into three facility letters ("Facility Letters") signed between the Company and two different banks respectively for loan facilities with an aggregate amount of up to approximately HK$696.4 million. The facility letters imposed specific performance obligations on GDH, the controlling shareholder of the Company, and/or HAPBC, a substantial shareholder of the Company. The Facility Letters include, inter alia, a condition to the effect that GDH and/or HAPBC shall in aggregate at all times to own directly or indirectly at least 51% of the issued ordinary shares of the Company. A breach of the above condition would constitute an event of default under the Facility Letters. If such an event of default occurs, the above facilities will become immediately due and repayable.

Of the above-mentioned three Facility Letters, the facility letters dated 25 November 2005 and 27 October 2006 contain, inter alia, a covenant to the effect that the Company shall maintain a consolidated interest coverage ratio of not less than 5 times, which shall be determined by reference to the financial information contained in, inter alia, the latest published annual report of the Company. A breach of that covenant would constitute an event of default and the bank concerned may demand immediate repayment of the relevant loans. The Company has obtained a wavier in respect of the aforesaid covenant requirement from the relevant bank until 31 July 2008. The Company will endeavor to obtain a further waiver from the bank before 31 July 2008. Please refer to note 31 to the financial statements for details.

Details of each of the Facility Letters are summarized in the followings:

Date of Facility letters	Facility amount	Outstanding balance as at 31/12/2007	Last repayment date
25 November 2005	US$38 million	US$26.6 million	November 2009
27 October 2006	HK$200 million	HK$200 million	October 2010
19 December 2006	HK$200 million	HK$180 million	December 2010

Purchase, Sale and Redemption of Listed Securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws of Bermuda, being the jurisdiction in which the Company is incorporated.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers accounted for 45.2% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 24.7%.

Supertime Development Limited and its subsidiaries ("SDL Group") were among the Group's five largest suppliers. The SDL Group are subsidiaries of GDH, the holding Company of the Company. Accordingly, members of SDL Group are connected person of the Company. The purchase agreement entered into between the Company and Supertime Development Limited dated 3 May 2005 in relation to the purchase of malt by the Group from SDL Group with maximum aggregate annual value of malt purchased by the Group for the year being RMB368,000,000 (equivalent to approximately HK$377,568,000) have been approved by the independent shareholders at the special general meeting held on 15 June 2005. Please refer to note 40 to the financial statements for details of the connected transactions.

Save as disclosed above, none of the Directors, their respective associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company) had any interest in the Group's five largest customers and suppliers.

Public Float

As at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
YE Xuquan
Chairman

Hong Kong, 18 April 2008

The Group recognizes the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and is committed to doing so. It is also with the objectives in mind that the Group has applied the principles on the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company has met the code provisions set out in the CG Code.

Directors' Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2007.

Board of Directors

As of the date of this report, the Board comprises three Executive Directors, being Mr. YE Xuquan, Mr. JIANG Guoqiang and Ms. LIANG Jianqin, seven Non-Executive Directors, being Mr. KOH Poh Tiong, Mr. Sijbe HIEMSTRA, Mr. Anthony CHEONG Fook Seng, Mr. ZHAO Leili, Mr. LUO Fanyu, Mr. Michael WU and Mrs. Theresa HO LAM Lai Ping, and three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Felix FONG Wo.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The Management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the Management include the preparation of interim and annual reports and announcements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

During the financial year ended 31 December 2007, the Board has four scheduled meetings at approximately quarterly intervals. The attendances of the directors at the board meetings are as follows:

Directors	**Number of Attendance**
YE Xuquan	4/4
JIANG Guoqiang	4/4
LIANG Jianqin	4/4
KOH Poh Tiong	4/4
Sijbe HIEMSTRA	4/4
Anthony CHEONG Fook Seng (appointed on 30 October 2007)	1/1
HAN Cheng Fong (resigned on 30 October 2007)	2/3
ZHAO Leili	3/4
LUO Fanyu	3/4
Michael WU	4/4
Theresa HO LAM Lai Ping	4/4
Alan Howard SMITH	4/4
V-nee YEH	4/4
Felix FONG Wo (appointed on 24 January 2007)	4/4
Rafael GIL-TIENDA (resigned on 24 January 2007)	N/A

Board of Directors (continued)

The Company has received written confirmation from each of the Independent Non-executive Directors, namely Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Felix FONG Wo, confirming their independence pursuant to Rule 3.13 of the Listing Rules, and considers them to be independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 12 to 15 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

Chairman and Managing Director

The Chairman is Mr. YE Xuquan and the Managing Director is Mr. JIANG Guoqiang. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Ye as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Jiang as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

Non-executive Directors

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after their appointment and shall then be eligible for re-election. Moreover, each Non-Executive Directors of the Company will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that director or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that director and in any event, subject to earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

Remuneration of Directors

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

Authority

1. The Remuneration Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee.

2. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

2. To have the delegated responsibilities to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Remuneration of Directors (continued)

Duties (continued)

3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

4. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

6. To make recommendations to the Board on the remuneration of non-executive directors.

7. To ensure that no director or any of his associates is involved in deciding his own remuneration.

8. To consult the chairman and/or the managing director about their proposals relating to the remuneration of executive directors and senior management and have access to professional advice if considered necessary.

9. To consider other topics as defined by the Board.

As of the date of this report, the Remuneration Committee comprises one Executive Director, being Mr. YE Xuquan, the three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Felix FONG Wo and one Non-Executive Director, being Mr. KOH Poh Tiong. Mr. YE Xuquan is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2007, the Remuneration Committee held one meeting to consider the remuneration proposal for Executive Directors for the year 2007. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
YE Xuquan	1/1
KOH Poh Tiong	1/1
Alan Howard SMITH	0/1
V-nee YEH	1/1
Felix FONG Wo (appointed on 24 January 2007)	1/1
Rafael GIL-TIENDA (resigned on 24 January 2007)	N/A

Details of the amount of Directors' emoluments are set out in note 11 to the financial statements.

Nomination of Directors

The Board is responsible for the nomination and considering and approving the appointment of directors with a view to appointing to the Board suitable individuals with the relevant expertise and experience to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation.

During the financial year ended 31 December 2007, the nomination and appointment of Mr. Felix FONG Wo as Independent Non-Executive Director and Mr. Anthony CHEONG Fook Seng as Non-Executive Director were considered and approved by the Board.

Auditors' Remuneration

During the year under review, the remuneration paid to the Company's auditors, Ernst & Young, is set out as follows:

Services rendered	**Fee paid/ payable** HK$'000
Audit of Final Results	2,300
Review of Interim Results	420
Accountancy services in respect of rights issue exercise	435
Taxation compliance services	12
Agreed-upon procedures in respect of continuing connected transactions	90
	3,257

Audit Committee

The Audit Committee of the Company was established in September 1998. The authorities and duties of the Audit Committee are as follows:

Authority

1. The Audit Committee is authorised by the Board to investigate activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Audit Committee.

2. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor.

2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.

3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

Audit Committee (continued)

Duties (continued)

4. To monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards; and

   (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.

5. In regard to (4) above:

   (i) members of the Audit Committee must liaise with the Company's board of directors, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and

   (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.

6. To review the Company's financial controls, internal controls and risk management systems.

7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system.

8. To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.

9. Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

10. To review the group's financial and accounting policies and practices.

11. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response.

12. To ensure that the Board will provide a timely response to the issues raised in the external auditors management letter.

13. To report to the Board on the matters set out in the terms of reference of the Audit Committee.

14. To consider other topics, as defined by the Board.

Audit Committee (continued)

As of the date of this report, the Audit Committee comprises the three Independent Non-Executive Directors, being Mr. V-nee YEH as the chairman, Mr. Alan Howard SMITH and Mr. Felix FONG Wo as members.

During the financial year ended 31 December 2007, the Audit Committee held two meetings. It reviewed the 2006 annual results and the 2007 interim results of the Company and its subsidiaries before their submission to the Board and monitored the integrity of such financial statements. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and approving their fees. In addition to its two meetings as aforesaid, the Audit Committee has also a private meeting with the external auditors at least once every year without the presence of the management to discuss any area of concern. The Audit Committee maintains an overview of the Group's risk assessment, control and management processes. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out as follows:

Directors	**Number of Attendance**
V-nee YEH	2/2
Alan Howard SMITH	2/2
Felix FONG Wo (appointed on 24 January 2007)	1/2
Rafael GIL-TIENDA (resigned on 24 January 2007)	N/A

Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2007, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2007, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods in accordance with the Listing Rules.

Internal Control

The Board is responsible for the Group's system of internal controls and its effectiveness. Such a system is designed to prudently manage the Group's risks within an acceptable risk profile. The Board has delegated to executive management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. However, such system aims at limiting the risks of the Company to an acceptable level but not at eliminating all the risks. Hence, such system can only provide reasonable assurance that there will not be any error in financial information and record, and there will not be any material fraud.

The management under the supervision of the Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the systems of internal controls when there are changes to business environment or regulatory guidelines.

The management assists the Board with the implementation of all relevant policies and procedures on risk and control by identifying and assessing the risk faced and designing, operating and monitoring suitable internal controls to mitigate and control theses risks. The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

A distinct organization structure is maintained with defined lines of authorities and proper segregation of duties, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

In addition to the duties of the Audit Committee as mentioned above, the Audit Committee, inter alia, reviews the financial controls, internal control and risk management systems of the Group and any significant internal control issues identified by the Internal Audit Department, external auditors and management. It also conducts review of the internal audit functions with particular emphasis on the scope and quality of the internal audits and independence of the Internal Audit Departments.

The Internal Audit Department monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. The Internal Audit Department plans its internal audit schedules annually with audit resources being focused on higher risk areas.

The Board is satisfied that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and accounts is reasonable and effective.

On behalf of the Board
YE Xuquan
Chairman

Hong Kong, 18 April 2008

ERNST & YOUNG
安永會計師事務所

To the shareholders of **Kingway Brewery Holdings Limited**
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Kingway Brewery Holdings Limited set out on pages 32 to 94, 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 auditors' judgement, 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 auditors consider 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.

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 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 loss 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.

