Kingway
金威啤酒

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

(於百慕達註冊成立之有限公司)
(Incorporated in Bermuda with limited liability)
Stock Code: 124

ANNUAL REPORT 2005
年報

CONTENTS

CORPORATE INFORMATION (AS AT 19 APRIL 2006)

Board of Directors

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

Non-Executive Directors
KOH Poh Tiong
HAN Cheng Fong
Sijbe HIEMSTRA
ZHAO Leili
LUO Fanyu
HO LAM Lai Ping, Theresa
Michael WU

Independent Non-Executive Directors
Alan Howard SMITH
V-nee YEH
Rafael GIL-TIENDA

Company Secretary

TAM Wing Kin, Wicky

Auditors

Ernst & Young

Shareholders' Calendar

Closure of Register of Members	14 June 2006 to 16 June 2006 (both dates inclusive)
Final Dividend	HK$0.025 per share
Payable	13 July 2006

Principal Bankers

Rabobank International
Standard Chartered Bank
Shenzhen Development Bank

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office & Principal Place of Business

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

Principal Share Registrars

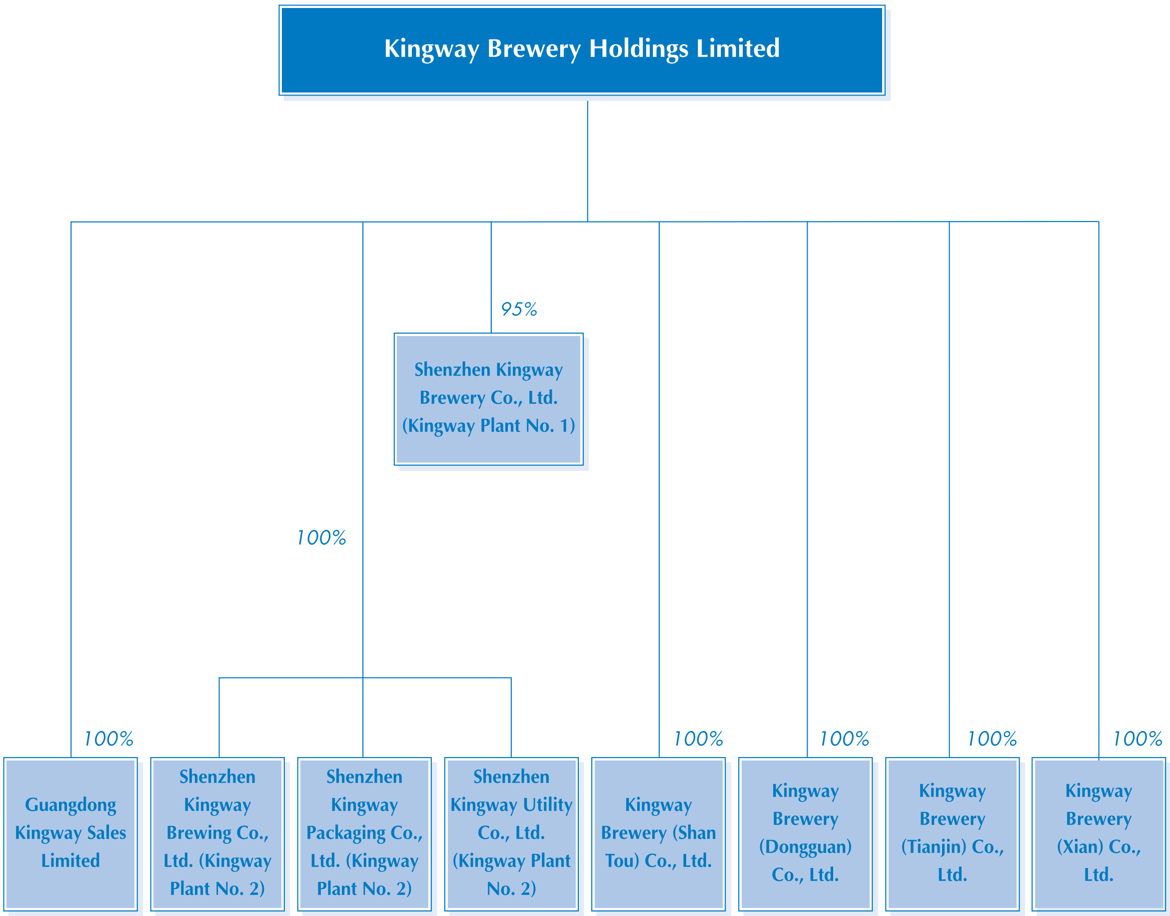
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Branch Share Registrars in Hong Kong

Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

Listing Information

Stock Code 124



Notes:
The percentages shown represent the attributable equity interests of the Company and its subsidiaries as of 19 April 2006.

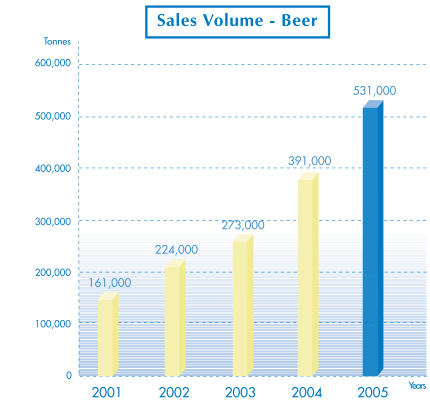
HIGHLIGHTS

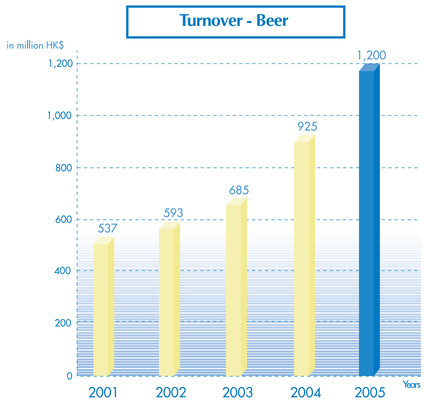
For the year ended 31 December 2005

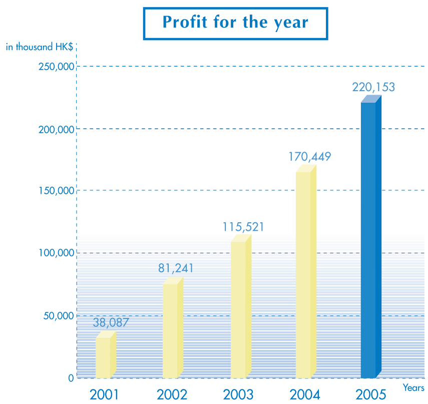
	2005	2004	Change
Beer sales volume, in tonne	**531,000**	391,000	+35.8%
Gross profit, in thousand HK$	**529,884**	442,978	+19.6%
Profit for the year, in thousand HK$	**200,153**	170,449	+17.4%
Basic earnings per share, in HK cent	**14.2**	12.1	+17.4%
Annual dividend per share, in HK cent	**4.0**	3.5	+14.3%
EBITDA, in thousand HK$	**313,703**	278,301	+12.7%
Average unit selling price per tonne, in HK$	**2,260**	2,365	-4.4%
Average unit costs per tonne, in HK$	**1,262**	1,232	+2.4%

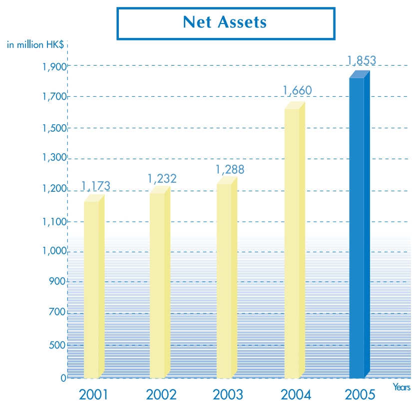
As at 31 December 2005

	2005	2004 *(Restated)*	
Current ratio	**1.8 times**	3.3 times	-45.5%
Gearing ratio			
(Interest bearing debt-cash & cash equivalents)/net assets	**Net cash**	Net cash	—
Total liabilities to total assets	**25.2%**	11.0%	+14.2%
Total assets, in million HK$	**2,478**	1,865	+32.9%
Number of issued ordinary shares, in thousand	**1,395,568**	1,395,568	—
Net asset value per share, in HK$	**1.33**	1.19	+11.8%
Year-end number of employees	**1,663**	1,240	+34.1%









RESULTS

The Board of Directors is pleased to report that the Group recorded continuous growth in sales volume and results for 2005. Sales volume of Kingway beer was 531,000 tonnes (2004: 391,000 tonnes), representing an increase of 35.8% from the previous year. This marked the fourth consecutive year of achieving a double-digit growth. From 2001 to 2005, the compound average growth rate of sales volume of Kingway beer was 34.8%. Among the total sales volume this year, premium and middle-range products in aggregate accounted for 47%, while mass-market products accounted for 53%. Audited consolidated profit for the year was HK$200 million (2004: HK$170 million), representing an increase of 17.6% compared with the previous year.

BUSINESS REVIEW

2005 is a year of strategic progress and rapid development for the Group. The record-breaking beer sales volume and results evidence the success of the Group in adopting the operating philosophy of "Results and Efficiency-oriented" and the sales strategy of distinguishing Kingway beer from other beer brands through a series of activities and marketing initiatives.

During 2005, the Group's business achieved substantial progress in the following aspects:

I. Kingway beer passed and obtained several important certificates and recognitions

Food safety has always been of great concern to the Group. As such, the Group has dedicated to providing consumers with beer products of the highest quality. In April 2005, both brewery plants in Shenzhen were granted ISO 14001 Environmental Management System Certificate, HACCP Food Safety Management System Specification and OHSAS 18001 Occupational Health and Safety Management System Certificate. This reflected the efforts and commitment of the Group in the areas of environmental protection, food safety and occupational safety.

Subsequent to receiving accolades such as "Chinese Top Brand" and "Green Food", the Kingway brand was recognised as a product with "China Well-Known Trademark" in June 2005. This reinforced our endeavour of elevating the Kingway brand and provided a robust foundation for establishing it as a premium national brand.

II. Construction progress of new brewery plants

The first phase of the new brewery plant located in Shantou commenced smooth operation in early 2005. The second phase also commenced operation in October this year, contributing to a combined annual production capacity of 200,000 tonnes. The brewery plant in Dongguan, which has an annual production capacity of 200,000 tonnes, also completed construction and commenced trial run by the end of this year.

Taking into account the two brewery plants in Shenzhen, the annual production capacity of the Group reached 900,000 tonnes by the end of 2005, enabling the Group to cover and establish a sales network over the southern east and middle region of Guangdong Province, thereby further consolidating the Group's position and market share in Guangdong Province.

III. Establishing regional sales teams and distribution networks

Sales initiatives are vital for the success of a brewery. The Group committed extensive resources in the new markets for brand building and establishment of distribution network and sales teams. While expansion into the new markets incurred substantial selling expenses and reduced the profit for the year, such preliminary marketing expenses helped establish a mature local distribution network before commencement of operation of the new brewery plants and set up a strong foundation for the development of the Group in the long run.

IV. Cooperation with Heineken-APB (China) Pte Ltd ("HAPBC")

Upon HAPBC becoming a strategic investor of the Group, the two parties maintained frequent exchanges in various aspects, including the study, discussion and approval of new investment projects of the Group through the strategic sub-committee and exchanges on beer production technologies and sales strategies. In addition, management of the two parties meet regularly to exchange views on domestic and overseas beer markets. The Group benefited tremendously from such exchanges.

OUTLOOK

In 2006, the Group will maintain its rapid development. It is expected that the brewery plants in Tianjin and Xian will commence operation in April 2006 and early 2007 respectively.

In February 2006, the Group announced its plan to construct a new brewery plant in Chengdu City, Sichuan Province, with an estimated total investment of approximately USD50 million. The brewery has an annual production capacity of 200,000 tonnes and is expected to commence operation in 2007. Upon operation of this brewery plant, the Group will own a total of seven modernised brewery plants with an aggregate annual production capacity of 1,500,000 tonnes. Through years of development and expansion by investment solely in greenfield projects, the Group has acquired extensive experience of success in the management of investment costs, standard of production facilities and human resources of new brewery plants.

In light of the anticipated intensification of competition in the PRC beer market in the coming year, we will further consolidate and reinforce our corporate culture and improve our operating standard, so as to expedite the progress in establishing the Group as the first-tier brewery group in the PRC. The Group is confident in maintaining the growth momentum of sales volume of Kingway beer in 2006.

