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

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

股份代號 Stock Code: 0124

年報 Annual Report 2006

Contents

Corporate Information (as at 20 April 2007)

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
Michael WU
HO LAM Lai Ping, Theresa

Independent Non-Executive Directors
Alan Howard SMITH
V-nee YEH
FONG Wo, Felix

Company Secretary

WONG Kin Yan, Vanessa

Auditors

Ernst & Young

Shareholders' Calendar

Closure of Register of Members	13 June 2007 to 15 June 2007 (both dates inclusive)
Final Dividend	HK$0.015 per share
Payable on	13 July 2007

Listing Information

Stock Code	124

Principal Bankers

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

Simplified Corporate Structure Chart

Kingway Brewery Holdings Limited

100%

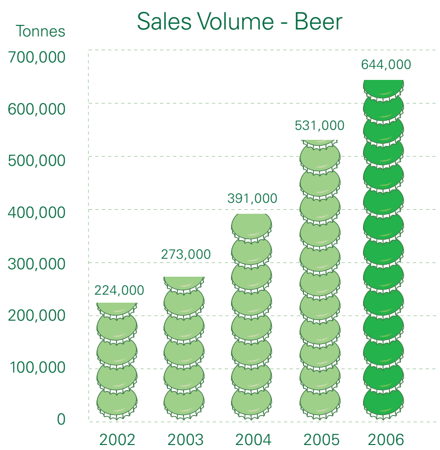
- Shenzhen Kingway Brewery Co., Ltd. (Kingway Plant No. 1)
- Shenzhen Kingway Brewing Co., Ltd. (Kingway Plant No. 2)
- Kingway Brewery (Shan Tou) Co., Ltd.
- Kingway Brewery (Dongguan) Co., Ltd.
- Kingway Brewery (Tianjin) Co., Ltd.
- Kingway Brewery (Xian) Co., Ltd.
- Kingway Brewery Group (Chengdu) Co., Ltd.
- Kingway Brewery (Foshan) Co., Ltd.
- Guangdong Kingway Sales Limited

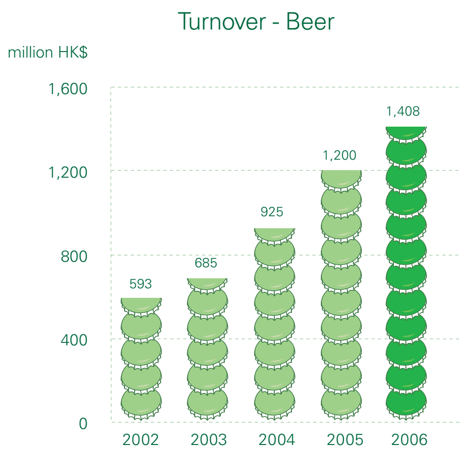
Note: The percentage shown above represent the attributable equity interests of the Company and its subsidiaries as of 20 April 2007.

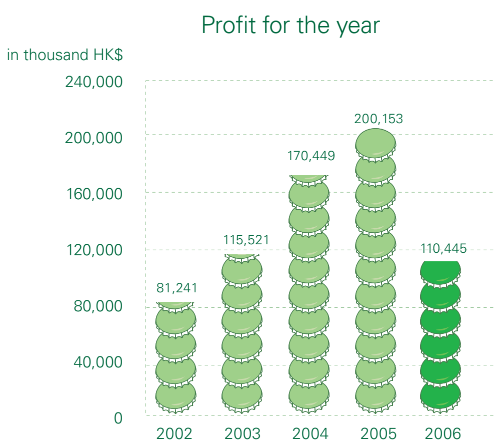
Highlights

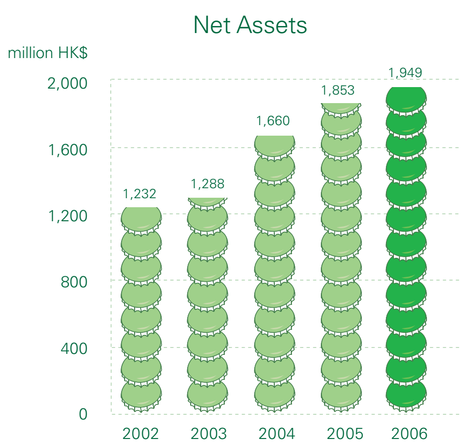
For the year ended 31 December 2006

	2006	2005	**Change**
Beer sales volume, in tonne	**644,000**	531,000	+21.3%
Gross profit, in thousand HK$	**571,203**	529,884	+7.8%
Profit for the year, in thousand HK$	**110,445**	200,153	-44.8%
Annual dividend per share, in HK cent	**3.0**	4.0	-25.0%
Dividend payout ratio[1]	**38.0%**	28.2%	+9.8%
EBITDA, in thousand HK$	**264,273**	313,703	-15.8%
Average unit selling price per tonne, in HK$	**2,187**	2,260	-3.2%
Average unit costs per tonne, in HK$	**1,300**	1,262	+3.0%









Highlights *(Cont'd)*

	As at 31 December 2006	As at 31 December 2005	**Change**
Current ratio	**1.1 times**	1.8 times	-38.9%
Gearing ratio[2]	**19.0%**	Net cash	N/A
Total assets, in million HK$	**3,099**	2,478	+25.1%
Net asset value per share, in HK$	**1.40**	1.33	+5.3%
Year-end beer production capacity, in thousand tonnes	**1,100**	700	+57.1%
Year-end number of employee	**2,105**	1,663	+26.6%

Notes:

1 Dividend payout ratio = (Interim dividend + Proposed final dividend)/profit attributable to equityholders of the parent

2 Gearing ratio = (Interest bearing debt – cash & cash equivalents)/net assets

Chairman's Statement

RESULTS

The Group continued to record a rapid growth in the sales volume of beer in 2006. The beer sales volume for the year amounted to 644,000 tonnes, representing an increase of 21.3% from the previous year. This marked the fifth consecutive year of achieving a double-digit growth. The level of profit for the year recorded a decrease, and profit for the year amounted to HK$110 million, representing a decrease of 44.8% compared with the previous year.

The decrease in the profit for the year was mainly due to the increase in resources committed to the new markets. During the year, the Group has put resources to Tianjin, Xian, Chengdu and Pearl River Delta areas in order to develop the beer markets and beef up the sales teams to develop sales channels and brand promotion. The resources committed ensure that there would be considerable sales when the new brewery plants were duly put into operation. These increase the selling and distribution expenses as well as administrative expenses during the year. The beer price and the product mix sold in the new markets affected the unit-selling price. Coupled with a mild increase in the unit costs, the gross profit margin was dropped 3.6% year on year.

These resources committed to the new markets affect the current year results but are considered to be temporary during the course of market development. Following the completion and the increase in sales volume of the new brewery plants, the average unit costs per tonne of beer sold will be reduced through the reduction in the average unit fixed costs and this will be reflected in the Group's results eventually. The management believed that the resources put into the new markets would bring in long-term benefit to the Group.

BUSINESS REVIEW

2006 is a year of significant progress for the Group's reaching beyond Guangdong and expanding its presence across the country. Our brewery in Tianjin with an annual production capacity of 200,000 tonnes was put into operation in May 2006. Construction of our brewery in Xian commenced in March 2006 and was completed by the end of the year and underwent trial production. Construction of our brewery in Chengdu commenced in April 2006, and most of the construction had been completed by the end of 2006 and is expected to commence operation in the second quarter of 2007.

Guangdong province is a premium beer market, and is also the key market of the Group. The Group put more effort this year to develop the Pearl River Delta market (which mainly includes the area encompassing Guangzhou, Foshan, Zhuhai and Zhongshan) with a satisfactory market growth rate. In order to augment our competitive advantages in Guangdong province, the Group announced in November 2006 the construction of a new brewery plant with an annual production capacity of 200,000 tonnes in Foshan with a view to consolidating our market position of the beer market in Guangdong province.

The Kingway Shantou plant commenced operation in January 2005. After the concerted effort of the management team and the staff with a right business direction, the Kingway Shantou plant managed to turnaround during the year which brought invaluable experiences to the development of new breweries within the Group. The Kingway Dongguan plant which was put into operation early this year had already recorded profit during the year.

In order to cope with our increasing scale of operation and the increasing number of subsidiaries, the Group successfully implemented the centralized management structure in which the purchase of materials carried out by centralized tendering system, brand name promotion, coordinated sales and marketing, the deployment of human resources are undertaken and coordinated by the headquarters of the Group.

The Group increased its brand name publicity campaign in 2006. The Group had purchase the naming right of a football team under the name "Shenzhen Kingway Football Team", which thereafter has been the centre of brand name promotion limelight in Shenzhen helping to enhance the national presence of Kingway Beer brand name. Moreover, series of "Thank you, Shenzhen" activities has been orchestrated and promote the corporate social responsibilities of Kingway through the government and coverage by the media. We had also proceeded with the "Artistic Kingway Thousand Miles Walk" activity to create the momentum for our brand name beyond Guangdong.

OUTLOOK

The beer industry in China continues to enjoy a steady growth. Seizing on this opportunity, the Group had invested in new brewery plants within and beyond Guangdong and develop new markets. In spite of the suppressed results this year, the resources committed in the new markets provided a foundation to strengthen the strategic development and competitive advantages of the Group in the market.

In 2007, Kingway Brewery sponsors the Chinese Football Association Super League, being the first Chinese brewer to do so. Since matches of the Kingway China Super League will be broadcasted throughout China, it is expected that the brand awareness will be enhanced and helps to develop Kingway beer as a national brand which coincides with the mission of the Group.

After the commencement of operation of our brewery plants in Xian and Chengdu in 2007 and of our Foshan brewery plant in early 2008, the Group will have 8 modern brewery plants with a 200,000 tonne production capacity grade for each of our brewery plant in China. The aggregated annual production capacity will reach 1.7 million tonnes, and we will also have production and sales centres in the surrounding regions of Bohai area, the northwest and southwest capital cities in China which would lay a solid foundation for the long-term development of the Group in future. With the increase in sales volume and production capacity of the new brewery plants, the advantage in costs will emerge and this will be reflected in the Group's results eventually. The management has confidence in the future development of the Group.

