



**SAN MIGUEL BREWERY  
HONG KONG LTD.**

**香港生力啤酒廠有限公司**

Stock Code 股份代號：0236

**INTERIM REPORT  
January to June 2007**

**中期報告  
二零零七年一月至六月**

# CORPORATE INFORMATION

## DIRECTORS

Ramon S. Ang, *Chairman*  
Faustino F. Galang, *Deputy Chairman*  
Chong Yoon Fatt, *Managing Director*

### *Non-Executive Directors*

Carlos Antonio M. Berba  
Minerva Lourdes Bibonia  
Ferdinand K. Constantino  
Iwan David Nevyn Evans  
Francis H. Jardeleza

### *Independent Non-Executive Directors*

David K.P. Li, GBS, JP (*alternate: Adrian M.K. Li*)  
Ng Wai Sun  
Carmelo L. Santiago

## AUDIT COMMITTEE

David K.P. Li, GBS, JP, *Chairman*  
Ng Wai Sun  
Carmelo L. Santiago

## REMUNERATION COMMITTEE

Ng Wai Sun, *Chairman*  
Ferdinand K. Constantino  
Faustino F. Galang  
David K.P. Li, GBS, JP  
Carmelo L. Santiago

## COMPANY SECRETARY

Kenneth T.C. Wong

## AUDITORS

KPMG  
Certified Public Accountants  
8th Floor  
Prince's Building  
10 Chater Road, Central  
Hong Kong

## SOLICITORS

Johnson Stokes & Master  
16th-19th Floor  
Prince's Building  
10 Chater Road, Central  
Hong Kong

## REGISTERED OFFICE

9th Floor  
Citimark Building  
28 Yuen Shun Circuit  
Siu Lek Yuen  
Shatin, New Territories  
Hong Kong

## SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL BANKERS

ABN-AMRO Bank  
DBS Bank Limited, Hong Kong Branch  
Hang Seng Bank Limited  
Standard Chartered Bank  
The Bank of East Asia, Limited  
The Hongkong and Shanghai  
Banking Corporation Limited  
UBS AG

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*In this report, all monetary values are expressed in Hong Kong Dollars unless stated otherwise.*

## CHAIRMAN'S STATEMENT

To Our Shareholders,

### Interim Results

The Company continues to refine its business strategy in 2007. Its performance for the first half of the year demonstrated the Company's ability to balance challenges and opportunities across our businesses to deliver credible financial results. Having completed the restructuring of our South China operations in 2006, the Company has since announced the closure of its brewing operations in Hong Kong sometime end-September 2007. Production capability will be transferred to our Foshan (Shunde) brewery in PRC, where the Company can meet consumer demand better while streamlining operations, improving capacity utilization and gross margins for the business. Collectively, our restructuring initiatives are designed to result in improved efficiencies and fixed cost savings that align with our strategy of strengthening long-term operating performance.

For the first six months of 2007, consolidated volume and turnover were 13.0% and 3.7% behind 2006 respectively, due largely to lower export volumes and the short supply of Guang's pineapple beer in Guangzhou. Despite this, consolidated gross profit margin improved and increased from 44.1% to 51.1%, a direct result of our decision to push for high-priced products in our South China operations.

Consolidated loss after taxation attributable to equity shareholders of the Company for the six months ended 30 June 2007 was HK\$3.7 million against last year's reported loss of HK\$22.6 million. This, however, included a one-time restructuring cost for South China operations of HK\$5.1 million after minority interests in 2006. Without the restructuring cost in 2006, consolidated loss for the same period last year would have been HK\$17.5 million.

The Company remains cash positive in 2007. Net cash balances at 30 June 2007 amounted to HK\$215.7 million. Total net assets are maintained at HK\$1,990.8 million, along with a low debt-to-equity ratio of 0.11 and current ratio of 2.24 times.

### Dividends

The Directors have resolved that no dividends will be declared for the six months of 2007.

