GDH

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

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

股份代號 Stock Code : 0124

2008
ANNUAL REPORT 年報

Contents

Corporate Information (as at 17 April 2009)

Board of Directors

Executive Directors
YE Xuquan *(Chief Executive Officer)*
JIANG Guoqiang *(Senior Vice President)*
LIANG Jianqin *(Chief Financial Officer)*

Non-Executive Directors
LI Wenyue *(Chairman)*
HUANG Xiaofeng
LUO Fanyu
Michael WU
Roland PIRMEZ *(Note 1)*
KOH Poh Tiong *(Note 2)*
Sijbe HIEMSTRA *(Note 3)*

Independent Non-Executive Directors
Alan Howard SMITH
Felix FONG Wo
Vincent Marshall LEE Kwan Ho

Company Secretary

Vanessa WONG Kin Yan

Auditors

Ernst & Young

Principal Bankers

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

Website Address

http://www.kingwaybeer.hk

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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 Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
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: Mr. Roland PIRMEZ has appointed Mr. LEE Meng Tat as his alternate director.
Note 2: Mr. KOH Poh Tiong has appointed Mr. TAN Tiang Hing as his alternate director.
Note 3: Mr. Sijbe HIEMSTRA has appointed Mr. Kenneth CHOO Tay Sian as his alternate director.

Simplified Corporate Structure Chart

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

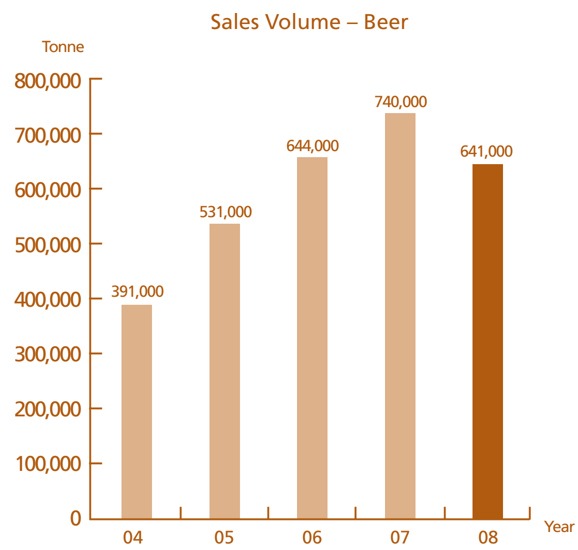
Highlights

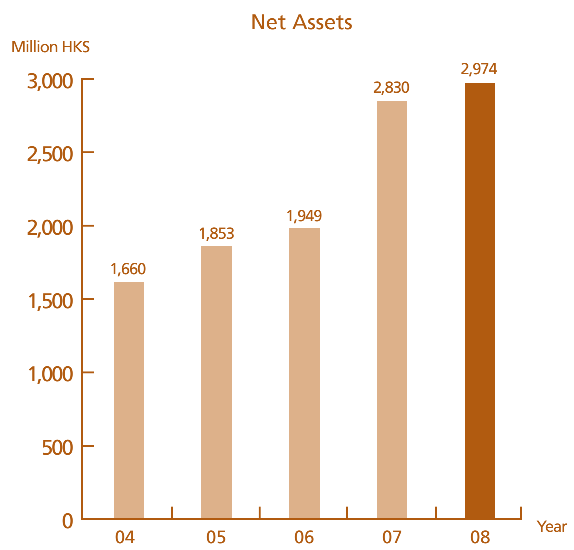
	For the year ended 31 December		
	2008	2007	Change
Beer sales volume, in tonne	**641,000**	740,000	–13.4%
Gross profit, in thousand HK$	**292,345**	508,225	–42.5%
Loss for the year, in thousand HK$	**(39,911)**	(23,573)	+69.3%
Basic loss per share, in HK cent	**(2.3)**	(1.5)	+53.3%
EBITDA, in thousand HK$	**192,095**	201,477	–4.7%

	As at 31 December		
	2008	2007	Change
Current ratio	**0.8 times**	0.8 times	–
Gearing ratio[1]	**5.7%**	8.5%	–2.8%
Total assets, in million HK$	**3,813**	3,970	–4.0%
Net asset value per share, in HK$	**1.74**	1.66	+4.8%
Year-end number of employees	**2,714**	2,388	+13.7%

Note:

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





Results

The Group's sales volume of beer in 2008 amounted to 641,000 tonnes, representing a decrease of 13.4% over last year. The Group recorded a loss of HK$39.91 million for the year ended 31 December 2008 as compared with a loss of HK$23.57 million last year. The worsened results for the year was mainly attributable to (i) the decrease in the Group's sales volume; (ii) the rise in production costs as a result of increase in prices of raw materials and unit fixed costs; and (iii) the increase in administration expenses following the full-year operation of the brewery plants in Xian and in Chengdu and the commencement of operation in 2008 of the new brewery plant in Foshan, in addition to the increase in finance costs.

Business Review

Year 2008 was a relatively difficult year for the Group in the following aspects:

(a) The Group's overall beer consumption in Guangdong dropped under the impact of natural factors such as the snowstorm at the beginning of the year and the relatively heavy rainfall recorded in the first half of the year; and dampened by the financial tsunami at the end of the year. On the other hand, the excessive production capacity and fierce competition in the beer industry of Guangdong had also affected the Group's sales volume in Guangdong as well as the Group's operating results.

(b) Although the Group's brewery plants in Tianjin, Xian and Chengdu had taken a favorable turn in operation, they were yet to operate in full capacity and make contribution to the Group's operating profit when they were still operating at a loss.

Confronted with such operational difficulties, the Group had adopted a number of measures, including (i) proactive exploration of markets outside Guangdong, and initiatives to address the drop in sales volume in Guangdong and its impacts on the Group; (ii) implementation of cost leadership strategy to lower production costs in all aspects and by different means; and (iii) streamlined production and functional departments to reduce administration costs.

Outlook

With the full-scale operation of our brewery plants built in recent years, the Group's short-term target is to improve its sales volume of beer in different areas and thus the overall results. Influenced by the global economic downturn, it is expected that the sales of beer in Guangdong may encounter various difficulties in 2009 as the consumer base of beer consumption goes down as a result of the decrease in the number of workers from other cities employed in export-oriented enterprises, which suffered most in the downturn, in Guangdong. However, the Group will address the situation actively and make corresponding adjustments in distribution channels, product mix and selling prices. The Group will also reinforce its sales effort in areas of Tianjin, Xian and Chengdu. Due to the sales groundwork in these cities has been laid, the Group anticipates that there will be further growth in sales volume of beer in these cities and their aggregate proportion of sales volume to the Group's overall sales volume will be enlarged in the coming year.

Against the backdrop of excessive capacity and fierce competition in the beer industry in the PRC, it will be the management's focus in the coming year to proactively explore new sales networks and consolidate existing markets, accelerate development of markets beyond Guangdong, enhance both the production and sales volume. We will also endeavor to strictly control inventory level, bring down gearing ratio and further reduce material purchase costs, with a view to polishing our operating results and ultimately boosting the overall return 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 robust growth and development phase, and our suppliers from various industries.

LI Wenyue
Chairman

Hong Kong, 17 April 2009

Results and Key Operating Data

In 2008, production, distribution and sales of Kingway beer remained the core business of the Group. Approximately two-third of the beer sold was produced in Guangdong Province, the PRC, while the remaining one-third of the beer sold was produced in Tianjin, Xian and Chengdu cities respectively.

Consolidated revenue for the year was HK$1,347 million (2007: HK$1,579 million), representing a decrease of 14.7% over the previous year. The average selling price per tonne of beer sold declined by 1.5% from the previous year, primarily due to the dilution in the weighted average selling price per tonne as a result of the increase in sales from markets outside Guangdong Province. Sales in Mainland China accounted for 94.5% of the consolidated revenue, representing a decrease of 15.6% over the previous year in terms of revenue. Sales in Overseas and Hong Kong markets accounted for 5.5% of the consolidated revenue, representing an increase of 4.4% over the previous year in terms of revenue. The Group recorded a consolidated loss after tax of HK$39.91 million (2007: HK$23.57 million) for the year ended 31 December 2008.

The average costs per tonne of beer increased from HK$1,448 in 2007 to HK$1,645 this year, representing an increase of 13.6%. The increase was primarily resulted from the rise in costs of various raw materials and packaging materials, together with the increased unit fixed costs per tonne of beer due to the drop in sales volume of beer. Owing to the decrease in average selling price per tonne of beer sold and adjustment of selling policy to some extent during the year, the gross profit margin decreased from 32.2% in the previous year to 21.7% for the year.

The Board of Directors did not recommend the payment of a final dividend for the year ended 31 December 2008.

Operating Expenses and Finance Costs

Selling and distribution expenses for the year amounted to HK$235 million (2007: HK$411 million), representing a decrease of 42.8% from the same period last year. Average selling and distribution expenses per tonne of beer sold for the year was HK$367 (2007: HK$555), representing a decrease of 33.9% from the same period last year. The decrease was primarily attributable to the adjustment of sales model by the Group in order to reasonably control selling expenses.

Administrative expenses for the year was HK$135 million (2007: HK$130 million), representing an increase of 3.8% over 2007. The increase was primarily attributable to the increase in administrative expenses after commissioning of the brewery plant in Foshan and full-year operation of the brewery plants in Xian and Chengdu.

Net finance costs for the year amounted to HK$30.27 million (2007: HK$24.67 million), representing an increase of 22.7% as compared to the same period last year. The main reason for the increase was that no capitalized interest expense was recorded in 2008 (2007: HK$8.47 million).

Taxation

Corporate Income Tax exemption for the first two profit-making years and a 50% tax relief in the following three years remained applicable to most subsidiaries of the Group in the PRC. Kingway Shantou plant was in its second year of tax exemption; Kingway Plant No. 2 in Shenzhen and Kingway Dongguan plant enjoyed a 50% tax relief for the year, while Kingway plants in Tianjin, Xian, Chengdu and Foshan enjoyed full Corporate Income Tax exemption for the year.

Capital Expenditure

The Group incurred capital expenditure (cash basis) of HK$153 million (2007: HK$550 million) during the year, representing a significant decrease of 72.2% from the same period last year. The capital expenditure was mainly used in settlement of remaining construction fees for the brewery plants in Foshan, Xian and Chengdu. With no new investment plan in place, it is expected that the capital expenditure of the Group will reduce further in 2009.

Financial Resources and Liquidity

The Group's net asset value was HK$2,974 million (2007: HK$2,830 million) as at 31 December 2008, representing an increase of 5.1% as compared to the same period last year. The net asset value per share was HK$1.74 (2007: HK$1.66 per share) based on the number of ordinary shares issued as at the year end, representing an increase of 4.8% as compared to the same period last year.

