



KINGWAY BREWERY HOLDINGS LIMITED

金威啤酒集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 124)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

HIGHLIGHTS

	For the year ended 31 December		Change
	2007	2006	
Beer sales volume, in tonne	740,000	644,000	+14.9%
Gross profit, in thousand HK\$	508,225	571,203	-11.0%
Profit/(loss) for the year, in thousand HK\$	(23,573)	110,445	-121.3%
Basic earnings/(loss) per share, in HK cent	(1.5)	7.5	-120.0%
EBITDA, in thousand HK\$	201,477	264,273	-23.8%
	As at 31 December		
	2007	2006	
Current ratio	0.8 times	1.1 times	-27.3%
Gearing ratio ¹	8.5%	19.0%	-10.5%
Total assets, in million HK\$	3,970	3,099	+28.1%
Net asset value per share, in HK\$	1.66	1.40	+18.6%
Year-end number of employees	2,388	2,105	+13.4%

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

* For identification purpose only

FINANCIAL RESULTS

The Board of Directors of Kingway Brewery Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 together with comparative figures for 2006 are as follows:

Consolidated Income Statement For the year ended 31 December 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
REVENUE	4	1,579,431	1,408,436
Cost of sales		<u>(1,071,206)</u>	<u>(837,233)</u>
Gross profit		508,225	571,203
Other income and gains		47,008	24,026
Selling and distribution expenses		<u>(410,916)</u>	<u>(369,594)</u>
Administrative expenses		<u>(129,526)</u>	<u>(98,563)</u>
Finance costs		<u>(24,670)</u>	<u>(3,722)</u>
PROFIT/(LOSS) BEFORE TAX	5	<u>(9,879)</u>	123,350
Tax	6	<u>(13,694)</u>	<u>(12,905)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>(23,573)</u>	<u>110,445</u>
Attributable to:			
Equityholders of the parent		<u>(23,573)</u>	110,200
Minority interests		<u>-</u>	<u>245</u>
		<u>(23,573)</u>	<u>110,445</u>
DIVIDENDS	7		
Interim		-	<u>(20,946)</u>
Proposed final		-	<u>(20,946)</u>
		<u>-</u>	<u>(41,892)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITYHOLDERS OF THE COMPANY	8		(Restated)
Basic		<u>(1.5) HK cents</u>	<u>7.5 HK cents</u>
Diluted		<u>(1.5) HK cents</u>	<u>7.4 HK cents</u>

Consolidated Balance Sheet
31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,820,882	2,207,217
Investment properties		33,762	-
Prepaid land lease payments		243,367	202,900
Goodwill		9,384	9,384
Reusable packaging materials		72,732	80,084
Deferred tax assets		4,618	8,099
Total non-current assets		<u>3,184,745</u>	<u>2,507,684</u>
CURRENT ASSETS			
Inventories		318,228	186,150
Trade and bills receivables	9	61,744	32,685
Prepayments, deposits and other receivables		52,855	24,779
Tax recoverable		948	-
Pledged and restricted bank balances		3,970	21,652
Cash and cash equivalents		347,144	325,868
Total current assets		<u>784,889</u>	<u>591,134</u>
CURRENT LIABILITIES			
Trade and bills payables	10	(83,053)	(179,973)
Tax payable		(296)	(147)
Other payables and accruals		(378,725)	(239,355)
VAT payable		(2,103)	(839)
Derivative financial instrument		(35,718)	(13,580)
Due to the immediate holding company		(218)	(291)
Due to fellow subsidiaries		(43,707)	(16,051)
Interest-bearing bank borrowings		(427,480)	(88,920)
Total current liabilities		<u>(971,300)</u>	<u>(539,156)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(186,411)</u>	<u>51,978</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,998,334</u>	<u>2,559,662</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		(160,000)	(607,480)
Deferred tax liabilities		(8,260)	(2,765)
Total non-current liabilities		<u>(168,260)</u>	<u>(610,245)</u>
Net assets		<u>2,830,074</u>	<u>1,949,417</u>
EQUITY			
Issued capital		170,667	139,637
Reserves		2,659,407	1,788,834
Proposed final dividend		-	20,946
Total equity		<u>2,830,074</u>	<u>1,949,417</u>