## Business Review

### *Hong Kong Operations*

The growing popularity of wine and whisky continued to chisel away at beer's share of alcoholic beverage market. As of June 2007, the beer industry suffered a volume decline of 3.3% over the same period last year. However, the Company has performed ahead of the industry and recorded an overall 0.5% gain in market share (Source: AC Nielsen Retail Audit in June 2007).

Total local sales volume for the first six months of 2007 was almost at par with 2006. Nevertheless, the San Miguel brand still possesses strong brand equity, recording double-digit growth in both May and June 2007, that largely mitigated the decline in volumes to 4.6% over the same period last year. Our imported premium brands' volumes grew 21.3%, while low-priced brands grew at a slower 1.4%. Macau continued to maintain a double-digit volume growth over the previous year.

In June 2007, the Company proposed to restructure the Group's production logistics with a view to improving the long-term profitability of the Group. With the relatively high production and operating cost of the Yuen Long brewery compared to our South China brewery, it has been decided that the Yuen Long brewery will cease brewing operations sometime end-September 2007 and that the Group will utilise instead its Foshan (Shunde) brewery in the PRC after closure of brewing operations at the Yuen Long brewery. Management is now formulating a detailed restructuring plan, including the alternative deployment of the Yuen Long brewery and the relevant assets. The Company will make further announcements with respect to the restructuring proposal in accordance to the disclosure requirements under the Listing Rules.

Building on the huge success of "San Miguel WildDayOut", the Company has organized more WildDayOut bar shows in the first half of 2007 to solidify the brand San Miguel communication platform to young consumers. Together with the giant neon-sign atop the Excelsior Hotel at Causeway Bay, sponsorship of popular movies, and stepped-up market wide promotion activities in Chinese restaurants, retail chains and provisional stores, San Miguel continues to reinforce its brand presence in the local beer market.

For the remainder of 2007, the Company will launch a new marketing campaign for brand San Miguel, including new themed television commercials complemented with similarly-themed market promotions, to ensure its leadership position and meet the challenges of the market.

#### *South China Operations*

South China operations recovered strongly after the restructuring in 2006: turnover grew by 5.2% over previous year and the Company recorded a profit before tax of HK\$7.4 million against a loss of HK\$19.0 million in 2006.

San Miguel (Guangdong) Brewery Company Limited ("SMGB") continued its growth momentum during the first six months of 2007. Sales volume increased by 84.3% over the previous year, mainly driven by double-digit growth of Dragon and Valor brand. A new packaging of Dragon Gold was introduced to the local beer market to further enhance its product competitiveness. Dragon brand preference was further sustained in Shunde developing counties and roll-out regions through various market-wide promotional activities. SMGB has also completed a review of its selling and distribution activities and incentive scheme to support the selling of higher-priced products and to rationalise its advertising and promotion expenses in Dongguan.

Phase I of the expansion of the brewery facility of SMGB is almost complete, increasing annual brewing capacity to 1.3 million hectoliters, just in time for the peak season. In the mean time, SMGB has also started on Phase II of the expansion program last May 2007 and this will increase brewing capacity to 2.3 million hectoliters. Phase II is targeting for completion by the end of first quarter 2008.

Meanwhile, Guangzhou San Miguel Brewery Company Limited ("GSMB") also recorded a double-digit volume growth of San Mig Light during the first six months of 2007. However, the short supply of Guang's pineapple beer in the second quarter of 2007 resulted in overall decrease of 26.9% in GSMB's total sales volume.

During the first six months of 2007, GSMB continued to invest in above-the-line campaigns and market wide consumer promotions for San Mig Light to drive brand awareness and preference. The Company was able to secure volumes in Chinese restaurants in downtown

Guangzhou and Dongguan, thus paving the way for our plan to rebuild San Miguel brand. In addition, GSMB converted its wholesale-based operations to retail-based model in Guangzhou and Foshan, and was able to stabilize wholesale prices through better control of cross-boundary selling.

For the remainder of 2007, SMGB will capitalize on the growth momentum to further increase penetration in roll-out regions and gain market share in the fast growing supermarket segment. SMGB will also launch the Dragon television commercial to continue to sustain brand awareness and preference in Shunde and selected roll-out markets. Meanwhile, GSMB will launch a new marketing campaign to reinvigorate the San Miguel brand. Resources will also be prioritized to high volume outlets to improve overall yield per outlet and to night outlets to improve presence and volume.