Finally, I would like to express my sincere gratitude to the consumers and distributors for their strong support over the year, and our shareholders and our staff.

YE Xuquan
Chairman

Hong Kong, 20 April 2007

Management's Discussion and Analysis

OPERATING RESULTS

In 2006, the core business of the Group remains the production, distribution and sales of Kingway beer, primarily in Guangdong Province, the PRC, while a proportion of the beer sales volume came from the adjacent areas of Guangdong Province as well as Tianjin, Xian and Chengdu cities respectively.

The consolidated profit for the year was HK$110 million (2005: HK$200 million), representing a decrease of 44.8%. The dividend per share for the year was 3.0 HK cents (2005: 4.0 HK cents), representing a decrease of 25.0%.

Consolidate revenue for the year was HK$1,408 million (2005: HK$1,200 million), representing an increase of 17.3% over the previous year. The average price per tonne of beer sold was HK$2,187 (2005: HK$2,260), representing a decline of 3.2% from the previous year, which was primarily due to the Group's adoption of localized marketing strategies of 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. The increase in sales volume from the markets reduced the overall average price per tonne of beer sold. Domestic sales accounted for 95.0% of the consolidated revenue, which percentage increased by 18.1% from the previous year. Overseas and Hong Kong sales accounted for 5.0% of the consolidated revenue, which percentage increased by 4.9% from the previous year.

The average unit costs per tonne of beer increased by 3.0% from HK$1,262 in 2005 to HK$1,300 in the year. The increase was primarily resulted from the increase in the depreciation and amortisation charges. 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 cost arising from increasing prices of raw materials. As a result of the decrease in average price per tonne of beer sold and increase in costs during the year, gross profit margin decreased from 44.2% in the previous year to 40.6% in the year.

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, Xian and Chengdu, as well as for the exploration and consolidation of the beer markets in the Pearl River Delta area in Guangdong, with the 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 expenses of the group for the year was HK$370 million (2005: HK$302 million), representing an increase of 22.5% from the previous year. Average selling and distribution expenses per tonne of beer sold for the year was HK$574 (2005: HK$570), representing an increase of 0.7% from the previous year.

Administrative expenses for the year was HK$98.56 million (2005: HK$67.86 million), representing an increase of 45.2% from 2005. The increase was primarily resulted from the commissioning of two new brewery plants during the year and the construction-in-progress of three other new plants which incurred additional human resources and administrative expenses. Further, there was a decrease in the amount of reinvestment tax refund of approximately HK$18.7 million and an impairment of the amount due from the purchaser of Amber Brewery of HK$5.74 million during the year. Finance costs for the year was HK$3,722 thousand (2005: HK$213 thousand). The increase in finance costs was due to the increase in bank borrowings during the year and the full year recognition of interest expenses of bank loan borrowed in 2005.

TAXATION

The rates of Profits Tax and Corporate Income Tax applicable to the Group's subsidiaries remained unchanged during the year except for Kingway Plant 2 in Shenzhen. Corporate Income Tax for the first two profit-making years and a 50% tax relief in the following three years were granted to certain subsidiaries in the PRC. Kingway Plant No. 2 in Shenzhen was the first year of 50% tax relief, and its Corporate Income Tax rate was 7.5%; Kingway Dongguan plant enjoyed its first year of tax exemption during the year as 2006 was the first profitable year of operations. Kingway plants in Shantou, Tianjin, Xian, Chengdu and Foshan had not used its tax exemption or relief during the year.

Management's Discussion and Analysis *(Cont'd)*

CAPITAL EXPENDITURE

The Group incurred capital expenditure (cash basis) of approximately HK$688 million (2005: HK$680 million) during the year, an increase of approximately 1.2% from the previous year, mainly representing the construction costs of the brewery plants in Tianjin, Xian and Chengdu.

In 2007, the major capital expenditure project of the Group will include the construction of brewery plants in Xian, Chengdu and Foshan. The anticipated capital expenditure will be slightly less than the year.

FINANCIAL RESOURCES AND LIQUIDITY

The Group's net asset value was HK$1,949 million (2005: HK$1,853 million) as at the end of the year, representing an increase of 5.2% compared the previous year. The net asset value per share was HK$1.40 based on the number of ordinary shares issued as at the end of the year (2005: HK$1.33 per share).

As at the end of the year, the group had total cash and bank balances of HK$348 million (2005: HK$382 million), including pledged and restricted bank balances of HK$21.65 million (2005: HK$7.98 million), representing a decrease of 8.9% from the previous year. The decrease was mainly attributable to the capital expenditure of new plants construction during the year. Of the balances at the end of the year, 72.4% was in USD, 2.4% was in EUR, 4.5% was in HKD and 20.7% was in RMB. Cash generated from operations for the year amounted to HK$353 million (2005: HK$308 million), representing an increase of 14.6% from the previous year.

The current cash balance and cash inflow from operating activities of the Group is sufficient. However, with the construction of new brewery plants in 2007, the Group will be examining various means of funding to provide sufficient financial resources for the future business development of the Group.

DEBTS AND CONTINGENT LIABILITIES

As at the end of the year, the Group had bank loan balance of HK$696 million (2005: HK$296 million), which bore interest at a rate based on LIBOR or HIBOR. Of the total outstanding bank loan, HK$296 million are denominated in USD with an average life of approximately 2.9 years and the remaining HK$400 million are denominated in HKD with an average life of approximately 3.0 years. For the bank loans denominated in USD, a cross-currency interest rate swap contract was entered into for hedging purpose. The aim for this was to lock the interest rate and exchange rate between USD and RMB, thereby mitigating the Group's exposure to movements in interest rate and exchange rate as well as lowering the effective loan interest rate by capitalizing on the market expectations for the appreciation of Renminbi.

As at the end of the year, the gearing ratio of the Group was 19.0% (2005: Net cash, which represented 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 as at the end of the year, except for HK$21.65 million of the bank deposits which have been pledged or restricted for specific purposes.

HUMAN RESOURCES

The Group employs approximately 2,105 (2005: 1,663) staff as at the end of the year. Total remuneration for the year was approximately HK$120.0 million (2005: 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 and their performance, which effectively stimulated the initiatives of the staff.

Report of the Directors

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 2006.

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 2006 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 90.

An interim dividend of 1.5 HK cents per share was paid on 28 November 2006. The Directors recommend the payment of a final dividend of 1.5 HK cents per share for the year ended 31 December 2006. 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, 15 June 2007, is expected to be paid on 13 July 2007 to shareholders whose names appear on the register of members of the Company on 15 June 2007.

The Register of Members will be closed from 13 June to 15 June 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tengis Limited, of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30p.m. on 12 June 2007.

FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,408,436**	1,200,046	924,528	684,574	593,052
Cost of sales	**(837,233)**	(670,162)	(481,550)	(373,398)	(351,680)
Gross profit	**571,203**	529,884	442,978	311,176	241,372
Other income and gains	**24,026**	47,744	22,365	21,547	34,034
Selling and distribution expenses	**(369,594)**	(302,454)	(206,710)	(146,765)	(133,960)
Administrative expenses	**(98,563)**	(67,862)	(70,001)	(44,335)	(36,504)
Impairment of an available-for-sale equity investment/investment security	**—**	—	—	—	(4,611)
Finance costs	**(3,722)**	(213)	—	—	—
Share of losses of an associate	**—**	—	—	—	(4,437)
Profit before tax	**123,350**	207,099	188,632	141,623	95,894
Tax	**(12,905)**	(6,946)	(18,183)	(26,102)	(14,653)
Profit for the year	**110,445**	200,153	170,449	115,521	81,241

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**3,098,818**	2,477,988	1,865,225	1,479,535	1,452,345
Total liabilities	**(1,149,401)**	(624,549)	(204,873)	(191,714)	(220,349)
Net assets	**1,949,417**	1,853,439	1,660,352	1,287,821	1,231,996

Report of the Directors *(Cont'd)*

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity on page 37, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK$199,085,000, of which HK$20,946,000 has been proposed as a final dividend for the year.

In addition, the Company's share premium of HK$975,733,000 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 (2005: Nil).

RETIREMENT BENEFITS SCHEMES

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

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2006 are set out in note 20 to the financial statements.

Report of the Directors *(Cont'd)*

DIRECTORS

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

Executive Directors	
YE Xuquan *(Chairman)*	
JIANG Guoqiang *(Managing Director)*	
LIANG Jianqin *(Chief Financial Officer)*	(appointed on 19 April 2006)
Non-Executive Directors	
KOH Poh Tiong	
HAN Cheng Fong	
Sijbe HIEMSTRA	
ZHAO Leili	
LUO Fanyu	
Michael WU	
HO LAM Lai Ping, Theresa	
Independent Non-Executive Directors	
Alan Howard SMITH	
V-nee YEH	
FONG Wo, Felix	(appointed on 24 January 2007)
Rafael GIL-TIENDA	(resigned on 24 January 2007)
Alternate Directors	
HUANG Hong Peng *(Alternate Director to Mr. KOH Poh Tiong)*	(appointed as an Alternate Director to Mr. KOH Poh Tiong and ceased to be an Alternate Director to Dr. HAN Cheng Fong on 1 March 2007)
LEE Meng Tat *(Alternate Director to Dr. HAN Cheng Fong)*	(appointed on 1 March 2007)
Kenneth CHOO Tay Sian *(Alternate Director to Mr. Sijbe HIEMSTRA)*	
Frederik Willem Kurt LINCK *(Alternate Director to Mr. KOH Poh Tiong)*	(ceased on 14 September 2006)

In accordance with bye-law 86(2) of the Company's Bye-laws (the "Bye-Laws"), Mr. FONG Wo, Felix, who was appointed Directors of the Company after the last annual general meeting of the Company, will hold office until the next following general meeting and, being eligible, offer himself for re-election at the meeting.