Finally, I would like to express my sincere gratitude to the staff for their dedication and contribution to the Group in the past year. We will continue to devote immense efforts in furthering the prosperous development of the Group.

YE Xuquan
Chairman

Hong Kong, 19 April 2006

OPERATING RESULTS

In 2005, the core business of the Group remains the production and sales of Kingway beer, primarily in Guangdong Province, the PRC.

Consolidated turnover for the year was HK$1,200 million (2004: HK$925 million), representing an increase of 29.7% over the previous year. The average price per tonne of beer sold was HK$2,260 (2004: HK$2,365), representing a decline of 4.4% from the previous year, which was primarily due to the Group's adoption of localised marketing strategies for each of the subdivided markets and refinement of product mix according to different market demands for full-scale expansion of the Group's shares in various major markets in Guangdong Province. Domestic sales accounted for 94.4% of the consolidated turnover, which percentage increased by 31.9% from the previous year. Overseas and Hong Kong sales accounted for 5.6% of the consolidated turnover, which percentage increased by 2.9% from the previous year.

As a result of the decrease in average price per tonne of beer sold and mild increase in costs during the year, gross profit margin decreased from 47.9% in the last year to 44.2% in the year. The average unit costs per tonne of beer increased modestly by 2.4% from HK$1,232 in 2004 to HK$1,262 in the year. The increase was primarily resulted from the increase in prices of raw materials including malt and fuel. The Group will continue to source materials by way of public tender under the "Sunshine Programme" and exercise strict control over various production costs, so as to relief the pressure on production costs arising from increasing prices of raw materials.

OPERATING EXPENSES AND FINANCE COSTS

Competition in the PRC beer market remained intense. During the year, the Group committed additional resources for market expansion and establishment of sales teams and distribution network in areas such as Tianjin and Xian, as well as for the consolidation of the Dongguan market, with an aim of paving the way for the commencement of operation of its local brewery plants in the coming year. As a consequence, selling expenses of the Group for the year increased tremendously compared with the previous year. Selling and distribution expenses for the year was HK$302 million (2004: HK$207 million), representing an increase of 45.9% from the previous year. Average selling and distribution expenses per tonne of beer sold for the year was HK$570 (2004: HK$529), representing an increase of 7.8% from the previous year.

Administrative expenses for the year was HK$67.86 million (2004: HK$70.00 million), representing a decline of 3.1% from 2004. The decrease was primarily resulted from the provision of receivables of HK$7.00 million in 2004 from the disposal of Central China (Asia) Investment Limited, which held 50% equity interest in Amber Brewery, and exchange losses of approximately HK$3.44 million for the current year. Finance costs for the year was HK$213 thousand (2004: nil).

TAXATION

The tax 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 Kingway Plant No. 2 in Shenzhen, Kingway plants in Shantou, Dongguan, Tianjin and Xian. 2005 was the second year of full tax exemption for Kingway Plant No. 2. Kingway plants in Shantou, Dongguan, Tianjin and Xian had not begun to enjoy the preferential tax treatment by the end of the year.

CAPITAL EXPENDITURE

The Group incurred capital expenditure (cash basis) of approximately HK$680 million (2004: HK$266 million) during the year, an increase of approximately 155.6% from the last year, mainly representing the construction costs of the second phase of brewery plant in Shantou and brewery plants in Dongguan, Tianjin and Xian.

In 2006, the major capital expenditure projects of the Group will include the construction work for brewery plants in Tianjin, Xian and Chengdu. The anticipated capital expenditure for 2006 approximates that of the current year.

FINANCIAL RESOURCES AND LIQUIDITY

The Group's net asset value was HK$1,853 million (2004: HK$1,660 million, as restated) as at 31 December 2005, representing an increase of 11.6% compared with the previous year. The net asset value per share was HK$1.33 based on the number of ordinary shares issued as at 31 December 2005 (2004: HK$1.19 per share, as restated).

As at 31 December 2005, the Group had total cash and bank balances of HK$382 million (2004: HK$505 million), including pledged and restricted bank balances of HK$7.98 million (2004: HK$6.83 million), representing a decrease of 24.4% from the previous year. The decrease was mainly attributable to the significant increase in capital expenditure during the year. Of the balances as at 31 December 2005, 41.2% was in USD, 1.7% was in EUR, 1.7% was in HKD and 55.4% was in RMB. Cash generated from operations for the year amounted to HK$307 million (2004: HK$243 million), representing an increase of 26.3% from the last year.

The current cash balance and cash inflow from operating activities of the Group is sufficient. Taking into account the funding requirements for the construction of new brewery plants in 2006 and the net cash inflow from operating activities of the Group, it is expected that short-term funding may be required for the Group. Since the Group has a low gearing ratio, it is the Group's intention to fund its business expansion by short-term trade finance and long-term bank loans. However, the Group will closely monitor the capital and debt market and the latest developments of the Group to ensure the efficient use of financial resources.

DEBTS AND CONTINGENT LIABILITIES

As at 31 December 2005, the Group had bank loan balance of HK$296 million (2004: nil). The bank loan was denominated in USD and for a term of 4 years bearing floating interest determined with reference to the LIBOR and will be repayable from the 18th month since the grant of the loan. As the USD interest rate exhibited a rising trend and the income of the Group was mainly denominated in Renminbi, the Company has entered into a cross-currency interest rate swap contract in respect of the bank loan for hedging purpose. The aim for this was to lock the interest rate and exchange rate between USD and Renminbi, thereby mitigating the Group's exposure to movements in interest rate and exchange rate as well as lowering the effective loan interest rate by capitalising on the market expectation for the appreciation of Renminbi.

As at 31 December 2005, the Group was in a net cash position (2004: net cash), which represented that the Group's interest-bearing loan at the end of the year was less than its cash and cash equivalents balance, indicating the sound financial structure of the Group. None of the assets of the Group was pledged to creditors and there were no contingent liabilities existed, except for HK$7.98 million of the bank deposits which have been pledged or restricted for specific purposes.

HUMAN RESOURCES

The Group currently employs approximately 1,663 (2004: 1,240) staff. Total remuneration for the year was approximately HK$99.6 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, which effectively stimulated the initiatives of the staff.

The Directors have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2005.

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.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 102.

An interim dividend of 1.5 HK cents per share was paid on 16 November 2005. The Directors recommend the payment of a final dividend of 2.5 HK cents per share for the year ended 31 December 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Friday, 16 June 2006, is expected to be paid on 13 July 2006 to shareholders whose names appear on the register of members of the Company on 16 June 2006.

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,200,046**	924,528	684,574	593,052	543,922
Cost of sales	**(670,162)**	(481,550)	(373,398)	(351,680)	(332,691)
Gross profit	**529,884**	442,978	311,176	241,372	211,231
Other income and gain	**47,744**	22,365	21,547	34,034	43,880
Selling and distribution expenses	**(302,454)**	(206,710)	(146,765)	(133,960)	(133,586)
Administrative expenses	**(67,862)**	(70,001)	(44,335)	(36,504)	(45,537)
Impairment of investment in an associate	**—**	—	—	—	(5,600)
Impairment of an available-for-sale equity investment/investment security	**—**	—	—	(4,611)	—
Finance costs	**(213)**	—	—	—	(7,857)
Share of losses of an associate	**—**	—	—	(4,437)	(13,424)
Profit before tax	**207,099**	188,632	141,623	95,894	49,107
Tax	**(6,946)**	(18,183)	(26,102)	(14,653)	(11,020)
Profit for the year	**200,153**	170,449	115,521	81,241	38,087

ASSETS AND LIABILITIES

	As at 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
Total assets	**2,477,988**	1,865,225	1,479,535	1,452,345	1,390,299
Total liabilities	**(624,549)**	(204,873)	(191,714)	(220,349)	(217,115)
Net assets	**1,853,439**	1,660,352	1,287,821	1,231,996	1,173,184

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Company and the Group during the year are set out in note 18 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued ordinary share or share options during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK$227,693,000, of which HK$34,889,000 has been proposed as a final dividend for the year.

In addition, the Company's share premium of HK$974,705,000 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 (2004: Nil).

DIRECTORS

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

Executive Directors
YE Xuquan *(Chairman)*
JIANG Guoqiang *(Managing Director)*
LIANG Jianqin *(Chief Financial Officer)* (appointed on 19 April 2006)
HUI Wai Man, Lawrance *(Chief Financial Officer)* (appointed on 24 June 2005 and resigned on 1 November 2005)

Non-Executive Directors
KOH Poh Tiong
HAN Cheng Fong
Sijbe HIEMSTRA (appointed on 12 July 2005)
ZHAO Leili
LUO Fanyu
HO LAM Lai Ping, Theresa
Michael WU
FUNG Sing Hong, Stephen (resigned on 24 June 2005)
Herman Petrus Paulus Maria HOFHUIS (resigned on 12 July 2005)

Independent Non-Executive Directors
Alan Howard SMITH
V-nee YEH
Rafael GIL-TIENDA

Alternate Directors
Frederik Willem Kurt LINCK (Alternate Director to Mr. KOH Poh Tiong)
HUANG Hong Peng (Alternate Director to Dr. HAN Cheng Fong)
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. Sijbe HIEMSTRA and Ms. LIANG Jianqin, who were appointed Directors of the Company after the last annual general meeting of the Company, shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the meeting.

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

Mr. Kenneth CHOO Tay Sian who ceased to be an Alternate Director to Mr. Herman Petrus Paulus Maria HOFHUIS upon Mr. Hofhuis's resignation on 12 July 2005 and was appointed as an Alternate Director to Mr. Sijbe HIEMSTRA on 12 July 2005.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The Directors of the Company as at the date of this report are as follows:

Executive Directors

Mr. YE Xuquan, aged 50, was appointed a Director and the Chairman of the Company in January 2002. Mr. Ye graduated from the Department of Chinese Language and Literature and the Institute of Economy Research, South China Normal University and obtained a Master's degree of Economics from South China Normal University. Mr. Ye joined Guangdong Province Dongshen Water Supply Management Bureau (the "Dongshen Water Supply Bureau") in 1978 and has 23 years' experience in the management and operation of water supply business. Mr. Ye was a section chief of the Dongshen Water Supply Bureau in 1984, promoted as Vice Director in 1987, acted as Deputy Director in 1995 and acted as Director from 1997 to 2000. He was Chairman of Guangnan (Holdings) Limited ("Guangnan") from November 2000 to January 2002, Director of Guangdong Investment Limited from May 2000 to February 2004 and 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. He is Director and Deputy General Manager of both 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment") and GDH Limited ("GDH"). He is also the Vice President of both the Beer Association of China and the Music and Literature Association of China.

Mr. JIANG Guoqiang, aged 53, was appointed the Managing Director of the Company in January 2002 and was previously appointed a Director and the Chairman of the Company in March 2001. Mr. Jiang graduated from Shanghai Metallurgical Machinery School where he majored in metallurgical machinery. He is an engineer. From 1976 to 1988, Mr. Jiang worked for First Metallurgy Construction Company of the Ministry of Metallurgy. In 1988, he joined Zhongshan Zhongyue Tin-Plate Industrial Company Limited and Shanghai Industrial Co., Ltd. and he became a director and Deputy General Manager of both companies in 1991. Mr. Jiang was a Director and the General Manager of both companies from 1995 to March 2001. He was a Deputy General Manager of the strategic development department of GDH from April 2000 to January 2001.

Ms. LIANG Jianqin, aged 41, 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 and a member of The Chinese Institute of Certified Public Accountants. She worked for Ernst and Young from 1995 to 1997 and Guangdong Investment Limited ("GDI") from 1997 to 2002 and was the general manager of the finance department of GDH since 2002. Ms. Liang has been a Non-executive Director of Guangnan since July 2002 and possesses experience in financial management, external and internal audit as well as business management.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)

Non-Executive Directors

Mr. KOH Poh Tiong, aged 59, was appointed a Director of the Company in April 2004. Mr. Koh is the Chief Executive Officer and Director of Asia Pacific Breweries Limited ("APB"), a company listed in Singapore, and holds directorships in most of the subsidiaries of the Asia Pacific Breweries Group ("APB Group"). He is Chairman of Agri-food and Veterinary Authority and a Director of National Healthcare Group Pte Ltd, PSA International Pte Ltd and PSA Corporation Ltd. He was a member of the APEC Business Advisory Council representing Singapore from January 1999 to 31 August 2001. He is also Chairman and a Director of Heineken—APB (China) Pte Ltd ("HAPBC"), a substantial shareholder of the Company.