Notes:

(1) 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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a derivative financial instrument and investment properties, which has been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

(2) Basis of Presentation

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

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

- (a) the Group has been negotiating with a bank for additional banking facilities totaling RMB500 million. Subsequent to the balance sheet date on 1 April 2008, the Group and the bank signed a letter of intent in respect of the banking facilities, which shall be supported by a corporate guarantee from the Company, with the maturity term of not less than two years;
- (b) the directors of the Company have been taking various cost control measures to tighten the costs of operations and various general and administrative expenses; and
- (c) the Group has been implementing various strategies to enhance the Group's turnover.

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

(2) Basis of Presentation (cont'd)

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

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

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

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

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

HKFRS 2 Amendment	Shared-based Payment - Vesting Conditions and Cancellation ¹
HKFRS 3 (Revised)	Business Combinations ⁵
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 ⁵
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ³
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

(3) Impact of New and Revised Hong Kong Financial Reporting Standards (Cont'd)

- 1 Effective for annual periods beginning on or after 1 January 2009.
- 2 Effective for annual periods beginning on or after 1 March 2007.
- 3 Effective for annual periods beginning on or after 1 January 2008.
- 4 Effective for annual periods beginning on or after 1 July 2008.
- 5 Effective for annual periods beginning on or after 1 July 2009.

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

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

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

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

(4) Segment Information (cont'd)

Geographical segments

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

Group

	2007				Consolidated HK\$'000
	Mainland China HK\$'000	Overseas and Hong Kong HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	
Segment revenue:					
Sales to external customers	1,508,396	71,035	-	-	1,579,431
Intersegment sales	27,327	-	-	(27,327)	-
Other income and gains	30,720	-	543	-	31,263
Total	<u>1,566,443</u>	<u>71,035</u>	<u>543</u>	<u>(27,327)</u>	<u>1,610,694</u>
Segment results	<u>(12,209)</u>	<u>22,016</u>	<u>(10,761)</u>	<u>-</u>	<u>(954)</u>
Interest income					15,745
Finance costs					(24,670)
Loss before tax					(9,879)
Tax					(13,694)
Loss for the year					<u>(23,573)</u>
	2006				
	Mainland China HK\$'000	Overseas and Hong Kong HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	1,337,599	70,837	-	-	1,408,436
Intersegment sales	22,940	-	-	(22,940)	-
Other income and gains	18,910	45	823	-	19,778
Total	<u>1,379,449</u>	<u>70,882</u>	<u>823</u>	<u>(22,940)</u>	<u>1,428,214</u>
Segment results	<u>112,423</u>	<u>22,292</u>	<u>(11,891)</u>	<u>-</u>	<u>122,824</u>
Interest income					4,248
Finance costs					(3,722)
Profit before tax					123,350
Tax					(12,905)
Profit for the year					<u>110,445</u>

(4) Segment Information (cont'd)

Group

For the year ended 31 December 2007

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities:										
Segment assets	3,601,925	2,731,453	9,497	10,283	2,480	1,463	-	-	3,613,902	2,743,199
Unallocated assets									355,732	355,619
Total assets									<u>3,969,634</u>	<u>3,098,818</u>
Segment liabilities	493,704	424,148	2,911	3,071	11,191	9,290	-	-	507,806	436,509
Unallocated assets									631,754	712,892
Total liabilities									<u>1,139,560</u>	<u>1,149,401</u>
Other segment information:										
Depreciation and amortisation	186,628	137,149	58	52	-	-	-	-	186,686	137,201
Impairment of an other receivable	-	-	-	-	-	5,740	-	-	-	5,740
Fair value gains on investment properties	1,629	-	-	-	-	-	-	-	1,629	-
Capital expenditure	650,869	663,936	-	24	-	-	-	-	650,869	663,960