As at 31 December 2008, the Group had total cash and bank balances of HK$243 million (2007: HK$351 million), including pledged and restricted bank deposits of HK$0.65 million (2007: HK$3.97 million), representing a decrease of 30.8% from the same period last year. Of the balances at year end, 79.7% was in RMB, 16.9% in USD and 3.4% in HKD. Cash generated from operations for the year was HK$230 million (2007: cash used in operations HK$44 million). The satisfactory cash general from operations recorded was mainly attributable to the Group's efforts in the control of inventory level and working capital.

A total of HK$174 million of bank loan principal was repaid by the Group during the year, of which HK$149 million was repaid as per schedule, while the remaining HK$25 million was early repaid voluntarily by using surplus cash. Pursuant to the loan agreements signed with the banks, the Group will have to repay a total bank loan of HK$279 million in 2009. Given the Group's existing cash balances and available standby banking facilities of RMB300 million (equivalent to HK$340 million), the Group will be able to repay these bank loans as scheduled.

Debts and Contingent Liabilities

The Group had bank loan balance of HK$414 million (2007: HK$587 million) as at the end of the year, which bore interest at a rate based on LIBOR or HIBOR. Of the total outstanding bank loan, HK$119 million was denominated in USD and the remaining HK$295 million was denominated in HKD. For the bank loan denominated in USD, a cross-currency interest rate swap contract was entered into for hedging purpose. The aim of the swap contract is to perfectly hedge interest rate and exchange rate between USD and RMB, thereby mitigating the Group's exposure to fluctuations in interest rate and exchange rate.

As at 31 December 2008, the Group's gearing ratio was 5.7% (2007: 8.5%), indicating its healthy and improving financial structure. None of the assets of the Group was pledged to creditors and no contingent liabilities existed as at 31 December 2008, except for HK$0.65 million of bank deposits which have been pledged or restricted for specific purposes.

Human Resources

The Group had 2,714 (2007: 2,388) employees as at 31 December 2008. The Group's total remuneration and provident fund for the year under review was approximately HK$191 million (2007: HK$154 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 had effectively motivated 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 2008.

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				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,347,057**	1,579,431	1,408,436	1,200,046	924,528
Cost of sales	**(1,054,712)**	(1,071,206)	(837,233)	(670,162)	(481,550)
Gross profit	**292,345**	508,225	571,203	529,884	442,978
Other income and gains	**70,611**	47,008	24,026	47,744	22,365
Selling and distribution expenses	**(234,989)**	(410,916)	(369,594)	(302,454)	(206,710)
Administrative expenses	**(134,965)**	(129,526)	(98,563)	(67,862)	(70,001)
Finance costs	**(30,271)**	(24,670)	(3,722)	(213)	–
Profit/(loss) before tax	**(37,269)**	(9,879)	123,350	207,099	188,632
Tax	**(2,642)**	(13,694)	(12,905)	(6,946)	(18,183)
Profit/(loss) for the year	**(39,911)**	(23,573)	110,445	200,153	170,449

Assets and liabilities

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**3,813,426**	3,969,634	3,098,818	2,477,988	1,865,225
Total liabilities	**(839,151)**	(1,139,560)	(1,149,401)	(624,549)	(204,873)
Net assets	**2,974,275**	2,830,074	1,949,417	1,853,439	1,660,352

Results and Dividends

The Group's loss for the year ended 31 December 2008 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 for the year ended 31 December 2008.

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 13 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 29 and 30 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 31 to the financial statements and in the consolidated statement of changes in equity on page 35, respectively.

Distributable Reserves

As at 31 December 2008, the Company's reserves available for distribution to shareholders as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK$195,282,000.

In addition, the Company's share premium of HK$1,688,606,000 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 (2007: Nil).

Retirement Benefits Schemes

Particulars of the Group's retirement benefit schemes are set out in note 2.5 to the financial statements.

Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in note 17 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 *(Chief Executive Officer)*
JIANG Guoqiang *(Senior Vice President)*
LIANG Jianqin *(Chief Financial Officer)*

Non-Executive Directors	
LI Wenyue *(Chairman)*	(appointed on 25 July 2008)
HUANG Xiaofeng	(appointed on 1 October 2008)
ZHAO Leili	(resigned on 1 October 2008)
LUO Fanyu	
Michael WU	
Theresa HO LAM Lai Ping	(resigned on 25 July 2008)
Roland PIRMEZ	(appointed on 1 October 2008)
KOH Poh Tiong	
Sijbe HIEMSTRA	
Anthony CHEONG Fook Seng	(resigned on 1 October 2008)
Independent Non-Executive Directors	
Alan Howard SMITH	
Felix FONG Wo	
V-nee YEH	(resigned on 20 January 2009)
Vincent Marshall LEE Kwan Ho	(appointed on 13 March 2009)
Alternate Directors	
LEE Meng Tat *(alternate director to Mr. Roland PIRMEZ)*	(appointed as an alternate director to Mr. Roland PIRMEZ and ceased to be an alternate director to Mr. Anthony CHEONG Fook Seng on 1 October 2008)
TAN Tiang Hing *(alternate director to Mr. KOH Poh Tiong)*	(appointed as an alternate director to Mr. KOH Poh Tiong on 23 December 2008)
HUANG Hong Peng *(alternate director to Mr. KOH Poh Tiong)*	(ceased to act as an alternate director on 23 December 2008)
Kenneth CHOO Tay Sian *(alternate director to Mr. Sijbe HIEMSTRA)*	

In accordance with bye-law 86(2) of the Company's Bye-laws (the "Bye-Laws"), Mr. LI Wenyue, Mr. HUANG Xiaofeng, Mr. Roland PIRMEZ and Mr. Vincent Marshall LEE Kwan Ho, who were appointed Directors of the Company after the last general meeting of the Company, will hold office until the next following general meeting, and being eligible, they all offer themselves for re-electon at the meeting.

In accordance with bye-law 87 of the Bye-Laws, Ms. LIANG Jianqin, Mr. LUO Fanyu and Mr. Michael WU will retire by rotation and, being eligible, they all offer themselves for re-election at the forthcoming annual general meeting.

Ms. LIANG Jianqin, Executive Director, Mr. LI Wenyue, Mr. HUANG Xiaofeng, Mr. LUO Fanyu, Mr. Michael WU, Mr. Roland PIRMEZ, Non-Executive Directors, and Mr. Vincent Marshall LEE Kwan Ho, 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 2012 and (ii) 30 June 2012 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 17 April 2009

Executive Directors

Mr. YE Xuquan, aged 53, was appointed an Executive Director of the Company in January 2002. Mr. Ye acted as the Chairman of the Board of the Company from January 2002 to July 2008 and was appointed as the Chief Executive Officer since July 2008. 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 the Chairman of Guangnan (Holdings) Limited ("Guangnan") from November 2000 to January 2002 and a Director of Guangdong Investment Limited ("GDI") from May 2000 to February 2004, both companies are listed in Hong Kong. He was also the Chairman of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) from August 2000 to July 2003, a Director and the Deputy General Manager of both 廣東粵海控股有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings") and GDH Limited ("GDH"), the respective ultimate holding company and immediate holding company of the Company. 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 56, was appointed an Executive Director of the Company in January 2002 and was previously appointed a Director and the Chairman of the Company in March 2001. He also acted as the Managing Director of the Company from January 2002 to July 2008 and was appointed as the Senior Vice President since July 2008. 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, the controlling shareholder of the Company, from April 2000 to January 2001.

Ms. LIANG Jianqin, aged 44, 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 fellow member of Hong Kong Institute of Certified Public Accounts and a member of The Chinese 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, the controlling shareholder of the Company, from 2002 to 2006. Ms. Liang was a Non-Executive Director of Guangnan from July 2002 to August 2006. Guangnan is a fellow subsidiary of the Company and is a listed company in Hong Kong. She possesses extensive experience in financial management, external and internal audit as well as business management.

Directors' and Senior Management's Profile (continued)

as at 17 April 2009

Non-Executive Directors

Mr. LI Wenyue, aged 58, was appointed a Non-Executive Director and the Chairman of the Company in July 2008. He was appointed a Director and the Managing Director of GDI in March 2000. When he was appointed Chairman of GDI in March 2001, he resigned his post as Managing Director of GDI. GDI is a fellow subsidiary of the Company and is a listed company in Hong Kong. Mr. Li was appointed a Director and the General Manager of Guangdong Holdings and GDH in July 2000 and August 2000, respectively and has acted as the Chairman of both Guangdong Holdings and GDH since April 2005. Mr. Li subsequently ceased to act as General Manager of both Guangdong Holdings and GDH in February 2009. Guangdong Holdings and GDH are the ultimate holding company and the immediate holding company of the Company, respectively. Before joining GDI, Mr. Li was with Guangdong Power Group in a number of positions from 1977 to 1994 including Director and Deputy General Manager; and thereafter, he acted as Deputy Secretary-General of the Guangdong Provincial Government from 1994 to 2000, mainly assisting the Governor in the management of transport, industry, energy, communication, labour and, subsequently, the restructuring of Guangdong Enterprises (Holdings) Limited ("GDE"). He has a Master's degree in Engineering.

Mr. HUANG Xiaofeng, aged 50, was appointed a Non-Executive Director of the Company in October 2008. He graduated from South China Normal University and holds a Bachelor's degree in History. From 1987 to 1999, he worked with the General Office of the Communist Party of China ("CPC") Guangdong Committee in a number of positions. Between 1999 and 2003, Mr. Huang was the Deputy Director General of the General Office of the CPC Guangzhou Committee and thereafter the Deputy Secretary General of the CPC Guangzhou Committee. Between 2003 and 2008, he was the Deputy Director General of the General Office of the Guangdong Provincial Government and then the Deputy Secretary General of the Guangdong Provincial Government. Mr. Huang was appointed as a Director and a Deputy General Manager of Guangdong Holdings in April 2008 and was subsequently appointed as an Executive Director and a Deputy General Manager of GDH. In February 2009, Mr. Huang was appointed General Manager of both Guangdong Holdings and GDH. Guangdong Holdings and GDH are the ultimate holding company and the immediate holding company of the Company respectively. Mr. Huang was also appointed as a Non-Executive Director of GDI and Guangnan in June 2008 and October 2008 respectively. Both GDI and Guangnan are fellow subsidiaries of the Company and are listed in Hong Kong.

Mr. LUO Fanyu, aged 53, was appointed a Non-Executive Director of the Company in October 2003. Mr. Luo graduated from the economics department of Zhongshan University. He joined GDE in 1987 and was responsible for its legal affairs. He is currently a Director of GDH, the controlling shareholder of the Company, and a Non-Executive Director of Guangnan. Guangnan is a fellow subsidiary of the Company and is a listed company in Hong Kong. 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 57, was appointed a Non-Executive 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, the controlling shareholder of the Company. 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.

