

Beverages Division

The Beverages Division has the right to manufacture, market and distribute the products of The Coca-Cola Company in Hong Kong, Taiwan, seven provinces in Mainland China and in an extensive area in the western USA.

Swire Beverages experienced strong volume growth, with 590 million unit cases of beverages sold.

	2006 HK\$M	2005 HK\$M
Turnover*	5,750	5,187
Operating profit	417	408
Share of post-tax profits from jointly controlled companies	200	214
Attributable profit	480	474

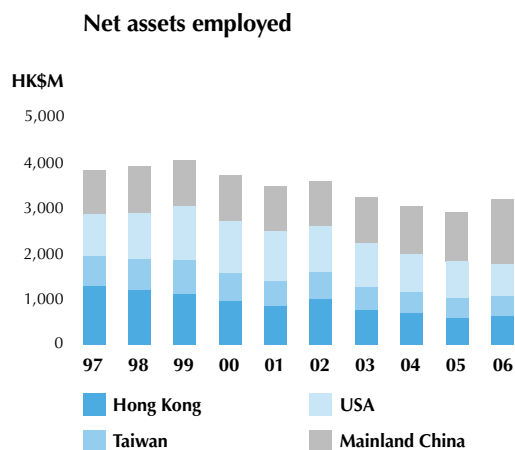
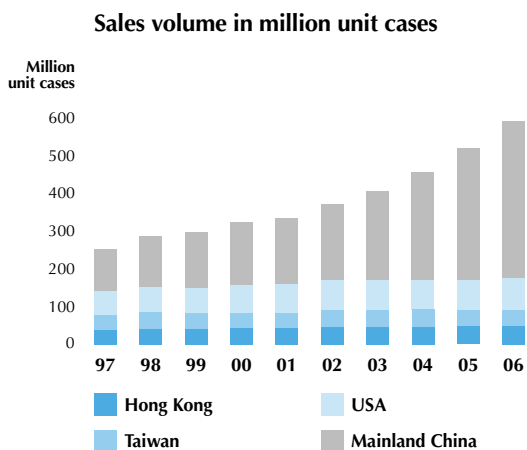
Segment information

	Turnover		Attributable Profit	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Hong Kong	1,536	1,358	126	121
Taiwan	988	1,046	34	52
USA	3,025	2,783	239	203
Mainland China*	201	–	109	127
Central costs	–	–	(28)	(29)
	5,750	5,187	480	474

	Hong Kong	Taiwan	USA	Mainland China	2006 Total	2005 Total
Sales volume (million cases)	49.8	41.5	83.7	415.2	590.2	519.1
Net assets employed (HK\$M)	625	432	716	1,428	3,201	2,930
Capital expenditure (HK\$M)	58.6	33.6	121.2	342.2	555.6	438.5

* Mainland China turnover is attributable to the Fujian Coca-Cola franchise for the period from 1st October when it became a subsidiary interest. All other interests in Mainland China are jointly controlled companies. Total turnover at Mainland China operations was HK\$6,700 million in 2006 (2005: HK\$5,502 million).





Net assets employed comprise total equity (including minority interests) and net borrowings of group companies, which include the share of net assets in jointly controlled companies in Mainland China.

2006 OVERVIEW

The Beverages Division recorded strong volume growth in 2006 although attributable profits were impacted by significant increases in raw material costs driven by the general rise in global commodity prices. For the division in total, attributable profit rose HK\$6 million to HK\$480 million and sales by 13.7%.

Mainland China operations continue to be the primary volume driver while the USA accounted for almost half of the division’s profit.

Hong Kong

Sales volume grew 4.6% aided by a strong start to the year and reasonable weather in the summer. Margins remained under pressure due to high material costs and persistent pricing pressure.

The non-carbonated beverages (“NCB”) portfolio continued to perform strongly, driven by volume growth from Healthworks (+111%), Bonaqua (+12.5%) and Bonactive (+25%) brands, with Bonaqua now being the number one bottled water sold in Hong Kong. Overall, NCB products volume grew 9.9% and now accounts for 46% of the sales mix (2005:44%).