In accordance with bye-law 87 of the Bye-Laws, Mr. KOH Poh Tiong, Dr. HAN Cheng Fong, Mrs. HO LAM Lai Ping, Theresa and Mr. Alan Howard SMITH will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Alan Howard SMITH and Mr. FONG Wo, Felix, Independent Non-Executive Directors, and Mr. KOH Poh Tiong, Dr. HAN Cheng Fong and Mrs. HO LAM Lai Ping, Theresa, Non-Executive Directors, agree to stand for re-election and if re-elected to hold office from the date of re-election, to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2010 and (ii) 30 June 2010 subject to earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Executive Directors

Mr. YE Xuquan, aged 51, was appointed a Director and the Chairman of the Company in January 2002. Mr. Ye graduated from the Department of Chinese Language and Literature and the Institute of Economy Research, South China Normal University and obtained a Master's degree of Economics from South China Normal University. Mr. Ye joined Guangdong Province Dongshen Water Supply Management Bureau (the "Dongshen Water Supply Bureau") in 1978 and has 23 years' experience in the management and operation of water supply business. Mr. Ye was a section chief of the Dongshen Water Supply Bureau in 1984, promoted as Vice Director in 1987, acted as Deputy Director in 1995 and acted as Director from 1997 to 2000. He was Chairman of Guangnan (Holdings) Limited ("Guangnan") from November 2000 to January 2002, Director of Guangdong Investment Limited ("GDI") from May 2000 to February 2004 and Chairman of 廣東粵港供水有限公司 (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 54, 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 42, 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 GDI from 1997 to 2002 and was the general manager of the finance department of GDH since 2002. Ms. Liang was a Non-executive Director of Guangnan from July 2002 to August 2006. She possesses experience in financial management, external and internal audit as well as business management.

Non-Executive Directors

Mr. KOH Poh Tiong, aged 60, 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 is also Chairman and a Director of Heineken-APB (China) Pte Ltd ("HAPBC"), a substantial shareholder of the Company.

Dr. HAN Cheng Fong, aged 65, 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 Frasers Centrepoint Limited (formerly 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, 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.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE *(Cont'd)*

Non-Executive Directors *(Cont'd)*

Mr. Sijbe HIEMSTRA, aged 51, 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 53, 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 51, was appointed a Director of the Company in October 2003. Mr. Luo graduated from the economics department of Sun Yat-sen University in China. He joined Guangdong Enterprises (Holdings) Limited ("GDE") in 1987 and was responsible for its legal affairs. He is currently a director of GDH and a non-executive director of Guangnan. Prior to joining GDE, he held various positions as judge and a deputy chief judge of the Economic Court of the People's High Court of Guangdong Province.

Mr. Michael WU, aged 55, 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 Sun Yat-sen University in China and obtained a Bachelor's degree in Arts. In 1987, he obtained his Master's degree in Business Administration from the University of Texas in the United States.

Mrs. HO LAM Lai Ping, Theresa, aged 51, was appointed a Director of the Company in August 2000. She is also a Director of Guangdong Tannery Limited since July 2000. She has been the Company Secretary of GDI since December 1992. She graduated from Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE *(Cont'd)*

Independent Non-Executive Directors

Mr. Alan Howard SMITH, aged 63, was appointed an Independent Non-executive Director of the Company in January 1999. Mr. Smith was Vice Chairman in the Pacific Region, of Credit Suisse First Boston ("CSFB"), a leading global investment bank from 1997 to 2001. Prior to joining CSFB, Mr. Smith was the Chief Executive of the Jardine Fleming Group from 1983 to 1994 and was Chairman of the Jardine Fleming Group from 1994 to 1996. Mr. Smith has over twenty-five years' investment banking experience in Asia. He was elected a council member of The Stock Exchange of Hong Kong Limited (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 48, 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 was a member of the Listing Committee from 1996 to 2006. He also sits on the Takeovers and Mergers Panel and the Takeovers Appeals Committee of the Securities and Futures Commission and was a member of the Listing Committee of the China Securities Regulatory Commission from 1999 through 2003.

Mr. FONG Wo, Felix, JP, aged 56, was appointed an Independent Non-executive Director of the Company in January 2007. He is a consultant and founding partner of Arculli Fong & Ng. Mr. Fong received his engineering degree in Canada in 1974 and his law degree from Osgoode Hall Law School in Toronto in 1978. He has practiced law for over twenty-six years, eight of which in Toronto. Mr. Fong is a member of the law societies of Hong Kong, Upper Canada and England, and honourary legal counsels of Hong Kong Institute of Professional Photographers Ltd. and The Chinese Manufactures' Association of Hong Kong. In 1992, Mr. Fong was appointed by the Ministry of Justice of China as one of the China-appointed Attesting Officers in Hong Kong. Mr. Fong undertook a number of community and social roles, such as the past Chairman of the Chinese Canadian Association of Hong Kong, the Chairman of the Liquor Licensing Board, a member of the Betting and Lotteries Commission, a member of the Hong Kong Film Development Committee, a member of the Advisory Council on Food and Environmental Hygiene, and a member of the Hong Kong Town Planning Board. He is also the founding member of Democratic Alliance for the Betterment and Progress of Hong Kong and member of its Standing and Central Committees, a director of the Hong Kong Basic Law Institute, a member of Guangdong Provincial Committee of Chinese People's Political Consultative Conference and a director of China Overseas Friendship Association. In the area of education, Mr. Fong is a founding member and the first director of Canadian International School of Hong Kong and a visiting professor of the School of Law of Sun Yat-sen University in China. Currently, Mr. Fong is an independent non-executive director of SPG Land (Holdings) Limited and a non-executive director of Hantec Investment Holdings Limited, both companies are listed on the main board of the Stock Exchange.

Alternate Directors

Mr. HUANG Hong Peng, aged 47, was appointed an Alternate Director to Mr. KOH Poh Tiong, a director of the Company, in March 2007. Mr. Huang is the Regional Director, China of APB and concurrently the Chief Executive Officer of Heineken-APB (China) Management Services Co., Ltd. ("HACMS") Mr. Huang was appointed an alternate director to Dr. HAN Cheng Fong, a director of the Company, in April 2004. He sits on the boards of subsidiaries of APB Group in China. Before his transfer back to APB Group in October 2006, Mr. Huang was the Chief Operating Officer, Food & Beverage at Fraser and Neave, Limited since January 2005. He joined the APB Group in November 1994 and has served in various positions in Myanmar and the PRC. Before joining the APB Group, Mr. Huang was Assistant Director, Airport Management in the Civil Aviation Authority of Singapore, and holds a degree in Air Transport from the Ecole Nationale de l'Aviation Civile, Toulouse, France. He attended the Advanced Management Programme at Harvard Business School in 2004.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE *(Cont'd)*

Alternate Directors *(Cont'd)*

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

Mr. Kenneth CHOO Tay Sian, aged 39, was appointed an Alternate Director to Mr. Sijbe HIEMSTRA, a director of the Company, in July 2005. Mr. Choo is the Director Finance & Business Development (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.

SENIOR MANAGEMENT

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

DIRECTORS' EMOLUMENTS

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Directors had a beneficial interest in any contract of significance to the business of the Group, whether directly or indirectly, to which the Company, any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year or as at 31 December 2006.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2006, the interests of Directors or their respective associates in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, namely, the production, distribution and sale of beer (the "Competing Business"), as required to be disclosed were as follows:

Name of Director	**Name of entity** *(Note)*	**Nature of interest** *(Note)*
KOH Poh Tiong	Asia Pacific Breweries Limited and Group	Chief Executive Officer and Director
	Heineken-APB (China) Pte Ltd. and Group	Chairman and Director
HAN Cheng Fong	Asia Pacific Breweries Limited and Group	Director
	Asia Pacific Investment Pte Ltd.	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
	Asia Pacific Investment Pte Ltd.	Chairman and Director
	Heineken Asia Pacific Pte Ltd.	Chairman
	Heineken-APB (China) Pte Ltd. and Group	Director
HUANG Hong Peng	Asia Pacific Breweries Limited	Regional Director, China
	Heineken-APB (China) Pte Ltd. and Group	Director
	Heineken-APB (China) Management Services Co., Ltd.	Chief Executive Officer and Director
Kenneth CHOO Tay Sian	Heineken Asia Pacific Pte Ltd.	Director
	Asia Pacific Breweries Limited and Group	Alternate Director

Note: The entities set out in the column headed "Name of entity" are holding companies or companies listed on various stock exchanges. The interests of the Directors listed in the above table in the businesses of the aforesaid listed entities or holding companies may 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 2006, none of the Directors had any interest in any Competing Business.

DIRECTORS' INTERESTS' AND SHORT POSITIONS IN SECURITIES

As at 31 December 2006, the Directors and chief executives of the Company and their respective associates had the following interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

I. Shares

(i) *The Company*

Name of Director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
JIANG Guoqiang	Personal	300,000	Long position	0.0215%
LIANG Jianqin	Personal	46,000	Long position	0.0033%
LUO Fanyu	Personal	70,000	Long position	0.0050%
Michael WU	Personal	134,000	Long position	0.0096%
HO LAM Lai Ping, Theresa	Personal	80,000	Long position	0.0057%

Note: The total number of issued ordinary shares of the Company as at 31 December 2006 was 1,396,368,000.

(ii) *Guangdong Investment Limited*

Name of Director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LIANG Jianqin	Personal	200,000	Long position	0.0033%
Michael WU	Family*	18,000	Long position	0.0003%
HO LAM Lai Ping, Theresa	Personal	3,000,000	Long position	0.0493%

* Held by the spouse of Mr. Michael WU.

Note: The total number of issued ordinary shares of Guangdong Investment Limited as at 31 December 2006 was 6,090,948,071.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES *(Cont'd)*

I. Shares *(Cont'd)*

(iii) *Guangdong Tannery Limited*

Name of Director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
LUO Fanyu	Personal	70,000	Long position	0.0134%

Note: The total number of issued shares of Guangdong Tannery Limited as at 31 December 2006 was 524,154,000.