#### **Outlook**

The outlook for the rest of the year remains positive. Our recent restructuring efforts should help create a solid foundation for the Company's future growth. Clearly, we still have more work to do to drive the Company towards improved profitability. Nevertheless, with our highly motivated teams both in Hong Kong and South China, we remain committed to our promise of becoming a company that will perform consistently year after year.

In closing, I would like to take this opportunity to thank all our directors for their astute guidance and our employees for their dedication and hard work. I would also like to thank all our customers and business associates for their continued support and trust.

Our thanks also go to our shareholders for their keen interest in our Company and their confidence that SMBHK will have a very rewarding future.



**Ramon S. Ang**  
*Chairman*

4 September 2007

## OTHER INFORMATION

### Interim Results

The interim results for the six months ended 30 June 2007 have not been audited by the Company's auditors, but were reviewed by the audit committee.

### Directors' Interests

As at 30 June 2007, the directors of the Company had the following beneficial interests in the shares and underlying shares 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 required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

#### (1) Interests in Shares

Name of Director	Number of ordinary shares of \$0.50 each in the Company			
	Personal interests	Family interests	Total	Approximate % of shareholdings
David K. P. Li	300,000	-	300,000	0.08%

Name of Director	Number of shares in San Miguel Corporation			
	Personal interests	Family interests	Total	Approximate % of shareholdings
<i>Class A (par value of 5 pesos each):</i>				
Ramon S. Ang	6,050	-	6,050	0.000192%
Faustino F. Galang	83,800	-	83,800	0.002657%
Carlos Antonio M. Berba	1,045	-	1,045	0.000033%
Minerva Lourdes Bibonia	30,000	-	30,000	0.000951%
Ferdinand K. Constantino	113,800	-	113,800	0.003608%
Francis H. Jardeleza	70,001	-	70,001	0.002219%
<i>Class B (par value of 5 pesos each):</i>				
Faustino F. Galang	60,000	-	60,000	0.001902%
Minerva Lourdes Bibonia	30,000	-	30,000	0.000951%
Francis H. Jardeleza	50,000	-	50,000	0.001585%

#### (2) Interests in Underlying Shares

Certain directors of the Company have been granted stock options to subscribe for common shares in San Miguel Corporation. Particulars of stock options in San Miguel Corporation held by directors as at 30 June 2007 are as follows:

Name of Director	Share Options in San Miguel Corporation			
	Date granted	Exercisable period up to	Exercise price (pesos)	Balance of options as at 30 June 2007
<i>Class A (par value of 5 pesos each):</i>				
Ramon S. Ang	26/06/2003	26/06/2011	54.50	259,422
	01/10/2004	01/10/2012	57.50	266,854
	10/11/2005	10/11/2013	65.00	204,654
	01/03/2007	01/03/2015	63.50	993,386
Faustino F. Galang	10/11/2005	10/11/2013	65.00	67,090
	10/11/2005	10/11/2013	65.00	1,027
	26/06/2003	26/06/2011	54.50	3,975
Carlos Antonio M. Berba	01/10/2004	01/10/2012	57.50	12,268
	10/11/2005	10/11/2013	65.00	20,566
	01/03/2007	01/03/2015	63.50	127,058
	26/06/2003	26/06/2011	54.50	11,928
Minerva Lourdes Bibonia	01/10/2004	01/10/2012	57.50	26,750
	10/11/2005	10/11/2013	65.00	33,824
	01/03/2007	01/03/2015	63.50	180,898
	01/10/2004	01/10/2012	57.50	18,881
Ferdinand K. Constantino	10/11/2005	10/11/2013	65.00	32,260
	01/03/2007	01/03/2015	63.50	260,533
	26/06/2003	26/06/2011	54.50	17,512
Francis H. Jardeleza	01/10/2004	01/10/2012	57.50	56,476
	10/11/2005	10/11/2013	65.00	45,086
	01/03/2007	01/03/2015	63.50	244,268