Overall the strong sales volume and effective control of operating costs offset the effects of price pressure, and higher material and distribution costs, resulting in a 4.1% increase in profit.

Taiwan

The carbonated soft drink (“CSD”) portfolio maintained its leadership position at approximately 40% market share but the category as a whole continues to decline.

NCB sales were bolstered by the launch of Shi Zen (green tea) and the re-launch of Aquarius sports drinks (+51%) but were in general held back by insufficient new product initiatives.

The competitive environment remains extremely fierce with both price and shelf space being under constant threat from house brands. In addition, contraction in the local economy dampened consumer demand. Overall sales volume fell 6.1%.

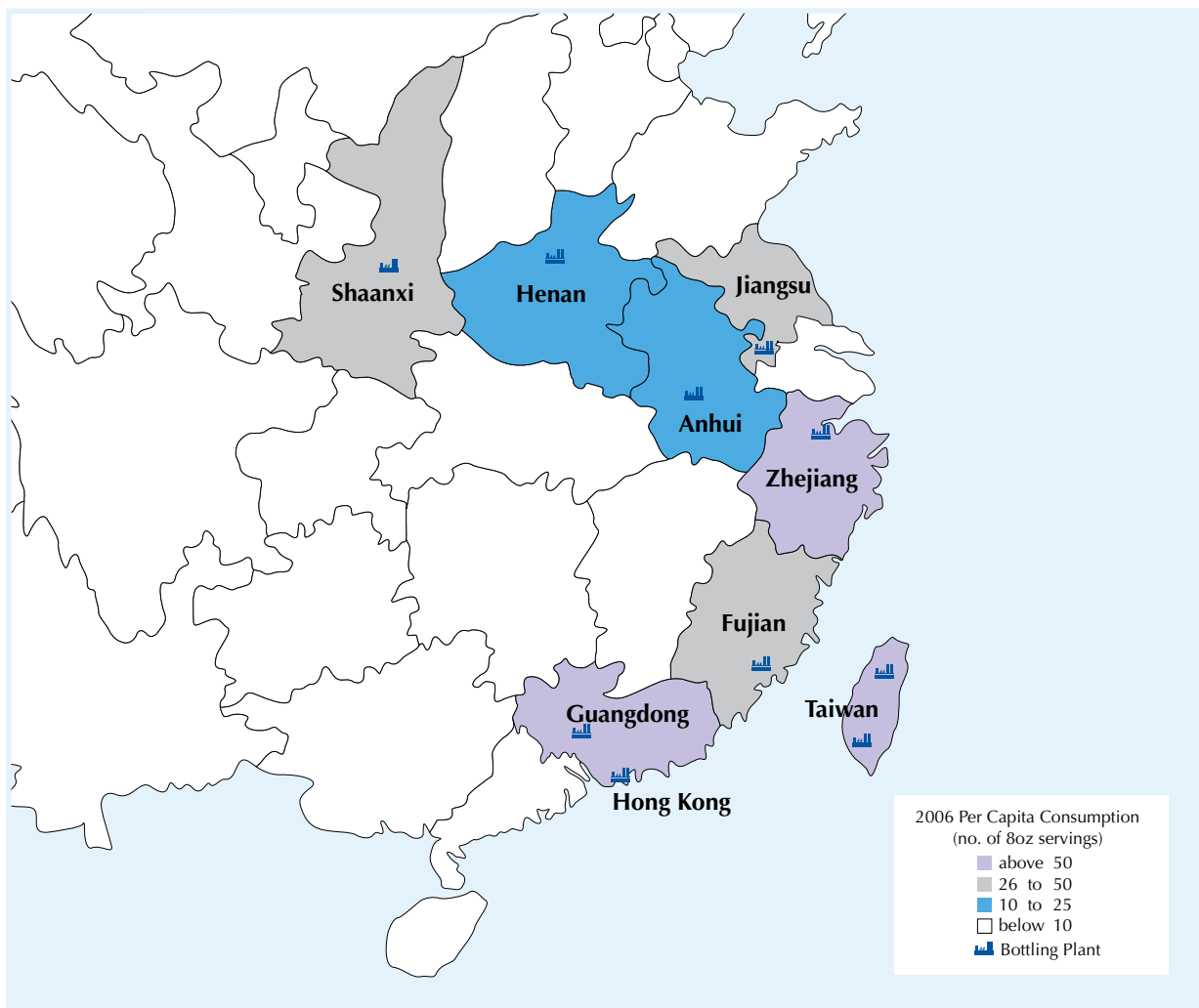
Material costs increases were partially offset by good control of operating expenses. Overall profit fell to HK\$34 million.