Mr. Roland PIRMEZ, aged 49, was appointed a Non-Executive Director of the Company in October 2008. He is the Chief Executive Officer and Director of Asia Pacific Breweries Limited ("APB"), a company listed in Singapore, with effect from 1 October 2008, and holds directorships in several companies within the APB Group. Of Belgian nationality, he was previously CEO of Heineken Russia, a position he has held since 2002. Prior to this, he was General Manager of APB's associate, Thai Asia Pacific Brewery Co Ltd for 4 years from 1998 to 2002. Before Thailand, Mr. Pirmez held different positions in Africa and joined Heineken as Managing Director – Angola in 1996. He has an Engineering degree in Agriculture with a Master's degree in Brewing.

Directors' and Senior Management's Profile (continued)

as at 17 April 2009

Non-Executive Directors (continued)

Mr. KOH Poh Tiong, aged 62, was appointed a Non-Executive Director of the Company in April 2004. Mr. Koh is the CEO, Food and Beverage of Fraser and Neave, Limited. From October 1993 to September 2008, he held the position of Chief Executive Officer of APB, a company listed in Singapore. He is also a Director of Heineken – APB (China) Pte Ltd ("HAPBC"), a substantial shareholder of the Company. He remains as a Director of APB and retains directorships in most of APB's operating companies in the region. He is Chairman of the Singapore Kindness Movement, Chairman of the School Advisory Committee of Gan Eng Seng School, a Director of National Healthcare Group Pte Ltd, PSA International Ltd and PSA Corporation Ltd, The Great Eastern Life Assurance Co Ltd and Board Member of the Singapore Youth Olympic Games (YOG) Organising Committee. From April 2000 to March 2008, he was Chairman of the Agri-Food & Veterinary Authority ("AVA"), and a member of the APEC Business Advisory Council representing Singapore from January 1999 to August 2001. His previous directorships include the Media Corporation of Singapore Pte Ltd, Television Corporation of Singapore Pte Ltd, Wildlife Reserves Singapore Pte Ltd and Jurong BirdPark Pte Ltd. For Mr. Koh's contributions to AVA, he was bestowed the Public Service Medal at the National Day Awards 2007. He also received the Service to Education Award from the Ministry of Education in 2007 and the 1998 DHL/The Business Times Outstanding CEO of the Year Award.

Mr. Sijbe HIEMSTRA, aged 53, was appointed a Non-Executive 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 ("APIP") 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.

Independent Non-Executive Directors

Mr. Alan Howard SMITH, aged 65, 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 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, Dubai and 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 and CQS Convertible and Quantitative Strategies Feeder Fund Ltd., listed companies on the Irish Stock Exchange. Mr. Smith is also a director of Frasers Property (China) 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. Apart from the above, he was also a director of China Sunergy Co., Ltd., (a listed company on the NASDAQ) from May 2007 to June 2008, a director of LIM Asia Arbitrage Fund Limited (a listed company on the Irish Stock Exchange) and Lei Shing Hong Limited (a listed company in Hong Kong) since 2002 and 2004, respectively, these two companies were delisted in 2008.

Directors' and Senior Management's Profile (continued)

as at 17 April 2009

Independent Non-Executive Directors (continued)

Mr. FONG Wo, Felix, **JP**, aged 58, 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-eight 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, a company listed on the main board of The Stock Exchange of Hong Kong Limited. Apart from the above, Mr. Fong was also a Non-Executive Director of Cinda International Holdings Limited (formerly known as Hantec Investment Holdings Limited), a company listed in Hong Kong, from May 2000 to December 2008.

Mr. Vincent Marshall LEE Kwan Ho, Officer of the Order of the Crown (Belgium), aged 53, was appointed an Independent Non-Executive Director of the Company in March 2009. He was elected as Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited (a listed company in Hong Kong) since 2000 and Managing Director of Tung Tai Group of Companies since 1990. Mr. Lee has over 25 years of experience in the securities and futures industry and has extensive experience in banking, corporate finance and investment. He worked for Coopers and Lybrand, Los Angeles & Boston from 1978 to 1981; HSBC group, Hong Kong & Vancouver from 1981 to 1990, and as Independent Non-Executive Director of Ocean Grand Holdings Limited (Provisional Liquidators Appointed) from 2003 to 2006. He undertook a number of public service and community activities. He has been a member of Brewin Trust Fund Committee and Investment Advisory Board of Correctional Services Children's Education Trust since 2006 and a member of Securities and Futures Appeals Tribunal since 2003. He was also a part-time member of Central Policy Unit of the Government of the HKSAR from 2007 to 2008 and a member of Academic and Accreditation Advisory Committee of Securities and Futures Commission from 2002 to 2006. He has been a founding member of Canadian International School of Hong Kong Limited since 1990 and acted as its chairman from 2006 to 2008 and chairman of the Institute of Securities Dealers Limited from 2005 to Feb 2009. He graduated Magna Cum Laude in Accounting and International Finance from the University of Southern California, USA and received a Master of Economics from the London School of Economics and Political Science, UK. He is a Certified Public Accountant in State of California, USA and fellow member of Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors.

Directors' and Senior Management's Profile (continued)

as at 17 April 2009

Alternate Directors

Mr. LEE Meng Tat, aged 45, was appointed as alternate director to Mr. Roland PIRMEZ, a director of the Company, in October 2008. He acted as alternate directors to Dr. HAN Cheng Fong and Mr. Anthony CHEONG Fook Seng, former directors of the Company, from March 2007 to October 2007 and subsequently, from October 2007 to October 2008. He is the Regional Director, China of APB, a listed company in Singapore, and concurrently the Chief Executive 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 HAPBC in China. He has held other appointments in the Fraser and Neave Group before his secondment to APB in June 2002. Before joining Fraser and Neave Group, 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.

Mr. TAN Tiang Hing, aged 44, was appointed an alternate director to Mr. KOH Poh Tiong, a director of the Company, in December 2008. He is the Cluster Director of South China Cluster, HAPBC and also the General Manager (Legal Person) of Guangzhou Asia Pacific Brewery Company Pte Ltd. He concurrently holds the position of General Manager, China National Marketing overseeing the management of HAPBC corporate brands – Heineken, Tiger and Anchor – in the China market. Mr. Tan has been with APB since 1990 holding various management positions in Singapore, Papua New Guinea and China. He has been based in China for the last 13 years where he has held the position of Marketing Director, Commercial Manager and General Manager in HAPBC's subsidiaries, Shanghai Asia Pacific Brewery Co. Ltd and Hainan Asia Pacific Brewery Co. Ltd. Mr. Tan obtained a Bachelor's degree in Business Administration from National University of Singapore in 1987 and has completed the Heineken International Management Course at INSEAD.

Mr. Kenneth CHOO Tay Sian, aged 41, was appointed an alternate director to Mr. Sijbe HIEMSTRA, a director of the Company, in July 2005. Mr. Choo is the Director-Finance & Business Development of Heineken in Asia Pacific, and a member of the Asia Pacific Management Team. Mr. Choo is a Director of Heineken Asia Pacific Pte Ltd, Asia Pacific Brewery (Lanka) Limited and Heineken Far East Pte Ltd, and an alternate director of APB and its parent company APIP. He also holds directorships and alternate directorships in a number of APB subsidiaries. He held various senior management positions in multi-national companies prior to joining Heineken in 2003. Mr. Choo is a member of Certified Public Accountants of Singapore, and has completed the Advanced Management Program 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 8 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 2008.

Directors' Interests in Competing Business

As at 31 December 2008, 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)*
Roland PIRMEZ	Asia Pacific Breweries Limited and Group	Chief Executive Officer and Director
	Heineken-APB (China) Pte Ltd. and Group	Chairman and Director
KOH Poh Tiong	Fraser and Neave, Limited	Chief Executive Officer, Food and Beverage
	Asia Pacific Breweries Limited and Group	Director
	Asia Pacific Investment Pte Ltd.	Director
	Heineken-APB (China) Pte Ltd. and Group	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
LEE Meng Tat	Asia Pacific Breweries Limited	Regional Director, China
	Heineken-APB (China) Management Services Co., Ltd.	Chief Executive Officer and Director
	Heineken-APB (China) Pte Ltd. and Group	Director
TAN Tiang Hing	Heineken-APB (China) Pte Ltd. and Group	Cluster Director of South China Cluster/General Manager, China National Marketing
	Guangzhou Asia Pacific Brewery Company Pte Ltd.	General Manager (Legal Person)
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

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 2008, none of the Directors had any interest in any Competing Business.

Directors' Interests and Short Positions in Securities

As at 31 December 2008, 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	1,166,666	Long position	0.0682%
LIANG Jianqin	Personal	56,222	Long position	0.0033%
LUO Fanyu	Personal	86,444	Long position	0.0051%
Alan Howard SMITH	Personal	317,273	Long position	0.0185%
V-nee YEH*	Personal	317,273	Long position	0.0185%

* Mr. V-nee YEH resigned as an Independent Non-Executive Director of the Company on 20 January 2009.

Note: The total number of issued shares of the Company as at 31 December 2008 was 1,711,536,850.

(ii) Guangdong Investment Limited

Name of director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LI Wenyue	Personal	25,820,000	Long position	0.4191%
LIANG Jianqin	Personal	150,000	Long position	0.0024%
Michael WU	Family#	18,000	Long position	0.0003%

\# Held by the spouse of Mr. Michael WU.

Note: The total number of issued shares of Guangdong Investment Limited as at 31 December 2008 was 6,161,388,071.

(iii) Guangdong Tannery Limited

Name of director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LI Wenyue	Personal	194,000	Long position	0.0361%
LUO Fanyu	Personal	70,000	Long position	0.0130%

Note: The total number of issued shares of Guangdong Tannery Limited as at 31 December 2008 was 537,504,000.

Directors' Interests and Short Positions in Securities (continued)

I. Shares (continued)

(iv) Guangnan (Holdings) Limited

Name of director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LI Wenyue	Personal	800,000	Long position	0.0883%

Note: The total number of issued shares of Guangnan (Holdings) Limited as at 31 December 2008 was 905,603,285.

II. Options

(i) The Company

Name of director	Number of share options held as at 01/01/2008	Share options granted during the year: Date of grant *(dd/mm/yyyy)*	Share options granted during the year: Number granted	Period during which share option is exercisable# *(dd/mm/yyyy)*	Total consideration paid for share options *(HK$)*	Exercise price of share options** *(HK$) (per share)*	Price of share at date immediately before date of grant*** *(HK$) (per share)*	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options held as at 31/12/2008	Long/ Short position
YE Xuquan	2,115,152	–	–	27/08/2003–26/08/2008	1	0.794	0.790	2,115,152 *(Note 1)*	–	0	N/A
	7,403,033	–	–	07/05/2004–06/05/2009	1	1.825	1.900	–	–	7,403,033	Long position
JIANG Guoqiang	2,115,152	–	–	27/08/2003–26/08/2008	1	0.794	0.790	2,115,152 *(Note 1)*	–	0	N/A
Alan Howard SMITH	317,273	–	–	27/08/2003–26/08/2008	1	0.794	0.790	317,273 *(Note 2)*	–	0	N/A
	317,273	–	–	07/05/2004–06/05/2009	1	1.825	1.900	–	–	317,273	Long position
V-nee YEH*	317,273	–	–	27/08/2003–26/08/2008	1	0.794	0.790	317,273 *(Note 2)*	–	0	N/A
	317,273	–	–	07/05/2004–06/05/2009	1	1.825	1.900	–	–	317,273	Long position

Note 1: The weighted average closing price of the shares immediately before the date on which the options were exercised by Mr. YE Xuquan and Mr. JIANG Guoqiang was HK$1.09.