Without qualifying our opinion, we draw attention to note 2 to the financial statements which indicates that, despite the fact that the Group's total assets exceeded its current liabilities by HK$2,998,334,000 as of 31 December 2007, the Group incurred a net loss of HK$23,573,000 during the year ended 31 December 2007 and, as of that date, the Group's current liabilities exceeded its current assets by HK$186,411,000. These conditions indicate the existence of a material uncertainty in relation to the going concern of the Group and the Company at the balance sheet date.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	8	**1,579,431**	1,408,436
Cost of sales		**(1,071,206)**	(837,233)
Gross profit		**508,225**	571,203
Other income and gains	8	**47,008**	24,026
Selling and distribution expenses		**(410,916)**	(369,594)
Administrative expenses		**(129,526)**	(98,563)
Finance costs	9	**(24,670)**	(3,722)
PROFIT/(LOSS) BEFORE TAX	10	**(9,879)**	123,350
Tax	13	**(13,694)**	(12,905)
PROFIT/(LOSS) FOR THE YEAR		**(23,573)**	110,445
Attributable to:			
Equityholders of the parent		**(23,573)**	110,200
Minority interests		**—**	245
		(23,573)	110,445
DIVIDENDS	15		
Interim		**—**	(20,946)
Proposed final		**—**	(20,946)
		—	(41,892)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITYHOLDERS OF THE COMPANY	16		(Restated)
Basic		**(1.5) HK cents**	7.5 HK cents
Diluted		**(1.5) HK cents**	7.4 HK cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**2,820,882**	2,207,217
Investment properties	18	**33,762**	—
Prepaid land lease payments	19	**243,367**	202,900
Goodwill	20	**9,384**	9,384
Reusable packaging materials		**72,732**	80,084
Deferred tax assets	32	**4,618**	8,099
Total non-current assets		**3,184,745**	2,507,684
CURRENT ASSETS			
Inventories	22	**318,228**	186,150
Trade and bills receivables	23	**61,744**	32,685
Prepayments, deposits and other receivables	24	**52,855**	24,779
Tax recoverable		**948**	—
Pledged and restricted bank balances	25	**3,970**	21,652
Cash and cash equivalents	25	**347,144**	325,868
Total current assets		**784,889**	591,134
CURRENT LIABILITIES			
Trade and bills payables	26	**(83,053)**	(179,973)
Tax payable		**(296)**	(147)
Other payables and accruals	27	**(378,725)**	(239,355)
VAT payable		**(2,103)**	(839)
Derivative financial instrument	28	**(35,718)**	(13,580)
Due to the immediate holding company	29	**(218)**	(291)
Due to fellow subsidiaries	30	**(43,707)**	(16,051)
Interest-bearing bank borrowings	31	**(427,480)**	(88,920)
Total current liabilities		**(971,300)**	(539,156)
NET CURRENT ASSETS/(LIABILITIES)		**(186,411)**	51,978
TOTAL ASSETS LESS CURRENT LIABILITIES — page 34		**2,998,334**	2,559,662

Consolidated Balance Sheet (continued)

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES — page 33		**2,998,334**	2,559,662
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**(160,000)**	(607,480)
Deferred tax liabilities	32	**(8,260)**	(2,765)
Total non-current liabilities		**(168,260)**	(610,245)
Net assets		**2,830,074**	1,949,417
EQUITY			
Issued capital	33	**170,667**	139,637
Reserves	35(a)	**2,659,407**	1,788,834
Proposed final dividend	15	**—**	20,946
Total equity		**2,830,074**	1,949,417

YE Xuquan
Director

JIANG Guoqiang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equityholders of the parent											
	Notes	Issued capital *HK$'000* *(Note 33)*	Share premium account* *HK$'000* *(Note 33)*	Capital reserve* *HK$'000* *(Note 35(a))*	Hedging reserve* *HK$'000* *(Note 28)*	Enterprise development funds* *HK$'000* *(Note 35(a))*	Reserve funds* *HK$'000* *(Note 35(a))*	Exchange fluctuation reserve* *HK$'000*	Retained profits* *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 2006		139,557	974,705	13,824	(97)	216	50,003	34,528	585,337	34,889	1,832,962	20,477	1,853,439
Net loss on cash flow hedge	*28*	—	—	—	(13,483)	—	—	—	—	—	(13,483)	—	(13,483)
Exchange realignment		—	—	—	—	—	—	74,465	—	—	74,465	749	75,214
Total income and expense recognised directly in equity		—	—	—	(13,483)	—	—	74,465	—	—	60,982	749	61,731
Profit for the year		—	—	—	—	—	—	—	110,200	—	110,200	245	110,445
Total income and expense for the year		—	—	—	(13,483)	—	—	74,465	110,200	—	171,182	994	172,176
Final 2005 dividend		—	—	—	—	—	—	—	—	(34,889)	(34,889)	—	(34,889)
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	(21,471)	(21,471)
Issue of shares	*33*	80	1,028	—	—	—	—	—	—	—	1,108	—	1,108
Interim 2006 dividend	*15*	—	—	—	—	—	—	—	(20,946)	—	(20,946)	—	(20,946)
Proposed final 2006 dividend	*15*	—	—	—	—	—	—	—	(20,946)	20,946	—	—	—
Transfer from retained profits		—	—	—	—	—	15,089	—	(15,089)	—	—	—	—
At 31 December 2006		139,637	975,733	13,824	(13,580)	216	65,092	108,993	638,556	20,946	1,949,417	—	1,949,417

	Notes	**Issued capital** ***HK$'000*** ***(Note 33)***	**Share premium account*** ***HK$'000*** ***(Note 33)***	**Capital reserve*** ***HK$'000*** ***(Note 35(a))***	**Property revaluation reserve*** ***HK$'000***	**Hedging reserve*** ***HK$'000*** ***(Note 28)***	**Enterprise development funds*** ***HK$'000*** ***(Note 35(a))***	**Reserve funds*** ***HK$'000*** ***(Note 35(a))***	**Exchange fluctuation reserve*** ***HK$'000***	**Retained profits*** ***HK$'000***	**Proposed final dividend** ***HK$'000***	**Total equity** ***HK$'000***
At 1 January 2007		**139,637**	**975,733**	**13,824**	**—**	**(13,580)**	**216**	**65,092**	**108,993**	**638,556**	**20,946**	**1,949,417**
Surplus on revaluation of buildings	*17*	**—**	**—**	**—**	**13,836**	**—**	**—**	**—**	**—**	**—**	**—**	**13,836**
Net loss on cash flow hedge	*28*	**—**	**—**	**—**	**—**	**(22,138)**	**—**	**—**	**—**	**—**	**—**	**(22,138)**
Deferred tax charged to the property revaluation reserve	*32*	**—**	**—**	**—**	**(3,459)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,459)**
Exchange realignment		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**196,410**	**—**	**—**	**196,410**
Total income and expense recognised directly in equity		**—**	**—**	**—**	**10,377**	**(22,138)**	**—**	**—**	**196,410**	**—**	**—**	**184,649**
Loss for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(23,573)**	**—**	**(23,573)**
Total income and expense for the year		**—**	**—**	**—**	**10,377**	**(22,138)**	**—**	**—**	**196,410**	**(23,573)**	**—**	**161,076**
Final 2006 dividend declared		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(20,946)**	**(20,946)**
Issue of shares	*33*	**31,030**	**719,906**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**750,936**
Share issue expenses	*33*	**—**	**(10,409)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(10,409)**
Transfer from retained profits		**—**	**—**	**—**	**—**	**—**	**—**	**13,774**	**—**	**(13,774)**	**—**	**—**
At 31 December 2007		**170,667**	**1,685,230***	**13,824***	**10,377***	**(35,718)***	**216***	**78,866***	**305,403***	**601,209***	**—**	**2,830,074**

* These reserve accounts comprise the consolidated reserves of HK$2,659,407,000 (2006: HK$1,788,834,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(9,879)**	123,350
Adjustments for:			
Finance costs	9	**24,670**	3,722
Interest income	8	**(15,745)**	(4,248)
Fair value gains on investment properties	8	**(1,629)**	—
Depreciation	10	**146,154**	108,715
Recognition of prepaid land lease payments	10	**5,424**	4,009
Amortisation of reusable packaging materials	10	**35,108**	24,477
Loss on disposal of items of property, plant and equipment	10	**722**	811
Impairment of construction in progress and prepaid land lease payment	10	**3,130**	—
Impairment of an other receivable	10	**—**	5,740
		187,955	266,576
Increase in inventories		**(113,975)**	(57,411)
Decrease/(increase) in trade and bills receivables		**(26,227)**	22,793
Increase in prepayments, deposits and other receivables		**(24,523)**	(9,589)
Increase/(decrease) in trade and bills payables		**(105,673)**	105,436
Increase/(decrease) in VAT payable		**1,156**	(4,757)
Increase in other payables and accruals		**10,106**	19,631
Decrease in an amount due to the immediate holding company		**(73)**	(1,072)
Increase in amounts due to fellow subsidiaries		**27,656**	11,400
Cash generated from/(used in) operations		**(43,598)**	353,007
Interest received		**15,745**	4,248
Interest paid		**(33,135)**	(8,581)
Hong Kong profits tax paid		**(3,128)**	(4,645)
PRC corporate income tax paid		**(6,110)**	(9,212)
Dividends paid		**(20,946)**	(55,835)
Net cash inflow/(outflow) from operating activities — page 37		**(91,172)**	278,982

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow/(outflow) from operating activities — page 36		**(91,172)**	278,982
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	36(c)	**(474,566)**	(574,910)
Additions to prepaid land lease payments		**(52,749)**	(66,132)
Purchases of reusable packaging materials		**(22,411)**	(46,594)
Decrease/(increase) in pledged and restricted bank balances	25	**17,682**	(13,672)
Proceeds from disposal of items of property, plant and equipment		**2,598**	1,282
Acquisition of minority interests		**—**	(30,855)
Net cash outflow from investing activities		**(529,446)**	(730,881)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	33	**750,936**	—
Share issue expenses	33	**(10,409)**	—
Proceeds from share options exercised		**—**	1,108
New bank loans		**—**	400,000
Repayment of bank loans		**(108,920)**	—
Repayment of an amount due to a minority equityholder of a subsidiary		**—**	(2,602)
Net cash inflow from financing activities		**631,607**	398,506
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**10,989**	(53,393)
Cash and cash equivalents at beginning of year		**325,868**	373,612
Effect of foreign exchange rate changes, net		**10,287**	5,649
CASH AND CASH EQUIVALENTS AT END OF YEAR		**347,144**	325,868
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**151,353**	98,947
Non-pledged time deposits with original maturity of less than three months when acquired		**195,791**	226,921
	25	**347,144**	325,868