(iv) *Guangnan (Holdings) Limited*

Name of Director	Capacity/ nature of interest	Number of shares held	Long/Short position	Approximate percentage of holding
ZHAO Leili	Personal	218,000	Long position	0.0242%

Note: The total number of issued ordinary shares of Guangnan (Holdings) Limited as at 31 December 2006 was 901,583,285.

II. Options

(i) *The Company*

Name of Director	Number of options held as at 01/01/2006	Options granted during the year		Period during which option is exercisable* *(dd/mm/yyyy)*	Total consideration paid for share options *(HK$)*	Price to be paid per share on exercise of options *(HK$)*	Number of options exercised during the year	Number of options held as at 31/12/2006	Long/Short position
		Date of grant *(dd/mm/yyyy)*	Number granted						
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 AND SHORT POSITIONS IN SECURITIES *(Cont'd)*

II. Options *(Cont'd)*

(ii) *Guangdong Investment Limited*

Name of Director	Number of options held as at 01/01/2006	Options granted during the year		Period during which option is exercisable* (dd/mm/yyyy)	Total consideration paid for share options (HK$)	Price to be paid per share on exercise of options (HK$)	Number of options exercised during the year	Number of options held as at 31/12/2006	Long/Short position
		Date of grant (dd/mm/yyyy)	Number granted						
YE Xuquan	7,000,000	—	—	11/02/2002–10/02/2007	—	0.5312	7,000,000	—	—
	9,000,000	—	—	08/11/2002–07/11/2007	—	0.814	9,000,000	—	—
	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	—	—
	1,500,000	—	—	08/08/2003–07/08/2008	1	1.22	1,500,000	—	—
	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).

(iii) *Guangnan (Holdings) Limited*

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

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

Save as disclosed above, as at 31 December 2006, to the knowledge of the Company, none of the Directors or chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES *(Cont'd)*

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2006, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests in five per cent or more of the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and details of the interests in the shares or underlying shares of the Company as notified to the Company are set out below:

Name of shareholder	Capacity/ nature 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	74.03%
GDH Limited ("GDH") *(Note 1)*	Shares	1,033,768,000	Long position	74.03%
Heineken Holding N.V. ("Heineken HNV") *(Notes 2 and 3)*	Shares Shares	1,033,768,000 299,264,280	Long position Short position	74.03% 21.43%
Heineken N.V. ("Heineken NV") *(Notes 2 and 3)*	Shares Shares	1,033,768,000 299,264,280	Long position Short position	74.03% 21.43%
Heineken International B.V. ("Heineken IBV") *(Notes 2 and 3)*	Shares Shares	1,033,768,000 299,264,280	Long position Short position	74.03% 21.43%
Fraser and Neave, Limited ("F & N") *(Notes 2 and 3)*	Shares Shares	1,033,768,000 299,264,280	Long position Short position	74.03% 21.43%
Asia Pacific Investment Pte Ltd ("APIP") *(Notes 2 and 3)*	Shares Shares	1,033,768,000 299,264,280	Long position Short position	74.03% 21.43%
Asia Pacific Breweries Limited ("APB") *(Notes 2 and 3)*	Shares Shares	1,033,768,000 299,264,280	Long position Short position	74.03% 21.43%
Heineken–APB (China) Pte Ltd ("HAPBC") *(Notes 2 and 3)*	Shares Shares	1,033,768,000 299,264,280	Long position Short position	74.03% 21.43%

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 were beneficially held by GDH, (ii) 165,496,280 shares related to derivative interests of GDH, and (iii) 133,768,000 shares related to the deemed interests of GDH under section 318 of the SFO.

(2)(a) Of the 1,033,768,000 shares: (i) 299,264,280 shares were beneficially held by HAPBC and (ii) 734,503,720 shares related to the deemed interests of HAPBC under section 318 of the SFO.

(2)(b) In addition, by virtue of the SFO, each of Heineken HNV, Heineken NV, Heineken IBV, F & N, APIP and APB is deemed to be interested in the same 1,033,768,000 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 arose as a result of the pre-emptive and other rights granted to GDH to, in certain specified circumstances, acquire HAPBC's shareholding in the Company under a share purchase agreement dated 28 January 2004 and entered into between GDH and HAPBC.

Save as disclosed above, no other persons (other than a Director or chief executive of the Company) known to any Director or chief executive of the Company as at 31 December 2006 had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the connected and related party transactions are disclosed in note 40 to the financial statements.

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

The Company has entered into three facility letters ("Facility Letters") signed between the Company and banks respectively for loan facilities with an aggregate amount of up to HK$696,400,000. The facility letters imposed specific performance obligations on GDH, the controlling shareholder of the Company, and/or HAPBC, a substantial shareholder of the Company. The Facility Letters 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 Letters. If such an event of default occurs, the above facilities will become immediately due and repayable.

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

Facility letters effective date	Facility amount	Outstanding balance as at 31 December 2006	Last repayment date
5 December 2005	US$38 million	US$38 million	November 2009
3 November 2006	HK$200 million	HK$200 million	November 2010
22 December 2006	HK$200 million	HK$200 million	December 2010

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases from the Group's five largest suppliers accounted for 43.1% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 22.1%.

Supertime Development Limited and its subsidiaries were among the Group's five largest suppliers. Mr. Michael Wu is also a director of Supertime Development Limited and its subsidiaries. However, the purchase agreement entered into between the Company and Supertime Development Limited dated 3 May 2005 in relation to the purchase of malt by the Group from Supertime Development Limited and/or its subsidiaries with maximum aggregate annual value of malt purchased by the Group for the year being RMB294,000,000 (equivalent to approximately HK$286,591,000) have been approved by the independent shareholders at the special general meeting held on 15 June 2005. Please refer to note 40 to the financial statements for details of the connected transactions.

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

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
YE Xuquan
Chairman

Hong Kong, 20 April 2007

Corporate Governance Report

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

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

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

During the financial year ended 31 December 2006, the Board has four scheduled meetings at approximately quarterly intervals. The attendances of the directors at the board meetings are as follows:

Directors	**Number of Attendance**
YE Xuquan	4/4
JIANG Guoqiang	4/4
LIANG Jianqin (appointed on 19 April 2006)	3/4
KOH Poh Tiong	4/4
HAN Cheng Fong	4/4
Sijbe HIEMSTRA	2/4
ZHAO Leili	3/4
LUO Fanyu	4/4
Michael WU	3/4
HO LAM Lai Ping, Theresa	4/4
Alan Howard SMITH	3/4
V-nee YEH	3/4
Rafael GIL-TIENDA (resigned on 24 January 2007)	2/4
FONG Wo, Felix (appointed on 24 January 2007)	N/A

BOARD OF DIRECTORS *(Cont'd)*

The Company has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Listing Rules, and considers them to be independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 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 as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

Authority

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

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

REMUNERATION OF DIRECTORS *(Cont'd)*

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.

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

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

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

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

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

As of the date of this report, the Remuneration Committee comprises one Executive Director, being Mr. YE Xuquan, the three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. FONG Wo, Felix 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 2006, the Remuneration Committee held one meeting to (i) approve the remuneration packages all Executive Directors for the year 2006 and (ii) consider the Compensation Proposal for Independent Non-Executive Directors. The attendance of each member of the Remuneration Committee is set out as follows:

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

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

NOMINATION OF DIRECTORS

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

During the financial year ended 31 December 2006, the nomination and appointment of Ms. LIANG Jianqin as the Executive Director was considered and approved by the Board at a meeting held on 19 April 2006. The attendance of the Directors at the said Board meeting is as follows:

Directors	**Number of Attendance**
YE Xuquan	1/1
JIANG Guoqiang	1/1
KOH Poh Tiong	1/1
HAN Cheng Fong	1/1
Sijbe HIEMSTRA	1/1
ZHAO Leili	0/1
LUO Fanyu	1/1
Michael WU	1/1
HO LAM Lai Ping, Theresa	1/1
Alan Howard SMITH	1/1
V-nee YEH	1/1
Rafael GIL-TIENDA (resigned on 24 January 2007)	0/1

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	1,722
Review of Interim Results	300
Taxation compliance services	24
Agreed-upon procedures in respect of continuing connected transactions	80
	2,126

AUDIT COMMITTEE

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

Authority

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

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

Duties

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

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

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

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.

AUDIT COMMITTEE *(Cont'd)*

Duties *(Cont'd)*

5. In regard to (4) above:

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

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

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

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

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

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

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

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

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

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

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

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

AUDIT COMMITTEE *(Cont'd)*

During the financial year ended 31 December 2006, the Audit Committee held two meetings. It reviewed the 2005 annual results and the 2006 interim results of the Company and its subsidiaries before their submission to the Board and monitored the integrity of such financial statements. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and approving their fees. In addition to its two meetings as aforesaid, the Audit Committee has also a private meeting with the external auditors at least once every year without the presence of the management to discuss any area of concern. The Audit Committee further ensures management has put in place an effective system of internal control. It maintains an overview of the Group's risk assessment, control and management processes. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out as follows:

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

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2006, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2006, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

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

INTERNAL CONTROL

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

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

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

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

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

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

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

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of Kingway Brewery Holdings Limited set out on pages 34 to 90, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong
20 April 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	**2006** **HK$'000**	2005 HK$'000
REVENUE	8	**1,408,436**	1,200,046
Cost of sales		**(837,233)**	(670,162)
Gross profit		**571,203**	529,884
Other income and gains	8	**24,026**	47,744
Selling and distribution expenses		**(369,594)**	(302,454)
Administrative expenses		**(98,563)**	(67,862)
Finance costs	9	**(3,722)**	(213)
PROFIT BEFORE TAX	10	**123,350**	207,099
Tax	13	**(12,905)**	(6,946)
PROFIT FOR THE YEAR		**110,445**	200,153
Attributable to:			
Equityholders of the parent		**110,200**	198,279
Minority interests		**245**	1,874
		110,445	200,153
DIVIDENDS	15		
Interim		**(20,946)**	(20,934)
Proposed final		**(20,946)**	(34,889)
		(41,892)	(55,823)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITYHOLDERS OF THE PARENT	16		
Basic		**7.9 HK cents**	14.2 HK cents
Diluted		**7.8 HK cents**	14.1 HK cents