Note 2: The weighted average closing price of the shares immediately before the date on which the options were exercised by Mr. Alan Howard SMITH and Mr. V-nee YEH was HK$1.51.

* Mr. V-nee YEH resigned as an Independent Non-Executive Director of the Company on 20 January 2009.

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

*** The price of the Company's Share disclosed as "immediately before date of grant" of the share options is the closing price on the Stock Exchange on the business day prior to which the options were granted.

\# 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)

(ii) Guangdong Investment Limited

Name of director	Number of share options held as at 01/01/2008	Share options granted during the year: Date of grant (dd/mm/yyyy)	Share options granted during the year: Number granted	Period during which share option is exercisable# (dd/mm/yyyy)	Total consideration paid for share options (HK$)	Exercise price of share options* (HK$) (per share)	Price of ordinary share at date immediately before date of grant** (HK$) (per share)	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options held as at 31/12/2008	Long/Short position
LI Wenyue	3,000,000	–	–	07/05/2004–06/05/2009	1	1.59	1.57	–	–	3,000,000	Long position
	2,500,000	–	–	25/08/2004–24/08/2009	1	1.25	1.35	–	–	2,500,000	Long position
	0	24/10/2008	9,500,000	*(See Note 1)*	–	1.88	1.73	–	–	9,500,000	Long position
YE Xuquan	6,000,000	–	–	05/03/2003–04/03/2008	1	0.96	0.89	6,000,000 *(Note 2)*	–	0	N/A
	3,000,000	–	–	08/08/2003–07/08/2008	1	1.22	1.22	3,000,000 *(Note 2)*	–	0	N/A
	3,000,000	–	–	07/05/2004–06/05/2009	1	1.59	1.57	3,000,000 *(Note 2)*	–	0	N/A
HUANG Xiaofeng	0	24/10/2008	5,700,000	*(See Note 1)*	–	1.88	1.73	–	–	5,700,000	Long position

Note 1: (a) The option period of all the share options under the share option scheme adopted by Guangdong Investment Limited on 24 October 2008 ("GDI 2008 Scheme") granted during the year is 5.5 years from the date of grant.

(b) Any share option under the GDI 2008 Scheme granted during the year is only exercisable during the option period after it has become vested.

(c) The normal vesting scale of the share options under the GDI 2008 Scheme granted during the year is as follows:–

Date	**Percentage Vesting**
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

(d) The vesting of the share options under the GDI 2008 Scheme granted during the year is further subject to the achievement of such performance targets as determined by the board of Guangdong Investment Limited upon grant and stated in the offer of grant.

(e) The leaver vesting scale of the share options under GDI 2008 Scheme granted during the year that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	**Percentage Vesting**
On or before the date which is four months after the date of grant	0%
After the date which is four months after but on or before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80% The remaining 20% also vests upon passing the overall performance appraisal for those four years

Directors' Interests and Short Positions in Securities (continued)

II. Options (continued)

(ii) Guangdong Investment Limited (continued)

Note 2: The weighted average closing prices of the shares immediately before the date on which the options were exercised by Mr. YE Xuquan was HK$3.585.

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

** The price of the shares of Guangdong Investment Limited disclosed as "immediately before date of grant" of the share options is the closing price on the Stock Exchange on the business day prior to which the options were granted.

\# 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).

(iii) Guangnan (Holdings) Limited

Name of director	Number of share options held as at 01/01/2008	Share options granted during the year: Date of grant (dd/mm/yyyy)	Share options granted during the year: Number granted	Period during which share option is exercisable# (dd/mm/yyyy)	Total consideration paid for share options (HK$)	Exercise price of share options* (HK$) (per share)	Price of ordinary share at date immediately before date of grant** (HK$) (per share)	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options held as at 31/12/2008	Long/ Short position
LIANG Jianqin	200,000	–	–	09/06/2006–08/03/2016	1	1.66	1.61	–	200,000	0	N/A
LUO Fanyu	200,000	–	–	09/06/2006–08/03/2016	1	1.66	1.61	–	–	200,000	Long position

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of Guangnan (Holdings) Limited.

** The price of the shares of Guangnan (Holdings) Limited disclosed as "immediately before date of grant" of the share options is the closing price on the Stock Exchange on the business day prior to which the options were granted.

\# 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 2008, 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 2008, 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	73.82%
GDH Limited ("GDH") *(Note 1)*	Shares	1,263,494,221	Long position	73.82%
Heineken Holdings N.V. ("Heineken HNV") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	73.82% 21.37%
Heineken N.V. ("Heineken NV") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	73.82% 21.37%
Heineken International B.V. ("Heineken IBV") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	73.82% 21.37%
Fraser and Neave, Limited ("F & N") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	73.82% 21.37%
Asia Pacific Investment Pte Ltd ("APIP") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	73.82% 21.37%
Asia Pacific Breweries Limited ("APB") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	73.82% 21.37%
Heineken – APB (China) Pte Ltd ("HAPBC") *(Notes 2 and 3)*	Shares Shares	1,263,494,221 365,767,453	Long position Short position	73.82% 21.37%
Genesis Asset Managers, LLP *(Note 4)*	Shares	136,640,219	Long position	7.98%
Genesis Fund Managers, LLP *(Note 5)*	Shares	133,640,219	Long position	7.81%

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 Asset Managers, LLP were held in the capacity of investment manager.

(5) 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 2008 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 36 to the financial statements.

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.

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.

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$696,400,000. 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.

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

Date of Facility letters	Facility amount	Outstanding balance as at 31/12/2008	Last repayment date
25 November 2005	US$38 million	US$15.2 million	November 2009
27 October 2006	HK$200 million	HK$135 million	October 2010
19 December 2006	HK$200 million	HK$160 million	December 2010

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 31.0% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 7.9%.

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 4 December 2007 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 RMB438,000,000 (equivalent to approximately HK$490,516,000) have been approved by the independent shareholders at the special general meeting held on 31 December 2007. Please refer to note 36 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.

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
LI Wenyue
Chairman

Hong Kong, 17 April 2009

Corporate Governance Report

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 2008.

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. LI Wenyue, Mr. HUANG Xiaofeng, Mr. LUO Fanyu, Mr. Michael WU, Mr. Roland PIRMEZ, Mr. KOH Poh Tiong and Mr. Sijbe HIEMSTRA, and three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. Felix FONG Wo and Mr. Vincent Marshall LEE Kwan Ho.

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 2008, 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
LI Wenyue (appointed on 25 July 2008)	1/1
HUANG Xiaofeng (appointed on 1 October 2008)	N/A
ZHAO Leili (resigned on 1 October 2008)	3/4
LUO Fanyu	3/4
Michael WU	4/4
Theresa HO LAM Lai Ping (resigned on 25 July 2008)	3/3
Roland PIRMEZ (appointed 1 October 2008)	N/A
KOH Poh Tiong	4/4
Sijbe HIEMSTRA	3/4
Anthony CHEONG Fook Seng (resigned on 1 October 2008)	3/4
Alan Howard SMITH	3/4
Felix FONG Wo	2/4
V-nee YEH (resigned on 20 January 2009)	3/4
Vincent Marshall LEE Kwan Ho (appointed on 13 March 2009)	N/A

Board of Directors (continued)

The Company has received written confirmation from each of the Independent Non-executive Directors 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 11 to 15 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. LI Wenyue and the Chief Executive Officer is Mr. YE Xuquan. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Li as the Chairman of the Board, with his strategic vision and with a non-executive perspective, provides leadership to the Board and gives direction in the development of the Company, which is of added benefit to the check and balance mechanism of the Company. Mr. Ye as the Chief Executive Officer focuses on the day-to-day management of the Group's business, and leads the management team of the Group.

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.

10. To report back to the Board on their work (including their decisions and recommendations) from time to time as appropriate and in any event not less than once every year.

As of the date of this report, the Remuneration Committee comprises three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. Felix FONG Wo and Mr. Vincent Marshall LEE Kwan Ho and one Non-Executive Director, being Mr. Roland PIRMEZ. Mr. Roland PIRMEZ is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2008, the Remuneration Committee held three meetings. It considered and approved the remuneration proposal for Mr. YE Xuquan, the Chief Executive Officer, elected the Chairman of the Remuneration Committee and approved the remuneration packages for the Executive Directors for the year 2008. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
KOH Poh Tiong (resigned on 1 October 2008)	2/2
Roland PIRMEZ (appointed on 1 October 2008)	1/1
YE Xuquan (resigned on 25 July 2008)	1/1
Alan Howard SMITH	2/3
Felix FONG Wo	3/3
V-nee YEH (resigned on 20 January 2009)	3/3
Vincent Marshall LEE Kwan Ho (appointed on 13 March 2009)	N/A

Details of the amount of the Directors' emoluments are set out in note 8 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.

The nomination and appointment of Mr. LI Wenyue, Mr. HUANG Xiaofeng and Mr. Roland PIRMEZ as the Non-Executive Directors were considered and approved by the Board during the financial year ended 31 December 2008 and Mr. Vincent Marshall LEE Kwan Ho was appointed by the Board as the Independent Non-Executive Director subsequent to the financial year ended 31 December 2008.

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	2,580
Review of Interim Results	560
Taxation compliance services	14
Agreed-upon procedures in respect of continuing connected transactions	107
	3,261

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 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 and senior management 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 staff responsible for the accounting and financial reporting function, 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 including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

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 code provisions in relation to Audit Committee under Appendix 14 of the Listing Rules.

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. Vincent Marshall LEE Kwan Ho as the chairman, Mr. Alan Howard SMITH and Mr. Felix FONG Wo as members.

During the financial year ended 31 December 2008, the Audit Committee held two meetings. It reviewed the 2007 annual results and the 2008 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 (resigned on 20 January 2009)	2/2
Vincent Marshall LEE Kwan Ho (appointed on 13 March 2009)	N/A
Alan Howard SMITH	2/2
Felix FONG Wo	2/2

Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2008, 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 2008, 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.

Internal Control (continued)

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
LI Wenyue
Chairman

Hong Kong, 17 April 2009

ERNST & YOUNG
安 永

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 2008, 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 2008 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.