### Share Options in San Miguel Corporation

Name of Director	Date granted	Exercisable period up to	Exercise price (pesos)	Balance of options as at 30 June 2007
<i>Class B (par value of 5 pesos each):</i>				
Ramon S. Ang	26/06/2003	26/06/2011	62.50	111,181
	01/10/2004	01/10/2012	70.50	114,366
	10/11/2005	10/11/2013	89.50	136,436
Faustino F. Galang	01/03/2007	01/03/2015	75.50	662,258
	01/10/2004	01/10/2012	70.50	37,607
	10/11/2005	10/11/2013	89.50	44,727
Chong Yoon Fatt	10/11/2005	10/11/2013	89.50	684
	26/06/2003	26/06/2011	62.50	1,703
	01/10/2004	01/10/2012	70.50	5,258
Carlos Antonio M. Berba	10/11/2005	10/11/2013	89.50	13,710
	01/03/2007	01/03/2015	75.50	84,706
	26/06/2003	26/06/2011	62.50	5,112
Minerva Lourdes Bibonia	01/10/2004	01/10/2012	70.50	11,464
	10/11/2005	10/11/2013	89.50	22,550
	01/03/2007	01/03/2015	75.50	120,598
Ferdinand K. Constantino	01/10/2004	01/10/2012	70.50	8,091
	10/11/2005	10/11/2013	89.50	32,260
	01/03/2007	01/03/2015	75.50	173,689
Francis H. Jardeleza	26/06/2003	26/06/2011	62.50	7,505
	01/10/2004	01/10/2012	70.50	24,204
	10/11/2005	10/11/2013	89.50	30,057
	01/03/2007	01/03/2015	75.50	162,846

#### Notes:

All interests in the shares and underlying shares of the Company and its associated corporations stated above are long positions.

None of the directors and chief executives of the Company had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, other than those disclosed above.

### Substantial Interests in the Share Capital of the Company

As at 30 June 2007, the interests of persons (other than a director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Number of ordinary shares of \$0.50 each	Percentage of total issued shares
San Miguel Corporation (Note 1)	245,720,800	65.78%
San Miguel International Limited (Note 1)	245,720,800	65.78%
San Miguel Holdings Limited (Note 1)	245,720,800	65.78%
San Miguel Brewing International Limited (Note 1)	245,720,800	65.78%
Neptunia Corporation Limited (Note 1)	245,720,800	65.78%
Cheung Kong (Holdings) Limited (Note 2)	23,703,000	6.34%
Li Ka-Shing Unity Trustee Company Limited (Note 2) (as trustee of The Li Ka-Shing Unity Trust)	23,703,000	6.34%
Li Ka-Shing Unity Trustcorp Limited (Note 2) (as trustee of another discretionary trust)	23,703,000	6.34%
Li Ka-Shing Unity Trustee Corporation Limited (Note 2) (as trustee of The Li Ka-Shing Unity Discretionary Trust)	23,703,000	6.34%
Li Ka-Shing (Note 2)	23,703,000	6.34%
Conroy Assets Limited (Note 2)	13,624,600	3.65%
Hamstar Profits Limited (Note 2)	10,078,400	2.70%

#### Note 1:

San Miguel Corporation ("SMC"), San Miguel International Limited ("SMIL"), San Miguel Holdings Limited ("SMHL") and San Miguel Brewing International Limited ("SMBIL") are all deemed to hold the above disclosed interest of Neptunia Corporation Limited ("NCL") in the Company because SMC has a controlling interest in SMIL, SMIL has a controlling interest in SMHL, SMHL has a controlling interest in SMBIL and SMBIL has a controlling interest in NCL.

Note 2:

*Mr. Li Ka-Shing is the settlor of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2"). Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UT1") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children and Mr. Li Tzar Kai, Richard. Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). CKH is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Conroy Assets Limited and Hamstar Profits Limited.*

*The entire issued share capital of each of TUT1, TDT1 and TDT2 is owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Each of Mr. Li Ka-Shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-Shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.*

*By virtue of the SFO, each of Mr. Li Ka-Shing (considering that he is the settlor and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO), TUT1, TDT1, TDT2 and CKH is deemed to be interested in the 23,703,000 shares of the Company of which 13,624,600 shares are held by Conroy Assets Limited and 10,078,400 shares are held by Hamstar Profits Limited.*

All interests in the shares of the Company stated above are long positions.