(5) Profit/(Loss) Before Tax

This is arrived at after charging/(crediting):

	2007	2006
	HK\$'000	HK\$'000
Cost of inventories sold	1,071,206	837,233
Depreciation	146,154	108,715
Recognition of prepaid land lease payments	5,424	4,009
Amortisation of reusable packaging materials	35,108	24,477
Loss on disposal of items of property, plant and equipment	722	811
Impairment of construction in progress and prepaid land lease payment	3,130	-
Impairment of an other receivable	-	5,740
Reinvestment tax refunds	(9,189)	(7,681)
Fair value gains on investment properties	(1,629)	-
Interest income	(15,745)	(4,248)

(6) Tax

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

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

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

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

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

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

On 16 March 2007, the National People's Congress approved the revised Corporate Income Tax Law, which is effective from 1 January 2008. Under the revised CIT Law, CIT rate for domestic companies and foreign-invested enterprises will decrease from 33% to 25% since 1 January 2008. In addition, for those enterprises benefiting from lower preferential tax rates, such preferential rates will be gradually phased out by increasing them over the next five years. This change in the CIT rate will directly increase the Group's effective tax rate prospectively from 1 January 2008.

(6) Tax (cont'd)

According to HKAS 12 "Income taxes", deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, based on current best estimate of the impact which could be reasonably estimated, the change in the CIT rate leads to an increase in deferred tax assets and liabilities as at 31 December 2007 of HK\$1,887,000 and HK\$1,531,000, respectively.

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

(7) Dividends

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

(8) Earnings/(loss) per Share Attributable to Ordinary Equityholders of the Company

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

	2007	2006
	HK\$'000	HK\$'000
<u>Earnings/(loss)</u>		
Profit/(loss) attributable to ordinary equityholders of the Company, used in the basic and diluted earnings/(loss) per share calculation	(23,573)	110,200
	2007	2006
		(Restated)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation (<i>Note</i>)	1,593,923,090	1,476,333,862
Effect of dilution - weighted average number of ordinary shares that would have been issued on deemed exercise of all share options with dilutive effects at nil consideration	13,658,019	15,644,311
For the purpose of diluted earnings/(loss) per share calculation	1,607,581,109	1,491,978,173

Note

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

(9) Trade and Bills Receivables

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

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

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

(10) Trade and Bills Payables

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

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

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

SUMMARY OF THE INDEPENDENT AUDITORS' REPORT ON THE GROUP'S FINANCIAL STATEMENT

The Company's auditors, Messrs Ernst & Young, without qualifying the auditors' report, have considered the adequacy of the disclosures made in the financial statements as at 31 December 2007 concerning the adoption of the going concern basis on which the financial statements have been prepared and expressed the following opinion.

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

CHAIRMAN'S STATEMENT

Results

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

Business Review

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

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

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

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

Outlook

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Key Operating Data

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

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

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

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

Operating Expenses and Finance Costs

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

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

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

Taxation

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

Capital Expenditure

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

Financial Resources and Liquidity

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

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

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

Debts and Contingent Liabilities

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

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

Human Resources

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2007.

REVIEW OF RESULTS

The results of the Group for the year ended 31 December 2007 have been reviewed by the audit committee of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2007.

Publication of Annual Results Announcement and Annual Report

This annual results announcement is published on the websites of the Company (www.kingwaybeer.hk) and Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk). The annual report of the Company for 2007 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in due course.

By Order of the Board
YE Xuquan
Chairman

Hong Kong, 18 April 2008

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. YE Xuquan, Mr. JIANG Guoqiang and Ms. LIANG Jianqin; seven non-executive Directors, namely, Mr. KOH Poh Tiong (*Note 1*), Mr. Sijbe HIEMSTRA (*Note 2*), Mr. Anthony CHEONG Fook Seng (*Note 3*), Mr. ZHAO Leili, Mr. LUO Fanyu, Mr. Michael WU and Mrs. Theresa HO LAM Lai Ping; and three independent non-executive Directors, namely Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Felix FONG Wo.

Notes:

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