Dr. HAN Cheng Fong, aged 64, was appointed a Director of the Company in April 2004. Dr. Han was appointed to the Board of Directors of APB in September 2002. He joined the Fraser and Neave Group ("F&N Group") in May 2001 as Deputy Chairman of Centrepoint Properties Ltd, and as Director and Joint Managing Director of Fraser and Neave Limited, a company listed in Singapore in April 2002, and was appointed Group Managing Director in October 2004 and its Group CEO from 1 February 2006. Dr. Han was appointed as Chairman of Times Publishing Limited in March 2006. In addition, he holds directorship in the subsidiaries of F&N Group, Frasers Centrepoint Limited Group (formerly Centrepoint Properties Group), Fraser & Neave Holdings Group, Times Publishing Group, Asia Pacific Investment Pte Ltd, APB Group's subsidiaries and is the Chairman of Frasers Property (China) Ltd. (formerly Vision Century Corporation Limited), a company listed in Hong Kong. Dr. Han is also a Director of HAPBC.

Mr. Sijbe HIEMSTRA, aged 50, was appointed a Director of the Company in July 2005. He joined the Heineken Group in 1978 and has held senior management positions in Europe, Africa and Asia Pacific. Mr. Hiemstra was Regional Director of APB in South East Asia and Oceania from 1998 to 2001 and was responsible for supervising the operations in New Zealand, Papua New Guinea, Malaysia, Thailand and Cambodia. He was Corporate Director of Heineken Technical Services from 2001 to 2005. Mr. Hiemstra is currently President of Heineken Asia Pacific, member of Heineken Executive Committee on a global basis and Chairman of Heineken Asia Pacific Pte Ltd. Mr. Hiemstra holds directorships in Asia Pacific Investment Pte Ltd and APB Group's subsidiaries and associate companies, including HAPBC, DB Breweries Limited, as well as Heineken Group of companies in Asia Pacific, including PT Multi Bintang Indonesia Tbk.

Mr. ZHAO Leili, aged 52, was appointed a Director of the Company in February 2004. Mr. Zhao was appointed a director of Yue Gang Investment and an executive director of GDH in December 2001. He is also a non-executive director of Guangnan since February 2004. Mr. Zhao graduated from the Air Force Aviation College of People's Liberation Army. From 1969 to 2001, he worked in a number of positions in the Air Force Aviation of People's Liberation Army and was a commander in the Air Force. Mr. Zhao has extensive experience in personnel management, audit control and construction management.

Mr. LUO Fanyu, aged 50, was appointed a Director of the Company in October 2003. Mr. Luo graduated from the economics department of Zhongshan University. He joined Guangdong Enterprises (Holdings) Limited ("GDE") in 1987 and was responsible for its legal affairs. He is currently a director of GDH and a non-executive director of Guangnan. Prior to joining GDE, he held various positions as judge and a deputy chief judge of the Economic Court of the People's High Court of Guangdong Province.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)

Non-Executive Directors (cont'd)

Mrs. HO LAM Lai Ping, Theresa, aged 50, was appointed a Director of the Company in August 2000. She is also a Director of Guangdong Tannery Limited since July 2000. She has been the Company Secretary of GDI since December 1992. She graduated from Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

Mr. Michael WU, aged 54, was appointed a Director of the Company in October 2003. Mr. Wu joined GDI in 1992 and had been a Deputy General Manager of GDI from July 1996 to February 2001. He was the Chairman of the Company from March 2000 to January 2001. Mr. Wu is currently a Deputy General Manager of Strategic Development Department of GDH. Mr. Wu graduated from Zhongshan University and obtained a Bachelor's degree in Arts. In 1987, he obtained his Master's degree in Business Administration from the University of Texas in the United States.

Independent Non-Executive Directors

Mr. Alan Howard SMITH, aged 62, 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, he 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 (the "Stock Exchange") 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.

Mr. V-nee YEH, aged 47, was appointed an Independent Non-Executive Director of the Company in January 1999. He is the Chairman of Hsin Chong Construction Group Ltd.; co-founder of Value Partners Limited and Argyle Street Management Limited. Mr. Yeh was also a council member of the Stock Exchange until its merger into the Hong Kong Exchanges and Clearing Ltd. He remains a member of the Listing Committee. He also sits on the Takeovers and Mergers Panel and the Takeovers Appeals Committee of the Securities and Futures Commission and was a member of the Listing Committee of the China Securities Regulatory Commission from 1999 through 2003.

Mr. Rafael GIL-TIENDA, aged 53, was appointed an Independent Non-Executive Director of the Company in November 2004. He joined Marsh & McLennan Companies Inc. as chairman for Asia in October 2003. He is also an independent non-executive director of CITIC International Financial Holdings Limited and CITIC Ka Wah Bank Limited in Hong Kong; an advisor to several bodies and a visiting professor at China Europe International Business School, in Shanghai, China. Mr. Gil-Tienda has worked in banking for over 25 years, and has lived in Asia for 19 years. He was at Citibank for 20 years and at Standard Chartered Bank for five. Mr. Gil-Tienda obtained a B.A. in Philosophy, Politics and Economics from Oxford University and an M.B.A. from the University of California, Berkeley.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)

Alternate Directors

Mr. Frederik Willem Kurt LINCK, aged 49, was appointed an Alternate Director to Mr. KOH Poh Tiong, a director of the Company, in April 2004. Mr. Linck studied Business Economics at the Erastmus University in Rotterdam. After finishing his MBA studies, he worked for Procter & Gamble, Haagen-Dazs and Allied Breweries in Holland. In 1995, he joined Heineken which brought him to positions in APB in Cambodia and Papua New Guinea. He has worked in the People's Republic of China ("PRC") from 2000 and was appointed from 1 April 2004 as Regional Director (China) and oversees the operations under HAPBC in the PRC. He is also a Director of HAPBC.

Mr. HUANG Hong Peng, aged 46, was appointed an Alternate Director to Dr. HAN Cheng Fong, a director of the Company, in April 2004. Mr. Huang is currently the Chief Operating Officer, Food & Beverage of F&N Group. He was appointed a Director of Asia Pacific Investment Pte Ltd on 1 December 2005 and an Alternate Director on the APB Board on 1 April 2005. He sits on the boards of subsidiaries of APB Group and F&N Group. Before his transfer to the F&N Group, he was the deputy Regional Director, China of APB, a subsidiary of Fraser and Neave, Limited and was responsible for brewery operations of the APB Group in the PRC now consolidated under HAPBC. He joined the APB Group in November 1994 and has served in various positions in Myanmar and the PRC. Before joining the APB Group, Mr. Huang was Assistant Director, Airport Management in the Civil Aviation Authority of Singapore, and has a degree in Air Transport from the Ecole National de l'Aviation Civile, Toulouse, France.

Mr. Kenneth CHOO Tay Sian, aged 38, was appointed an alternate director to Mr. Sijbe HIEMSTRA, a director of the Company, in July 2005. Mr. Choo is the Director — Business Development (Asia Pacific) of Heineken. He held various positions in multi-national companies prior to joining Heineken. Mr. Choo is a member of Certified Public Accountants of Singapore, and has completed the Advanced Management Program at Harvard Business School. Mr. Choo is also a Director of Heineken Asia Pacific Pte Ltd, Asia Pacific Brewery (Lanka) Limited and an Alternate Director of APB and DB Breweries Limited.

During the year, Messrs. YE Xuquan and JIANG Guoqiang were members of the Company's senior executives.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2005, 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 and sale of beer (the "Competing Business"), as required to be disclosed were as follows:

Name of Director	**Name of entity** *(Note)*	**Nature of interest** *(Note)*
KOH Poh Tiong	Asia Pacific Breweries Limited and Group	Chief Executive Officer and Director
	Heineken-APB (China) Pte Ltd. and Group	Chairman and Director
HAN Cheng Fong	Asia Pacific Breweries Limited and Group	Director
	Asia Pacific Investment Pte Ltd.	Chairman and Director
	Heineken-APB (China) Pte Ltd. and Group	Director
	Fraser and Neave, Limited and Group	Group Chief Executive Officer
Sijbe HIEMSTRA	Asia Pacific Breweries Limited and Group	Director
	Heineken Asia Pacific Pte Ltd.	Chairman
	Heineken-APB (China) Pte Ltd. and Group	Director

Name of Alternate Director	**Name of entity** *(Note)*	**Nature of interest** *(Note)*
Frederik Willem Kurt LINCK	Heineken-APB (China) Pte Ltd. and Group	Director
HUANG Hong Peng	Fraser and Neave, Limited and Group	Chief Operating Officer, Food and Beverage
	Asia Pacific Investment Pte Ltd.	Director
	Asia Pacific Breweries Limited and Group	Alternate Director
	Heineken-APB (China) Pte Ltd and Group	Alternate Director
Kenneth CHOO Tay Sian	Heineken Asia Pacific Pte Ltd.	Director
	Asia Pacific Brewery (Lanka) Limited	Director
	Asia Pacific Breweries Limited and Group	Alternate Director
	Heineken-APB (China) Pte Ltd and Group	Alternate Director
	DB Breweries Limited	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 2005, none of the Directors had any interest in any Competing Business.

DIRECTORS' INTERESTS IN SECURITIES

Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations

As at 31 December 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

I. Shares

(i) *The Company*

Name of Director	Type of Interest	Number of shares held	Long/Short Position	Approximate Percentage of holding
JIANG Guoqiang	Personal	300,000	Long Position	0.0215
ZHAO Leili	Personal	300,000	Long Position	0.0215
LUO Fanyu	Personal	70,000	Long Position	0.0050
HO LAM Lai Ping, Theresa	Personal	80,000	Long Position	0.0057
Michael WU	Personal	134,000	Long Position	0.0096

Note: The number of the issued shares of the Company as at 31 December 2005 was 1,395,568,000.

(ii) *Guangdong Investment Limited*

Name of Director	Type of Interest	Number of shares held	Long/Short Position	Approximate Percentage of holding
HO LAM Lai Ping, Theresa	Personal	600,000	Long Position	0.0100
Michael WU	Family*	18,000	Long Position	0.0003

* *held by the spouse of Mr. Michael WU*

Note: The number of the issued ordinary shares of Guangdong Investment Limited as at 31 December 2005 was 6,017,518,071.

(iii) *Guangdong Tannery Limited*

Name of Director	Type of Interest	Number of shares held	Long/Short Position	Approximate Percentage of holding
LUO Fanyu	Personal	70,000	Long Position	0.0134

Note: The number of the issued shares of Guangdong Tannery Limited as at 31 December 2005 was 524,154,000.