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**2,652,452**	1,959,285
CURRENT ASSETS			
Due from a subsidiary	21	**—**	6,967
Prepayments, deposits and other receivables	24	**1,231**	1,265
Cash and cash equivalents	25	**147,651**	212,140
Total current assets		**148,882**	220,372
CURRENT LIABILITIES			
Due to subsidiaries	21	**(12,023)**	(1,105)
Other payables and accruals	27	**(8,521)**	(9,178)
Derivative financial instrument	28	**(35,718)**	(13,580)
Due to the immediate holding company	29	**(218)**	(291)
Interest-bearing bank borrowings	31	**(427,480)**	(88,920)
Total current liabilities		**(483,960)**	(113,074)
NET CURRENT ASSETS/(LIABILITIES)		**(335,078)**	107,298
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,317,374**	2,066,583
NON-CURRENT LIABILITIES			
Due to subsidiaries	21	**(18,485)**	(17,994)
Interest-bearing bank borrowings	31	**(160,000)**	(607,480)
Total non-current liabilities		**(178,485)**	(625,474)
Net assets		**2,138,889**	1,441,109
EQUITY			
Issued capital	33	**170,667**	139,637
Reserves	35(b)	**1,968,222**	1,280,526
Proposed final dividend	15	**—**	20,946
Total equity		**2,138,889**	1,441,109

YE Xuquan
Director

JIANG Guoqiang
Director

1. Corporate Information

Kingway Brewery Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Office A1, 19th Floor, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

During the year, the Group was principally engaged in the production, distribution and sale of beer.

GDH Limited ("GDH") is the parent company of the Group. In the opinion of the directors, the ultimate holding company of the Group is Guangdong Holdings Limited (廣東粵海控股有限公司) (formerly known as Guangdong Yue Gang Investment Holdings Company Limited), a company established in the People's Republic of China (the "PRC").

2. Basis of Presentation

Despite the fact that the Group's total assets exceed its current liabilities by HK$2,998,334,000, during the year ended 31 December 2007, the Group incurred a net loss of HK$23,573,000 and reported a net cash outflow from operating activities of HK$91,172,000, and the Group had net current liabilities of approximately HK$186,411,000 as at 31 December 2007, as certain long term bank loans totaling HK$278,560,000 have been classified as current due to the non-compliance of a covenant requirement as detailed in note 31 to the financial statements.

In order to improve the Group's financial position, immediate liquidity and cash flow and otherwise to sustain the Group as a going concern, the Group is implementing the following measures:

(a) the Group has been negotiating with a bank for additional banking facilities totaling RMB500 million. As detailed in note 43 to the financial statements, subsequent to the balance sheet date on 1 April 2008, the Group and the bank signed a letter of intent in respect of the banking facilities, which shall be supported by a corporate guarantee from the Company, with the maturity term of not less than two years;

(b) the directors of the Company have been taking various cost control measures to tighten the costs of operations and various general and administrative expenses; and

(c) the Group has been implementing various strategies to enhance the Group's turnover.

The directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

3. Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a derivative financial instrument and investment properties, which has been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside equityholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of net assets acquired is recognised as goodwill.

4.1 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

This principal effects of adopting these new and revised HKFRSs are as follows:

HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

HKAS 1 Amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 42 to the financial statements.

HK(IFRIC)-Int 8 requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

4.1 Impact of New and Revised Hong Kong Financial Reporting Standards (continued)

HK(IFRIC)-Int 9 requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

HK(IFRIC)-Int 10 requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation had no impact on the financial position or results of operations of the Group.

4.2 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 2 Amendment	Shared-based Payment — Vesting Conditions and Cancellation
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Amendment to HKFRS 2 shall be effective for annual periods beginning on or after 1 January 2009. This amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group is in process of making an assessment of the impact of this amendment, and it expected this amendment is unlikely to have any impact on the Group.

HKFRS 3 (Revised) shall be effective for annual periods beginning on or after 1 July 2009. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. As the Group has no such transactions, it is unlikely to have any financial impact on the Group.

HKFRS 8 shall be effective for annual periods beginning on or after 1 January 2009. This standard, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocation resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

4.2 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKAS 1 (Revised) shall be effective for annual periods beginning on or after 1 January 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 (Revised) shall be effective for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction of production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 (Revised) shall be effective for annual periods beginning on or after 1 July 2009. The revised standard requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. As the Group currently has no change in control of its subsidiaries and has no minority interests, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 shall be effective for annual periods beginning on or after 1 March 2007. The interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 shall be effective for annual periods beginning on or after 1 January 2008. The interpretation requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 shall be effective for annual periods beginning on or after 1 July 2008. The interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The Group has customer loyalty award credits, which may result in change of accounting policies. The Group is in the process of making assessment of the impact of this new interpretation and it is not expected to have material impact on the financial statements.

HK(IFRIC)-Int 14 shall be effective for annual periods beginning on or after 1 January 2008. The interpretation addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, HK(IFRIC)-Int 14 is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

4.2 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HK(IFRIC)-Int 13 may result in the change in accounting policy, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

5. Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of a minority interests in a subsidiary represents the excess of the consideration over the book value of the Group's acquired share of the subsidiary's net assets.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in an acquisition of minority interests is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against consolidated reserves

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3 "Business Combinations", such goodwill remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

5. Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, investment properties, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries:

   i. controls, is controlled by, or is under common control, with the Group;

   ii. has an interest in the Group that gives it significant influence over the Group; or

   iii. has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

5. Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3%–20%
Plant, machinery and equipment	4.5%–20%
Furniture and fixtures	18%–20%
Motor vehicles	18%–20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant, machinery and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowing funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

5. Summary of Significant Accounting Policies (continued)

Investment properties

Investment properties are interests in land and buildings (including leasehold interest under an operating lease for a property which otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Reusable packaging materials

Reusable packaging materials currently in use are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of four years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

5. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised costs

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

5. Summary of Significant Accounting Policies (continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to an immediate holding company, amounts due to fellow subsidiaries and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses a derivative financial instrument, cross currency interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instrument is initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The derivative is carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of cross currency interest rate swap is estimated at the amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the counterparties.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure the changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assess on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as cash flow hedges.

5. Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedging (continued)

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

5. Summary of Significant Accounting Policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

5. Summary of Significant Accounting Policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) reinvestment tax refund, when Group's right to receive the refund has been established; and

(d) rental income, on a time proportion basis over the lease terms.

Employee benefits

Retirement benefits schemes

The Company and certain of its subsidiaries operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's certain subsidiaries which operate in Mainland China are mandatory to participate in a local pension scheme (the "LPS") operated by the local municipal government. These subsidiaries are required to contribute 12% to 34% of their payroll costs to the LPS. The contributions under the LPS are charged to the income statement as they become payable in accordance with the rules of the LPS.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binominal model, taking into account the terms and conditions upon which the instruments were granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of that period.

5. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 26% has been applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

5. Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

The functional currencies of subsidiaries not operating in Hong Kong are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at that weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries not operating in Hong Kong are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries not operating in Hong Kong which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

6. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

6. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HK$9,384,000 (2006: HK$9,384,000). More details are given in note 20 to the financial statements.

Fair value of derivative instrument

The fair value of cross currency interest rate swap is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current market conditions and the current creditworthiness of the swap counterparties.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Useful lives of reusable packaging materials

In determining the estimated useful lives and related amortisation expenses for its reusable packaging materials, the Group has to consider various factors, such as the expected usage of the asset, the expected physical wear and tear, and the experience of the Group with similar assets that are used in the similar way. Additional or less amortisation is made if the estimated useful lives are different from previous estimation. Useful lives are reviewed at each financial year date on changes in circumstances.

Impairment of non-financial asset (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

6. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2006 was HK$4,874,000. The amount of unrecognised tax losses at 31 December 2007 was HK$223,120,000 (2006: HK$106,963,000). Further details are contained in note 32 to the financial statements.

Impairment allowances on loans and receivables

The Group regularly reviews its portfolio of trade and other receivables to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group considers whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade and other receivables before the decrease can be identified with an individual receivable balance in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs from previous calculation, the provision estimated would be changed.

7. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No further business segment information is presented as the Group's operations relate solely to the production, distribution and sale of beer. Summary details of the geographical segments are as follows:

(a) the Mainland China segment engages in the production, distribution and sale of beer in Mainland China;

(b) the Overseas and Hong Kong segment engages in the distribution and sale of beer in Hong Kong, Macau and overseas; and

(c) the Corporate segment engages in providing corporate services to the Mainland China segment, and the Overseas and Hong Kong segment in Hong Kong.

In determining the Group's geographical segment, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment transactions mainly represent the sale of beer by the Mainland China segment which was made on the bases determined within the Group.