USA

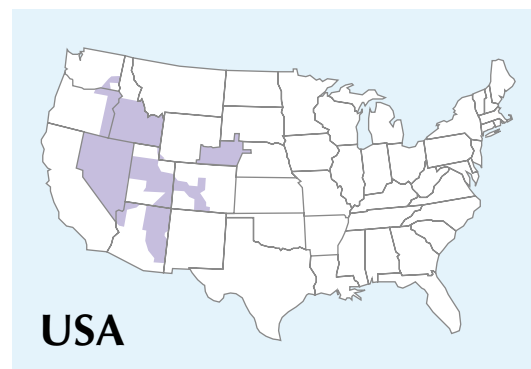
Sales volume was up 6.2% in the USA, driven by strength in the energy drinks category, with four of the top six products distributed by the division. Margins declined slightly as effective price management largely offset the impact of higher utility and labour costs.

The gradual but persistent consumer shift towards NCB products helped lift sales volume of Powerade (14.4%), Dasani mineral water (22.1%) and energy drinks (248%).

Franchise Territories



	Population	Employees	GDP per capita (US\$)
Shaanxi	37.3m	1,002	1,260
Henan	97.7m	1,520	1,453.2
Jiangsu	54.1m	2,014	2,611.8
Anhui	65.2m	757	1,063
Zhejiang	46.6m	2,602	3,973.8
Fujian	36.5m	1,554	2,442.1
Guangdong	59.7m	2,960	3,238.7
Hong Kong	7m	1,360	27,000
Taiwan	22.9m	944	16,418.4
USA	6m	1,767	42,850



The increase in material costs was not as high as that witnessed in other markets and operating costs were well controlled.

Overall, increased sales and savings in administration costs particularly in the costs of medical and pension plans drove the 17.7% increase in profits from HK\$203 million to HK\$239 million.

Mainland China

The division's subsidiary and jointly controlled operating companies hold bottling and distribution franchises for Henan, Anhui, Fujian and Shaanxi provinces and most of Zhejiang, Jiangsu and Guangdong.

On 1st October 2006, Swire Beverages acquired an additional 49% interest in the Fujian Coca-Cola franchise at which point it became a subsidiary interest of the group.

Our continuing investment in sales and distribution infrastructure as well as cold drink equipment has helped to broaden the availability of chilled products and lifted sales in immediate consumption channels.

Overall sales volume rose by 19.1% spurred by the growth in the local economy and the success of recently launched NCB products with their portfolio now accounting for 26% of the sales mix (2005: 25%). In particular, Minute Maid (+59%) established itself as the leading premium juice drink. Modern Tea Workshops also enjoyed a strong second year (+53%).

The competitive environment constrained the ability to increase prices and our operations experienced significant rises in the costs of materials and energy related costs, leading to a decline in operating margins.

Other operating costs were well controlled but overall profits were down 14.1% to HK\$109 million.

2007 Outlook

Prospects for the Beverages Division remain good. The main driver of sales growth will continue to be Mainland China where the strong economy is expected to lift sales in all territories and where there remains significant potential for expansion of brand and package offering and development of new and emerging channel opportunities.