DIRECTORS' INTERESTS IN SECURITIES (cont'd)

Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations (cont'd)

II. OPTIONS

(i) *The Company*

Name of Director	Number of options held on 01/01/2005	Options granted during the year Date granted	Number granted	Period during which option is exercisable*	Total consideration paid for share options *HK$*	Price to be paid per share on exercise of options *HK$*	Number of options exercised during the year	Number of options held on 31/12/2005	Long/Short Position
YE Xuquan	2,000,000	—	—	27/08/2003–26/08/2008	1	0.84	—	2,000,000	Long Position
	7,000,000	—	—	07/05/2004–06/05/2009	1	1.93	—	7,000,000	Long Position
JIANG Guoqiang	2,000,000	—	—	27/08/2003–26/08/2008	1	0.84	—	2,000,000	Long Position
Alan Howard SMITH	300,000	—	—	27/08/2003–26/08/2008	1	0.84	—	300,000	Long Position
	300,000	—	—	07/05/2004–06/05/2009	1	1.93	—	300,000	Long Position
V-nee YEH	300,000	—	—	27/08/2003–26/08/2008	1	0.84	—	300,000	Long Position
	300,000	—	—	07/05/2004–06/05/2009	1	1.93	—	300,000	Long Position

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

DIRECTORS' INTERESTS IN SECURITIES (cont'd)

Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations (cont'd)

II. OPTIONS (cont'd)

(ii) *Guangdong Investment Limited*

Name of Director	Number of options held on 01/01/2005	Options granted during the year Date granted	Number granted	Period during which option is exercisable*	Total consideration paid for share options *HK$*	Price to be paid per share on exercise of options *HK$*	Number of options exercised during the year	Number of options held on 31/12/2005	Long/Short Position
YE Xuquan	7,000,000	—	—	11/02/2002–10/02/2007	—	0.5312	—	7,000,000	Long Position
	9,000,000	—	—	08/11/2002–07/11/2007	—	0.814	—	9,000,000	Long Position
	6,000,000	—	—	05/03/2003–04/03/2008	1	0.96	—	6,000,000	Long Position
	3,000,000	—	—	08/08/2003–07/08/2008	1	1.22	—	3,000,000	Long Position
	3,000,000	—	—	07/05/2004–06/05/2009	1	1.59	—	3,000,000	Long Position
HO LAM Lai Ping, Theresa	900,000	—	—	05/03/2003–04/03/2008	1	0.96	—	900,000	Long Position
	1,500,000	—	—	08/08/2003–07/08/2008	1	1.22	—	1,500,000	Long Position
	1,500,000	—	—	07/05/2004–06/05/2009	1	1.59	—	1,500,000	Long Position
	1,000,000	—	—	25/08/2004–24/08/2009	1	1.25	—	1,000,000	Long Position

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

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or the chief executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and the chief executive (including their spouses and children under the age of 18) had, as at 31 December 2005, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporations a party to any arrangement 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

As at 31 December 2005, so far as is known to any director or chief executive of the Company, the following persons (other than the director or chief executive of the Company) have interests or short positions 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 as follows:

Name of shareholder	Type of securities	Number of securities held	Long/Short position	Approximate percentage of the Company's issued capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) *(note 1)*	Shares	1,033,768,000	Long position	74.08%
GDH Limited ("GDH") *(note 1)*	Shares	1,033,768,000	Long position	74.08%
Heineken Holding N.V. ("Heineken HNV") *(notes 2 and 3)*	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken N.V. ("Heineken NV") *(notes 2 and 3)*	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken International B.V. ("Heineken IBV") *(notes 2 and 3)*	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Fraser and Neave, Limited ("F & N") *(notes 2 and 3)*	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Asia Pacific Investment Pte Ltd ("APIP") *(notes 2 and 3)*	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Asia Pacific Breweries Limited ("APB") *(notes 2 and 3)*	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%
Heineken-APB (China) Pte Ltd ("HAPBC") *(notes 2 and 3)*	Shares	1,033,768,000	Long position	74.08%
	Shares	299,264,280	Short position	21.44%

SUBSTANTIAL SHAREHOLDERS (cont'd)

Notes: (1)(a) The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its wholly-owned subsidiary, namely GDH.

(1)(b) Of these 1,033,768,000 shares: (i) 734,503,720 shares are beneficially held by GDH, (ii) 165,496,280 shares relate to derivative interests of GDH, and (iii) 133,768,000 shares relate to the deemed interests of GDH under section 318 of the SFO.

(2)(a) Of these 1,033,768,000 shares: (i) 299,264,280 shares are beneficially held by HAPBC and (ii) 734,503,720 shares relate 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 1,033,768,000 shares of the Company in which HAPBC is interested, as described in note (2)(a) above.

(3) The short position in respect of 299,264,280 shares arises 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.

CONNECTED TRANSACTIONS

Details of the connected transactions are disclosed in note 42 to the financial statements.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES

A facility letter (the "Facility Letter") for a 48-month term loan facility of up to US$38,000,000 signed between the Company and a bank imposes specific performance obligations on GDH, the controlling shareholder of the Company, and/or HAPBC, a substantial shareholder of the Company. The Facility Letter includes, 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 will constitute an event of default under the Facility Letter. If such an event of default occurs, the above facility will become immediately due and repayable.

The outstanding balance of the loan at the balance sheet date amounted to US$38,000,000, with the last instalment repayment falling due in November 2009.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

Purchases from the Group's largest supplier and the Group's five largest suppliers represented 18.1% and 37.0% of the Group's total purchases for the year, respectively.

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

Apart from Guangzhou Malting Co., Ltd., none of the Directors, their respective associates or shareholders (which to the knowledge of the Directors own more than 5% of the issued share capital of the Company), had any interest in the five largest suppliers of the Group.

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
YE Xuquan
Chairman

Hong Kong, 19 April 2006

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 fully 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 "New 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").

To ensure better compliance with the New CG Code, the Company has undertaken a review of the Bye-Laws. At the forthcoming 2006 annual general meeting of the Company, a special resolution will be proposed to make the necessary amendments to the Bye-Laws to bring them in line with the requirements under the New CG Code. In particular, under the Bye-Laws after the proposed amendments (i) any director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's first general meeting after the appointment rather than the Company's next following annual general meeting after the appointment and (ii) each and every director shall be subject to retirement by rotation at least once every three years.

In the opinion of the directors of the Company (the "Directors"), the Company has met the code provisions set out in the New 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 2005.

BOARD OF DIRECTORS

The Board comprises three Executive Directors, being Mr. YE Xuquan, Mr. JIANG Guoqiang and Ms. LIANG Jianqin, seven Non-Executive Directors, being Mr. KOH Poh Tiong, Dr. HAN Cheng Fong, Mr. Sijbe HIEMSTRA, Mr. ZHAO Leili, Mr. LUO Fanyu, Mrs. HO LAM Lai Ping, Theresa and Mr. Michael WU, and three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Rafael GIL-TIENDA.

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.

BOARD OF DIRECTORS (cont'd)

During the financial year ended 31 December 2005, 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
KOH Poh Tiong	4/4
HAN Cheng Fong	4/4
Sijbe HIEMSTRA (appointed on 12 July 2005)	3/4
ZHAO Leili	1/4
LUO Fanyu	4/4
HO LAM Lai Ping, Theresa	4/4
Michael WU	4/4
Alan Howard SMITH	4/4
V-nee YEH	4/4
Rafael GIL-TIENDA	4/4
FUNG Sing Hong, Stephen (resigned on 24 June 2005)	1/4
HUI Wai Man, Lawrence (appointed on 24 June 2005, resigned on 1 November 2005)	2/4
Herman Petrus Paulus Maria HOFHUIS (resigned on 12 July 2005)	1/4

The Company has received written confirmation of independence from the three Independent Non-Executive Directors, namely: Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Rafael GIL-TIENDA, in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are 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 14 to 17 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

CHAIRMAN AND MANAGING DIRECTOR

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

NON-EXECUTIVE DIRECTORS

Each of the 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.

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.

REMUNERATION OF DIRECTORS (cont'd)

Duties (cont'd)

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.

The Remuneration Committee comprises one Executive Director, being Mr. YE Xuquan, three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Rafael GIL-TIENDA and one Non-Executive Director, being Mr. KOH Poh Tiong. Mr. YE Xuquan is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2005, the Remuneration Committee held three meetings to (i) review the remuneration policy and annual remuneration packages for the Directors and senior management of the Company and (ii) approve the 2005 performance bonuses for the senior management of the Company. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
YE Xuquan	0/3
KOH Poh Tiong	1/3
Alan Howard SMITH	3/3
V-nee YEH	3/3
Rafael GIL-TIENDA	3/3

Details of the amount of Directors' emoluments are set out in note 12 to the financial statements.

NOMINATION OF DIRECTORS

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

During the financial year ended 31 December 2005, the nomination and appointment of Mr. HUI Wai Man, Lawrence as the Executive Director and Mr. Sijbe HIEMSTRA as an Non-Executive Director of the Company were considered and approved by the Board in the form of written resolutions duly signed by all the Directors of the Company.

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	1,232
Review of Interim Results	213
Taxation compliance services	21
	1,466

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in September 1998 and its terms of reference was amended in July 2005. The terms of reference of the Audit Committee adopted by the board of directors of the Company are in line with the New CG Code. The existing Audit Committee comprises the three independent non-executive directors, Mr. V-nee YEH as the chairman, Mr. Alan Howard SMITH and Mr. Rafael GIL-TIENDA as members. The principal duties of the Audit Committee include the review of the effectiveness of the internal control systems and the completeness, accuracy and fairness of the Company's financial reports.

The Group's annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee. 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 co-operate 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.

AUDIT COMMITTEE (cont'd)

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.

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

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards; and

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

5. In regard to (4) above:

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

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

AUDIT COMMITTEE (cont'd)

Duties (cont'd)

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

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

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

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

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

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

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

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

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

During the financial year ended 31 December 2005, the Audit Committee held two meetings to review the 2004 annual results and the 2005 interim results of the Company before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's financial results. The Audit Committee has also met the external auditors once during the financial year ended 31 December 2005 to discuss any areas of concerns without the presence of the management. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
V-nee YEH	2/2
Alan Howard SMITH	2/2
Rafael GIL-TIENDA (appointed on 12 July 2005)	1/2

OTHER SPECIFIED DISCLOSURES

The Directors have acknowledged their responsibility for preparing all information and representations contained in the financial statements of the Company for the year ended 31 December 2005. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The Company is still in the course of further strengthening and enhancing all the internal control measures it has already had in place. Accordingly the comprehensive overall annual review of the Company's internal control system is required under the New CG Code would only be able to be carried out beginning from the 2006 financial year.

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members
Kingway Brewery Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 34 to 102 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
19 April 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
REVENUE	9	**1,200,046**	924,528
Cost of sales		**(670,162)**	(481,550)
Gross profit		**529,884**	442,978
Other income and gain	9	**47,744**	22,365
Selling and distribution expenses		**(302,454)**	(206,710)
Administrative expenses		**(67,862)**	(70,001)
Finance costs	10	**(213)**	—
PROFIT BEFORE TAX	11	**207,099**	188,632
Tax	14	**(6,946)**	(18,183)
PROFIT FOR THE YEAR		**200,153**	170,449
Attributable to:			
Equity holders of the parent		**198,279**	166,162
Minority interests		**1,874**	4,287
		200,153	170,449
DIVIDENDS	16		
Interim		**(20,934)**	(20,922)
Proposed final		**(34,889)**	(27,911)
		(55,823)	(48,833)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	17		
Basic		**14.2 HK cents**	12.1 HK cents
Diluted		**14.1 HK cents**	12.0 HK cents

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	18	**1,693,329**	1,075,602
Prepaid land lease payments	19	**143,460**	93,357
Negative goodwill	20	**—**	(10,247)
Available-for-sale equity investment/investment security	22	**—**	—
Reusable packaging materials		**55,443**	25,235
Deferred tax assets	34	**9,000**	5,445
Total non-current assets		**1,901,232**	1,189,392
CURRENT ASSETS			
Inventories	23	**123,827**	107,860
Trade receivables	24	**50,386**	38,865
Prepayments, deposits and other receivables	25	**20,951**	22,173
Tax recoverable		**—**	2,298
Pledged and restricted bank balances	26	**7,980**	6,825
Cash and cash equivalents	26	**373,612**	497,812
Total current assets		**576,756**	675,833
CURRENT LIABILITIES			
Trade payables	27	**(69,502)**	(41,724)
Tax payable		**(2,302)**	(78)
VAT payable		**(5,474)**	(5,599)
Other payables and accruals	28	**(239,620)**	(138,336)
Derivative financial instrument	29	**(97)**	—
Due to the immediate holding company	30	**(1,363)**	(142)
Due to a fellow subsidiary	31	**(4,651)**	(12,102)
Due to a minority equityholder of a subsidiary	32	**(2,566)**	(4,377)
Total current liabilities		**(325,575)**	(202,358)
NET CURRENT ASSETS		**251,181**	473,475
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,152,413**	1,662,867

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,152,413**	1,662,867
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	33	**(296,400)**	—
Deferred tax liabilities	34	**(2,574)**	(2,515)
Total non-current liabilities		**(298,974)**	(2,515)
Net assets		**1,853,439**	1,660,352
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	35	**139,557**	139,557
Reserves	37	**1,658,516**	1,471,627
Proposed final dividend	16	**34,889**	27,911
		1,832,962	1,639,095
Minority interests		**20,477**	21,257
Total equity		**1,853,439**	1,660,352