7. Segment Information (continued)

Geographical segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2007 *HK$'000*	2006 *HK$'000*	**2007 *HK$'000***	2006 *HK$'000*	**2007 *HK$'000***	2006 *HK$'000*	**2007 *HK$'000***	2006 *HK$'000*	**2007 *HK$'000***	2006 *HK$'000*
Segment revenue:										
Sales to external customers	**1,508,396**	1,337,599	**71,035**	70,837	**—**	—	**—**	—	**1,579,431**	1,408,436
Intersegment sales	**27,327**	22,940	**—**	—	**—**	—	**(27,327)**	(22,940)	**—**	—
Other income and gains	**30,720**	18,910	**—**	45	**543**	823	**—**	—	**31,263**	19,778
Total	**1,566,443**	1,379,449	**71,035**	70,882	**543**	823	**(27,327)**	(22,940)	**1,610,694**	1,428,214
Segment results	**(12,209)**	112,423	**22,016**	22,292	**(10,761)**	(11,891)	**—**	—	**(954)**	122,824
Interest income									**15,745**	4,248
Finance costs									**(24,670)**	(3,722)
Profit/(loss) before tax									**(9,879)**	123,350
Tax									**(13,694)**	(12,905)
Profit/(loss) for the year									**(23,573)**	110,445
Assets and liabilities:										
Segment assets	**3,601,925**	2,731,453	**9,497**	10,283	**2,480**	1,463	**—**	—	**3,613,902**	2,743,199
Unallocated assets									**355,732**	355,619
Total assets									**3,969,634**	3,098,818
Segment liabilities	**493,704**	424,148	**2,911**	3,071	**11,191**	9,290	**—**	—	**507,806**	436,509
Unallocated liabilities									**631,754**	712,892
Total liabilities									**1,139,560**	1,149,401
Other segment information:										
Depreciation and amortisation	**186,628**	137,149	**58**	52	**—**	—	**—**	—	**186,686**	137,201
Impairment of an other receivable	**—**	—	**—**	—	**—**	5,740	**—**	—	**—**	5,740
Fair value gains on investment properties	**1,629**	—	**—**	—	**—**	—	**—**	—	**1,629**	—
Capital expenditure	**650,869**	663,936	**—**	24	**—**	—	**—**	—	**650,869**	663,960

8. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after trade discounts, allowances for returns, value-added tax and consumption tax, after elimination of all significant intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	2007 *HK$'000*	2006 *HK$'000*
Revenue		
Invoiced value of goods sold (net of trade discounts, allowances for returns and value-added tax)	**1,752,414**	1,552,096
Beer consumption tax	**(172,983)**	(143,660)
Sale of goods	**1,579,431**	1,408,436
Other income		
Gains on sale of scrap materials	**14,708**	8,751
Bank interest income	**15,745**	4,248
Reinvestment tax refunds#	**9,189**	7,681
Rental income	**4,202**	2,445
Others	**992**	370
	44,836	23,495
Gains		
Fair value gains on investment properties	**1,629**	—
Exchange gains, net	**543**	531
	2,172	531
	47,008	24,026

According to the Income Tax Law of the PRC, the Group is entitled to refunds of corporate income taxes, subject to the approval from the relevant offices of the Tax Bureau in the Mainland China. In 2007, the Group reinvested the profit distributions received from its foreign-owned subsidiaries in new entities established in the Mainland China. Approvals from the Tax Bureau in relation to the reinvestment tax refunds were received by the Group during the year. The refunds are determined based on certain percentages of the profit distributions reinvested.

9. Finance Costs

	Notes	Group 2007 HK$'000	2006 HK$'000
Interest on bank loans wholly repayable within five years		**36,642**	19,157
Fair value gain on cash flow hedge (transfer from equity)	28	**(3,507)**	(10,576)
		33,135	8,581
Less: Interest capitalised	17	**(8,465)**	(4,859)
		24,670	3,722

10. Profit/(Loss) Before Tax

This is arrived at after charging/(crediting):

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold		**1,071,206**	837,233
Depreciation#	17	**146,154**	108,715
Recognition of prepaid land lease payments		**5,424**	4,009
Amortisation of reusable packaging materials#		**35,108**	24,477
Loss on disposal of items of property, plant and equipment		**722**	811
Impairment of construction in progress and prepaid land lease payment		**3,130**	—
Impairment of an other receivable	39	**—**	5,740
Minimum lease payments under operating leases in respect of land and buildings		**1,170**	825
Auditors' remuneration		**2,300**	1,840
Employee benefits expense (excluding directors' remuneration — note 11)#:			
Wages and salaries		**132,312**	107,339
Pension scheme contributions		**21,883**	12,715
Less: Forfeited contributions*		**(8)**	(6)
Net pension scheme contributions		**21,875**	12,709
		154,187	120,048
Exchange gains, net		**(543)**	(531)
Impairment of trade receivables	23	**119**	255

The depreciation, amortisation of reusable packaging materials and employee benefits expense for the year of HK$129,491,000 (2006: HK$93,133,000), HK$35,108,000 (2006: HK$24,477,000) and HK$69,478,000 (2006: HK$51,484,000), respectively, are included in the cost of inventories sold as disclosed above.

* At 31 December 2007, the Group had forfeited contributions of HK$8,000 (2006: HK$6,000) available to reduce its contributions to the pension scheme in future years.

11. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	**540**	300
Non-executive directors	**—**	—
Executive directors	**94**	77
	634	377
Other emoluments:		
Salaries, allowances and benefits in kind	**1,619**	1,616
Bonuses	**2,005**	1,087
Pension scheme contributions	**655**	586
	4,279	3,289
	4,913	3,666

In prior years, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	HK$'000	*HK$'000*
Alan Howard Smith	**170**	100
V-nee Yeh	**200**	100
Rafael Gil-Tienda	**11**	100
Fong Wo, Felix	**159**	—
	540	300

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

11. Directors' Remuneration (continued)

(b) Executive directors and non-executive directors

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Bonuses# *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2007					
Executive directors:					
YE Xuquan	46	774	650	336	1,806
JIANG Guoqiang	33	510	916	229	1,688
LIANG Jianqin	15	335	439	90	879
	94	1,619	2,005	655	4,373
Non-executive directors:					
KOH Poh Tiong	—	—	—	—	—
HAN Cheng Fong	—	—	—	—	—
Sijbe HIEMSTRA	—	—	—	—	—
CHEUNG Fook Seng, Anthony	—	—	—	—	—
ZHAO Leili	—	—	—	—	—
LUO Fanyu	—	—	—	—	—
Michael WU	—	—	—	—	—
HO LAM Lai Ping, Theresa	—	—	—	—	—
	—	—	—	—	—
	94	1,619	2,005	655	4,373

11. Directors' Remuneration (continued)

(b) Executive directors and non-executive directors (continued)

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Bonuses# *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2006					
Executive directors:					
YE Xuquan	45	866	520	328	1,759
JIANG Guoqiang	32	548	567	237	1,384
LIANG Jianqin	—	202	—	21	223
	77	1,616	1,087	586	3,366
Non-executive directors:					
KOH Poh Tiong	—	—	—	—	—
HAN Cheng Fong	—	—	—	—	—
Sijbe HIEMSTRA	—	—	—	—	—
ZHAO Leili	—	—	—	—	—
LUO Fanyu	—	—	—	—	—
Michael WU	—	—	—	—	—
HO LAM Lai Ping, Theresa	—	—	—	—	—
	—	—	—	—	—
	77	1,616	1,087	586	3,366

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

For the year ended 31 December 2007 and 2006, bonuses of HK$1,599,000 and HK$1,087,000 paid to the Executive Directors were related to the services rendered for 2006 and 2005, respectively.

12. Five Highest Paid Employees

The five highest paid employees during the year included three (2006: two) directors, details of whose remuneration are set out in note 11 above. The details of the remuneration of the remaining two (2006: three) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,378**	1,512
Bonuses	**452**	846
Pension scheme contributions	**57**	89
	1,887	2,447

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**1**	3
HK$1,000,000 to HK$1,500,000	**1**	—
	2	3

13. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC tax laws, certain subsidiaries of the Group are entitled to preferential tax treatment with full tax exemption from PRC corporate income tax ("CIT") for two years starting from the first profitable year of operations, followed by 50% reduction in CIT rate for the next three years.

Shenzhen Kingway Brewing Co., Ltd. is entitled to a 50% tax relief for the year ended 31 December 2007 and 2006.

Kingway Brewery (Dongguan) Co., Ltd. is exempted from CIT for the year ended 31 December 2007 and 2006.

Kingway Brewery (Shan Tou) Co., Ltd. is exempted from CIT for the year ended 31 December 2007 as this was its first profitable year of operations.

13. Tax (continued)

Kingway Brewery (Tianjin) Co., Ltd., Kingway Brewery (Xian) Co., Ltd., Kingway Brewery Group (Chengdu) Co., Ltd. and Kingway Brewery (Foshan) Co., Ltd. have not generated any accumulated assessable profit since their establishments. Thus, the tax exemption periods to which these subsidiaries are entitled have not commenced during the year ended 31 December 2007.

On 16 March 2007, the National People's Congress approved the revised Corporate Income Tax ("CIT") Law, which is effective from 1 January 2008. Under the revised CIT Tax Law, corporate income tax rate for domestic companies and foreign-invested enterprises will decrease from 33% to 25% since 1 January 2008. In addition, for those enterprises benefiting from lower preferential tax rates, such preferential rates will be gradually phased out by increasing them over the next five years. This change in the income tax rate will directly increase the Group's effective tax rate prospectively from 1 January 2008. According to HKAS 12 "Income taxes", deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, based on current best estimate of the impact which could be reasonably estimated, the change in the CIT rate leads to an increase in deferred tax assets and liabilities as at 31 December 2007 of HK$1,887,000 and HK$1,531,000, respectively.

	2007	2006
	HK$'000	*HK$'000*
Group:		
Current:		
Hong Kong:		
Charge for the year	**3,730**	3,662
Underprovision in prior years	**69**	2
Mainland China:		
Charge for the year	**4,735**	8,428
Overprovision in prior years	**(100)**	(439)
Deferred *(note 32)*	**5,260**	1,252
Total tax charge for the year	**13,694**	12,905

13. Tax (continued)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory rates for the locations in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group — 2007

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Profit/(loss) before tax	**1,482**	**(11,361)**	**(9,879)**
Tax at the statutory tax rates	**259**	**(3,749)**	**(3,490)**
Lower tax rates for specific provinces or local authorities	**—**	**(1,282)**	**(1,282)**
Effect on opening deferred tax of increase in rates	**—**	**(356)**	**(356)**
Adjustments in respect of current tax of previous periods	**69**	**(100)**	**(31)**
Profit exempted from PRC corporate income tax	**—**	**(3,461)**	**(3,461)**
Income not subject to tax	**(4,287)**	**—**	**(4,287)**
Expenses not deductible for tax	**5,984**	**1,392**	**7,376**
Tax losses utilised from previous periods	**—**	**(481)**	**(481)**
Tax losses not recognised	**1,774**	**17,932**	**19,706**
Tax charge at the Group's effective rate	**3,799**	**9,895**	**13,694**

Group — 2006

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Profit before tax	8,775	114,575	123,350
Tax at the statutory tax rates	1,536	37,810	39,346
Lower tax rates for specific provinces or local authorities	—	(24,130)	(24,130)
Adjustments in respect of current tax of previous periods	2	(439)	(437)
Profit exempted from PRC corporate income tax	—	(10,755)	(10,755)
Income not subject to tax	(1,648)	—	(1,648)
Expenses not deductible for tax	3,774	466	4,240
Tax losses not recognised	—	6,289	6,289
Tax charge at the Group's effective rate	3,664	9,241	12,905

14. Profit/(Loss) Attributable to Equityholders of the Company

The consolidated profit/(loss) attributable to equityholders of the Company for the year ended 31 December 2007 includes a profit of HK$337,000 (2006: HK$27,227,000) which has been dealt with in the financial statements of the Company (note 35(b)).