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

17 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
REVENUE	5	**1,347,057**	1,579,431
Cost of sales		**(1,054,712)**	(1,071,206)
Gross profit		**292,345**	508,225
Other income and gains	5	**70,611**	47,008
Selling and distribution expenses		**(234,989)**	(410,916)
Administrative expenses		**(134,965)**	(129,526)
Finance costs	6	**(30,271)**	(24,670)
LOSS BEFORE TAX	7	**(37,269)**	(9,879)
Tax	10	**(2,642)**	(13,694)
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**(39,911)**	(23,573)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic		**(2.3) HK cents**	(1.5) HK cents
Diluted		**N/A**	(1.5) HK cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,897,285**	2,820,882
Investment properties	14	**36,368**	33,762
Prepaid land lease payments	15	**251,656**	243,367
Goodwill	16	**9,384**	9,384
Reusable packaging materials		**42,362**	72,732
Deferred tax assets	28	**4,999**	4,618
Total non-current assets		**3,242,054**	3,184,745
CURRENT ASSETS			
Inventories	18	**259,269**	318,228
Trade and bills receivables	19	**38,139**	61,744
Prepayments, deposits and other receivables	20	**30,629**	52,855
Tax recoverable		**–**	948
Pledged and restricted bank balances	21	**646**	3,970
Cash and cash equivalents	21	**242,689**	347,144
Total current assets		**571,372**	784,889
CURRENT LIABILITIES			
Trade payables	22	**(79,594)**	(83,053)
Tax payable		**(68)**	(296)
Other payables and accruals	23	**(305,991)**	(378,725)
VAT payable		**(4,480)**	(2,103)
Derivative financial instrument	24	**(18,794)**	(35,718)
Due to the immediate holding company	25	**(237)**	(218)
Due to fellow subsidiaries	26	**(8,105)**	(43,707)
Interest-bearing bank borrowings	27	**(278,560)**	(427,480)
Total current liabilities		**(695,829)**	(971,300)
NET CURRENT LIABILITIES		**(124,457)**	(186,411)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,117,597**	2,998,334

Consolidated Balance Sheet (continued)

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,117,597**	2,998,334
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*27*	**(135,000)**	(160,000)
Deferred tax liabilities	*28*	**(8,322)**	(8,260)
Total non-current liabilities		**(143,322)**	(168,260)
Net assets		**2,974,275**	2,830,074
EQUITY			
Issued capital	*29*	**171,154**	170,667
Reserves	*31(a)*	**2,803,121**	2,659,407
Total equity		**2,974,275**	2,830,074

YE Xuquan
Director

LIANG Jianqin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Issued capital	Share premium account*	Capital reserve*	Property revaluation reserve*	Hedging reserve*	Enterprise development funds*	Reserve funds*	Exchange fluctuation reserve*	Retained profits*	Proposed final dividend	Total equity
		HK$'000 *(Note 29)*	*HK$'000* *(Note 29)*	*HK$'000* *(Note 31(a))*	*HK$'000*	*HK$'000* *(Note 24)*	*HK$'000* *(Note 31(a))*	*HK$'000* *(Note 31(a))*	*HK$'000*	*HK$'000*	*HK$'000*	*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	13	–	–	–	13,836	–	–	–	–	–	–	13,836
Net loss on cash flow hedge	24	–	–	–	–	(22,138)	–	–	–	–	–	(22,138)
Deferred tax charged to the property revaluation reserve	28	–	–	–	(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	29	31,030	719,906	–	–	–	–	–	–	–	–	750,936
Share issue expenses	29	–	(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

	Notes	Issued capital	Share premium account*	Capital reserve*	Property revaluation reserve*	Hedging reserve*	Enterprise development funds*	Reserve funds*	Exchange fluctuation reserve*	Retained profits*	Proposed final dividend	Total equity
		HK$'000 *(Note 29)*	*HK$'000* *(Note 29)*	*HK$'000* *(Note 31(a))*	*HK$'000*	*HK$'000* *(Note 24)*	*HK$'000* *(Note 31(a))*	*HK$'000* *(Note 31(a))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008		170,667	1,685,230	13,824	10,377	(35,718)	216	78,866	305,403	601,209	–	2,830,074
Net gain on cash flow hedge	24	–	–	–	–	16,924	–	–	–	–	–	16,924
Exchange realignment		–	–	–	–	–	–	–	163,325	–	–	163,325
Total income and expense recognised directly in equity		–	–	–	–	16,924	–	–	163,325	–	–	180,249
Loss for the year		–	–	–	–	–	–	–	–	(39,911)	–	(39,911)
Total income and expense for the year		–	–	–	–	16,924	–	–	163,325	(39,911)	–	140,338
Exercise of share options	29	487	3,376	–	–	–	–	–	–	–	–	3,863
At 31 December 2008		171,154	1,688,606*	13,824*	10,377*	(18,794)*	216*	78,866*	468,728*	561,298*	–	2,974,275

* These reserve accounts comprise the consolidated reserves of HK$2,803,121,000 (2007: HK$2,659,407,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(37,269)**	(9,879)
Adjustments for:			
Finance costs	6	**30,271**	24,670
Bank interest income	5	**(6,172)**	(15,745)
Fair value gains on investment properties	5	**(1,227)**	(1,629)
Depreciation	7	**153,178**	146,154
Recognition of prepaid land lease payments	7	**6,371**	5,424
Amortisation of reusable packaging materials	7	**39,544**	35,108
Loss on disposal of items of property, plant and equipment	7	**1,015**	722
Impairment of construction in progress and prepaid land lease payment	7	**–**	3,130
		185,711	187,955
Decrease/(increase) in inventories		**77,556**	(113,975)
Decrease/(increase) in trade and bills receivables		**26,451**	(26,227)
Decrease/(increase) in prepayments, deposits and other receivables		**25,449**	(24,523)
Increase/(decrease) in trade payables		**(8,452)**	(105,673)
Increase in VAT payable		**2,219**	1,156
Increase/(decrease) in other payables and accruals		**(43,684)**	10,106
Increase/(decrease) in an amount due to the immediate holding company		**19**	(73)
Increase/(decrease) in amounts due to fellow subsidiaries		**(35,602)**	27,656
Cash generated from/(used in) operations		**229,667**	(43,598)
Interest received		**6,172**	15,745
Interest paid		**(30,271)**	(33,135)
Hong Kong profits tax paid		**(2,897)**	(3,128)
PRC corporate income tax (paid)/refunded		**646**	(6,110)
Dividends paid		**–**	(20,946)
Net cash inflow/(outflow) from operating activities		**203,317**	(91,172)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	32(a)	**(147,521)**	(474,566)
Additions to prepaid land lease payments		**–**	(52,749)
Purchases of reusable packaging materials		**(5,110)**	(22,411)
Decrease in pledged and restricted bank balances		**3,324**	17,682
Proceeds from disposal of items of property, plant and equipment		**1,027**	2,598
Net cash outflow from investing activities		**(148,280)**	(529,446)

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	29	–	750,936
Share issue expenses	29	–	(10,409)
Proceeds from share options exercised		**3,863**	–
Repayment of bank loans		**(173,920)**	(108,920)
Net cash inflow/(outflow) from financing activities		**(170,057)**	631,607
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(115,020)**	10,989
Cash and cash equivalents at beginning of year		**347,144**	325,868
Effect of foreign exchange rate changes, net		**10,565**	10,287
CASH AND CASH EQUIVALENTS AT END OF YEAR		**242,689**	347,144
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**181,379**	151,353
Non-pledged time deposits with original maturity of less than three months when acquired		**61,310**	195,791
	21	**242,689**	347,144

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**2,621,320**	2,652,452
CURRENT ASSETS			
Due from a subsidiary	17	**2,454**	–
Prepayments, deposits and other receivables	20	**180**	1,231
Cash and cash equivalents	21	**12,239**	147,651
Total current assets		**14,873**	148,882
CURRENT LIABILITIES			
Due to subsidiaries	17	**(1,147)**	(12,023)
Other payables and accruals	23	**(7,390)**	(8,521)
Derivative financial instrument	24	**(18,794)**	(35,718)
Due to the immediate holding company	25	**(237)**	(218)
Interest-bearing bank borrowings	27	**(278,560)**	(427,480)
Total current liabilities		**(306,128)**	(483,960)
NET CURRENT LIABILITIES		**(291,255)**	(335,078)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,330,065**	2,317,374
NON-CURRENT LIABILITIES			
Due to subsidiaries	17	**(18,583)**	(18,485)
Interest-bearing bank borrowings	27	**(135,000)**	(160,000)
Total non-current liabilities		**(153,583)**	(178,485)
Net assets		**2,176,482**	2,138,889
EQUITY			
Issued capital	29	**171,154**	170,667
Reserves	31(b)	**2,005,328**	1,968,222
Total equity		**2,176,482**	2,138,889

YE Xuquan
Director

LIANG Jianqin
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), a company established in the People's Republic of China (the "PRC").

2.1. Basis of Presentation

Despite the fact that the Group's total assets exceed its current liabilities by HK$3,117,597,000 and reported a net cash inflow from operating activities of HK$203,317,000, during the year ended 31 December 2008, the Group incurred a net loss of HK$39,911,000, and had net current liabilities of approximately HK$124,457,000 as at 31 December 2008.

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 obtained new unsecured bank facilities totaling RMB300 million, which shall be revolving in nature and available for general working capital purpose, with the maturity term of 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 improve the Group's sales.

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.

2.2. 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 have 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.

During the year, there is a change of accounting estimate in respect of the economic useful lives of certain building, plant and machinery of the Group. Details of such change are set out in note 2.5 to the financial statements.

2.2. Basis of Preparation (continued)

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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.3. Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.4. 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 1 (Revised)	First-time Adoption of HKFRS [2]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures [1]
HKFRS 8	Operating Segments [1]
HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurment [5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation [4]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners [2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers [2]

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

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods ending on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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 HKFRS 3 (Revised), HKAS 27 (Revised) and HK(IFRIC)-Int 13 may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.5. 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.

2.5. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

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.

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 an 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 such 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.

2.5. Summary of Significant Accounting Policies (continued)

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.

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.

2.5. Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least 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.

In prior years, the Group's certain buildings and plant & machinery were depreciated on a straight-line basis over a period of 20 years and 15 years, respectively. The directors of the Company have reassessed the estimated economic useful life of the Group's buildings and plant & machinery, taking into account of current business environment and conditions and the expected pattern of economic benefits from these assets, and have revised the estimated economic useful life of certain buildings from 20 years to 30 years and the estimated economic useful life of certain plant & machinery from 15 years to 20 years. The changes in accounting estimates have been applied prospectively from 1 January 2008. The aggregate effect of these changes in accounting estimates is a decrease in the depreciation expenses and the net loss for the year ended 31 December 2008 of HK$29,360,000, and HK$29,159,000 (after tax expenses of HK$201,000), respectively. The reduction in accounting depreciation resulted in a decrease in the Group's deferred tax assets which are not recognised in the current year.

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.

2.5. Summary of Significant Accounting Policies (continued)

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.

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.

2.5. Summary of Significant Accounting Policies (continued)

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.

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.