YE Xuquan
Director

JIANG Guoqiang
Director

Year ended 31 December 2005

	Notes	Issued share capital HK$'000 (Note 35)	Share premium account* HK$'000 (Note 35)	Capital reserve* HK$'000 (Note 37(a))	Hedging reserve* HK$'000 (Note 29)	Enterprise development funds* HK$'000 (Note 37(a))	Reserve funds* HK$'000 (Note 37(a))	Exchange fluctuation reserve* HK$'000	Retained profits* HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the parent											
At 1 January 2004		125,060	739,844	53,444	—	216	30,683	26	295,005	20,916	1,265,194	22,627	1,287,821
Exchange realignment and total income and expense recognised directly in equity		—	—	—	—	—	—	219	—	—	219	(733)	(514)
Profit for the year		—	—	—	—	—	—	—	166,162	—	166,162	4,287	170,449
Total income and expense for the year		—	—	—	—	—	—	219	166,162	—	166,381	3,554	169,935
Issue of new shares	35	13,377	234,094	—	—	—	—	—	—	—	247,471	—	247,471
Share options exercised	35	1,120	4,481	—	—	—	—	—	—	—	5,601	—	5,601
Share issue expenses	35	—	(3,714)	—	—	—	—	—	—	—	(3,714)	—	(3,714)
Interim 2004 dividend paid	16	—	—	—	—	—	—	—	(20,922)	—	(20,922)	—	(20,922)
Proposed final 2004 dividend	16	—	—	—	—	—	—	—	(27,911)	27,911	—	—	—
Final 2003 dividend paid		—	—	—	—	—	—	—	—	(20,916)	(20,916)	—	(20,916)
Dividends declared to a minority equityholder		—	—	—	—	—	—	—	—	—	—	(4,386)	(4,386)
Acquisition of additional interest in subsidiaries	20	—	—	—	—	—	—	—	—	—	—	(538)	(538)
Transfer from retained profits		—	—	—	—	—	7,428	—	(7,428)	—	—	—	—
At 31 December 2004		139,557	974,705	53,444	—	216	38,111	245	404,906	27,911	1,639,095	21,257	1,660,352
At 1 January 2005													
As previously reported		139,557	974,705	53,444	—	216	38,111	245	404,906	27,911	1,639,095	21,257	1,660,352
Opening adjustments on adoption of HKFRS 3	3(d)	—	—	(39,620)	—	—	—	—	49,867	—	10,247	—	10,247
As restated		139,557	974,705	13,824	—	216	38,111	245	454,773	27,911	1,649,342	21,257	1,670,599
Net loss on cash flow hedge	29	—	—	—	(97)	—	—	—	—	—	(97)	—	(97)
Exchange realignment		—	—	—	—	—	—	34,283	—	—	34,283	512	34,795
Total income and expense recognised directly in equity		—	—	—	(97)	—	—	34,283	—	—	34,186	512	34,698
Profit for the year		—	—	—	—	—	—	—	198,279	—	198,279	1,874	200,153
Total income and expense for the year		—	—	—	(97)	—	—	34,283	198,279	—	232,465	2,386	234,851
Interim 2005 dividend paid	16	—	—	—	—	—	—	—	(20,934)	—	(20,934)	—	(20,934)
Proposed final 2005 dividend	16	—	—	—	—	—	—	—	(34,889)	34,889	—	—	—
Final 2004 dividend paid		—	—	—	—	—	—	—	—	(27,911)	(27,911)	—	(27,911)
Dividends declared to a minority equityholder		—	—	—	—	—	—	—	—	—	—	(3,166)	(3,166)
Transfer from retained profits		—	—	—	—	—	11,892	—	(11,892)	—	—	—	—
At 31 December 2005		139,557	974,705	13,824	(97)	216	50,003	34,528	585,337	34,889	1,832,962	20,477	1,853,439

* *These reserve accounts comprise the consolidated reserves of HK$1,658,516,000 (2004: HK$1,471,627,000) in the consolidated balance sheet.*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005	2004
		HK$'000	HK$'000
			(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**207,099**	188,632
Adjustments for:			
Finance costs	10	**213**	—
Interest income	9	**(5,174)**	(6,110)
Negative goodwill recognised as income	9	**—**	(662)
Gain on disposal of an available-for-sale equity investment	9	**(374)**	—
Depreciation	11	**81,204**	74,038
Recognition of prepaid land lease payments	11	**3,079**	2,234
Amortisation of reusable packaging materials	11	**22,108**	14,059
Loss on disposal of items of property, plant and equipment	11	**310**	—
Write-off of items of property, plant and equipment, net	11	**—**	877
Provision for other receivables	11	**—**	7,000
Operating profit before working capital changes		**308,465**	280,068
Increase in inventories		**(14,343)**	(22,937)
Increase in trade receivables		**(11,052)**	(16,270)
Decrease/(increase) in prepayments, deposits and other receivables		**1,342**	(5,561)
Increase in trade payables		**26,080**	6,157
Decrease in VAT payable		**(309)**	(4,829)
Increase in other payables and accruals		**3,442**	13,192
Increase/(decrease) in an amount due to the immediate holding company		**1,221**	(2,177)
Decrease in an amount due to a fellow subsidiary		**(7,451)**	(4,863)
Cash generated from operations		**307,395**	242,780
Interest received		**5,174**	6,110
Interest paid		**(287)**	—
Hong Kong profits tax paid		**(4,136)**	(5,044)
PRC corporate income tax paid		**(1,672)**	(1,518)
Dividends paid		**(48,845)**	(41,838)
Net cash inflow from operating activities		**257,629**	200,490

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net cash inflow from operating activities		**257,629**	200,490
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	38(a)	**(598,784)**	(232,085)
Additions to prepaid land lease payments	38(a)	**(30,307)**	(18,002)
Purchases of reusable packaging materials		**(51,365)**	(16,050)
Increase in pledged and restricted bank balances	26	**(1,155)**	(6,825)
Proceeds from disposal of items of property, plant and equipment		**4,169**	—
Proceeds from disposal of an available-for-sale equity investment		**374**	—
Net cash outflow from investing activities		**(677,068)**	(272,962)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	35	**—**	253,072
Share issue expenses	35	**—**	(3,714)
New bank loans		**296,400**	—
Repayment of an amount due to a minority equityholder of a subsidiary	38(b)	**(5,057)**	(26,913)
Net cash inflow from financing activities		**291,343**	222,445
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(128,096)**	149,973
Cash and cash equivalents at beginning of year		**497,812**	347,668
Effect of foreign exchange rate changes, net		**3,896**	171
CASH AND CASH EQUIVALENTS AT END OF YEAR		**373,612**	497,812
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**326,427**	120,253
Non-pledged time deposits with original maturity of less than three months when acquired	26	**47,185**	377,559
		373,612	497,812

BALANCE SHEET

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**1,766,671**	1,354,957
Available-for-sale equity investment/investment security	22	**—**	—
Total non-current assets		**1,766,671**	1,354,957
CURRENT ASSETS			
Due from subsidiaries	21	**—**	99,883
Prepayments, deposits and other receivables	25	**889**	408
Cash and cash equivalents	26	**28,580**	70,168
Total current assets		**29,469**	170,459
CURRENT LIABILITIES			
Other payables and accruals	28	**(6,049)**	(4,566)
Derivative financial instrument	29	**(97)**	—
Due to the immediate holding company	30	**(1,363)**	(142)
Due to subsidiaries	21	**(10,139)**	(18,317)
Total current liabilities		**(17,648)**	(23,025)
NET CURRENT ASSETS		**11,821**	147,434
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,778,492**	1,502,391
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	33	**(296,400)**	—
Net assets		**1,482,092**	1,502,391
EQUITY			
Issued capital	35	**139,557**	139,557
Reserves	37	**1,307,646**	1,334,923
Proposed final dividend	16	**34,889**	27,911
Total equity		**1,482,092**	1,502,391

YE Xuquan
Director

JIANG Guoqiang
Director

1. CORPORATE INFORMATION

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

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

GDH Limited is the parent company of the Group. In the opinion of the directors, the ultimate holding company of the Group is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), a company established in the People's Republic of China (the "PRC" or "Mainland China").

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include 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 derivative financial instruments, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside equityholders in the results and net assets of the Company's subsidiaries.

3. IMPACT OF NEW AND REVISED HKFRSs

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 33 and 37 has had no material impact on the accounting policies of the Group and the Company and the methods of computation, presentation and disclosures in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

3. IMPACT OF NEW AND REVISED HKFRSs (cont'd)

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) *HKAS 17 — Leases*

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts on the consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(b) *HKAS 32 and HKAS 39 — Financial Instruments*

(i) *Equity security*

In prior years, the Group classified its investment in equity security as investment securities, which was held for non-trading purpose and was stated at cost less any impairment loss. Upon the adoption of HKAS 39, the security held by the Group at 1 January 2005 was designated as an available-for-sale investment under the transitional provisions of HKAS 39. Available-for-sale investment is measured at fair value with gain or loss being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of an unlisted equity security cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such security is stated at cost less any impairment loss.

The adoption of HKAS 39 has not resulted in any change in the measurement of the equity security. Comparative amounts have been reclassified for presentation purposes.

3. IMPACT OF NEW AND REVISED HKFRSs (cont'd)

(b) *HKAS 32 and HKAS 39 — Financial Instruments (cont'd)*

(ii) *Derivative financial instrument — Cross currency interest rate swap*

The Group uses a cross currency interest rate swap to hedge its interest rate risk and currency risk arising from a floating-rate loan. The swap is designated as a cash flow hedge on inception and is recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge (if any) is recognised immediately in the income statement.

The effects of the above changes are summarised in note 5 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) *HKFRS 2 — Share-based Payment*

In prior years, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 6 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004.

3. IMPACT OF NEW AND REVISED HKFRSs (cont'd)

(d) *HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets*

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against and credited to the consolidated capital reserve, respectively, in the years of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Negative goodwill arising on acquisitions on or after 1 January 2001 was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group commencing testing for impairment of goodwill at the cash-generating unit level annually (or more frequently if events or changes in the circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained profits. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the consolidated 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.

The effects of the above changes have been summarised in note 5 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

5. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet and the balance of equity

Effect of new policies (Increase/(decrease))	Effect of adopting: HKAS 17# Prepaid land lease payments HK$'000	HKAS 39* Equity security HK$'000	HKAS 39* Cash flow hedge HK$'000	HKFRS 3* Derecognition of negative goodwill HK$'000	Total HK$'000
At 1 January 2005					
Assets					
Property, plant and equipment	(93,357)	—	—	—	(93,357)
Prepaid land lease payments	93,357	—	—	—	93,357
Negative goodwill	—	—	—	10,247	10,247
Available-for-sale equity investment	—	—	—	—	—
Investment security	—	—	—	—	—
					10,247
Liabilities/equity					
Capital reserve	—	—	—	(39,620)	(39,620)
Retained profits	—	—	—	49,867	49,867
					10,247
At 31 December 2005					
Assets					
Property, plant and equipment	(143,460)	—	—	—	(143,460)
Prepaid land lease payments	143,460	—	—	—	143,460
Negative goodwill	—	—	—	9,549	9,549
					9,549
Liabilities/equity					
Derivative financial instrument	—	—	97	—	97
Hedging reserve	—	—	(97)	—	(97)
Capital reserve	—	—	—	(39,620)	(39,620)
Retained profits	—	—	—	49,169	49,169
					9,549

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

The changes in accounting policies have had no impact on the balance of the Group's equity at 1 January 2004.

5. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (cont'd)

(b) Effect on the consolidated income statement

Effect of new policy (Increase/(decrease))	**Effect of adopting HKFRS 3 Discontinuation of recognition of negative goodwill as income** *HK$'000*
Year ended 31 December 2005	
Other income and gain, and profit for the year attributable to equity holders of the parent	(698)
Earnings per share	
— Basic	(0.1 HK cents)
— Diluted	(0.1 HK cents)

The changes in accounting policies have had no impact on the consolidated income statement for the year ended 31 December 2004.

6. 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint venture established in Mainland China

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distribution of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss 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.

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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.

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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

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

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

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

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

Construction in progress represents building, 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.

Reusable packaging materials

Reusable packaging materials currently in use are stated at cost less accumulated amortisation and any impairment losses. Amortisation is charged to the income statement on the straight-line basis over a period of three years.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investment, other than subsidiaries, as investment security.