Apart from the foregoing, no other interests required to be recorded in the register required to be kept under Section 336 of the SFO have been notified to the Company.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

### **Corporate Governance**

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six-month period ended 30 June 2007, save for the deviations discussed below:

1. All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1) but are subject to retirement by rotation once every three years and re-election at the annual general meeting under the Company's Articles of Association.
2. Rule 3.10(1) of the Listing Rules requires that every board of directors of a listed issuer must include at least three independent non-executive directors; and Rule 3.21 of the Listing Rules requires that the audit committee of every listed issuer must comprise a minimum of three independent non-executive directors and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. Subsequent to the resignation

of Mr. Ian F. Wade on 15 June 2007, the board and the audit committee of the Company included only two independent non-executive directors (including one with appropriate professional qualifications). For the purpose of bringing into compliance with Rules 3.10(1) and 3.21 of the Listing Rules, Mr. Carmelo L. Santiago was appointed as an independent non-executive director, a member of the audit committee and a member of the remuneration committee of the Company on 4 September 2007.

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based on the Model Code for Securities Transactions by directors of Listed Issuers set out in Appendix 10 of the Listing Rules. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined in the Code, including the directors of the Company, any employee of the Company, or a director or employee of a subsidiary or holding company of the Company, who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Specific enquiry has been made of all the directors of the Company who have confirmed in writing their compliance with the required standards set out in the Code of Conduct during the six-month period ended 30 June 2007.

### **Audit Committee**

During the six-month period ended 30 June 2007, prior to the resignation of Mr. Ian F. Wade on 15 June 2007 as mentioned in the Corporate Governance section above, the audit committee was composed of three independent non-executive directors, Mr. Ng Wai Sun, Mr. Ian F. Wade and Dr. The Hon. Sir David K. P. Li (chairman of the committee). Mr. Carmelo L. Santiago was appointed as a member of the audit committee vice Mr. Wade on 4 September 2007. Under its terms of reference, the audit committee assists the board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions.

The audit committee's specific terms of reference are available on request to shareholders of the Company and are posted on the Company's website: <http://info.sanmiguel.com.hk>.

### **Remuneration Committee**

During the six-month period ended 30 June 2007, prior to the resignation of Mr. Ian F. Wade on 15 June 2007 as mentioned in the Corporate Governance section above, the remuneration committee was composed of three independent non-executive directors, Dr. The Hon. Sir David K. P. Li, Mr. Ng Wai Sun and Mr. Ian F. Wade, and two non-executive directors, Mr. Ferdinand K. Constantino and Mr. Faustino F. Galang. Mr. Carmelo L. Santiago was appointed as a member of the remuneration committee vice Mr. Wade on 4 September 2007. The remuneration committee was chaired by Mr. Ng Wai Sun. Under its terms of reference, the remuneration committee supports and advises the board in fulfilling its responsibility to the shareholders of the Company to (a) establish coherent remuneration policies and practices that will be observed and enable the Company to attract and retain top calibre executives and directors; (b) fairly and responsibly reward executives based on their performance and the performance of the Company, and the general pay environment; and (c) comply with the Code Provisions on remuneration of directors.

The remuneration committee's specific terms of reference are available on request to shareholders of the Company and are posted on the Company's website: <http://info.sanmiguel.com.hk>.