2.5. Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedging

The Group uses a derivative financial instrument, cross currency interest rate swap 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.

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.

2.5. Summary of Significant Accounting Policies (continued)

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.

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

2.5. Summary of Significant Accounting Policies (continued)

Income tax (continued)

- 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.

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.

2.5. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Retirement benefits schemes (continued)

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 19% to 44% 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.

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.

2.5. Summary of Significant Accounting Policies (continued)

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.

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 dates 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.

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.

3. 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, based on an evaluation of the terms and conditions of the arrangements, 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.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

Classification between investment properties and owner-occupied properties (continued)

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.

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 2008 was HK$9,384,000 (2007: HK$9,384,000). More details are given in note 16 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.

3. 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. No deferred tax assets have been recognised for recognised tax losses as at 31 December 2007 and 2008. The amount of unrecognised tax losses at 31 December 2008 was HK$264,902,000 (2007: HK$223,120,000). Further details are contained in note 28 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.

4. 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 Macau, Hong Kong 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.

4. 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 2008 and 2007.

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to										
external customers	**1,272,870**	1,508,396	**74,187**	71,035	**–**	–	**–**	–	**1,347,057**	1,579,431
Intersegment sales	**33,226**	27,327	**–**	–	**–**	–	**(33,226)**	(27,327)	**–**	–
Other income and gains	**28,392**	30,720	**–**	–	**36,047**	543	**–**	–	**64,439**	31,263
Total	**1,334,488**	1,566,443	**74,187**	71,035	**36,047**	543	**(33,226)**	(27,327)	**1,411,496**	1,610,694
Segment results	**(65,501)**	(12,209)	**25,310**	22,016	**27,021**	(10,761)	**–**	–	**(13,170)**	(954)
Bank interest income									**6,172**	15,745
Finance costs									**(30,271)**	(24,670)
Loss before tax									**(37,269)**	(9,879)
Tax									**(2,642)**	(13,694)
Loss for the year									**(39,911)**	(23,573)
Assets and liabilities:										
Segment assets	**3,556,516**	3,601,925	**7,705**	9,497	**871**	2,480	**–**	–	**3,565,092**	3,613,902
Unallocated assets									**248,334**	355,732
Total assets									**3,813,426**	3,969,634
Segment liabilities	**383,231**	493,704	**3,383**	2,911	**11,793**	11,191	**–**	–	**398,407**	507,806
Unallocated liabilities									**440,744**	631,754
Total liabilities									**839,151**	1,139,560
Other segment information:										
Depreciation and amortisation	**199,046**	186,628	**47**	58	**–**	–	**–**	–	**199,093**	186,686
Fair value gains on investment properties	**1,227**	1,629	**–**	–	**–**	–	**–**	–	**1,227**	1,629
Capital expenditure	**65,022**	650,869	**43**	–	**–**	–	**–**	–	**65,065**	650,869

5. 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:

	2008 HK$'000	2007 HK$'000
Revenue		
Invoiced value of goods sold (net of trade discounts, allowances for returns and value-added tax)	**1,503,937**	1,752,414
Beer consumption tax	**(156,880)**	(172,983)
Sale of goods	**1,347,057**	1,579,431
Other income		
Gains on sale of scrap materials	**20,062**	14,708
Bank interest income	**6,172**	15,745
Reinvestment tax refunds#	**–**	9,189
Gross rental income	**3,481**	4,202
Others	**3,622**	992
	33,337	44,836
Gains		
Fair value gains on investment properties	**1,227**	1,629
Exchange gains, net	**36,047**	543
	37,274	2,172
	70,611	47,008

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 in last year. The refunds were determined based on certain percentages of the profit distributions reinvested.

6. Finance Costs

	Notes	Group 2008 HK$'000	Group 2007 HK$'000
Interest on bank loans wholly repayable within five years		**17,343**	36,642
Fair value loss/(gain) on cash flow hedge (transfer from equity)	24	**12,928**	(3,507)
		30,271	33,135
Less: Interest capitalised	13	**–**	(8,465)
		30,271	24,670

7. Loss Before Tax

This is arrived at after charging/(crediting):

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories sold		**1,054,712**	1,071,206
Depreciation#	13	**153,178**	146,154
Recognition of prepaid land lease payments		**6,371**	5,424
Amortisation of reusable packaging materials#		**39,544**	35,108
Loss on disposal of items of property, plant and equipment		**1,015**	722
Impairment of construction in progress and prepaid land lease payment		**–**	3,130
Minimum lease payments under operating leases in respect of land and buildings		**962**	1,170
Auditors' remuneration		**2,580**	2,300
Employee benefits expense (excluding directors' remuneration – note 8) #:			
Wages and salaries		**162,292**	132,312
Pension scheme contributions		**28,841**	21,883
Less: Forfeited contributions*		**–**	(8)
Net pension scheme contributions		**28,841**	21,875
		191,133	154,187
Exchange gains, net		**(36,047)**	(543)
Net rental income		**2,520**	3,032
Impairment of trade receivables, net	19	**639**	119

The depreciation, amortisation of reusable packaging materials and employee benefits expense for the year of HK$134,367,000 (2007: HK$129,491,000), HK$39,544,000 (2007: HK$35,108,000) and HK$74,803,000 (2007: HK$69,478,000), respectively, are included in the cost of inventories sold as disclosed above.

* At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: HK$8,000).

8. 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	
	2008	2007
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	**820**	540
Non-executive directors	**–**	–
Executive directors	**86**	94
	906	634
Other emoluments:		
Salaries, allowances and benefits in kind	**2,657**	1,619
Bonuses	**793**	2,005
Pension scheme contributions	**864**	655
	4,314	4,279
	5,220	4,913

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 30 to the financial statements.

(a) Independent non-executive directors

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

	2008	2007
	HK$'000	*HK$'000*
Alan Howard Smith	**260**	170
V-nee Yeh	**300**	200
Rafael Gil-Tienda	**–**	11
Fong Wo, Felix	**260**	159
	820	540

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

8. 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*
2008					
Executive directors:					
Ye Xuquan	23	1,679	443	426	2,571
Jiang Guoqiang	34	520	225	286	1,065
Liang Jianqin	29	458	125	152	764
	86	2,657	793	864	4,400
Non-executive directors:					
Li Wenyue	–	–	–	–	–
Huang Xiaofeng	–	–	–	–	–
Zhao Leili	–	–	–	–	–
Luo Fanyu	–	–	–	–	–
Ho Lam Lai Ping, Theresa	–	–	–	–	–
Michael Wu	–	–	–	–	–
Roland Pirmez	–	–	–	–	–
Koh Poh Tiong	–	–	–	–	–
Sijbe Hiemstra	–	–	–	–	–
Cheung Fook Seng, Anthony	–	–	–	–	–
	–	–	–	–	–
	86	2,657	793	864	4,400

8. 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*
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:					
Zhao Leili	–	–	–	–	–
Luo Fanyu	–	–	–	–	–
Ho Lam Lai Ping, Theresa	–	–	–	–	–
Michael Wu	–	–	–	–	–
Koh Poh Tiong	–	–	–	–	–
Han Cheng Fong	–	–	–	–	–
Sijbe Hiemstra	–	–	–	–	–
Cheung Fook Seng, Anthony	–	–	–	–	–
	–	–	–	–	–
	94	1,619	2,005	655	4,373

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,174**	1,378
Bonuses	**815**	452
Pension scheme contributions	**46**	57
	2,035	1,887

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

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**1**	1
HK$1,000,000 to HK$1,500,000	**1**	1
	2	2

10. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. 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.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Tax Law"), which is effective from 1 January 2008. Under the New 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.

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, 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 years ended 31 December 2008 and 2007.

Kingway Brewery (Dongguan) Co., Ltd. is entitled to a 50% tax relief for the year ended 31 December 2008 and was exempted from CIT for the year ended 31 December 2007.

Kingway Brewery (Shan Tou) Co., Ltd. and Kingway Brewery (Foshan) Co., Ltd. are exempted from CIT for the years ended 31 December 2008 and 2007.

10. Tax (continued)

Kingway Brewery (Tianjin) Co., Ltd., Kingway Brewery (Xian) Co., Ltd. and Kingway Brewery Group (Chengdu) Co., Ltd. have not generated any accumulated assessable profits since their establishments. Pursuant to the New CIT Tax Law, these companies are entitled to full tax exemption from CIT for two years commencing from 1 January 2008, followed by 50% reduction in CIT rate for the next three years.

	2008 *HK$'000*	2007 *HK$'000*
Group:		
Current:		
Hong Kong:		
Charge for the year	**3,228**	3,730
Under/(over) provision in prior years	**(332)**	69
Mainland China:		
Charge for the year	**209**	4,735
Overprovision in prior years	**(102)**	(100)
Deferred *(note 28)*	**(361)**	5,260
Total tax charge for the year	**2,642**	13,694

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 – 2008

	Hong Kong *HK$'000*	**Mainland China** *HK$'000*	**Total** *HK$'000*
Profit/(loss) before tax	**7,955**	**(45,224)**	**(37,269)**
Tax at the statutory tax rates	**1,312**	**(11,306)**	**(9,994)**
Lower tax rates for specific provinces or enacted by local authorities	**–**	**1,492**	**1,492**
Adjustments in respect of current tax of previous periods	**(332)**	**(102)**	**(434)**
Profit exempted from PRC corporate income tax	**–**	**(9,913)**	**(9,913)**
Income not subject to tax	**(4,006)**	**–**	**(4,006)**
Expenses not deductible for tax	**5,364**	**192**	**5,556**
Tax losses not recognised	**558**	**19,383**	**19,941**
Tax charge at the Group's effective rate	**2,896**	**(254)**	**2,642**

10. Tax (continued)

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 enacted by 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

11. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of HK$16,806,000 (2007: HK$337,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. Loss Per Share Attributable to Equity Holders of the Company

The calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted loss per share amounts is based on the loss for the year attributable to equity holders 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 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.