15. Dividends

	2007 HK$'000	2006 HK$'000
Interim — Nil (2006: 1.5 HK cents) per share	—	20,946
Proposed final — Nil (2006: 1.5 HK cents) per share	—	20,946
	—	41,892

16. Earnings/(Loss) Per Share Attributable to Ordinary Equityholders of the Company

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equityholders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equityholders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2007 HK$'000	2006 HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equityholders of the Company, used in the basic and diluted earnings/(loss) per share calculation	**(23,573)**	110,200

	Number of shares	
	2007	2006 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(Note (i))*	**1,593,923,090**	1,476,333,862
Effect of dilution — weighted average number of ordinary shares that would have been issued on deemed exercise of all share options with dilutive effects at nil consideration	**13,658,019**	15,644,311
For the purpose of diluted earnings/(loss) per share calculation	**1,607,581,109**	1,491,978,173

Note (i): The weighted average numbers of ordinary shares used in the calculations of both basic and diluted earnings/(loss) per share for the year ended 31 December 2006 had been adjusted to reflect the rights issue during the year ended 31 December 2007.

17. Property, Plant and Equipment

Group — 2007

	Notes	Buildings HK$'000	Plant, machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2006 and at 1 January 2007:							
Cost		782,326	1,940,163	2,143	31,688	470,581	3,226,901
Accumulated depreciation		(195,406)	(801,768)	(1,731)	(20,779)	—	(1,019,684)
Net carrying amount		586,920	1,138,395	412	10,909	470,581	2,207,217
At 1 January 2007, net of accumulated depreciation		586,920	1,138,395	412	10,909	470,581	2,207,217
Additions		14,361	42,511	10	4,909	530,311	592,102
Interest capitalised	9	—	—	—	—	8,465	8,465
Surplus on revaluation		13,836	—	—	—	—	13,836
Impairment		—	—	—	—	(916)	(916)
Disposals/write-off		—	(2,637)	—	(683)	—	(3,320)
Depreciation provided during the year	10	(39,122)	(103,969)	(427)	(2,636)	—	(146,154)
Transfers		364,412	575,299	—	—	(939,711)	—
Transfer to investment properties	18	(29,065)	—	—	—	—	(29,065)
Exchange realignment		57,387	102,940	9	887	17,494	178,717
At 31 December 2007, net of accumulated depreciation		968,729	1,752,539	4	13,386	86,224	2,820,882
At 31 December 2007:							
Cost		1,213,859	2,712,185	896	31,341	86,224	4,044,505
Accumulated depreciation		(245,130)	(959,646)	(892)	(17,955)	—	(1,223,623)
Net carrying amount		968,729	1,752,539	4	13,386	86,224	2,820,882

17. Property, Plant and Equipment (continued)

Group — 2006

	Notes	Buildings HK$'000	Plant, machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2005 and at 1 January 2006:							
Cost		596,985	1,646,153	2,086	45,323	297,474	2,588,021
Accumulated depreciation		(160,572)	(697,915)	(1,657)	(34,548)	—	(894,692)
Net carrying amount		436,413	948,238	429	10,775	297,474	1,693,329
At 1 January 2006, net of accumulated depreciation		436,413	948,238	429	10,775	297,474	1,693,329
Additions		39,500	45,557	24	3,494	462,659	551,234
Interest capitalised	*9*	—	—	—	—	4,859	4,859
Disposals/write-off		—	(253)	—	(1,840)	—	(2,093)
Depreciation provided during the year	*10*	(27,866)	(78,901)	(52)	(1,896)	—	(108,715)
Transfers		121,263	187,230	—	—	(308,493)	—
Exchange realignment		17,610	36,524	11	376	14,082	68,603
At 31 December 2006, net of accumulated depreciation		586,920	1,138,395	412	10,909	470,581	2,207,217
At 31 December 2006:							
Cost		782,326	1,940,163	2,143	31,688	470,581	3,226,901
Accumulated depreciation		(195,406)	(801,768)	(1,731)	(20,779)	—	(1,019,684)
Net carrying amount		586,920	1,138,395	412	10,909	470,581	2,207,217

18. Investment Properties

Group

	2007 HK$'000	2006 HK$'000
Carrying amount at 1 January	**—**	—
Transfer from owner-occupied property *(note 17)*	**29,065**	—
Transfer from prepaid land lease payments	**3,068**	—
Net profit from a fair value adjustment	**1,629**	—
Carrying amount at 31 December	**33,762**	—

The Group's investment properties are situated in Mainland China and are held under medium term leases.

The Group's investment properties were revalued at 31 December 2007 by RHL Appraisal Ltd., independent professionally qualified valuers, at HK$33,762,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the financial statements.

19. Prepaid Land Lease Payments

The Group's leasehold land is held under medium term leases and is situated in Mainland China.

The applications for certain land use right certificates in connection with prepaid land lease payments totalling HK$46,556,000 (2006: HK$43,663,000) have been commenced, however, the land use right certificates had not yet been issued by the relevant offices of the Land Authorities in the PRC as at the balance sheet dates. Notwithstanding this, the directors are of the opinion that the Group has obtained the legal rights to use these assets as at 31 December 2007 and that the land use right certificates can be received.

20. Goodwill

Group

	HK$'000
Acquisition of minority interests during the year ended 31 December 2006	9,384
Cost and net carrying amount at 31 December 2006, 1 January 2007 and 31 December 2007	9,384

As further detailed in note 5 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the capital reserve.

The amount of goodwill remaining in the capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK$126,410,000 as at 31 December 2006 and 2007. The amount of goodwill is stated at cost.

20. Goodwill (continued)

Impairment testing of goodwill

The goodwill arising on acquisition of minority interests is related to the operations of a subsidiary, namely Shenzhen Kingway Brewery Co., Ltd. Its recoverable amount has been determined based on a value-in-use calculation using cash flow projections over a period of 5 years, which are based on financial budget approved by management of the Group and the subsidiary. The discounted rate applied to the cash flow projections are 9%.

Key assumptions were used in the value in use calculation of the subsidiary, which is considered as a single cash generating unit. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margin is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

Discount rates — The discount rate used is before tax and reflect specific risks relating to the unit.

Raw materials price fluctuation — The basis used to determine the value assigned to raw materials price fluctuation is the forecast indices during the budget year for locations where raw materials are sourced. The values assigned to key assumptions are consistent with external information sources.

21. Interests in Subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares/investments, at cost	**312,383**	269,226
Due from subsidiaries	**2,391,266**	1,741,256
	2,703,649	2,010,482
Impairment#	**(51,197)**	(51,197)
	2,652,452	1,959,285

\# Impairments were recognised for certain unlisted investments and loans to subsidiaries with a total carrying amount of HK$51,197,000 (before deducting the impairments) (2006: HK$51,197,000) because certain of the subsidiaries were losses making persistently.

Movements in the impairment of interests in subsidiaries are as follows:

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**51,197**	39,254
Impairment losses recognised	**—**	11,943
At 31 December	**51,197**	51,197

The amounts due from and to subsidiaries included in the Company's current assets and liabilities of Nil (2006: HK$6,967,000) and HK$12,023,000 (2006: HK$1,105,000), respectively, are unsecured, interest-free and repayable on demand or within one year.

21. Interests in Subsidiaries (continued)

At 31 December 2007, the amounts due from and to subsidiaries of HK$2,391,266,000 (2006: HK$1,741,256,000) and HK$18,485,000 (2006: HK$17,994,000) are unsecured, interest-free and are not repayable within one year from 31 December 2007, respectively. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK$2	100	—	Sale and marketing of beer
Shenzhen Kingway Brewery Co., Ltd.#	PRC/Mainland China	US$50,000,000	—	100	Production, distribution and sale of beer
Shenzhen Kingway Brewing Co., Ltd.#	PRC/Mainland China	US$36,000,000	—	100	Production, distribution and sale of beer
Kingway Brewery (Shan Tou) Co., Ltd.#	PRC/Mainland China	RMB186,000,000	—	100	Production, distribution and sale of beer
Kingway Brewery (Dongguan) Co., Ltd.# ("Kingway Dongguan")	PRC/Mainland China	US$11,880,000	—	100	Production, distribution and sale of beer
Kingway Brewery (Tianjin) Co., Ltd.# ("Kingway Tianjin")	PRC/Mainland China	US$30,000,000	—	100	Production, distribution and sale of beer
Kingway Brewery (Xian) Co., Ltd.# ("Kingway Xian")	PRC/Mainland China	US$17,000,000	—	100	Production, distribution and sale of beer
Kingway Brewery Group (Chengdu) Co., Ltd.#	PRC/Mainland China	US$33,500,000	—	100	Production, distribution and sale of beer
Kingway Brewery (Foshan) Co., Ltd.# ("Kingway Foshan")	PRC/Mainland China	US$15,000,000	—	100	Production, distribution and sale of beer
Kingway Brewery (China) Co., Ltd.#	PRC/Mainland China	RMB50,000,000	100	—	Beer information management

These subsidiaries are established as wholly-foreign-owned enterprises.

21. Interests in Subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. Inventories

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**124,935**	36,004
Spare parts and consumables	**60,957**	45,147
Packaging materials	**74,292**	56,850
Work in progress	**34,155**	22,430
Finished goods	**23,889**	25,719
	318,228	186,150

23. Trade and Bills Receivables

The Group's trading terms with customers are either on a cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30 to 180 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing and the carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date and net of provisions, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 3 months	**16,800**	16,931
3 to 6 months	**750**	1,172
6 months to 1 year	**486**	70
Over 1 year	**367**	398
	18,403	18,571
Less: Impairment	**(390)**	(271)
Trade receivables	**18,013**	18,300
Bills receivables	**43,731**	14,385
	61,744	32,685

Bills receivables were all bank acceptance notes with a maturity period within six months and had aged less than six months.