## CONSOLIDATED INCOME STATEMENT – UNAUDITED

(Expressed in Hong Kong dollar thousands)

	Note	Six months period ended 30 June		Year ended 31 December
		2007	Restated 2006	2006
<b>Turnover</b>	2,3	<b>358,385</b>	372,119	826,817
Cost of sales		<b>(175,302)</b>	(208,183)	(444,311)
<b>Gross profit</b>		<b>183,083</b>	163,936	382,506
Other revenue		<b>9,437</b>	8,162	17,455
Other net expenses		<b>(59)</b>	(99)	(915)
Selling and distribution expenses		<b>(133,059)</b>	(134,640)	(286,873)
Administrative expenses		<b>(40,267)</b>	(45,898)	(104,343)
Other operating expenses		<b>(12,923)</b>	(7,281)	(19,437)
<b>Profit/(loss) from operations</b>		<b>6,212</b>	(15,820)	(11,607)
Finance costs	4(a)	<b>(4,596)</b>	(3,645)	(8,105)
Restructuring costs	5	–	(7,896)	(93,159)
<b>Profit/(loss) before taxation</b>	4	<b>1,616</b>	(27,361)	(112,871)
Income tax (charge)/credit	6	<b>(4,482)</b>	(3,448)	6,549
<b>Loss for the period/year</b>	3	<b>(2,866)</b>	(30,809)	(106,322)
<b>Attributable to:</b>				
Equity shareholders of the Company	14	<b>(3,707)</b>	(22,594)	(70,144)
Minority interests	14	<b>841</b>	(8,215)	(36,178)
<b>Loss for the period/year</b>	14	<b>(2,866)</b>	(30,809)	(106,322)
<b>Loss per share</b> (expressed in Hong Kong cents per share)				
– Basic	8	<b>1.0</b>	6.0	18.8

The Notes on pages 10 to 16 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET – UNAUDITED

(Expressed in Hong Kong dollar thousands)

		As at 30 June	As at 31 December
	Note	2007	2006
<b>Non-current assets</b>			
Fixed assets	9		
– Property, plant and equipment		1,602,191	1,578,156
– Investment properties		88,426	89,750
– Interests in leasehold land held for own use under operating leases		<u>101,236</u>	<u>101,471</u>
		1,791,853	1,769,377
Intangible assets		39,598	39,564
Goodwill		5,044	5,044
Other tangible assets		<u>54,635</u>	<u>49,000</u>
		<b>1,891,130</b>	<b>1,862,985</b>
<b>Current assets</b>			
Inventories	10	52,152	50,664
Trade and other receivables	11	101,363	116,050
Amounts due from holding companies and fellow subsidiaries		18,184	28,408
Cash and cash equivalents	12	<u>407,720</u>	<u>416,335</u>
		<b>579,419</b>	<b>611,457</b>
<b>Current liabilities</b>			
Bank loans (unsecured)		(96,991)	(80,374)
Trade and other payables	13	(148,303)	(194,780)
Amounts due to holding companies and fellow subsidiaries		(13,262)	(7,562)
Current tax payable		<u>(104)</u>	<u>(104)</u>
		<b>(258,660)</b>	<b>(282,820)</b>
<b>Net current assets</b>		<u><b>320,759</b></u>	<u><b>328,637</b></u>
<b>Total assets less current liabilities</b>		<b>2,211,889</b>	<b>2,191,622</b>
<b>Non-current liabilities</b>			
Bank loans (unsecured)		(95,000)	(95,000)
Retirement benefit liabilities		(12,562)	(14,870)
Deferred tax liabilities		<u>(113,531)</u>	<u>(107,655)</u>
		<b>(221,093)</b>	<b>(217,525)</b>
<b>NET ASSETS</b>		<u><b>1,990,796</b></u>	<u><b>1,974,097</b></u>
<b>CAPITAL AND RESERVES</b>			
Share capital		186,785	186,785
Reserves	14	<u>1,765,748</u>	<u>1,751,097</u>
<b>Total equity attributable to equity shareholders of the Company</b>	14	<b>1,952,533</b>	<b>1,937,882</b>
<b>Minority interests</b>	14	<u><b>38,263</b></u>	<u><b>36,215</b></u>
<b>TOTAL EQUITY</b>	14	<u><b>1,990,796</b></u>	<u><b>1,974,097</b></u>

The Notes on pages 10 to 16 form part of these financial statements.