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**2,207,217**	1,693,329
Prepaid land lease payments	18	**202,900**	143,460
Goodwill	19	**9,384**	—
Reusable packaging materials		**80,084**	55,443
Deferred tax assets	32	**8,099**	9,000
Total non-current assets		**2,507,684**	1,901,232
CURRENT ASSETS			
Inventories	21	**186,150**	123,827
Trade and bills receivables	22	**32,685**	50,386
Prepayments, deposits and other receivables	23	**24,779**	20,951
Pledged and restricted bank balances	24	**21,652**	7,980
Cash and cash equivalents	24	**325,868**	373,612
Total current assets		**591,134**	576,756
CURRENT LIABILITIES			
Trade and bills payables	25	**(179,973)**	(69,502)
Tax payable		**(147)**	(2,302)
VAT payable		**(839)**	(5,474)
Other payables and accruals	26	**(239,355)**	(239,620)
Derivative financial instrument	27	**(13,580)**	(97)
Interest-bearing bank borrowing	31	**(88,920)**	—
Due to the immediate holding company	28	**(291)**	(1,363)
Due to fellow subsidiaries	29	**(16,051)**	(4,651)
Due to a minority equityholder of a subsidiary	30	**—**	(2,566)
Total current liabilities		**(539,156)**	(325,575)
NET CURRENT ASSETS		**51,978**	251,181
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,559,662**	2,152,413

Consolidated Balance Sheet *(Cont'd)*

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,559,662**	2,152,413
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**(607,480)**	(296,400)
Deferred tax liabilities	32	**(2,765)**	(2,574)
Total non-current liabilities		**(610,245)**	(298,974)
Net assets		**1,949,417**	1,853,439
EQUITY			
Equity attributable to equityholders of the parent			
Issued capital	33	**139,637**	139,557
Reserves	35	**1,788,834**	1,658,516
Proposed final dividend	15	**20,946**	34,889
		1,949,417	1,832,962
Minority interests		**—**	20,477
Total equity		**1,949,417**	1,853,439

YE Xuquan
Director

JIANG Guoqiang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

		Attributable to equityholders of the parent											
	Notes	**Issued capital**	**Share premium account***	**Capital reserve***	**Hedging reserve***	**Enterprise development funds***	**Reserve funds***	**Exchange fluctuation reserve***	**Retained profits***	**Proposed final dividend**	**Total**	**Minority interests**	**Total equity**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 33)	*(Note 33)*	*(Note 35(a))*	*(Note 27)*	*(Note 35(a))*	*(Note 35(a))*						
At 1 January 2005		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	27	—	—	—	(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
Final 2004 dividend		—	—	—	—	—	—	—	—	(27,911)	(27,911)	—	(27,911)
Interim 2005 dividend	15	—	—	—	—	—	—	—	(20,934)	—	(20,934)	—	(20,934)
Final 2005 dividend declared	15	—	—	—	—	—	—	—	(34,889)	34,889	—	—	—
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
At 1 January 2006		**139,557**	**974,705**	**13,824**	**(97)**	**216**	**50,003**	**34,528**	**585,337**	**34,889**	**1,832,962**	**20,477**	**1,853,439**
Net loss on cash flow hedge	27	**—**	**—**	**—**	**(13,483)**	**—**	**—**	**—**	**—**	**—**	**(13,483)**	**—**	**(13,483)**
Exchange realignment		**—**	**—**	**—**	**—**	**—**	**—**	**74,465**	**—**	**—**	**74,465**	**749**	**75,214**
Total income and expense recognised directly in equity		**—**	**—**	**—**	**(13,483)**	**—**	**—**	**74,465**	**—**	**—**	**60,982**	**749**	**61,731**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**110,200**	**—**	**110,200**	**245**	**110,445**
Total income and expense for the year		**—**	**—**	**—**	**(13,483)**	**—**	**—**	**74,465**	**110,200**	**—**	**171,182**	**994**	**172,176**
Final 2005 dividend		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(34,889)**	**(34,889)**	**—**	**(34,889)**
Acquisition of minority interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(21,471)**	**(21,471)**
Issue of shares	33	**80**	**1,028**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,108**	**—**	**1,108**
Interim 2006 dividend	15	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(20,946)**	**—**	**(20,946)**	**—**	**(20,946)**
Final 2006 dividend declared	15	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(20,946)**	**20,946**	**—**	**—**	**—**
Transfer from retained profits		**—**	**—**	**—**	**—**	**—**	**15,089**	**—**	**(15,089)**	**—**	**—**	**—**	**—**
At 31 December 2006		**139,637**	**975,733**	**13,824**	**(13,580)**	**216**	**65,092**	**108,993**	**638,556**	**20,946**	**1,949,417**	**—**	**1,949,417**

* These reserve accounts comprise the consolidated reserves of HK$1,788,834,000 (2005: HK$1,658,516,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**123,350**	207,099
Adjustments for:			
Finance costs	9	**3,722**	213
Interest income	8	**(4,248)**	(5,174)
Depreciation	10	**108,715**	81,204
Recognition of prepaid land lease payments	10	**4,009**	3,079
Amortisation of reusable packaging materials	10	**24,477**	22,108
Loss on disposal of items of property, plant and equipment	10	**811**	310
Impairment of an other receivable	10	**5,740**	—
		266,576	308,839
Increase in inventories		**(57,411)**	(14,343)
Decrease/(increase) in trade and bills receivables		**22,793**	(11,052)
Decrease/(increase) in prepayments, deposits and other receivables		**(9,589)**	1,342
Increase in trade and bills payables		**105,436**	26,080
Decrease in VAT payable		**(4,757)**	(309)
Increase in other payables and accruals		**19,631**	3,442
Increase/(decrease) in an amount due to the immediate holding company		**(1,072)**	1,221
Increase/(decrease) in amounts due to fellow subsidiaries		**11,400**	(7,451)
Cash generated from operations		**353,007**	307,769
Interest received		**4,248**	5,174
Interest paid		**(8,581)**	(287)
Hong Kong profits tax paid		**(4,645)**	(4,136)
PRC corporate income tax paid		**(9,212)**	(1,672)
Dividends paid		**(55,835)**	(48,845)
Net cash inflow from operating activities		**278,982**	258,003

Consolidated Cash Flow Statement *(Cont'd)*

Year ended 31 December 2006

	Notes	2006	2005
		HK$'000	HK$'000
Net cash inflow from operating activities		**278,982**	258,003
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	36(a)	**(574,910)**	(598,784)
Additions to prepaid land lease payments		**(66,132)**	(30,307)
Purchases of reusable packaging materials		**(46,594)**	(51,365)
Increase in pledged and restricted bank balances	24	**(13,672)**	(1,155)
Proceeds from disposal of items of property, plant and equipment		**1,282**	4,169
Acquisition of minority interests	36(b)	**(30,855)**	—
Net cash outflow from investing activities		**(730,881)**	(677,442)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share options exercised	33	**1,108**	—
New bank loans		**400,000**	296,400
Repayment of an amount due to a minority equityholder of a subsidiary	36(c)	**(2,602)**	(5,057)
Net cash inflow from financing activities		**398,506**	291,343
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(53,393)**	(128,096)
Cash and cash equivalents at beginning of year		**373,612**	497,812
Effect of foreign exchange rate changes, net		**5,649**	3,896
CASH AND CASH EQUIVALENTS AT END OF YEAR		**325,868**	373,612
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**98,947**	326,427
Non-pledged time deposits with original maturity of less than three months when acquired	24	**226,921**	47,185
		325,868	373,612

Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	**1,941,291**	1,766,671
CURRENT ASSETS			
Due from a subsidiary	20	**6,967**	—
Prepayments, deposits and other receivables	23	**1,265**	889
Cash and cash equivalents	24	**212,140**	28,580
Total current assets		**220,372**	29,469
CURRENT LIABILITIES			
Other payables and accruals	26	**(9,178)**	(6,049)
Derivative financial instrument	27	**(13,580)**	(97)
Interest-bearing bank borrowing	31	**(88,920)**	—
Due to the immediate holding company	28	**(291)**	(1,363)
Due to subsidiaries	20	**(1,105)**	(10,139)
Total current liabilities		**(113,074)**	(17,648)
NET CURRENT ASSETS		**107,298**	11,821
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,048,589**	1,778,492
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**(607,480)**	(296,400)
Net assets		**1,441,109**	1,482,092
EQUITY			
Issued capital	33	**139,637**	139,557
Reserves	35(b)	**1,280,526**	1,307,646
Proposed final dividend	15	**20,946**	34,889
Total equity		**1,441,109**	1,482,092

YE Xuquan
Director

JIANG Guoqiang
Director

1. CORPORATE INFORMATION

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

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

GDH Limited ("GDH") is the parent company of the Group. In the opinion of the directors, the ultimate holding company of the Group is 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").

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

During the year, there is a change of accounting estimate in respect of the economic useful lives of the Group's reusable packaging materials. Details of such change are set out in note 5 to the financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

This principal changes in accounting policies are as follows:

(a) HKAS 21 Amendment – *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 – *Financial Instruments: Recognition and Measurement*

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

(c) HK(IFRIC)-Int 4 – *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 "Leases". However, the adoption of this interpretation has had no material impact on these financial statements.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs that are not mandatory for these financial statements. The Group has not early applied these HKFRSs in these financial statements. The following new and revised HKFRSs, although not early adopted by the Group, will have impact on the Group's financial statements in the period of initial application.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning 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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

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 subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture.

Goodwill

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill *(Cont'd)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated retained profits

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, 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 and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, 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.

5. 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.

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%

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment and depreciation *(Cont'd)*

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 impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 years.