23. Trade and Bills Receivables (continued)

The aged analysis of the trade and bills receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**52,509**	24,271
Less than 3 months past due	**8,022**	7,045
3 to 6 months past due	**750**	1,172
Over 6 months past due	**463**	197
	61,744	32,685

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At beginning of the year	**271**	693
Impairment losses recognised *(note 10)*	**119**	255
Amount written off as uncollectible	**—**	(677)
At end of the year	**390**	271

All above provisions for impairment of trade receivables are individually impaired. The individually impaired trade receivables with gross balance amounting to HK$390,000 relate to customers that were in default or delinquency payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

24. Prepayments, Deposits and Other Receivables

The Group's and the Company's other receivables are non-interest-bearing and their carrying amounts approximate to their fair values. Other receivables were neither past due nor impaired at the balance sheet date.

25. Cash and Cash Equivalents and Pledged and Restricted Bank Balances

	Notes	Group		Company	
		2007	2006	**2007**	2006
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances		**155,323**	109,445	**1,011**	268
Time deposits		**195,791**	238,075	**146,640**	211,872
		351,114	347,520	**147,651**	212,140
Less: Bank balances pledged for banking facilities	*(i)*	**(3,229)**	(8,670)	**—**	—
Time deposits pledged for banking facilities	*(i)*	**—**	(11,154)	**—**	—
Restricted bank balances	*(ii)*	**(741)**	(1,828)	**—**	—
		(3,970)	(21,652)	**—**	—
Cash and cash equivalents	*(iii)*	**347,144**	325,868	**147,651**	212,140

Notes:

(i) At the balance sheet date, certain bank balances and time deposits totalling HK$3,229,000 (2006: HK$19,824,000) were pledged for banking facilities granted to certain subsidiaries of the Group.

(ii) During the year ended 31 December 2004, the Group had received total government grants of RMB3,410,000 for future acquisition of certain qualifying assets in connection with the Group's research and development of brewing and related technologies in accordance with the terms of the grants. During the current year, a total of HK$1,177,000 (2006: HK$123,000) was utilised for purchase of qualifying items of property, plant and equipment. As at the balance sheet date, the Group had accumulated government grants of HK$741,000, including the interest income and exchange differences arising therefrom, which are yet to be used for purchases of qualifying assets and this balance is classified as the Group's restricted bank balance. The Company did not have any restricted bank balances as at 31 December 2006 and 2007.

(iii) At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$145,853,000 (2006: HK$72,227,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged and restricted bank balances approximate to their fair values.

26. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 3 months	**69,950**	78,933
3 to 6 months	**8,111**	1,049
6 months to 1 year	**2,137**	228
Over 1 year	**2,855**	2,280
Trade payables	**83,053**	82,490
Bills payable	**—**	97,483
	83,053	179,973

The trade payables are non-interest-bearing and are normally settled on 30-day terms. All the bills payable balances of the Group at the balance sheet date are of maturity within six months. The carrying amounts of the trade and bills payables approximate to their fair values.

27. Other Payables and Accruals

The Group's and the Company's other payables are non-interest-bearing and have no fixed terms of repayment. The carrying amounts of other payables approximate to their fair values.

28. Derivative Financial Instrument

	Group and Company	
	2007	2006
	HK$'000	*HK$'000*
Cross currency interest rate swap classified as a current liability	**35,718**	13,580

The carrying amount of cross currency interest rate swap is the same as its fair value. The above transaction involving a derivative financial instrument is with Societe Generale Paris.

Cross currency interest rate swap

At 31 December 2007, the Company and the Group held a cross currency interest rate swap with a notional amount of US$38,000,000 (equivalent to HK$296,400,000) (2006: US$38,000,000 (equivalent to HK$296,400,000)), designated as a hedge in respect of the Company's and the Group's bank loans, whereby the Company and the Group:

(i) receive interest at a variable rate of LIBOR plus 0.413% (2006: LIBOR plus 0.413%) per annum, and pays interest at a fixed rate of 1.96% (2006: 1.96%) per annum on the notional amount from the effective date of swap contract to the maturity date of 25 November 2009; and

(ii) receive the US dollar-denominated loan principal of US$38,000,000 in six instalments as stipulated in the swap contract, and pays the RMB equivalent amounts at a contracted exchange rate of RMB8.08 to US$1.

28. Derivative Financial Instrument (continued)

Cash flow hedge

The terms of the swap have been negotiated to match the terms of the bank loan. The cash flow hedge of the bank loan was assessed to be highly effective and the net fair value loss on cash flow hedge included in the hedging reserve was HK$22,138,000 (2006: HK$13,483,000).

	Group and Company	
	2007 ***HK$'000***	2006 *HK$'000*
Total fair value loss included in the hedging reserve	**18,631**	2,907
Transfer from the hedging reserve and included in financial costs *(note 9)*	**3,507**	10,576
Movement of cash flow hedge	**22,138**	13,483

29. Due to The Immediate Holding Company

The Group's and the Company's amount due to the immediate holding company is unsecured, non-interest-bearing and has no fixed terms of repayment. The carrying amount of the amount due approximates to its fair value.

30. Due to Fellow Subsidiaries

The Group's amounts due are unsecured, non-interest-bearing and repayable within 30 days from the date of invoices. The carrying amounts of the amounts due approximate to their fair values (note 40(a)(i)).

31. Interest-bearing Bank Borrowings

			Group and Company	
	Effective interest rate	**Maturity**	**2007** ***HK$'000***	2006 *HK$'000*
Current				
US$38,000,000 unsecured bank loan	1.96% per annum*	2007–2009#	**207,480**	88,920
Bank loan — unsecured	HIBOR+0.33% per annum	2008–2010#	**200,000**	—
Bank loan — unsecured	HIBOR+0.30% per annum	2008	**20,000**	—
			427,480	88,920
Non-current				
US$38,000,000 unsecured bank loan	1.96% per annum*	2008–2009	**—**	207,480
Bank loan — unsecured	HIBOR+0.33% per annum	2008–2010	**—**	200,000
Bank loan — unsecured	HIBOR+0.30% per annum	2009–2010	**160,000**	200,000
			160,000	607,480
			587,480	696,400

* Includes the effects of a related cross currency interest rate swap as further detailed in note 28 to the financial statements.

In relation to a covenant requirement as set out in two term loan facility letters for certain long term bank loans with an aggregate outstanding principal amount of HK$407,480,000 as at 31 December 2007, on 27 November 2007, the Group obtained a waiver of that covenant requirement from the bank until 31 July 2008. The non-current portion of the long term bank loans totalling HK$278,560,000 as at 31 December 2007 was classified as current because the Group may or may not comply with the covenant requirement as stipulated in the loan facility letters if the waiver is not granted after 31 July 2008 and the long term bank loans may be wholly repayable within twelve months from the balance sheet date.

31. Interest-bearing Bank Borrowings (continued)

	Group and Company	
	2007	2006
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year	**427,480**	88,920
In the second year	**80,000**	168,920
In the third to fifth years, inclusive	**80,000**	438,560
	587,480	696,400

Notes:

(1) The carrying amounts of the Group's and the Company's bank borrowings approximate to their fair values. The fair values of bank borrowings have been calculated by discounting their expected future cash flows at prevailing interest rates at 31 December 2007.

(2) Except for the US$38,000,000 unsecured bank loan which is denominated in the United States dollars, all borrowings are in Hong Kong dollars.

32. Deferred Tax

The movements in deferred tax assets and liabilities during the year are as follows:

Group — 2007

Deferred tax assets

	Decelerated tax depreciation	**Fair value adjustments arising from acquisition of subsidiaries**	**Loss available for offset against future taxable profit**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January 2007	**1,574**	**1,651**	**4,874**	**8,099**
Deferred tax credited/(charged) to the income statement during the year *(note 13)*	**741**	**559**	**(4,874)**	**(3,574)**
Exchange differences	**93**	**—**	**—**	**93**
Gross deferred tax assets at 31 December 2007	**2,408**	**2,210**	**—**	**4,618**

Deferred tax liabilities

	Accelerated tax depreciation	**Revaluation of properties**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At 1 January 2007	**(2,765)**	**—**	**(2,765)**
Deferred tax charged to the income statement during the year *(note 13)*	**(1,279)**	**(407)**	**(1,686)**
Deferred tax charged to the property revaluation reserve during the year	**—**	**(3,459)**	**(3,459)**
Exchange differences	**(350)**	**—**	**(350)**
Gross deferred tax liabilities at 31 December 2007	**(4,394)**	**(3,866)**	**(8,260)**

32. Deferred Tax (continued)

Group — 2006

Deferred tax assets

	Decelerated tax depreciation *HK$'000*	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Loss available for offset against future taxable profit *HK$'000*	Total *HK$'000*
At 1 January 2006	1,499	1,939	5,562	9,000
Deferred tax credited/(charged) to the income statement during the year *(note 13)*	44	(359)	(839)	(1,154)
Exchange differences	31	71	151	253
Gross deferred tax assets at 31 December 2006	1,574	1,651	4,874	8,099

Deferred tax liabilities

	Accelerated tax depreciation *HK$'000*
At 1 January 2006	(2,574)
Deferred tax charged to the income statement during the year *(note 13)*	(98)
Exchange differences	(93)
Gross deferred tax liabilities at 31 December 2006	(2,765)

The Company and the Group have tax losses arising in Hong Kong of HK$79,025,000 (2006: HK$70,717,000) that are available indefinitely for offsetting against their future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the directors considered it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Company and the Group.

The Group has tax losses arising in Mainland China of HK$144,095,000 (2006: HK$36,246,000) that are available for five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted based on existing legislation, interpretations and practices.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. Share Capital

Shares

	2007 *HK$'000*	2006 *HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,706,672,000 (2006: 1,396,368,000) ordinary shares of HK$0.10 each	**170,667**	139,637

On 29 June 2007, a rights issue of two rights shares for every nine shares held by members on the register of members was made, at an issue price of HK$2.42 per rights share, resulting in the issue of 310,304,000 ordinary shares of HK$0.10 each for a total cash consideration, before expenses of HK$10,409,000, of HK$750,936,000. The net cash proceeds were credited to share capital and share premium account of HK$31,030,000 and HK$709,497,000, respectively.