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE – UNAUDITED

(Expressed in Hong Kong dollar thousands)

	Note	Six months period ended 30 June		Year ended 31 December
		2007	2006	2006
Exchange differences on translation of the financial statements of foreign subsidiaries		<b>19,565</b>	7,860	22,713
Actuarial gains and losses of defined benefit retirement plan		–	–	(5,293)
Deferred tax of actuarial gains and losses of defined benefit retirement plan		–	–	926
<b>Income and expense recognised directly in equity</b>		<b>19,565</b>	7,860	18,346
<b>Loss for the period/year</b>		<b>(2,866)</b>	(30,809)	(106,322)
<b>Total recognised income and expense for the period/year</b>		<b>16,699</b>	(22,949)	(87,976)
<b>Attributable to:</b>				
Equity shareholders of the Company		<b>14,651</b>	(15,704)	(53,827)
Minority interests		<b>2,048</b>	(7,245)	(34,149)
<b>Total recognised income and expense for the period/year</b>		<b>16,699</b>	(22,949)	(87,976)
<b>Impact of change in accounting policy on retained earnings at 1 January attributable to:</b>				
Equity shareholders of the Company		–	–	(15,563)
Minority interests		–	–	–
		–	–	(15,563)

The Notes on pages 10 to 16 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

(Expressed in Hong Kong dollar thousands)

	Note	Six months period ended 30 June		Year ended 31 December
		2007	Restated 2006	2006
<b>Operating activities</b>				
Profit/(loss) before taxation		1,616	(27,361)	(112,871)
Adjustments for:				
Amortisation of land lease premium		1,281	1,257	2,517
Amortisation of bottles and crates		5,036	3,430	8,617
Depreciation of property, plant and equipment		31,939	36,560	70,472
Depreciation of investment properties		1,324	1,092	2,641
Impairment losses on trade and other receivables		6,428	1,752	11,086
Impairment losses on investment properties		–	–	12,000
Write back of impairment losses on other tangible assets		(2,519)	–	–
Interest expenses		4,505	3,562	7,851
Interest income		(6,633)	(5,822)	(12,403)
(Profit)/loss on disposal of property, plant and equipment		(273)	(101)	18,808
Loss on disposal of other tangible assets		8,387	–	7,349
Equity-settled share-based payment expenses		52	–	400
Foreign exchange gains		(3,590)	(317)	(1,373)
<b>Operating profit before changes in working capital</b>		<b>47,553</b>	14,052	15,094
(Increase)/decrease in inventories		(1,489)	416	36
Decrease/(increase) in trade and other receivables		8,411	(133)	(17,204)
Decrease/(increase) in net amounts due from holding companies and fellow subsidiaries		15,924	(2,753)	7,773
(Decrease)/increase in trade and other payables		(46,520)	32,689	8,801
Decrease in retirement benefit liabilities		(2,308)	–	(5,350)
Increase in leased factory maintenance provision		–	2,101	3,587
<b>Cash generated from operations</b>		<b>21,571</b>	46,372	12,737
Income tax				
Hong Kong profits tax refunded		–	797	763
<b>Net cash generated from operating activities</b>		<b>21,571</b>	47,169	13,500
<b>Investing activities</b>				
Payment for purchase of property, plant and equipment		(41,074)	(20,717)	(55,124)
Payment for purchase of trademarks		–	–	(2)
Payment for purchase of other tangible assets		(15,055)	(9,751)	(21,961)
Proceeds from disposal of property, plant and equipment		2,413	374	37,231
Proceeds from redemption of dated debt securities		–	–	12,492
Interest received		6,496	6,776	16,896
<b>Net cash used in investing activities</b>		<b>(47,220)</b>	(23,318)	(10,468)
<b>Financing activities</b>				
Proceeds from bank loans		46,186	–	29,843
Repayment of bank loans		(30,791)	–	–
Interest paid		(4,469)	(2,378)	(6,671)
<b>Net cash generated from/(used in) financing activities</b>		<b>10,926</b>	(2,378)	23,172
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(14,723)</b>	21,473	26,204
<b>Cash and cash equivalents at beginning of period/year</b>		<b>416,335</b>	383,331	383,331
<b>Effect of foreign exchange rates changes</b>		<b>6,108</b>	2,105	6,800
<b>Cash and cash equivalents at end of period/year</b>	12	<b>407,720</b>	406,909	416,335

The Notes on pages 10 to 16 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands)

## 1. Basis of preparation

This interim financial report is unaudited and has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial information relating to the financial year ended 31 December 2006 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 6 March 2007.