In prior years, the Group's reusable packaging materials were amortised on a straight-line basis over a period of 3 years. The Directors have reassessed the estimated economic useful lives of the Group's reusable packaging materials, taking into account of current business environment and conditions, and the expected pattern of economic benefits from these materials, and have revised the estimated economic useful lives from 3 years to 4 years. The change of accounting estimate has been applied prospectively from 1 January 2006. The effects of this change of accounting estimate are a decrease in the amortisation charge and an increase in profit for the year ended 31 December 2006 of HK$10,799,000 and HK$10,327,000 (after the related tax expense of HK$472,000), respectively.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and other financial assets

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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortised costs

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of financial assets *(Cont'd)*

Assets carried at amortised costs (Cont'd)

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.

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

Derecognition of financial assets

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

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

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

The Group uses 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 the income statement.

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

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

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Derivative financial instruments and hedging *(Cont'd)*

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value 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.

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.

Provisions

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

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

Income tax

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income tax *(Cont'd)*

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

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

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

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

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

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

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

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

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

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

Government grants

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition

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

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

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

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

Employee benefits

Retirement benefits schemes

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

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Employee benefits *(Cont'd)*

Share-based payment transactions (Cont'd)

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

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

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 57% has been applied to the expenditure on the individual assets.

Dividends

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

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

5. 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 the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

6. 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.

6. 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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$9,384,000 (2005: Nil). More details are given in note 19.

Fair value of derivative instrument

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

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

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

Useful lives of reusable packaging materials

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2006 was HK$4,874,000 (2005: HK$5,562,000). The amount of unrecognised tax losses at 31 December 2006 was HK$99,275,000 (2005: HK$63,029,000). Further details are contained in note 32 to the financial statements.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Cont'd)*

Estimation uncertainty *(Cont'd)*

Impairment allowances on loans and receivables

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

7. SEGMENT INFORMATION

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

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

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

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

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

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

7. SEGMENT INFORMATION *(Cont'd)*

Geographical segments

The following table present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group

	Mainland China		Overseas and Hong Kong		Corporate		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**1,337,599**	1,132,499	**70,837**	67,547	**—**	—	**—**	—	**1,408,436**	1,200,046
Intersegment sales	**22,940**	19,507	**—**	—	**—**	—	**(22,940)**	(19,507)	**—**	—
Other revenue and gains	**18,910**	41,610	**45**	—	**823**	960	**—**	—	**19,778**	42,570
Total	**1,379,449**	1,193,616	**70,882**	67,547	**823**	960	**(22,940)**	(19,507)	**1,428,214**	1,242,616
Segment results	**112,423**	187,830	**22,292**	24,991	**(11,891)**	(10,683)	**—**	—	**122,824**	202,138
Interest income									**4,248**	5,174
Finance costs									**(3,722)**	(213)
Profit before tax									**123,350**	207,099
Tax									**(12,905)**	(6,946)
Profit for the year									**110,445**	200,153
Assets and liabilities:										
Segment assets	**2,731,453**	2,070,258	**10,283**	10,312	**1,463**	6,826	**—**	—	**2,743,199**	2,087,396
Unallocated assets									**355,619**	390,592
Total assets									**3,098,818**	2,477,988
Segment liabilities	**424,148**	311,426	**3,071**	2,605	**9,290**	9,145	**—**	—	**436,509**	323,176
Unallocated liabilities									**712,892**	301,373
Total liabilities									**1,149,401**	624,549
Other segment information:										
Depreciation and amortisation	**137,149**	106,333	**52**	58	**—**	—	**—**	—	**137,201**	106,391
Impairment of an other receivable	**—**	—	**—**	—	**5,740**	—	**—**	—	**5,740**	—
Capital expenditure	**663,936**	772,617	**24**	34	**—**	—	**—**	—	**663,960**	772,651

8. REVENUE, OTHER INCOME AND GAINS

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

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

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Invoiced value of goods sold (net of trade discounts, allowances for returns and value-added tax)	**1,552,096**	1,316,182
Beer consumption tax	**(143,660)**	(116,136)
Sale of goods	**1,408,436**	1,200,046
Other income		
Gain on sale of scrap materials	**8,751**	8,732
Bank interest income	**4,248**	5,174
Reinvestment tax refunds#	**7,681**	26,393
Others	**2,815**	7,445
	23,495	47,744
Gains		
Exchange gains, net	**531**	—
	24,026	47,744

According to the Income Tax Law of the PRC, the Group is entitled to refunds of corporate income taxes, subject to the approval from the relevant offices of the Tax Bureau in the Mainland China. In 2005, the Group reinvested the profit distributions received from its foreign-owned subsidiaries in new entities established in the Mainland China. Approvals from the Tax Bureau in relation to the reinvestment tax refunds were received by the Group during the year. The refunds are determined based on certain percentages of the profit distributions reinvested.

9. FINANCE COSTS

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Interest on bank loans wholly repayable within five years		**19,157**	727
Fair value gain on cash flow hedge (transfer from equity)	27	**(10,576)**	(440)
		8,581	287
Less: Interest capitalised	17	**(4,859)**	(74)
		3,722	213

10. PROFIT BEFORE TAX

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

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**837,233**	670,162
Depreciation#	17	**108,715**	81,204
Recognition of prepaid land lease payments		**4,009**	3,079
Amortisation of reusable packaging materials#		**24,477**	22,108
Loss on disposal of items of property, plant and equipment		**811**	310
Impairment of an other receivable	39	**5,740**	—
Minimum lease payments under operating leases in respect of land and buildings		**825**	876
Auditors' remuneration		**1,840**	1,232
Employee benefits expense (excluding directors' remuneration — note 11)#:			
Wages and salaries		**107,339**	90,083
Pension scheme contributions		**12,715**	9,555
Less: Forfeited contributions*		**(6)**	—
Net pension scheme contributions		**12,709**	9,555
		120,048	99,638
Exchange losses/(gains), net		**(531)**	3,444

10. PROFIT BEFORE TAX *(Cont'd)*

\# The depreciation, amortisation of reusable packaging materials and employee benefits expense for the year of HK$93,133,000 (2005: HK$69,403,000), HK$24,477,000 (2005: HK$22,108,000) and HK$51,484,000 (2005: HK$40,769,000), respectively, are included in the cost of inventories sold as disclosed above.

* At 31 December 2006, the Group had forfeited contributions of HK$6,000 (2005: Nil) available to reduce its contributions to the pension scheme in future years.

11. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	**300**	300
Non-executive directors	**—**	—
Executive directors	**77**	82
	377	382
Other emoluments:		
Salaries, allowances and benefits in kind	**1,616**	1,656
Bonuses	**1,087**	1,685
Pension scheme contributions	**586**	609
	3,289	3,950
	3,666	4,332

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 34 to the financial statements.

11. DIRECTORS' REMUNERATION *(Cont'd)*

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	*HK$'000*
Alan Howard SMITH	**100**	100
V-nee YEH	**100**	100
Rafael GIL-TIENDA	**100**	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(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*
2006					
Executive directors:					
YE Xuquan	**45**	**866**	**520**	**328**	**1,759**
JIANG Guoqiang	**32**	**548**	**567**	**237**	**1,384**
LIANG Jianqin	**—**	**202**	**—**	**21**	**223**
	77	**1,616**	**1,087**	**586**	**3,366**
Non-executive directors:					
KOH Poh Tiong	**—**	**—**	**—**	**—**	**—**
HAN Cheng Fong	**—**	**—**	**—**	**—**	**—**
Sijbe HIEMSTRA	**—**	**—**	**—**	**—**	**—**
ZHAO Leili	**—**	**—**	**—**	**—**	**—**
LUO Fanyu	**—**	**—**	**—**	**—**	**—**
Michael WU	**—**	**—**	**—**	**—**	**—**
HO LAM Lai Ping, Theresa	**—**	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**	**—**
	77	**1,616**	**1,087**	**586**	**3,366**

11. 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*
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	—	—	—	—	—
Sijbe HIEMSTRA	—	—	—	—	—
ZHAO Leili	—	—	—	—	—
LUO Fanyu	—	—	—	—	—
Michael WU	—	—	—	—	—
HO LAM Lai Ping, Theresa	—	—	—	—	—
FUNG Sing Hong, Stephen	—	—	—	—	—
Herman Petrus Paulus Maria HOFHUIS	—	—	—	—	—
	—	—	—	—	—
	82	1,656	1,685	609	4,032

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out in note 11 above. The details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,512**	1,140
Bonuses	**846**	855
Pension scheme contributions	**89**	80
	2,447	2,075

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**3**	3

13. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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'') is entitled to a 50% tax relief for the year ended 31 December 2006 whereas it was fully exempted from CIT for the year ended 31 December 2005 as that was its second profitable year of operations.

Kingway Brewery (Dongguan) Co., Ltd. (''Kingway Dongguan'') is exempted from CIT for the year ended 31 December 2006 as this was their first profitable year of operations.

13. TAX *(Cont'd)*

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

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current:		
Hong Kong:		
Charge for the year	**3,662**	4,332
Underprovision in prior years	**2**	37
Mainland China:		
Charge for the year	**8,428**	5,972
Overprovision in prior years	**(439)**	—
Deferred *(note 32)*	**1,252**	(3,395)
Total tax charge for the year	**12,905**	6,946

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 — 2006

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	***HK$'000***	**%**	***HK$'000***	**%**
Profit before tax	**8,775**		**114,575**		**123,350**	
Tax at the statutory tax rates	**1,536**	**17.5**	**37,810**	**33.0**	**39,346**	**31.9**
Lower tax rates for specific provinces or local authorities	**—**	**—**	**(24,130)**	**(21.0)**	**(24,130)**	**(19.5)**
Adjustments in respect of current tax of previous periods	**2**	**—**	**(439)**	**(0.4)**	**(437)**	**(0.4)**
Profit exempted from PRC corporate income tax	**—**	**—**	**(10,755)**	**(9.4)**	**(10,755)**	**(8.7)**
Income not subject to tax	**(1,648)**	**(18.8)**	**—**	**—**	**(1,648)**	**(1.3)**
Expenses not deductible for tax	**3,774**	**43.1**	**466**	**0.4**	**4,240**	**3.4**
Tax losses not recognised	**—**	**—**	**6,289**	**5.5**	**6,289**	**5.1**
Tax charge at the Group's effective rate	**3,664**	**41.8**	**9,241**	**8.1**	**12,905**	**10.5**

13. TAX *(Cont'd)*

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 previous periods	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

14. PROFIT ATTRIBUTABLE TO EQUITYHOLDERS OF THE PARENT

The consolidated profit attributable to equityholders of the parent for the year ended 31 December 2006 includes a profit of HK$27,227,000 (2005: HK$28,643,000) which has been dealt with in the financial statements of the Company (note 35(b)).

15. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim — 1.5 HK cents (2005: 1.5 HK cents) per share	**20,946**	20,934
Proposed final — 1.5 HK cents (2005: 2.5 HK cents) per share	**20,946**	34,889
	41,892	55,823

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

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITYHOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equityholders 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 profit for the year attributable to ordinary equityholders 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:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equityholders of the parent, used in the basic and diluted earnings per share calculation	**110,200**	198,279

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,395,960,329**	1,395,568,000
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	**14,792,615**	12,756,650
For the purpose of diluted earnings per share calculation	**1,410,752,944**	1,408,324,650

17. PROPERTY, PLANT AND EQUIPMENT

Group — 2006

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

17. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

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	9	—	—	—	—	74	74
Disposals/write-off		(124)	(4,231)	—	(124)	—	(4,479)
Depreciation provided during the year	10	(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. PREPAID LAND LEASE PAYMENTS

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

The applications for certain land use right certificates in connection with prepaid land lease payments totalling HK$43,663,000 (2005: HK$57,048,000) 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 2006 and that the land use right certificates can be received.

19. GOODWILL

Group

	HK$'000
Acquisition of minority interests	9,384
Cost and net carrying amount at 31 December 2006	9,384

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

The amount of goodwill remaining in the capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK$126,410,000 as at 31 December 2005 and 2006. The amount of goodwill is stated at cost.

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

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

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

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

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

20. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares/investments, at cost	**269,226**	261,816
Due from subsidiaries	**1,741,256**	1,562,108
Due to a subsidiary	**(17,994)**	(17,999)
	1,992,488	1,805,925
Impairment	**(51,197)**	(39,254)
	1,941,291	1,766,671

The amounts due from a subsidiary and to subsidiaries included in the Company's current assets and current liabilities of HK$6,967,000 (2005: Nil) and HK$1,105,000 (2005:HK$10,139,000), respectively, are unsecured, interest-free and repayable on demand or within one year. The amounts due from subsidiaries and to a subsidiary included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these 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	—	100%	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
Shenzhen Kingway Utility Co., Ltd.**#	PRC/Mainland China	US$12,000,000	—	100%	Provision of utilities services

20. 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
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$30,000,000	—	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
Kingway Brewery Group (Chengdu) Co., Ltd.#^	PRC/Mainland China	US$33,500,000	—	100%	Production, distribution and sale of beer
Kingway Brewery (Foshan) Co., Ltd.#^	PRC/Mainland China	US$15,000,000	—	100%	Production, distribution and sale of beer
Kingway Brewery (China) Co., Ltd.#^	PRC/Mainland China	RMB50,000,000	100%	—	Beer information management

* This subsidiary was established as a Sino-Foreign equity joint venture in prior years. During the year, the Group acquired the remaining 5% equity interest in this subsidiary from the minority equityholder. Accordingly, this subsidiary has become a wholly-foreign-owned enterprise and an indirectly wholly-owned subsidiary of the Company.

** These subsidiaries was undergoing a merger by absorption during the year. The merger was subsequently completed on 1 March 2007. Shenzhen Kingway Brewing Co., Ltd. becomes the surviving entity after the completion of the merger.

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.

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**36,004**	21,016
Spare parts and consumables	**45,147**	41,774
Packaging materials	**56,850**	25,828
Work in progress	**22,430**	24,019
Finished goods	**25,719**	11,190
	186,150	123,827

22. TRADE AND BILLS RECEIVABLES

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**16,931**	23,358
3 to 6 months	**1,172**	237
6 months to 1 year	**70**	166
Over 1 year	**398**	873
	18,571	24,634
Less: Impairment	**(271)**	(693)
Trade receivables	**18,300**	23,941
Bills receivables	**14,385**	26,445
	32,685	50,386

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

23. 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.

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

		Group		Company	
	Notes	**2006**	2005	**2006**	2005
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances		**109,445**	334,407	**268**	110
Time deposits		**238,075**	47,185	**211,872**	28,470
		347,520	381,592	**212,140**	28,580
Less: Bank balances pledged for banking facilities	(i)	**(8,670)**	(6,110)	**—**	—
Time deposits pledged for banking facilities	(i)	**(11,154)**	—	**—**	—
Restricted bank balances	(ii)	**(1,828)**	(1,870)	**—**	—
		(21,652)	(7,980)	**—**	—
Cash and cash equivalents	(iii)	**325,868**	373,612	**212,140**	28,580

Notes:

(i) At the balance sheet date, certain bank balances and time deposits totalling HK$19,824,000 (2005: HK$6,110,000) were pledged for banking facilities granted to certain subsidiaries of the Group.

(ii) As at 31 December 2006, the Group received total government grants of RMB3,410,000 (approximately equivalent to HK$3,394,000 (2005: RMB3,410,000 (approximately equivalent to HK$3,211,000)) 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$123,000 (2005: HK$1,341,000) was utilised for purchase of qualifying items of property, plant and equipment. As at the balance sheet date, the Group had accumulated government grants of HK$1,828,000, including the interest income and exchange differences arising therefrom, which are yet to be used for purchases of qualifying assets and this balance is classified as the Group's restricted bank balance. The Company did not have any restricted bank balances as at 31 December 2005 and 2006.

(iii) At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$72,227,000 (2005: HK$211,502,000). 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.

24. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED BANK BALANCES *(Cont'd)*

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.

25. TRADE AND BILLS PAYABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**78,933**	65,617
3 to 6 months	**1,049**	1,486
6 months to 1 year	**228**	431
Over 1 year	**2,280**	1,968
Trade payables	**82,490**	69,502
Bills payable	**97,483**	—
	179,973	69,502

The trade payables are non-interest-bearing and are normally settled on 30-day terms. All the bills payable balances of the Group as at 31 December 2006 are of maturity within six months. The carrying amounts of the trade and bills payables approximate to their fair values.

26. 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.

27. DERIVATIVE FINANCIAL INSTRUMENT

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
Cross currency interest rate swap classified as a current liability	**13,580**	97

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

27. DERIVATIVE FINANCIAL INSTRUMENT *(Cont'd)*

Cross currency interest rate swap

At 31 December 2006, 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) (2005: 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) receive interest at a variable rate of LIBOR plus 0.413% (2005: LIBOR plus 0.413%) per annum, and pays interest at a fixed rate of 1.96% (2005: 1.96%) per annum on the notional amount from the effective date of swap contract to the maturity date of 25 November 2009; and

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

Cash flow hedge

The terms of the swap have been negotiated to match the terms of the bank loan. The cash flow hedge of the bank loan was assessed to be highly effective and the net fair value loss on cash flow hedge included in the hedging reserve was HK$13,483,000 (2005: HK$97,000).

	2006	2005
	HK$'000	*HK$'000*
Total fair value gain/(loss) included in the hedging reserve	**(2,907)**	343
Transfer from the hedging reserve and included in financial costs *(note 9)*	**(10,576)**	(440)
Movement of cash flow hedge	**(13,483)**	(97)

28. DUE TO THE IMMEDIATE HOLDING COMPANY

The Group's and the Company's amounts due to the immediate holding company are unsecured, non-interest-bearing and have no fixed terms of repayment. The carrying amounts of the amounts due approximate to their fair values.

29. DUE TO FELLOW SUBSIDIARIES

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

30. DUE TO A MINORITY EQUITYHOLDER OF A SUBSIDIARY

The Group's amount due to a minority equityholder of a subsidiary as at 31 December 2005 was unsecured, non-interest-bearing and repayable within one year. That carrying amount of the amount due approximated to its then fair value. The amount as at 31 December 2005 was fully repaid during the year.

31. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	Group and Company 2006 HK$'000	2005 HK$'000
Current				
US$38,000,000 unsecured bank loan	1.96% per annum*	2007	**88,920**	—
Non-current				
US$38,000,000 unsecured bank loan	1.96% per annum*	2008 – 2009	**207,480**	296,400
Bank loan — unsecured	HIBOR+0.33% per annum	2008 – 2010	**200,000**	—
Bank loan — unsecured	HIBOR+0.30% per annum	2008 – 2010	**200,000**	—
			607,480	296,400
			696,400	296,400

* Includes the effects of a related cross currency interest rate swap as further detailed in note 27 to the financial statements.

	Group and Company 2006 HK$'000	2005 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**88,920**	—
In the second year	**168,920**	88,920
In the third to fifth years, inclusive	**438,560**	207,480
	696,400	296,400

Notes:

(1) The carrying amounts of the Group's and the Company's bank borrowings approximate to their fair values. The fair values of bank borrowings have been calculated by discounting their expected future cash flows at prevailing interest rates at 31 December 2006.

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

32. DEFERRED TAX

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

Group — 2006

Deferred tax assets

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

Deferred tax liabilities

	Accelerated tax depreciation *HK$'000*
At 1 January 2006	(2,574)
Deferred tax charged to the income statement during the year *(note 13)*	(98)
Exchange differences	(93)
Gross deferred tax liabilities at 31 December 2006	(2,765)
Net deferred tax assets at 31 December 2006	5,334

32. DEFERRED TAX *(Cont'd)*

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 13)*	(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

The Company and the Group have tax losses arising in Hong Kong of HK$63,029,000 (2005: HK$63,029,000) that are available indefinitely for offsetting against their future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the directors considered it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Company and the Group.