A summary of the transactions during the years ended 31 December 2006 and 2007 with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2006	1,395,568,000	139,557	974,705	1,114,262
Share options exercised	800,000	80	1,028	1,108
At 31 December 2006 and 1 January 2007	1,396,368,000	139,637	975,733	1,115,370
Rights issue	310,304,000	31,030	719,906	750,936
Share issue expenses	—	—	(10,409)	(10,409)
At 31 December 2007	1,706,672,000	170,667	1,685,230	1,855,897

Share options

Details of the Company's share option scheme and the share options issued under the share option scheme are included in note 34 to the financial statements.

34. Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain good relationship with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the Share Option Scheme include the directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The Share Option Scheme was adopted on 31 May 2002 and, unless otherwise terminated or amended, will remain in force for a period of 10 years from 10 January 2003.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue at any time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the Share Option Scheme. As at 31 December 2007, the total number of shares issuable for options granted under the Share Option Scheme of the Company was 25,593,337 (2006: 28,700,000) which represented approximately 1.5% (2006: 2.1%) of the Company's shares then in issue as at that date.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's share at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 14 days from the date of offer upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, but must not be less than the highest of (i) the closing price of the Company's shares as stated on daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the grant, which must be a business day; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

34. Share Option Scheme (continued)

The following share options were outstanding under the Share Option Scheme during the year:

	2007		2006	
	Weighted average exercise price *HK$ per share*	**Number of options** *'000*	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**1.584**	**28,700**	1.579	29,500
Increase as a result of rights issue	**—**	**1,652**	—	—
Exercised during the year	**—**	**—**	1.385	(800)
Lapsed during the year	**1.481**	**(4,759)**	—	—
At 31 December	**1.501**	**25,593**	1.584	28,700

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2007

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
8,038	**0.794**	**27/08/2003 – 26/08/2008**
17,555	**1.825**	**07/05/2004 – 06/05/2009**
25,593		

2006

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
9,100	0.840	27/08/2003 – 26/08/2008
19,600	1.930	07/05/2004 – 06/05/2009
28,700		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had 25,593,337 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 25,593,337 additional ordinary shares of the Company and additional share capital of HK$2,559,000 and share premium of HK$35,862,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 25,593,337 share options outstanding under the Share Option Scheme, which represented approximately 1.5% of the Company's shares in issue as at that date.

35. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant PRC laws and regulations, a portion of the profits of the Group's subsidiaries which are registered in the PRC has been transferred to the enterprise development funds and the reserve funds which are restricted as to use and are not available for distribution. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The amounts transferred from the retained profits are determined by the board of directors of these subsidiaries.

On 23 April 1998, a special resolution was passed in a special general meeting of the Company for a reduction of its share premium account in the amount of HK$140,234,000. This amount was credited to the Group's and the Company's capital reserve accounts against which goodwill arising on the acquisitions of subsidiaries were eliminated in the Group account.

(b) Company

	Notes	**Share premium account**	**Capital reserve**	**Hedging reserve**	**Retained profits**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006		974,705	140,234	(97)	192,804	1,307,646
Profit for the year	*14*	—	—	—	27,227	27,227
Net loss on cash flow hedge	*28*	—	—	(13,483)	—	(13,483)
Issue of shares	*33*	1,028	—	—	—	1,028
Interim 2006 dividend	*15*	—	—	—	(20,946)	(20,946)
Proposed final 2006 dividend	*15*	—	—	—	(20,946)	(20,946)
At 31 December 2006 and 1 January 2007		975,733	140,234	(13,580)	178,139	1,280,526
Profit for the year	*14*	—	—	—	337	337
Net loss on cash flow hedge	*28*	—	—	(22,138)	—	(22,138)
Issue of shares	*33*	719,906	—	—	—	719,906
Share issue expenses	*33*	(10,409)	—	—	—	(10,409)
At 31 December 2007		1,685,230	140,234	(35,718)	178,476	1,968,222

36. Notes to the Consolidated Cash Flow Statement

(a) During the year ended 31 December 2006, included in the purchases of items of property, plant and equipment amounting to HK$23,676,000 was the settlement of construction costs of certain factory premises incurred by the Group during the year ended 31 December 2005 . The amount was classified under other payables and accruals as at 31 December 2005.

(b) During the year ended 31 December 2006, the Group acquired an additional 5% equity interest in Shenzhen Kingway Brewery Co., Ltd. ("Shenzhen Brewery") at a total cash consideration of HK$30,855,000 from the a minority equityholder of Shenzhen Brewery. The carrying amount of the Group's acquired share of Shenzhen Brewery's net assets as at the date of acquisition was HK$21,471,000, resulting in a total positive goodwill of approximately HK$9,384,000 (note 20). As a result of this acquisition, the Group increased its holdings in Shenzhen Brewery from 95% at 31 December 2005 to 100% at 31 December 2006.

(c) Major non-cash transactions

At 31 December 2007, the Group had payables in relation to additions of construction in progress and land lease payments of HK$117,536,000 and HK$12,429,000, respectively. These additions have no cash flow impacts to the Group.

37. Operating Lease Arrangements

(a) As lessor

The Group leases of its investment properties (note 18 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from three to ten years (2006: three to ten years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**3,122**	2,508
In the second to fifth years, inclusive	**5,981**	5,400
After five years	**1,083**	1,781
	10,186	9,689

37. Operating Lease Arrangements (continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for two years (2006: one to two years).

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**363**	1,141
In the second to fifth years, inclusive	**—**	363
	363	1,504

At the balance sheet date, the Company did not have any operating lease arrangements (2006: Nil).

38. Commitments

In addition to the operating lease commitments detailed in note 37(b) to the financial statements, the Group had the following commitments at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Capital commitments on the acquisition of items of property, plant and equipment:		
Contracted, but not provided for	**25,436**	197,388
Authorised, but not contracted for	**1,908**	534,248
	27,344	731,636

At the balance sheet date, the Company had no significant capital commitment (2006: RMB42,481,000 (equivalent to HK$42,285,000)).

39. Litigation

In December 2004, Baligold Developments Limited ("Baligold"), a wholly-owned subsidiary of the Company, commenced legal proceedings in the High Court of the Hong Kong Special Administrative Region against Best Concepts Consultants Limited ("BCCL", as the first defendant) and Central China (Asia) Investment Limited ("CCAI", as the second defendant), to recover, inter alia, the final payment of HK$12,230,000 and interest thereon of HK$510,000 under an agreement for sale and purchase dated 9 August 2002 in respect of disposal of the then issued shares of CCAI (the "Agreement"), the shareholder of a 50% interest in Shandong Huazhong Amber Brewery Co. Ltd. ("Amber Brewery"), to BCCL and a supplemental agreement dated 7 August 2003 (the "Supplemental Agreement"); and the enforcement of a share mortgage over the shares of CCAI as the security provided by BCCL under the Supplemental Agreement. In addition, Baligold's claim against CCAI included the damages for its failure to repay the loan of HK$35,650,000 (the "Loan"), which should have been conditionally waived by Baligold subject to the completion of the Agreement (collectively referred as the "Proceeding").

In view of the uncertainty over the amount that can be recovered from BCCL and CCAI through the Proceeding, provisions of HK$7,000,000 and HK$5,740,000 (note 10) were charged to consolidated income statement in the years ended 31 December 2005 and 2006, respectively. The Loan due from CCAI had been fully provided for in 2003. The directors considered that adequate provisions have been made in the financial statements for these receivable balances.

In February 2005, a counterclaim was submitted by BCCL and CCAI against Baligold for the damages for breaching of the Agreement. The directors, having considered the advice from legal counsel, are of the opinion that the counterclaim is without merit and should have no material adverse impact to the Group.

In June 2007, BCCL proposed an out of court settlement with a sum no more than HK$50,000 on the basis that Amber Brewery, the only and the most valuable asset of BCCL, has been wound up during the year. The board of directors of the Company obtained legal advice and decided to accept the abovementioned settlement proposed by BCCL.

40. Connected and Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, listed below are connected transactions disclosed in accordance with the Listing Rules and related party transactions disclosed in accordance with HKAS 24 "Related Party Disclosures".

The transactions referred to in items (i) and (ii) below constituted related party transactions and those referred to in items (i) to (iii) below constituted connected transactions disclosed under the Listing Rules.

(i) During the year, the Group purchased malt from certain fellow subsidiaries of the Company, including Guangzhou Malting Co., Ltd. ("GMCL") and Ningbo Malting Co., Ltd. ("NMCL"), which are respectively 87.4% (2006: 85.4%) owned and 100% (2006: 61%) owned subsidiaries of GDH, and from Supertime (Nanjing) Malting Co., Ltd. ("SNMC"), Supertime (Changle) Malting Co., Ltd. ("SCMC"), Supertime (Qinhuangdao) Malting Co., Ltd. ("SQMC"), Supertime (Baoying) Malting Co., Ltd. ("SBMC"), which are wholly-owned subsidiaries of GDH on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

40. Connected and Related Party Transactions (continued)

(a) (i) (continued)

For the year ended 31 December 2007, the aggregate amount of malt purchased by the Group from the fellow subsidiaries is as follow:

	2007 HK$'000	2006 HK$'000
GMCL	**114,987**	105,631
NMCL	**67,280**	70,502
SBMC	**3,968**	—
SNMC	**49,710**	3,654
SCMC	**14,322**	8,040
SQMC	**2,515**	2,465
	252,782	190,292

The balances due to fellow subsidiaries are unsecured, non-interest-bearing and repayable within 30 days from the date of invoice (note 30). Details of the balances due to the fellow subsidiaries are as follow:

	2007 HK$'000	2006 HK$'000
GMCL	**13,791**	8,891
NMCL	**4,685**	3,925
SNMC	**16,082**	3,235
SCMC	**7,910**	—
SQMC	**1,239**	—
	43,707	16,051

(ii) The Group entered into a tenancy agreement dated 11 October 2006 with Global Head Developments Limited ("GHD"), a fellow subsidiary of the Company, whereby the Group agreed to lease a leasehold property owned by GHD as office premises at a monthly rental of HK$45,402 for a term of two years commencing on 1 September 2006.