Diluted loss per share amount for the year ended 31 December 2008 has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

12. Loss Per Share Attributable to Equity Holders of the Company

(continued)

The calculations of basic and diluted loss per share are based on:

	2008 *HK$'000*	2007 *HK$'000*
Loss		
Loss attributable to equity holders of the Company, used in the basic and diluted loss per share calculation	**(39,911)**	(23,573)

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**1,709,103,847**	1,593,923,090
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
For the purpose of diluted loss per share calculation	**1,709,103,847**	1,607,581,109

13. Property, Plant and Equipment

Group – 2008

	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 2007 and at 1 January 2008:							
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
At 1 January 2008, net of accumulated depreciation		968,729	1,752,539	4	13,386	86,224	2,820,882
Additions		14,242	3,851	–	490	41,372	59,955
Disposals/write-off		(1,793)	(249)	–	–	–	(2,042)
Depreciation provided during the year	7	(35,854)	(114,166)	(4)	(3,154)	–	(153,178)
Transfers		83,429	41,944	–	–	(125,373)	–
Exchange realignment		60,287	106,994	–	794	3,593	171,668
At 31 December 2008, net of accumulated depreciation		1,089,040	1,790,913	–	11,516	5,816	2,897,285
At 31 December 2008:							
Cost		1,384,583	2,924,267	896	33,774	5,816	4,349,336
Accumulated depreciation		(295,543)	(1,133,354)	(896)	(22,258)	–	(1,452,051)
Net carrying amount		1,089,040	1,790,913	–	11,516	5,816	2,897,285

13. Property, Plant and Equipment (continued)

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	6	–	–	–	–	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	7	(39,122)	(103,969)	(427)	(2,636)	–	(146,154)
Transfers		364,412	575,299	–	–	(939,711)	–
Transfer to investment properties	14	(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

14. Investment Properties

Group

	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**33,762**	–
Transfer from owner-occupied property *(note 13)*	**–**	29,065
Transfer from prepaid land lease payments	**–**	3,068
Net profit from a fair value adjustment	**1,227**	1,629
Exchange realignment	**1,379**	–
Carrying amount at 31 December	**36,368**	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 2008 by RHL Appraisal Ltd., independent professionally qualified valuers, at HK$36,368,000 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 33(a) to the financial statements.

15. 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$49,432,000 (2007: HK$46,556,000) 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 date. Notwithstanding this, the directors are of the opinion that the Group has obtained the legal rights to use these assets as at 31 December 2008 and that the land use right certificates can be received.

16. Goodwill

Group

	HK$'000
Cost and net carrying amount at 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	9,384

As further detailed in note 2.5 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 2007 and 2008. The amount of goodwill is stated at cost.

16. 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.

17. Interests in Subsidiaries

	Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares/investments, at cost	**312,383**	312,383
Due from subsidiaries	**2,308,937**	2,391,266
	2,621,320	2,703,649
Impairment#	**–**	(51,197)
	2,621,320	2,652,452

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) as at 31 December 2007 because certain of the subsidiaries were losses making persistently.

The movements in the impairment account is as follows:

	Company	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**51,197**	51,197
Amount written off	**(51,197)**	–
At 31 December	**–**	51,197

17. Interests in Subsidiaries (continued)

The amounts due from and to subsidiaries included in the Company's current assets and liabilities of HK$2,454,000 (2007: Nil) and HK$1,147,000 (2007: HK$12,023,000), respectively, are unsecured, interest-free and repayable on demand or within one year.

At 31 December 2008, the amounts due from and to subsidiaries of HK$2,308,937,000 (2007: HK$2,391,266,000) and HK$18,583,000 (2007: 18,485,000) are unsecured, interest-free and are not repayable within one year from 31 December 2008, respectively. In the opinion of the 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.# ("Shenzhen Brewery")	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$20,000,000	–	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.

17. 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.

18. Inventories

	Group	
	2008	2007
	HK$'000	*HK$'000*
Raw materials	**51,088**	124,935
Spare parts and consumables	**53,140**	60,957
Packaging materials	**91,526**	74,292
Work in progress	**39,509**	34,155
Finished goods	**24,006**	23,889
	259,269	318,228

19. 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.

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	
	2008	2007
	HK$'000	*HK$'000*
Within 3 months	**24,614**	16,800
3 to 6 months	**1,379**	750
6 months to 1 year	**662**	486
Over 1 year	**507**	367
	27,162	18,403
Less: Impairment	**(746)**	(390)
Trade receivables	**26,416**	18,013
Bills receivables	**11,723**	43,731
	38,139	61,744

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

19. 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	
	2008	2007
	HK$'000	*HK$'000*
Neither past due nor impaired	**32,127**	52,509
Less than 3 months past due	**4,210**	8,022
3 to 6 months past due	**1,379**	750
Over 6 months past due	**423**	463
	38,139	61,744

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 the provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At beginning of the year	**390**	271
Impairment losses recognised, net *(note 7)*	**639**	119
Amount written off as uncollectible	**(283)**	–
At end of the year	**746**	390

All above provisions for impairment of trade receivables are individually impaired. The individually impaired trade receivables with gross balance amounting to HK$746,000 (2007: 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.

20. Prepayments, Deposits and Other Receivables

None of the prepayments, deposits and other receivables is either past due or impaired. The financial assets included in the prepayments, deposits and other receivables relate to receivables for which there was no recent history of default.

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

		Group		Company	
	Notes	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Cash and bank balances		**182,025**	155,323	**12,239**	1,011
Time deposits		**61,310**	195,791	**–**	146,640
		243,335	351,114	**12,239**	147,651
Less: Bank balances pledged for banking facilities	*(i)*	**(646)**	(3,229)	**–**	–
Restricted bank balances	*(ii)*	**–**	(741)	**–**	–
		(646)	(3,970)	**–**	–
Cash and cash equivalents	*(iii)*	**242,689**	347,144	**12,239**	147,651

Notes:

(i) At the balance sheet date, certain bank balances and time deposits totalling HK$646,000 (2007: HK$3,229,000) 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$741,000 (2007: HK$1,177,000) has been fully utilised to purchase of qualifying items of property, plant and equipment. The Group did not have any restricted bank balance as at 31 December 2008. The Company did not have any restricted bank balances as at 31 December 2007 and 2008.

(iii) At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$193,691,000 (2007: HK$145,853,000). 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.

22. Trade Payables

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

	Group	
	2008 HK$'000	2007 HK$'000
Within 3 months	**64,854**	69,950
3 to 6 months	**9,035**	8,111
6 months to 1 year	**3,784**	2,137
Over 1 year	**1,921**	2,855
	79,594	83,053

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

23. Other Payables and Accruals

The Group's and the Company's other payables are non-interest-bearing and have no fixed terms of repayment.

24. Derivative Financial Instrument

	Group and Company	
	2008	2007
	HK$'000	*HK$'000*
Cross currency interest rate swap classified as a current liability	**18,794**	35,718

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 2008, 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) (2007: 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% (2007: LIBOR plus 0.413%) per annum, and pays interest at a fixed rate of 1.96% (2007: 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.

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 gain on cash flow hedge included in the hedging reserve was HK$16,924,000 (2007: net fair value loss on cash flow hedge of HK$22,138,000).

	Group and Company	
	2008	2007
	HK$'000	*HK$'000*
Total fair value loss/(gain) included in the hedging reserve	**(3,996)**	18,631
Transfer from the hedging reserve and included in financial costs *(note 6)*	**(12,928)**	3,507
Movement of cash flow hedge	**(16,924)**	22,138

25. 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.

26. Due to Fellow Subsidiaries

The Group's amounts due are unsecured, non-interest-bearing and repayable within 30 days from the date of invoices (note 36(a)(i)).

27. Interest-bearing Bank Borrowings

	Effective interest rate	Maturity	Group and Company 2008 HK$'000	Group and Company 2007 HK$'000
Current				
US$38,000,000 unsecured bank loan	2.85% per annum*	2009	**118,560**	207,480#
Bank loan – unsecured	HIBOR+1.30% per annum	2009	**80,000**	200,000#
Bank loan – unsecured	HIBOR+0.30% per annum	2009	**80,000**	20,000
			278,560	427,480
Non-current				
Bank loan – unsecured	HIBOR+1.30% per annum	2010	**55,000**	–#
Bank loan – unsecured	HIBOR+0.30% per annum	2010	**80,000**	160,000
			135,000	160,000
			413,560	587,480

* Includes the effects of a related cross currency interest rate swap as further detailed in note 24 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 totaling HK$278,560,000 as at 31 December 2007 was classified as current because the Group might or might not comply with the covenant requirement as stipulated in the loan facility letters if the waiver was not granted after 31 July 2008 and the long term bank loans might be wholly repayable within twelve months from 31 December 2007. Upon the revision of the covenant requirements by the bank, which the Group are able to comply with, and the repayment of part of the loan balance of HK$153,920,000, HK$55,000,000 out of the relevant loan principal of HK$253,560,000 has been reclassified as non-current liabilities accordingly.

	Group and Company 2008 HK$'000	Group and Company 2007 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**278,560**	427,480
In the second year	**135,000**	80,000
In the third to fifth years, inclusive	**–**	80,000
	413,560	587,480

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 2008.

2) Except for the unsecured bank loan of HK$118,560,000 as at 31 December 2008, which is denominated in the United States dollars, all borrowings are in Hong Kong dollars.

28. Deferred Tax

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

Group – 2008

Deferred tax assets

	Decelerated tax depreciation *HK$'000*	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Total *HK$'000*
At 1 January 2008	2,408	2,210	4,618
Deferred tax credited to the income statement during the year *(note 10)*	48	106	154
Exchange differences	227	–	227
Gross deferred tax assets at 31 December 2008	2,683	2,316	4,999

Deferred tax liabilities

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Total *HK$'000*
At 1 January 2008	(4,394)	(3,866)	(8,260)
Deferred tax credited to the income statement during the year *(note 10)*	207	–	207
Deferred tax charged to the property revaluation reserve during the year	–	–	–
Exchange differences	(269)	–	(269)
Gross deferred tax liabilities at 31 December 2008	(4,456)	(3,866)	(8,322)

28. Deferred Tax (continued)

Group – 2007

Deferred tax assets

	Decelerated tax depreciation *HK$'000*	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Loss available for offsetting against future taxable profits *HK$'000*	Total *HK$'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 10)*	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 *HK$'000*	Revaluation of properties *HK$'000*	Total *HK$'000*
At 1 January 2007	(2,765)	–	(2,765)
Deferred tax charged to the income statement during the year *(note 10)*	(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)

The Company and the Group have tax losses arising in Hong Kong of HK$84,955,000 (2007: HK$79,025,000) 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$179,947,000 (2007: HK$144,095,000) 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.

28. Deferred Tax (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$2,960,000 at 31 December 2008 (2007: Nil).

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

29. Share Capital

Shares

	2008 *HK$'000*	2007 *HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,711,536,850 (2007: 1,706,672,000) ordinary shares of HK$0.10 each	**171,154**	170,667

During the year ended 31 December 2008, the subscription rights attaching to 4,864,850 share options were exercised at a subscription price of HK$0.794 per share, resulting in the issuance of 4,864,850 ordinary shares of the Company of HK$0.10 each with the issued capital and share premium increased by HK$487,000 and HK$3,376,000 (before issuance expenses), respectively.

29. Share Capital (continued)

A summary of the transactions during the years ended 31 December 2007 and 2008 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 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 and 1 January 2008	1,706,672,000	170,667	1,685,230	1,855,897
Share option exercised	4,864,850	487	3,376	3,863
At 31 December 2008	1,711,536,850	171,154	1,688,606	1,859,760

Share options

Details of the Company's share option scheme and the share options issued under the share option scheme are included in note 30 to the financial statements.

30. 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 2008, the total number of shares issuable for options granted under the Share Option Scheme of the Company was 14,383,033 (2007: 25,593,337) which represented approximately 0.8% (2007: 1.5%) 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.