Investment security

Investment security is a non-trading investment in unlisted equity security intended to be held on a long term basis, which is stated at cost less any impairment loss, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairment in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairment previously charged are credited to the income statement to the extent of the amounts previously charged.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group did not designate any financial assets as financial assets at fair value through profit or loss.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)
Applicable to the year ended 31 December 2005: (cont'd)

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 carried at amortised cost using the effective interest method. 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.

Available-for-sale investments
Available-for-sale investments are those non-derivative financial assets in unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets *(applicable to the financial year ended 31 December 2005)*
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 profit or loss.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets *(applicable to the financial year ended 31 December 2005) (cont'd)*

Assets carried at amortised costs (cont'd)
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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. 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.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets
If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets *(applicable to the financial year ended 31 December 2005)*
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 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial assets *(applicable to the financial year ended 31 December 2005)* (cont'd)
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.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities *(applicable to the financial year ended 31 December 2005)*
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 profit or loss.

Derivative financial instruments and hedging *(applicable to the financial year ended 31 December 2005)*
The Group uses derivative financial instruments such as cross currency interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are 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 net profit or loss for the year.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments and hedging *(applicable to the financial year ended 31 December 2005)* (cont'd)

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
- 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 forecast transaction.

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 actually have 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.

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, 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 liability, the amounts taken to equity are transferred to initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. 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 occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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. All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. 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.

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.

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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax

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

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

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

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

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

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

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

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

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

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

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.

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) rental income, on a time proportion basis over the lease terms;

(c) 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; and

(d) reinvestment tax refund, when Group's right to receive the refund has been established.

Dividends

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

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. 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.

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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits (cont'd)

Retirement benefits schemes (cont'd)

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 8% 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 the Black-Scholes formula, 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits (cont'd)

Share-based payment transactions (cont'd)

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 on I January 2005 and to those granted on or after 1 January 2005.

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 which are readily convertible into known amounts of cash and which 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 sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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:

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rate or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Income taxes

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which the estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry-forward tax losses, the deferred tax asset balance will be reduced and result in a deferred tax charge to the income statement.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

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.

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.

Impairment allowances on loans and receivables

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

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

Estimation uncertainty (cont'd)

Impairment of assets

The Group determines whether an asset is impaired at least on a semi-annual basis. This requires an estimation of the value in use of the asset or cash generating unit in which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

8. 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 Taiwan, Macau and Hong Kong; 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.

8. 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 2005 and 2004.

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**1,132,499**	858,883	**67,547**	65,645	**—**	—	**—**	—	**1,200,046**	924,528
Intersegment sales	**19,507**	17,494	**—**	—	**—**	—	**(19,507)**	(17,494)	**—**	—
Other revenue and gain	**41,610**	12,044	**—**	—	**960**	4,211	**—**	—	**42,570**	16,255
Total	**1,193,616**	888,421	**67,547**	65,645	**960**	4,211	**(19,507)**	(17,494)	**1,242,616**	940,783
Segment results	**187,830**	171,460	**24,991**	23,027	**(10,683)**	(11,965)	**—**	—	**202,138**	182,522
Interest income									**5,174**	6,110
Finance costs									**(213)**	—
Profit before tax									**207,099**	188,632
Tax									**(6,946)**	(18,183)
Profit for the year									**200,153**	170,449

8. SEGMENT INFORMATION (cont'd)

Geographical segments (cont'd)

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**2,070,258**	1,339,345	**10,312**	7,340	**6,826**	6,160	**—**	—	**2,087,396**	1,352,845
Unallocated assets									**390,592**	512,380
Total assets									**2,477,988**	1,865,225
Segment liabilities	**311,426**	192,457	**2,605**	2,952	**9,145**	6,871	**—**	—	**323,176**	202,280
Unallocated liabilities									**301,373**	2,593
Total liabilities									**624,549**	204,873
Other segment information:										
Depreciation and amortisation	**106,333**	90,149	**58**	182	**—**	—	**—**	—	**106,391**	90,331
Write-off of items of property, plant and equipment	**—**	877	**—**	—	**—**	—	**—**	—	**—**	877
Provision for other receivables	**—**	—	**—**	—	**—**	7,000	**—**	—	**—**	7,000
Capital expenditure	**772,617**	290,208	**34**	135	**—**	—	**—**	—	**772,651**	290,343

9. REVENUE, OTHER INCOME AND GAIN

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

An analysis of the Group's revenue, other income and gain is as follows:

	Notes	**2005** **HK$'000**	2004 HK$'000
Revenue			
Invoiced value of goods sold (net of discounts, returns and value-added tax)		**1,316,182**	1,010,229
Beer consumption tax		**(116,136)**	(85,701)
Sale of goods		**1,200,046**	924,528
Other income			
Gain on sale of scrap materials		**8,732**	5,233
Bank interest income		**5,174**	6,110
Gross rental income		**2,916**	2,914
Gain on disposal of an available-for-sale equity investment	*22*	**374**	—
Reinvestment tax refunds#		**26,393**	—
Others		**4,155**	3,002
		47,744	17,259
Gain			
Negative goodwill recognised as income	*20*	**—**	662
Exchange gains, net		**—**	4,444
		—	5,106
		47,744	22,365

\# 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. During the year, the Group reinvested the profit distributions received from its foreign-owned subsidiaries in new entities established in the Mainland China and received approvals from the Tax Bureau in relation to the reinvestment tax refunds. The refunds are determined based on certain percentages of the profit distributions reinvested.

10. FINANCE COSTS

		Group	
	Notes	**2005**	2004
		HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years		**727**	—
Fair value gain on cash flow hedge (transfer from equity)	*29*	**(440)**	—
		287	—
Less: Interest capitalised	*18*	**(74)**	—
		213	—

11. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Note	**2005**	2004
		HK$'000	*HK$'000*
			(Restated)
Cost of inventories sold		**670,162**	481,550
Depreciation#	18	**81,204**	74,038
Recognition of prepaid land lease payments		**3,079**	2,234
Amortisation of reusable packaging materials#		**22,108**	14,059
Loss on disposal of items of property, plant and equipment		**310**	—
Write-off of items of property, plant and equipment, net	18	**—**	877
Provision for other receivables		**—**	7,000
Minimum lease payments under operating leases in respect of land and buildings		**876**	830
Auditors' remuneration		**1,232**	985
Employee benefits expense (excluding directors' remuneration — note 12)#:			
Wages and salaries		**90,083**	79,232
Pension scheme contributions		**9,555**	9,754
Less: Forfeited contributions*		**—**	(175)
Net pension scheme contributions		**9,555**	9,579
		99,638	88,811
Net rental income		**(2,758)**	(2,684)
Foreign exchange differences, net		**3,444**	(4,444)

\# The depreciation, amortisation of reusable packaging materials and employee benefits expense for the year of HK$69,403,000 (2004: HK$62,767,000), HK$22,108,000 (2004: HK$14,059,000) and HK$40,769,000 (2004: HK$36,097,000), respectively, are included in the cost of inventories sold as disclosed above.

* At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

12. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	**300**	300
Non-executive directors	**—**	—
Executive directors	**82**	81
	382	381
Other emoluments:		
Salaries, allowances and benefits in kind	**1,656**	2,176
Bonuses	**1,685**	1,667
Pension scheme contributions	**609**	658
	3,950	4,501
	4,332	4,882

In the prior year, 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 36 to the financial statements.

(a) Independent non-executive directors

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

	2005	2004
	HK$'000	*HK$'000*
Alan Howard Smith	**100**	100
V-nee Yeh	**100**	100
Rafael Gil-Tienda	**100**	9
Cheng Mo Chi, Moses#	**—**	91
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

\# The director was resigned as an independent non-executive director during the year ended 31 December 2004.

12. DIRECTORS' REMUNERATION (cont'd)

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Bonuses#	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005					
Executive directors:					
Ye Xuquan	43	744	520	313	1,620
Jiang Guoqiang	30	483	1,165	287	1,965
Hui Wai Man, Lawrance	9	429	—	9	447
	82	1,656	1,685	609	4,032
Non-executive directors:					
Koh Poh Tiong	—	—	—	—	—
Han Cheng Fong	—	—	—	—	—
Herman Petrus Paulus Maria Hofhuis	—	—	—	—	—
Zhao Leili	—	—	—	—	—
Luo Fanyu	—	—	—	—	—
Ho Lam Lai Ping, Theresa	—	—	—	—	—
Michael Wu	—	—	—	—	—
Fung Sing Hong, Stephen	—	—	—	—	—
Sijbe Hiemstra	—	—	—	—	—
	—	—	—	—	—
	82	1,656	1,685	609	4,032

12. DIRECTORS' REMUNERATION (cont'd)

(b) Executive directors and non-executive directors (cont'd)

	Fees	Salaries, allowances and benefits in kind	Bonuses#	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2004					
Executive directors:					
Ye Xuquan	39	776	689	337	1,841
Jiang Guoqiang	27	476	942	261	1,706
	66	1,252	1,631	598	3,547
Non-executive director:					
Koh Poh Tiong	—	—	—	—	—
Han Cheng Fong	—	—	—	—	—
Herman Petrus Paulus Maria Hofhuis	—	—	—	—	—
Zhao Leili	—	—	—	—	—
Luo Fanyu	—	—	—	—	—
Ho Lam Lai Ping, Theresa	—	—	—	—	—
Michael Wu	—	—	—	—	—
Fung Sing Hong, Stephen	15	924	36	60	1,035
Li Wai Keung	—	—	—	—	—
	15	924	36	60	1,035
	81	2,176	1,667	658	4,582

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

For the year ended 31 December 2005 and 2004, bonuses of HK$1,378,000 and HK$1,255,000 paid to the Executive Directors were related to the services rendered for 2004 and 2003, respectively.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: three) directors, details of whose remuneration are set out in note 12 above. The details of the remuneration of the remaining three (2004: two) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,140**	1,297
Bonuses	**855**	339
Pension scheme contributions	**80**	245
	2,075	1,881

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**—**	1
	3	2

14. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 a preferential tax treatment with full tax exemption from corporate income tax ("CIT") for the two years starting from the first profitable year of operations, followed by a 50% reduction in CIT rate for the next three years.

Shenzhen Kingway Brewing Co., Ltd. ("Shenzhen Brewing") was exempted from CIT for the years ended 31 December 2004 and 2005.

Kingway Brewery (Shan Tou) Co., Ltd. ("Kingway Shantou"), Kingway Brewery (Dongguan) Co., Ltd. ("Kingway Dongguan"), Kingway Brewery (Tianjin) Co., Ltd. ("Kingway Tianjin") and Kingway Brewery (Xian) Co., Ltd. have not generated any accumulated assessable profit since their establishments. Thus, the tax exemption period has not commenced.

	2005	2004
	HK$'000	*HK$'000*
Group:		
Current:		
Hong Kong:		
Charge for the year	**4,332**	4,015
Underprovision in prior years	**37**	—
Mainland China:		
Charge for the year	**5,972**	2,347
Overprovision in prior years	**—**	(1,345)
Deferred *(note 34)*	**(3,395)**	13,166
Total tax charge for the year	**6,946**	18,183

14. TAX (cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2005

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	***%***	***HK$'000***	***%***	***HK$'000***	***%***
Profit before tax	**37,499**		**169,600**		**207,099**	
Tax at the statutory tax rates	**6,562**	**17.5**	**55,968**	**33.0**	**62,530**	**30.2**
Lower tax rates for specific provinces or local authorities	**—**	**—**	**(31,475)**	**(18.6)**	**(31,475)**	**(15.2)**
Adjustments in respect of current tax of prior years	**37**	**0.1**	**—**	**—**	**37**	**—**
Profit exempted from PRC corporate income tax	**—**	**—**	**(21,780)**	**(12.8)**	**(21,780)**	**(10.5)**
Income not subject to tax	**(5,481)**	**(14.6)**	**(136)**	**(0.1)**	**(5,617)**	**(2.7)**
Expenses not deductible for tax	**1,858**	**5.0**	**—**	**—**	**1,858**	**0.9**
Tax losses not recognised	**1,393**	**3.7**	**—**	**—**	**1,393**	**0.7**
Tax charge at the Group's effective rate	**4,369**	**11.7**	**2,577**	**1.5**	**6,946**	**3.4**

Group — 2004

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	13,295		175,337		188,632	
Tax at the statutory tax rates	2,327	17.5	57,861	33.0	60,188	31.9
Lower tax rate for specific provinces or local authorities	—	—	(31,800)	(18.1)	(31,800)	(16.9)
Adjustments in respect of current tax of prior years	—	—	(1,345)	(0.8)	(1,345)	(0.7)
Profit exempted from PRC corporate income tax	—	—	(10,777)	(6.1)	(10,777)	(5.7)
Income not subject to tax	(1,148)	(8.6)	—	—	(1,148)	(0.6)
Expenses not deductible for tax	1,281	9.6	229	0.1	1,510	0.8
Tax losses not recognised	1,555	11.7	—	—	1,555	0.8
Tax charge at the Group's effective rate	4,015	30.2	14,168	8.1	18,183	9.6

15. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$28,643,000 (2004: net loss of HK$2,908,000) (note 37(b)).

16. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim — 1.5 HK cents (2004: 1.5 HK cents) per share	**20,934**	20,922
Proposed final — 2.5 HK cents (2004: 2.0 HK cents) per share	**34,889**	27,911
	55,823	48,833

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

17. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

The calculations of basic and diluted earnings per shares are based on:

	2005	2004
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**198,279**	166,162

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year for the purpose of basic earnings per share calculation	**1,395,568,000**	1,375,624,197
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 no consideration	**12,756,650**	8,284,128
For the purpose of diluted earnings per share	**1,408,324,650**	1,383,908,325

18. PROPERTY, PLANT AND EQUIPMENT

Group — 2005

	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 2004 and at 1 January 2005:							
Cost		477,254	1,327,268	2,031	40,131	26,841	1,873,525
Accumulated depreciation		(135,826)	(627,040)	(1,584)	(33,473)	—	(797,923)
Net carrying amount		341,428	700,228	447	6,658	26,841	1,075,602
At 1 January 2005, net of accumulated depreciation		341,428	700,228	447	6,658	26,841	1,075,602
Additions		1,174	6,049	34	5,338	658,183	670,778
Interest capitalised	*10*	—	—	—	—	74	74
Disposals/write-off		(124)	(4,231)	—	(124)	—	(4,479)
Depreciation provided during the year	*11*	(21,450)	(58,394)	(58)	(1,302)	—	(81,204)
Transfers		106,178	285,300	—	—	(391,478)	—
Exchange realignment		9,207	19,286	6	205	3,854	32,558
At 31 December 2005, net of accumulated depreciation		436,413	948,238	429	10,775	297,474	1,693,329
At 31 December 2005:							
Cost		596,985	1,646,153	2,086	45,323	297,474	2,588,021
Accumulated depreciation		(160,572)	(697,915)	(1,657)	(34,548)	—	(894,692)
Net carrying amount		436,413	948,238	429	10,775	297,474	1,693,329

18. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group — 2004

	Note	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 (Restated)
At 1 January 2004							
Cost		370,793	1,194,032	1,895	40,313	13,423	1,620,456
Accumulated depreciation		(118,092)	(575,108)	(1,401)	(33,247)	—	(727,848)
Net carrying amount		252,701	618,924	494	7,066	13,423	892,608
At 1 January 2004, net of accumulated depreciation		252,701	618,924	494	7,066	13,423	892,608
Additions		1,205	4,171	135	1,490	250,145	257,146
Disposals/write-off	*11*	(292)	(389)	—	(196)	—	(877)
Depreciation provided during the year	*11*	(18,001)	(54,143)	(182)	(1,712)	—	(74,038)
Transfers		105,675	131,063	—	—	(236,738)	—
Exchange realignment		140	602	—	10	11	763
At 31 December 2004, net of accumulated depreciation		341,428	700,228	447	6,658	26,841	1,075,602
At 31 December 2004:							
Cost		477,254	1,327,268	2,031	40,131	26,841	1,873,525
Accumulated depreciation		(135,826)	(627,040)	(1,584)	(33,473)	—	(797,923)
Net carrying amount		341,428	700,228	447	6,658	26,841	1,075,602

19. PREPAID LAND LEASE PAYMENTS

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

The applications for certain land use right certificates in connection with prepaid land lease payments totalling HK$57,048,000 (2004 (restated): HK$17,635,000) have been commenced, however the land use right certificates had not yet been issued by the relevant offices of the Land Authorities in the PRC as at the balance sheet dates. Notwithstanding this, the directors are of the opinion that the Group has obtained the legal rights to use these assets as at 31 December 2005 and that the land use right certificates can be received.

20. GOODWILL AND NEGATIVE GOODWILL

Group

	Negative goodwill	
	2005	2004
	HK$'000	*HK$'000*
At 1 January:		
Cost as previously reported	**11,130**	10,592
Effect of adopting HKFRS 3 *(note 3(d))*	**(11,130)**	—
Cost as restated	**—**	10,592
Accumulated amortisation as previously reported	**(883)**	(221)
Effect of adopting HKFRS 3 *(note 3(d))*	**883**	—
Accumulated amortisation as restated	**—**	(221)
Net carrying amount	**—**	10,371
Cost at 1 January, net of accumulated amortisation	**—**	10,371
Acquisition of additional interest in subsidiaries	**—**	538
Recognised as income during the year *(note 9)*	**—**	(662)
At 31 December	**—**	10,247
At 31 December		
Cost	**—**	11,130
Accumulated amortisation	**—**	(883)
Net carrying amount	**—**	10,247

As further detailed in note 3(d) 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 consolidated reserves.

The amounts of goodwill and negative goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK$126,410,000 and HK$39,620,000, respectively, as at 31 December 2004. Upon the adoption of HKFRS 3 on 1 January 2005, such negative goodwill of HK$39,620,000 was derecognised with a corresponding adjustment to the opening balance of retained profits. The amount of goodwill is stated at its cost.

21. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000 (Restated)
Unlisted shares/investments, at cost	**261,816**	261,816
Due from subsidiaries	**1,562,108**	1,150,439
Due to subsidiaries	**(17,999)**	(18,044)
	1,805,925	1,394,211
Impairment	**(39,254)**	(39,254)
	1,766,671	1,354,957

Except for the balances with subsidiaries as included in the Company's current assets and current liabilities which are repayable within twelve months from the balance sheet date, all balances with subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

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 Direct	Indirect	Principal activities
Guangdong Kingway Sales Limited	Hong Kong	Ordinary HK$2	100%	—	Sale and marketing of beer
Shenzhen Kingway Brewery Co., Ltd.*	PRC/Mainland China	US$50,000,000	—	95%	Production, distribution and sale of beer
Shenzhen Kingway Brewing Co., Ltd.#	PRC/Mainland China	US$12,000,000	—	100%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd.#	PRC/Mainland China	US$12,000,000	—	100%	Provision of bottling and packaging services

21. INTERESTS IN SUBSIDIARIES (cont'd)

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Kingway Utility Co., Ltd.#	PRC/Mainland China	US$12,000,000	—	100%	Provision of utilities services
Kingway Brewery (Shan Tou) Co., Ltd.#	PRC/Mainland China	RMB186,000,000	—	100%	Production, distribution and sale of beer
Kingway Brewery (Dongguan) Co., Ltd.#	PRC/Mainland China	US$11,880,000	—	100%	Production, distribution and sale of beer
Kingway Brewery (Tianjin) Co., Ltd#^	PRC/Mainland China	US$16,200,000	—	100%	Production, distribution and sale of beer
Kingway Brewery (Xian) Co., Ltd.#^	PRC/Mainland China	US$17,000,000	—	100%	Production, distribution and sale of beer

* This subsidiary is established as a Sino-foreign equity joint venture.

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

^ Established during the year.

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

22. AVAILABLE-FOR-SALE EQUITY INVESTMENT/INVESTMENT SECURITY

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted equity investment, at cost	**—**	5,611
Provision for impairment	**—**	(5,611)
	—	—

The balance represents an investment in a company which was established in the PRC and is engaged in the distribution and sale of wine and beer in Mainland China. Due to the continuing non-performance of the investment, the directors considered that the investment was fully impaired in the prior year.

The available-for-sale equity investment was disposed of during the year, resulting in a gain on disposal of HK$374,000 (note 9).

23. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**21,016**	23,373
Spare parts and consumables	**41,774**	33,784
Packaging materials	**25,828**	25,146
Work in progress	**24,019**	13,889
Finished goods	**11,190**	11,668
	123,827	107,860

24. TRADE 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 receivables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 3 months	**49,803**	38,764
3 to 6 months	**237**	—
6 months to 1 year	**166**	655
Over 1 year	**873**	834
	51,079	40,253
Less: Provision for impairment	**(693)**	(1,388)
	50,386	38,865

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group's and the Company's prepayments, deposits and other receivables are non-interest-bearing, and their carrying amounts approximate to their fair values.

26. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED BANK BALANCES

	Notes	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Cash and bank balances		**334,407**	127,078	**110**	379
Time deposits		**47,185**	377,559	**28,470**	69,789
		381,592	504,637	**28,580**	70,168
Less: Bank balances pledged for banking facilities	*(i)*	**(6,110)**	(4,008)	**—**	—
Restricted bank balances	*(ii)*	**(1,870)**	(2,817)	**—**	—
		(7,980)	(6,825)	**—**	—
Cash and cash equivalents	*(iii)*	**373,612**	497,812	**28,580**	70,168

Notes:

(i) At the balance sheet date, certain bank balances totalling HK$6,110,000 (2004: HK$4,008,000) were pledged for banking facilities granted to certain subsidiaries of the Group.

(ii) As at 31 December 2005, the Group received total government grants of RMB3,410,000 (approximately equivalent to HK$3,211,000) (2004: RMB3,000,000 (approximately equivalent to HK$2,817,000)) for future acquisition of certain qualifying assets in connection with the Group's research and development of brewing and related technologies in accordance with the terms of the grants. During the current year, a total of HK$1,341,000 (2004: Nil) was utilised for purchase of qualifying items of property, plant and equipment. As at the balance sheet date, the Group had accumulated government grants of HK$1,870,000 which are yet to be expedite for purchases of qualifying assets and this balance is classified as the Group's restricted bank balance.

(iii) At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$211,502,000 (2004: HK$398,520,000). 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 carrying amounts of the cash and cash equivalents and the pledged and restricted bank balances approximate to their fair values.

27. TRADE PAYABLES

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 3 months	**65,617**	38,846
3 to 6 months	**1,486**	301
6 months to 1 year	**431**	356
Over 1 year	**1,968**	2,221
	69,502	41,724

The trade payables are non-interest-bearing and are normally settled on 30-day terms. The carrying amounts of the trade payables approximate to their fair values.

28. OTHER PAYABLES AND ACCRUALS

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

29. DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
Cross currency interest rate swap classified as current liabilities	**97**	—

The carrying amount of cross currency interest rate swap is the same as its fair value.

29. DERIVATIVE FINANCIAL INSTRUMENT (cont'd)

Cross currency interest rate swap

At 31 December 2005, 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), designated as a hedge in respect of the Company's and the Group's bank loan, whereby the Company and the Group:

(i) receives interest at a variable rate of LIBOR plus 0.413% per annum, and pays interest at a fixed rate of 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) receives 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 loss on cash flow hedge included in the hedging reserve was HK$97,000.

	2005
	HK$'000
Total fair value gain included in the hedging reserve	**343**
Fair value gain transferred from the hedging reserve and recognised in the income statement *(note 10)*	**(440)**
Net loss on cash flow hedge	**(97)**

30. DUE TO THE IMMEDIATE HOLDING COMPANY

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

31. DUE TO A FELLOW SUBSIDIARY

The amount due is unsecured, non-interest-bearing and repayable within 30 days from the date of invoices. The carrying amount of the amount due approximates to its fair value (note 42(a)(i)).

32. DUE TO A MINORITY EQUITYHOLDER OF A SUBSIDIARY

The amount due to a minority equityholder of a subsidiary is unsecured, non-interest-bearing and repayable within one year. The carrying amount of the amount due approximates to its fair value (note 38(b)).

33. INTEREST-BEARING BANK BORROWING

	Effective interest rate*	Maturity	Group and Company 2005 HK$'000	2004 HK$'000
Non-current				
Bank loan — unsecured	1.96% per annum	2007–2009	**296,400**	—

* Includes the effects of a related cross currency interest rate swap as further detailed in note 29 to the financial statements.

	Group and Company 2005 HK$'000	2004 HK$'000
Analysed into:		
Bank loan repayable:		
In the second year	**88,920**	—
In the third to fifth years, inclusive	**207,480**	—
	296,400	—

Notes:

(a) The bank borrowing is denominated in United States dollars.