During the year, the Group paid operating lease rentals to GHD amounting to HK$545,000 (2006: HK$409,000).

(iii) As at 31 December 2007, pursuant to certain entrusted loan agreements entered into between Shenzhen Brewery, as the lender, and Kingway Dongguan, Kingway Tianjin, Kingway Xian and Kingway Foshan, as the borrowers. Shenzhen Brewery, through pledging the same lending amounts to banks, advanced RMB100,000,000 (2006: RMB125,000,000), RMB114,000,000 (2006: RMB113,000,000), RMB120,000,000 (2006: RMB113,000,000) and RMB83,000,000 (2006: Nil) to Kingway Dongguan, Kingway Tianjin , Kingway Xian and Kingway Foshan, respectively, to finance their working capital. The unsecured loans are non-interest-bearing and repayable in one to two years.

40. Connected and Related Party Transactions (continued)

(b) Compensation of key management personnel of the Group:

	2007 HK$'000	2006 HK$'000
Short term employee benefits	4,258	3,080
Post-employment benefits	655	586
Total compensation paid to key management personnel	4,913	3,666

Further details of the directors' emoluments are included in note 11 to the financial statements.

41. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007 — Group

Financial assets

	Loans and receivables HK$'000
Trade and bills receivables	61,744
Financial assets included in prepayments, deposits and other receivables	12,483
Pledged and restricted bank balances	3,970
Cash and cash equivalents	347,144

Financial liabilities

	Derivative financial instruments designated for hedging HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	—	83,053	83,053
Financial liabilities included in other payables and accruals	—	273,679	273,679
Derivative financial instruments	35,718	—	35,718
Due to the immediate holding company	—	218	218
Due to fellow subsidiaries	—	43,707	43,707
Interest-bearing bank borrowings	—	587,480	587,480

41. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

2006 — Group

Financial assets

	Loans and receivables *HK$'000*
Trade and bill receivables	32,685
Financial assets included in prepayments, deposits and other receivables	4,111
Pledged and restricted bank balances	21,652
Cash and cash equivalents	325,868

Financial liabilities

	Derivative financial instruments designated for hedging *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade and bills payables	—	179,973	179,973
Financial liabilities included in other payables and accruals	—	162,563	162,563
Derivative financial instruments	13,580	—	13,580
Due to the immediate holding company	—	291	291
Due to fellow subsidiaries	—	16,051	16,051
Interest-bearing bank borrowings	—	696,400	696,400

41. Financial Instruments By Category (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

2007 — Company

Financial assets

	Loans and receivables HK$'000
Due from subsidiaries	2,391,266
Financial assets included in prepayments, deposits and other receivables	1,230
Cash and cash equivalents	147,651

Financial liabilities

	Derivative financial instruments designated for hedging HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Due to subsidiaries	—	30,508	30,508
Financial liabilities included in other payables and accruals	—	5,301	5,301
Derivative financial instruments	35,718	—	35,718
Due to the immediate holding company	—	218	218
Interest-bearing bank borrowings	—	587,480	587,480

41. Financial Instruments By Category (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows (continued):

2006 — Company

Financial assets

	Loans and receivables *HK$'000*
Due from subsidiaries	1,748,223
Financial assets included in prepayments, deposits and other receivables	1,264
Cash and cash equivalents	212,140

Financial liabilities

	Derivative financial instruments designated for hedging *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Due to subsidiaries	—	19,099	19,099
Financial liabilities included in other payables and accruals	—	5,959	5,959
Derivative financial instruments	13,580	—	13,580
Due to the immediate holding company	—	291	291
Interest-bearing bank borrowings	—	696,400	696,400

42. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into a derivative transaction, which is the cross currency interest rate swap. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 5 to the financial statements.

42. Financial Risk Management Objectives and Policies (continued)

(i) Interest rate risk

The Group's exposure to the risk for changes in market interest rate relates primarily to the Group's certain debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and floating rate borrowings. The Group's policy is to maintain between 30% and 50% of its interest-bearing borrowings at fixed interest rates. To hedge the cash flow interest rate risk, the Group entered into a cross currency interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. This swap agreement is designated to hedge the Group's obligation to the unsecured bank loan. As at 31 December 2007, after taking into account the effect of the cross currency interest rate swap, approximately 35% (2006: 43%) of the Group's interest-bearing borrowings bore interest at fixed rates.

If there would be a general increase/decrease in the interest rate of debts obligations with floating interest rates by one percentage point, with all other variables held constant, the Group's profit before tax and retained profit would have been increased/decreased by approximately HK$3,800,000 (2006: HK$4,000,000) after taking into account the effect of the cross currency interest rate swap for the bank borrowings denominated in HK$, for the year ended 31 December 2007, and there is no impact on other components of the equity of the Group.

(ii) Foreign currency risk

The Group is exposed to foreign currency risk primarily through a bank borrowing (together with its interests) in a currency other than the functional currency of operating units of the Group. To mitigate the foreign currency risk of the bank borrowing, the Group entered into a cross currency interest rate swap with a contracted exchange rate to hedge the future repayment of the bank loan principal in a foreign currency.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged items to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rates, with all other variables held constant, of the Group's equity (due to changes in the fair value of the cross currency interest rate swap). There is no impact on profit before tax or retained profits of the Group.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in equity**
	%	*HK$'000*
2007		
If US$ weakens against RMB	(6)	(15,616)
If US$ strengthens against RMB	6	15,616
2006		
If US$ weakens against RMB	(6)	(20,014)
If US$ strengthens against RMB	6	20,014

42. Financial Risk Management Objectives and Policies (continued)

(iii) Credit risk

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and a derivative financial instrument, arises form default of the counterparty, with a maximum exposure equal to carrying amounts of these instruments.

Since the Group trades only with creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customers. There are no significant concentrations of credit risk within the Group, as the Group's credit exposure is spread over a diversified portfolio of customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 23 to the financial statements.

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the bank loans.

Management of the Group has carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the balance sheet date. Based on this forecast, accompanied by the bank facilities available and to be obtained, the directors of the Group have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during the forecast period. In preparing the cash flow forecast, the directors of the Group have considered historical cash requirements of the Group as well as other key factors, including the availability of loans financing which may impact the operations of the Group prior to the end of the next twelve months after the balance sheet date. The directors of the Group are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

42. Financial Risk Management Objectives and Policies (continued)

(iv) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007				
	On demand *HK$'000*	**Less than 3 months** *HK$'000*	**3 to less than 12 months** *HK$'000*	**More than 1 year** *HK$'000*	**Total** *HK$'000*
Trade and bills payables	**13,103**	**69,950**	**—**	**—**	**83,053**
Other payables	**98,465**	**—**	**175,214**	**—**	**273,679**
Derivative financial instrument	**—**	**—**	**35,718**	**—**	**35,718**
Due to the immediate holding company	**218**	**—**	**—**	**—**	**218**
Due to fellow subsidiaries	**—**	**43,707**	**—**	**—**	**43,707**
Interest-bearing bank borrowings	**—**	**—**	**427,480**	**160,000**	**587,480**
	111,786	**113,657**	**638,412**	**160,000**	**1,023,855**

	2006				
	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	More than 1 year *HK$'000*	Total *HK$'000*
Trade and bills payables	3,557	176,416	—	—	179,973
Other payables	90,749	—	71,814	—	162,563
Derivative financial instrument	—	—	13,580	—	13,580
Due to the immediate holding company	291	—	—	—	291
Due to fellow subsidiaries	—	16,051	—	—	16,051
Interest-bearing bank borrowings	—	—	88,920	607,480	696,400
	94,597	192,467	174,314	607,480	1,068,858

42. Financial Risk Management Objectives and Policies (continued)

(iv) Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows: (continued)

Company

	2007				
	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	More than 1 year *HK$'000*	Total *HK$'000*
Due to subsidiaries	**30,508**	**—**	**—**	**—**	**30,508**
Other payables	**5,301**	**—**	**—**	**—**	**5,301**
Derivative financial instrument	**—**	**—**	**35,718**	**—**	**35,718**
Due to the immediate holding company	**218**	**—**	**—**	**—**	**218**
Interest-bearing bank borrowings	**—**	**—**	**427,480**	**160,000**	**587,480**
	36,027	**—**	**463,198**	**160,000**	**659,225**

	2006				
	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	More than 1 year *HK$'000*	Total *HK$'000*
Due to subsidiaries	19,099	—	—	—	19,099
Other payables	5,959	—	—	—	5,959
Derivative financial instrument	—	—	13,580	—	13,580
Due to the immediate holding company	291	—	—	—	291
Interest-bearing bank borrowings	—	—	88,920	607,480	696,400
	25,349	—	102,500	607,480	735,329

42. Financial Risk Management Objectives and Policies (continued)

(v) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Except for the compliance of certain bank covenant for maintaining the Group's bank facilities, the Group is not subject to any externally imposed capital requirements. As at 31 December 2007, the Group breached a bank covenant as detailed in note 31 to the financial statements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by adjusted capital plus net debt. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents. Adjusted capital includes equity attributable to equity holders of the Company and the hedging reserve. The gearing ratios as at the balance sheet dates were as follows:

	2007 ***HK$'000***	2006 *HK$'000*
Interest-bearing bank borrowings *(note 31)*	**587,480**	696,400
Less: Cash and cash equivalents *(note 25)*	**(347,144)**	(325,868)
Net debt	**240,336**	370,532
Equity attributable to equity holders	**2,830,074**	1,949,417
Hedging reserve	**35,718**	13,580
Adjusted capital	**2,865,792**	1,962,997
Adjusted capital and net debt	**3,106,128**	2,333,529
Gearing ratio	**8%**	16%

43. Post Balance Sheet Event

On 1 April 2008, a letter of intent in respect of a bank facility of RMB500 million (approximately equivalent to HK$534 million) to be granted to the Group was signed between the Group and a bank in Mainland China. The bank facility shall be supported by a corporate guarantee from the Company, with a maturity term of not less than two years.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 April 2008.