30. Share Option Scheme (continued)

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.

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

	2008		2007	
	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	**1.501**	**25,593**	1.584	28,700
Increase as a result of rights issue	**–**	**–**	–	1,652
Exercised during the year	**0.794**	**(4,865)**	–	–
Lapsed during the year	**1.310**	**(6,345)**	1.481	(4,759)
At 31 December	**1.825**	**14,383**	1.501	25,593

30. Share Option Scheme (continued)

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

2008

Number of options '000	Exercise price* HK$ per share	Exercise period
14,383	1.825	07/05/2004 – 06/05/2009

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		

* 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 14,383,033 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 14,383,033 additional ordinary shares of the Company and additional share capital of HK$1,438,000 and share premium of HK$24,811,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 14,383,033 share options outstanding under the Share Option Scheme, which represented approximately 0.8% of the Company's shares in issue as at that date.

31. 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.

31. Reserves (continued)

(b) Company

	Notes	Share premium account HK$'000	Capital reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		975,733	140,234	(13,580)	178,139	1,280,526
Profit for the year	11	–	–	–	337	337
Net loss on cash flow hedge	24	–	–	(22,138)	–	(22,138)
Issue of shares	29	719,906	–	–	–	719,906
Share issue expenses	29	(10,409)	–	–	–	(10,409)
At 31 December 2007 and 1 January 2008		1,685,230	140,234	(35,718)	178,476	1,968,222
Profit for the year	11	–	–	–	16,806	16,806
Net gain on cash flow hedge	24	–	–	16,924	–	16,924
Exercise of share options	29	3,376	–	–	–	3,376
At 31 December 2008		1,688,606	140,234	(18,794)	195,282	2,005,328

32. Notes to the Consolidated Cash Flow Statement

(a) Other payable of HK$87,566,000 in connection with the construction costs of certain factory premises accrued during the year ended 31 December 2007 were settled by cash during the current year.

(b) Major non-cash transactions

At 31 December 2007, the Group had other 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.

33. Operating Lease Arrangements

(a) As lessor

The Group leases of its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from three to ten years (2007: 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	
	2008	2007
	HK$'000	*HK$'000*
Within one year	**3,789**	3,122
In the second to fifth years, inclusive	**6,453**	5,981
After five years	**40**	1,083
	10,282	10,186

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years (2007: 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	
	2008	2007
	HK$'000	*HK$'000*
Within one year	**1,110**	363
In the second to fifth years, inclusive	**542**	–
	1,652	363

At the balance sheet date, the Company did not have any operating lease arrangements (2007: Nil).

34. Commitments

In addition to the operating lease commitments detailed in note 33(b) to the financial statements, the Group had the following commitments at the balance sheet date:

	2008 *HK$'000*	2007 *HK$'000*
Capital commitments on the acquisition of items of property, plant and equipment:		
Contracted, but not provided for	1,224	25,436
Authorised, but not contracted for	–	1,908
	1,224	27,344

At the balance sheet date, the Company had no significant capital commitment (2007: Nil).

35. 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 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. During the year ended 31 December 2008, the Group accepted the abovementioned settlement proposed by BCCL and the Proceeding was closed accordingly.

36. 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) to (iii) below constituted related party transactions and those referred to in items (i) to (iv) 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% (2007: 87.4%) owned and 100% (2007: 100%) 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.

For the year ended 31 December 2008, the aggregate amount of malt purchased by the Group from the fellow subsidiaries is as follows:

	2008	2007
	HK$'000	*HK$'000*
GMCL	**15,754**	114,987
NMCL	**3,107**	67,280
SNMC	**32,592**	49,710
SCMC	**4,222**	14,322
SQMC	**–**	2,515
SBMC	**–**	3,968
	55,675	252,782

The balances due to fellow subsidiaries are unsecured, non-interest-bearing and repayable within 30 days from the date of invoice (note 26). Details of the balances due to the fellow subsidiaries are as follow:

	2008	2007
	HK$'000	*HK$'000*
GMCL	**920**	13,791
NMCL	**–**	4,685
SNMC	**7,185**	16,082
SCMC	**–**	7,910
SQMC	**–**	1,239
	8,105	43,707

36. Connected and Related Party Transactions (continued)

(a) (continued)

(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. On 25 September 2008, the tenancy agreement was renewed at a monthly rental of HK$69,849 for a term of two years commencing on 1 September 2008.

During the year, the Group paid operating lease rentals to GHD amounting to HK$643,000 (2007: HK$545,000).

(iii) On 18 April 2008, Kingway Foshan has entered into the subcontracting agreement with Hainan Asia Pacific Brewery Co., Ltd. ("HAPB"), a wholly-owned subsidiary of Heineken-APB (China) Pte Ltd., which is a substantial shareholder of the Group, Kingway Foshan manufactured and supplied beer to HAPB to be sold under the ANCHOR brand.

During the year ended 31 December 2008, the aggregate subcontracting income received from HAPB amounted to RMB5,987,000 (2007: Nil).

(iv) As at 31 December 2008, pursuant to certain entrusted loan agreements entered into between Shenzhen Brewery, as the lender, and Kingway Dongguan, Kingway Tianjin, Kingway Xian, Kingway Foshan and Kingway Shantou as the borrowers. Shenzhen Brewery, through pledging the same lending amounts to banks, advanced RMB100,000,000 (2007: RMB100,000,000), RMB56,000,000 (2007: RMB114,000,000), RMB83,000,000 (2007: RMB120,000,000), RMB42,000,000 (2007: RMB83,000,000) and RMB45,000,000 (2007: Nil) to Kingway Dongguan, Kingway Tianjin, Kingway Xian, Kingway Foshan and Kingway Shantou, respectively, to finance their working capital. The unsecured loans are non-interest-bearing and have repayment terms as follows:

	2008 *RMB'000*	2007 *RMB'000*
Repayable within one year	**56,000**	361,000
In the second year	**145,000**	56,000
In the third year	**6,000**	–
In the forth year	**119,000**	–
	326,000	417,000

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

	2008 *HK$'000*	2007 *HK$'000*
Short term employee benefits	**4,356**	4,258
Post-employment benefits	**864**	655
Total compensation paid to key management personnel	**5,220**	4,913

Further details of the directors' emoluments are included in note 8 to the financial statements.

37. Financial Instruments by Category

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

2008 – Group

Financial assets

	Loans and receivables *HK$'000*
Trade and bills receivables	38,139
Financial assets included in prepayments, deposits and other receivables	9,632
Pledged and restricted bank balances	646
Cash and cash equivalents	242,689

Financial liabilities

	Derivative financial instrument designated for hedging *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade payables	–	79,594	79,594
Financial liabilities included in other payables and accruals	–	219,791	219,791
Derivative financial instrument	18,794	–	18,794
Due to the immediate holding company	–	237	237
Due to fellow subsidiaries	–	8,105	8,105
Interest-bearing bank borrowings	–	413,560	413,560

37. 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 – Group

Financial assets

	Loans and receivables *HK$'000*
Trade and bill 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 instrument designated for hedging *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade payables	–	83,053	83,053
Financial liabilities included in other payables and accruals	–	273,679	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	–	587,480	587,480

37. 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)

2008 – Company

Financial assets

	Loans and receivables *HK$'000*
Due from subsidiaries	2,308,937
Financial assets included in prepayments, deposits and other receivables	35
Cash and cash equivalents	12,239

Financial liabilities

	Derivative financial instrument designated for hedging *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Due to subsidiaries	–	19,730	19,730
Financial liabilities included in other payables and accruals	–	7,129	7,129
Derivative financial instrument	18,794	–	18,794
Due to the immediate holding company	–	237	237
Interest-bearing bank borrowings	–	413,560	413,560

37. Financial Instruments by Category (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 instrument 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 instrument	35,718	–	35,718
Due to the immediate holding company	–	218	218
Interest-bearing bank borrowings	–	587,480	587,480

38. 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 2.5 to the financial statements.

(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 25% 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 2008, after taking into account the effect of the cross currency interest rate swap, approximately 29% (2007: 35%) of the Group's interest-bearing borrowings bore interest at fixed rates.

If there would be a general increase in the interest rate of debts obligations with floating interest rates by two hundred basis points (2007: one hundred basis points), with all other variables held constant, the Group's profit before tax and retained profit would have been decreased by approximately HK$5,900,000 (2007: HK$3,800,000) after taking into account the effect of the cross currency interest rate swap for the bank borrowings denominated in HK$, for the year ended 31 December 2008, and there is no impact on other components of the equity of the Group.

If there would be a general decrease in the interest rate of debts obligations with floating interest rates by fifteen basis points (2007: one hundred basis points), with all other variables held constant, the Group's profit before tax and retained profit would have been increased by approximately HK$443,000 (2007: HK$3,800,000) after taking into account the effect of the cross currency interest rate swap for the bank borrowings denominated in HK$, for the year ended 31 December 2008, and there is no impact on other components of the equity of the Group.

38. Financial Risk Management Objectives and Policies (continued)

(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$'000*
2008		
If US$ weakens against RMB	(2)	(2,871)
If US$ strengthens against RMB	2	2,871
2007		
If US$ weakens against RMB	(6)	(15,616)
If US$ strengthens against RMB	6	15,616

* Excluding retained earnings

38. 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 19 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.

38. 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 contractual undiscounted payments, was as follows:

Group

	2008				
	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 payables	**14,740**	**64,854**	**–**	**–**	**79,594**
Other payables	**56,781**	**76,032**	**86,978**	**–**	**219,791**
Derivative financial instrument	**–**	**–**	**18,794**	**–**	**18,794**
Due to the immediate holding company	**237**	**–**	**–**	**–**	**237**
Due to fellow subsidiaries	**–**	**8,105**	**–**	**–**	**8,105**
Interest-bearing bank borrowings	**–**	**–**	**278,560**	**135,000**	**413,560**
	71,758	**148,991**	**384,332**	**135,000**	**740,081**

	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 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

38. 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 contractual undiscounted payments, was as follows:

Company

	2008				
	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	19,730	–	–	–	19,730
Other payables	7,129	–	–	–	7,129
Derivative financial instrument	–	–	18,794	–	18,794
Due to the immediate holding company	237	–	–	–	237
Interest-bearing bank borrowings	–	–	278,560	135,000	413,560
	27,096	–	297,354	135,000	459,450

	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

38. 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2007.

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:

	2008 *HK$'000*	2007 *HK$'000*
Interest-bearing bank borrowings *(note 27)*	**413,560**	587,480
Less: Cash and cash equivalents *(note 21)*	**(242,689)**	(347,144)
Net debt	**170,871**	240,336
Equity attributable to equity holders	**2,974,275**	2,830,074
Hedging reserve	**18,794**	35,718
Adjusted capital	**2,993,069**	2,865,792
Adjusted capital and net debt	**3,163,940**	3,106,128
Gearing ratio	**5%**	8%

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 17 April 2009.