The Group has tax losses arising in Mainland China of HK$36,246,000 (2005:Nil) that are available for 5 years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

32. DEFERRED TAX *(Cont'd)*

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted based on existing legislation, interpretations and practices.

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

33. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,396,368,000 (2005: 1,395,568,000) ordinary shares of HK$0.10 each	**139,637**	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 2005 and 1 January 2006	1,395,568,000	139,557	974,705	1,114,262
Share options exercised *(note 34)*	800,000	80	1,028	1,108
At 31 December 2006	1,396,368,000	139,637	975,733	1,115,370

Share options

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

34. SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue at any time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the Share Option Scheme. As at 31 December 2006, the total number of shares issuable for options granted under the Share Option Scheme of the Company was 28,700,000 (2005: 29,500,000) which represented approximately 2.1% (2005: 2.1%) of the Company's shares then in issue as at that date.

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

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

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

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

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

34. SHARE OPTION SCHEME *(Cont'd)*

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

	Number of share options							Price of the Company's shares***		
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options#	Exercise price of share options** HK$ per share	At date of grant of options HK$ per share	Immediate before the exercise date HK$ per share	At exercise date of options HK$ per share
Directors and chief executive										
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	—	—
JIANG Guoqiang	2,000,000	—	—	2,000,000	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	—	—
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	—	—
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						
Employees and others										
Former director *(Note)*	400,000	—	400,000	—	26-05-2003	27-08-2003 to 26-08-2008	0.840	0.790	3.200	3.225
	400,000	—	400,000	—	06-02-2004	07-05-2004 to 06-05-2009	1.930	1.900	3.200	3.225
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	—	800,000	16,500,000						
	29,500,000	—	800,000	28,700,000						

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 grant of the share options is the closing price on the Stock Exchange on the business day prior to the date of grant of the options. The prices of the Company's shares disclosed immediately before the exercise date of the share option is the weighted average closing price as listed on the Stock Exchange immediately before the dates of exercise.

\# 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 2006, Mr. Fung Sing Hong, Stephen, a director of the Company who resigned during the year ended 31 December 2005, 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.

34. SHARE OPTION SCHEME *(Cont'd)*

The 800,000 share options exercised during the year resulted in the issue of 800,000 ordinary shares of the Company and new share capital of HK$80,000 and share premium of HK$1,028,000 (before issue expenses), as further detailed in note 33 to the financial statements.

At the balance sheet date, the Company had 28,700,000 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 28,700,000 additional ordinary shares of the Company and additional share capital of HK$2,870,000 and share premium of HK$42,602,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 28,700,000 share options outstanding under the Share Option Scheme, which represented approximately 2.1% of the Company's shares in issue as at that date.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of the financial statements.

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

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

35. RESERVES *(Cont'd)*

(b) Company

	Notes	**Share premium account** *HK$'000*	**Capital reserve** *HK$'000*	**Hedging reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2005		974,705	140,234	—	219,984	1,334,923
Profit for the year	14	—	—	—	28,643	28,643
Net loss on cash flow hedge	27	—	—	(97)	—	(97)
Interim 2005 dividend	15	—	—	—	(20,934)	(20,934)
Final 2005 dividend declared	15	—	—	—	(34,889)	(34,889)
At 31 December 2005 and 1 January 2006		974,705	140,234	(97)	192,804	1,307,646
Profit for the year	14	—	—	—	27,227	27,227
Net loss on cash flow hedge	27	—	—	(13,483)	—	(13,483)
Issue of shares	33	1,028	—	—	—	1,028
Interim 2006 dividend	15	—	—	—	(20,946)	(20,946)
Final 2006 dividend declared	15	—	—	—	(20,946)	(20,946)
At 31 December 2006		975,733	140,234	(13,580)	178,139	1,280,526

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

(b) During the year ended 31 December 2006, the Group acquired an additional 5% equity interest in Shenzhen Kingway Brewery Co., Ltd. ("Shenzhen Brewery") at a total cash consideration of HK$30,855,000 from a minority equityholder of Shenzhen Brewery. The carrying amount of the Group's acquired share of Shenzhen Brewery's net assets as at the date of acquisition was HK$21,471,000, resulting in a total positive goodwill of approximately HK$9,384,000 (note 19). As a result of this acquisition, the Group increased its holdings in Shenzhen Brewery from 95% at 31 December 2005 to 100% at 31 December 2006.

(c) Major non-cash transactions

(i) 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.

(ii) In the prior 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 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 as at 31 December 2005 (note 30).

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties, mainly staff quarters, under operating lease arrangements, with leases negotiated for terms ranging from three to ten years (2005: 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 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**2,508**	2,444
In the second to fifth years, inclusive	**5,400**	6,823
After five years	**1,781**	2,383
	9,689	11,650

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years (2005: one to two years).

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,141**	228
In the second to fifth years, inclusive	**363**	—
	1,504	228

At the balance sheet date, the Company did not have any operating lease arrangements (2005: Nil).

38. COMMITMENTS

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

	2006	2005
	HK$'000	*HK$'000*
Capital commitments on the acquisition of items of property, plant and equipment:		
Contracted, but not provided for	**197,388**	177,684
Authorised, but not contracted for	**534,248**	453,070
	731,636	630,754

At the balance sheet date, the Company had capital commitment in respect of capital contributions payable to a subsidiary of RMB42,481,000 (equivalent to HK$42,285,000) (2005: Nil).

39. LITIGATION

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

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

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

There has been no significant progress and development of the litigation during the current year.

40. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

(i) During the year, the Group purchased malt from certain fellow subsidiaries of the Company, including Guangzhou Malting Co., Ltd. ("GMCL") and Ningbo Malting Co., Ltd. ("NMCL"), which are respectively 85.4% (2005: 51.6%) owned and 61% (2005: 51%) owned subsidiaries of GDH, and from Supertime (Nanjing) Malting Co., Ltd. ("SNMC"), Supertime (Changle) Malting Co., Ltd. ("SCMC"), Supertime (Qinhuangdao) Malting Co., Ltd. ("SQMC"), which are wholly-owned subsidiaries of GDH on what the directors believe to be terms similar to those offered to other customers unrelated to GDH.

For the year ended 31 December 2006, the aggregate amount of malt purchased by the Group from the fellow subsidiaries is as follow:

	2006	2005
	HK$'000	*HK$'000*
GMCL	**105,631**	129,216
NMCL	**70,502**	25,743
SCMC	**8,040**	—
SQMC	**2,465**	—
SNMC	**3,654**	—
	190,292	154,959

The balances due to fellow subsidiaries are unsecured, non-interest-bearing and repayable within 30 days from the date of invoice (note 29). Details of the balances due to the fellow subsidiaries are as fellow:

	2006	2005
	HK$'000	*HK$'000*
GMCL	**8,891**	4,651
NMCL	**3,925**	—
SNMC	**3,235**	—
	16,051	4,651

40. CONNECTED AND RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) (ii) The Group entered into a tenancy agreement dated 15 March 2005 with Global Head Developments Limited ("GHD"), a fellow subsidiary of the Company, whereby the Group agreed to lease a leasehold property owned by GHD as office premises at a monthly rental of HK$28,457 for a term of two years commencing on 1 September 2004. On 11 October 2006, the tenancy agreement was renewed at a monthly rental of HK$45,402 for a term of two years commencing on 1 September 2006.

During the year, the Group paid operating lease rentals to GHD amounting to HK$409,000 (2005: HK$341,000).

(iii) As at 31 December 2005, there were advances made by the Company to the Group's non-wholly-owned subsidiary, Shenzhen Brewery, in which the Group had a 95% equity interest, in the aggregate amount of HK$125,198,000 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 was unsecured, non-interest-bearing and not repayable within one year. During the year ended 31 December 2006, Shenzhen Brewery has became an indirectly wholly-owned subsidiary of the Company.

(iv) As at 31 December 2006, pursuant to certain entrusted loan agreements entered into between Shenzhen Brewery, Kingway Dongguan, Kingway Tianjin and Kingway Xian, Shenzhen Brewery, through pledging the same lending amounts to banks, advanced RMB125,000,000 (2005: RMB40,000,000), RMB113,000,000 (2005: RMB25,000,000) and RMB132,000,000 (2005: Nil) to Kingway Dongguan, Kingway Tianjin and Kingway Xian, respectively, to finance their working capital. The unsecured loans are non-interest-bearing and repayable in one to two years. During the year ended 31 December 2006, the advance of RMB55,000,000 from Shenzhen Brewery to Kingway Shantou as at 31 December 2005 was fully repaid by Kingway Shantow and Shenzhen Brewery has became an indirectly wholly-owned subsidiary of the Company.

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

	2006	2005
	HK$'000	*HK$'000*
Short term employee benefits	**3,080**	3,723
Post-employment benefits	**586**	609
Total compensation paid to key management personnel	**3,666**	4,332

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

The main risks arising from the Group's financial instruments are 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 5 to the financial statements.

Cash flow interest rate risk

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

The Group's policy is to manage its interest cost using an appropriate mix of fixed and floating rate borrowings. To hedge the cash flow interest rate risk, the Group entered into a cross currency interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. This swap agreement is designated to hedge the Group's obligation to the unsecured bank loan as detailed in note 31 to the financial statements.

At 31 December 2006, the Group had a cross currency interest rate swap with a notional contract amount of US$38 million (equivalent to HK$296,400,000) (2005: US$38 million (equivalent to HK$296,400,000)) which qualified as cash flow hedge. The swap agreement will mature over the next three years (2005: four years) matching the maturity of the unsecured bank loan and has fixed swap interest rate of 1.96% per annum (2005: 1.96% per annum).

The fair value of the cross currency interest rate swap at 31 December 2006 was HK$13,580,000 (2005: HK$97,000). The amount is recognised as derivative financial instrument in the consolidated financial statements.

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.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

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 loans. The Group's bank loan would mature in two to five years as at 31 December 2006.

42. POST BALANCE SHEET EVENT

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.