The Beverages Division plans to invest in the development of new distribution channels and points of sale in each of its markets. New packages and products will remain an integral part of the strategy to capture the opportunities created from changing consumer preferences. Emphasis will be placed on driving and expanding the portfolio of NCB brands where growth prospects remain attractive.

The Hong Kong market presents a highly competitive pricing environment but one with strong growth potential. The Beverages Division's strength in the CSD category and increasing strength of NCB offerings ensure that it is well placed to benefit from economic growth and changes in consumer preferences. The continued investment in distribution capabilities such as vending, home delivery and school tuck shops (Sunshine Kiosks) will improve availability.

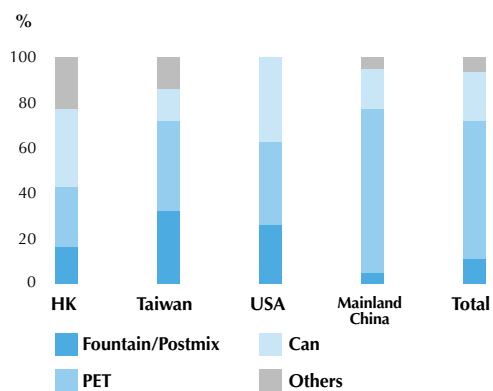
Although the Taiwan franchise expects to maintain a leadership position in the CSD category, it continues to face the dual challenges of shifting consumer preferences and the strength of own brands in the supermarket and convenience channels. The Beverages Division will invest in new brands and flavours, and broaden its distribution network into alternative channels to address these challenges whilst maintaining its drive for efficiencies and cost savings.

Management focus in the USA will continue to be on improved operating efficiency.

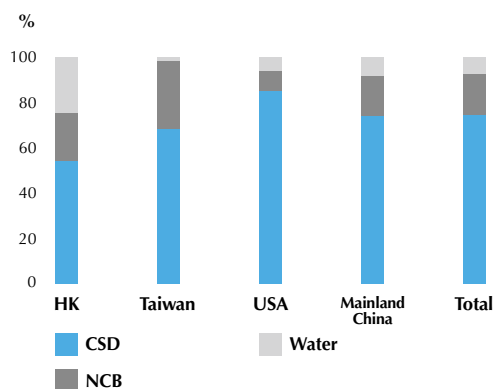
Sales in Mainland China are expected to see continued robust growth driven by growing consumer spending power, a stronger product portfolio and improved availability. Capturing the significant potential that exists will require further investments in production capacity, the distribution and sales network and marketing expenditure. The rising cost of doing business in Mainland China will be tempered by a focus on extracting production and operation efficiencies and pricing opportunities.

John R Slosar

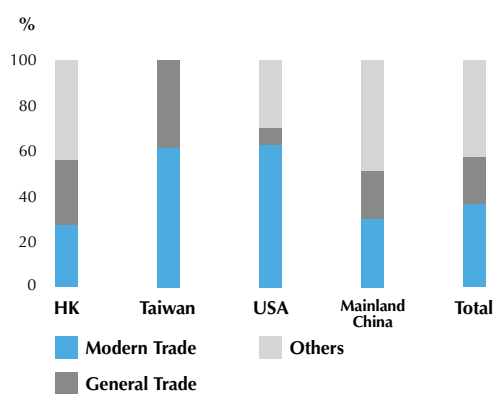
Breakdown of total volumes by package



Breakdown of total volumes by category



Breakdown of total volumes by channel



	Hong Kong	Taiwan	USA	Mainland China	2006 Total	2005 Total
Franchise population (million)	7.0	22.9	6.0	397.1	433.0	425.2
Per capita consumption per annum (8oz serving)	171	44	335	25	33	29
GDP per capita (US\$)	27,000	16,418	42,850	2,184	n/a	n/a
Number of customers	61,589	87,014	25,195	589,828	763,626	715,926
Number of plants	1	2	2	8	13	13
Number of employees	1,360	944	1,767	12,409	16,480	14,828