(b) The carrying amount of the Group's and the Company's bank borrowing approximates to its fair value. The fair value of bank borrowing has been calculated by discounting the expected future cash flows at prevailing interest rates at 31 December 2005.

34. DEFERRED TAX

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

Group — 2005

Deferred tax assets

	Decelerated tax depreciation *HK$'000*	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Loss available for offset against future taxable profit *HK$'000*	Total *HK$'000*
At 1 January 2005	1,830	2,290	1,325	5,445
Deferred tax credited/(charged) to the income statement during the year *(note 14)*	(353)	(409)	4,157	3,395
Exchange differences	22	58	80	160
Gross deferred tax assets at 31 December 2005	1,499	1,939	5,562	9,000

Deferred tax liabilities

	Accelerated tax depreciation *HK$'000*
At 1 January 2005	(2,515)
Exchange differences	(59)
Gross deferred tax liabilities at 31 December 2005	(2,574)
Net deferred tax assets at 31 December 2005	6,426

34. DEFERRED TAX (cont'd)

Group — 2004

Deferred tax assets

	Decelerated tax depreciation *HK$'000*	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Loss available for offset against future taxable profit *HK$'000*	Total *HK$'000*
At 1 January 2004	4,263	2,695	9,064	16,022
Deferred tax charged to the income statement during the year *(note 14)*	(2,456)	(405)	(7,794)	(10,655)
Exchange differences	23	—	55	78
Gross deferred tax assets at 31 December 2004	1,830	2,290	1,325	5,445

Deferred tax liabilities

	Accelerated tax depreciation *HK$'000*
At 1 January 2004	—
Deferred tax charged to the income statement during the year *(note 14)*	(2,511)
Exchange differences	(4)
Gross deferred tax liabilities at 31 December 2004	(2,515)
Net deferred tax assets at 31 December 2004	2,930

The Company and the Group have tax losses arising in Hong Kong of HK$63,407,000 (2004: HK$55,265,000) 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.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted based on existing legislation, interpretations and practices.

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

35. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,395,568,000 (2004: 1,395,568,000) ordinary shares of HK$0.10 each	**139,557**	139,557

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	1,250,600,000	125,060	739,844	864,904
Issue of new shares	133,768,000	13,377	234,094	247,471
Share issue expenses	—	—	(3,714)	(3,714)
Share options exercised	11,200,000	1,120	4,481	5,601
At 31 December 2004, 1 January 2005 and 31 December 2005	1,395,568,000	139,557	974,705	1,114,262

Share options

Details of the Company's share option scheme and the share options issued under the share option scheme are included in note 36 to the financial statements.

36. 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 2005, the total number of shares issuable for options granted under the Share Option Scheme of the Company was 29,500,000 (2004: 29,500,000) which represented approximately 2.1% (2004: 2.1%) of the Company's shares then in issue as at that date.

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

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

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

36. SHARE OPTION SCHEME (cont'd)

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 the Stock Exchange's daily quotation sheet 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:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	Exercised during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options#	Exercise price of share options** *HK$*	Price of Company's shares at date of grant of options*** *HK$*
Directors and chief executive								
Mr. Ye Xuquan	2,000,000	—	—	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	7,000,000	—	—	7,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
Mr. Jiang Guoqiang	2,000,000	—	—	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
Mr. Alan Howard Smith	300,000	—	—	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	300,000	—	—	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
Mr. V-nee Yeh	300,000	—	—	300,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	300,000	—	—	300,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
	12,200,000	—	—	12,200,000				
Other employees								
Former director *(Note)*	400,000	—	—	400,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	400,000	—	—	400,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
In aggregate	4,500,000	—	—	4,500,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790
	12,000,000	—	—	12,000,000	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900
	17,300,000	—	—	17,300,000				
	29,500,000	—	—	29,500,000				

36. SHARE OPTION SCHEME (cont'd)

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** 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 shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the business day prior to the date of the grant of the options.

If the last day of the exercise 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).

Note: As at 1 January 2005, Mr. Fung Sing Hong, Stephen, a director of the Company who resigned during the period, had a total of 800,000 share options. These share options were reclassified and included in the "Former director" category in the above movement schedule.

At the balance sheet date, the Company had 29,500,000 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 29,500,000 additional ordinary shares of the Company and additional share capital of HK$2,950,000 and share premium of HK$43,630,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 29,500,000 share options outstanding under the Share Option Scheme, which represented approximately 2.1% of the Company's shares in issue as at that date.

37. 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 on page 37 of the financial statements.

Pursuant to the relevant laws and regulations for Sino-foreign join venture enterprises, 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. The amounts transferred from the retained profits are determined by the board of directors of these subsidiaries. These funds are not available for distribution.

37. RESERVES (cont'd)

(a) Group (cont'd)

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 account against which goodwill and negative goodwill arising on the acquisitions of subsidiaries and an associate were eliminated in the Group account.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remained eliminated against the consolidated capital reserve, as detailed in note 20 to the financial statements.

(b) Company

	Notes	**Share premium account** *HK$'000* *(Note)*	**Capital reserve** *HK$'000* *(Note)*	**Hedging reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2004		739,844	140,234	—	271,725	1,151,803
Issue of shares	*35*	234,094	—	—	—	234,094
Share options exercised	*35*	4,481	—	—	—	4,481
Share issue expenses	*35*	(3,714)	—	—	—	(3,714)
Net loss for the year	*15*	—	—	—	(2,908)	(2,908)
Interim 2004 dividend paid	*16*	—	—	—	(20,922)	(20,922)
Proposed final 2004 dividend	*16*	—	—	—	(27,911)	(27,911)
At 31 December 2004 and 1 January 2005		974,705	140,234	—	219,984	1,334,923
Net profit for the year	*15*	—	—	—	28,643	28,643
Net loss on cash flow hedge	*29*	—	—	(97)	—	(97)
Interim 2005 dividend paid	*16*	—	—	—	(20,934)	(20,934)
Proposed final 2005 dividend	*16*	—	—	—	(34,889)	(34,889)
At 31 December 2005		974,705	140,234	(97)	192,804	1,307,646

Note: 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 capital reserve account against which goodwill and negative goodwill arising on the acquisitions of subsidiaries and an associate were eliminated in the Group account.

38. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) At 31 December 2005, the Group had payables in relation to additions of construction in progress and prepaid land lease payments of HK$71,994,000 and HK$20,201,000, respectively. These additions have no cash flow impacts to the Group.

(b) During the year, a non-wholly-owned subsidiary of the Group declared a dividend to its shareholders and the amount of dividend of HK$2,566,000 (2004: HK$4,386,000) attributable to a minority equityholder remained unpaid as at 31 December 2005 and the dividend amount was included in the amount due to a minority equityholder of subsidiaries in the consolidated balance sheet (note 32).

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from three to ten years (2004: 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 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**2,444**	3,487
In the second to fifth years, inclusive	**6,823**	8,348
After five years	**2,383**	3,358
	11,650	15,193

39. OPERATING LEASE ARRANGEMENTS (cont'd)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of two years (2004: two years).

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**228**	341
In the second to fifth years, inclusive	**—**	228
	228	569

At the balance sheet date, the Company did not have any operating lease arrangements (2004: Nil).

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39 to the financial statements, the Group had the following commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Capital commitments on the acquisition of items of property, plant and equipment:		
Contracted, but not provided for	**177,684**	252,353
Authorised, but not contracted for	**453,070**	593,649
	630,754	846,002

At the balance sheet date, the Company had no significant commitments (2004: Nil).

41. 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 under an agreement for sale and purchase dated 9 August 2002 in respect of disposal of the entire 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 which is the entire 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.

In view of the uncertainty over the amounts that can be recovered from BCCL and CCAI through legal proceedings, a provision of HK$7,000,000 was charged to consolidated income statement in a prior year. The loan of HK$35.65 million 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.

42. 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 Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing Rules") and related party transactions disclosed in accordance with HKAS 24 "Related party disclosures".

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

(i) During the year, the Group purchased malt from Guangzhou Malting Co., Ltd. ("GMCL") and Ningbo Malting Co., Ltd. ("NMCL") which are respectively 51.6% owned and 51% owned subsidiaries of GDH Limited ("GDH"), and fellow subsidiaries of the Company, on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

For the year ended 31 December 2005, the aggregate amount of malt purchased by the Group from GMCL and NMCL was HK$129,216,000 (2004: HK$102,512,000) and HK$25,743,000 (2004: Nil), respectively. The balance due to GMCL and NMCL totalling HK$4,651,000 (2004: HK$12,102,000) as at 31 December 2005 is unsecured, non-interest-bearing and repayable within 30 days from the date of invoice (note 31).

42. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)

(ii) The Group entered into a tenancy agreement dated 2 February 2001 with Bateson Developments Limited ("BDT"), a wholly-owned subsidiary of Guangdong Investment Limited ("GDI") and a fellow subsidiary of the Company, whereby the Group agreed to lease a leasehold property (the "Property") owned by BDT as office premises. On 1 November 2002, the tenancy agreement was renewed at a monthly rental of HK$36,218 for a term of two years commenced on 1 September 2002.

On 15 March 2005, the Group entered into a new tenancy agreement with Global Head Developments Limited ("GHD"), which is a wholly-owned subsidiary of GDI, a fellow subsidiary of the Company and the new owner of the Property, to lease the Property at a monthly rental of HK$28,457 for a term of two years commenced on 1 September 2004.

During the year, the Group paid operating lease rentals to GHD amounting to HK$341,000 (2004: HK$114,000). During the year ended 31 December 2004, the Group paid operating lease rentals to BDT amounting to HK$290,000.

(iii) As at 31 December 2005, there were advances made by the Company to the Group's non-wholly-owned subsidiary, Shenzhen Kingway Brewery Co., Ltd. ("Shenzhen Brewery"), in which the Group has a 95% (2004: 95%) equity interest, in the aggregate amount of HK$125,198,000 (2004: HK$122,306,000) to finance its working capital. The loans were used to finance its expansion plan and the construction of a brewery plant in Bao An, Mainland China, in a prior year. The balance with Shenzhen Brewery is unsecured, non-interest-bearing and not repayable within one year.

(iv) Pursuant to certain entrusted loan agreements entered into between Shenzhen Brewery, Kingway Shantou, Kingway Dongguan and Kingway Tianjin, Shenzhen Brewery, through pledging the same lending amounts to banks, advanced RMB55,000,000 (2004: RMB65,000,000), RMB40,000,000 (2004: Nil) and RMB25,000,000 (2004: Nil), to Kingway Shantou, Kingway Dongguan and Kingway Tianjin, respectively, to finance their working capital. The unsecured loans are non-interest-bearing and repayable in one to two years. As at 31 December 2004, the loan to Kingway Shantou was repayable within one year and the maturity of the loan was extended during the year.

(v) On 2 December 2004, Morefit Limited acquired from Shenzhen Brewery 60% interests in each of Shenzhen Brewing, Shenzhen Kingway Packaging Co., Ltd. and Shenzhen Kingway Utility Co., Ltd. (collectively the "SK Companies"), for a total cash consideration of RMB179,239,000. Upon completion of the acquisitions, the Group increased its effective equity interest in each of the SK Companies from 97% to 100% from 2 December 2004.

The acquisitions were completed in December 2004 and a total negative goodwill of HK$538,000 (note 20) was recognised in the consolidated balance sheet during that year.

42. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)

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

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**3,723**	4,224
Post-employment benefits	**609**	658
Total compensation paid to key management personnel	**4,332**	4,882

Further details of the directors' emoluments are included in note 12 to the financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise a bank loan 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 cash flow 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 6 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligation with a floating interest rate.

The Group's policy is to manage its interest cost using a fixed rate debt. The Group's policy is to maintain 100% of its interest-bearing borrowing at a fixed interest rate. The Group enters into a cross currency interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The swap is designated to hedge underlying debt obligations. At 31 December 2005, after taking into account the effect of the swap, the Group's interest-bearing borrowing bore interest at a fixed rate.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by the Group's operating units in currencies other than the units' functional currency and 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 and related interests.

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.

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.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the bank loan. The Group's bank loan would mature in two to five years as at 31 December 2005.

44. COMPARATIVE AMOUNTS

As further explained in note 3 and 5 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2006.