The same accounting policies adopted in the 2006 financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 financial statements.

## 2. Turnover

The principal activities of the Group are the manufacture and distribution of bottled, canned and draught beers. As the Group's turnover is almost entirely attributable to these activities, no analysis by activity is provided.

Turnover represents the invoiced value of products sold, net of discounts, returns, beer duty and consumption tax.

## 3. Segment reporting

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of customers is chosen.

	Hong Kong			PRC			Inter-segment elimination			Consolidated		
	Six months period ended 30 June		Year ended 31 December	Six months period ended 30 June		Year ended 31 December	Six months period ended 30 June		Year ended 31 December	Six months period ended 30 June		Year ended 31 December
	Restated			Restated			Restated			Restated		
	2007	2006	2006	2007	2006	2006	2007	2006	2006	2007	2006	2006
Revenue from external customers	170,773	193,697	408,664	187,612	178,422	418,153	-	-	-	358,385	372,119	826,817
Inter-segment revenue	16,624	17,727	36,825	-	-	-	(16,624)	(17,727)	(36,825)	-	-	-
Other revenue from external customers	2,804	2,248	5,052	-	-	-	-	-	-	2,804	2,248	5,052
Total revenue	190,201	213,672	450,541	187,612	178,422	418,153	(16,624)	(17,727)	(36,825)	361,189	374,367	831,869
Results:												
Segment result	(14,767)	(10,824)	(32,379)	14,346	(10,911)	8,369				(421)	(21,735)	(24,010)
Unallocated operating income										6,633	5,915	12,403
Finance costs										(4,596)	(3,645)	(8,105)
Restructuring costs	-	-	-	-	(7,896)	(93,159)				-	(7,896)	(93,159)
Income tax (charge)/credit										(4,482)	(3,448)	6,549
Loss for the period/year										(2,866)	(30,809)	(106,322)

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands)

### 4. Profit/(loss) before taxation

	Six months period ended 30 June		Year ended 31 December
	2007	Restated 2006	2006
Profit/(loss) before taxation is stated after charging and crediting the following items:			
<b>Charging</b>			
(a) Finance costs			
Interest on bank loans	4,505	3,562	7,851
Bank charges	91	83	254
	<b>4,596</b>	<b>3,645</b>	<b>8,105</b>
(b) Staff costs			
Retirement costs	5,687	9,604	15,087
Equity-settled share-based payment expenses	52	–	400
Salaries, wages and other benefits	53,636	58,960	118,836
Severance payments	–	7,896	49,623
	<b>59,375</b>	<b>76,460</b>	<b>183,946</b>
(c) Other items:			
Amortisation			
– Land lease premium	1,281	1,257	2,517
– Bottles and crates	5,036	3,528	8,617
Depreciation			
– Investment properties	1,324	1,092	2,641
– Property, plant and equipment	31,939	36,560	70,472
Cost of inventories	172,092	205,273	437,874
Impairment losses			
– Investment properties	–	–	12,000
– Trade and other receivable	6,428	1,752	11,086
	<b>6,428</b>	<b>1,752</b>	<b>11,086</b>
<b>Crediting</b>			
Net foreign exchange gain	1,451	662	834
Write back of impairment losses			
– Bottles and crates	2,519	–	–
	<b>2,519</b>	<b>–</b>	<b>–</b>

### 5. Restructuring costs

In October 2006, Guangzhou San Miguel Brewery Company Limited (“GSMB”) terminated the factory lease agreement with Guangzhou Brewery (“GB”) and handed over the leased assets and production assets to GB.

Impairment losses on the production assets and rental deposit for the lease agreement totally \$63,295,000 were recognised in the 2005 financial statements. An additional one-off charge was incurred during 2006, which comprised the following:

	Six months period ended 30 June		Year ended 31 December
	2007	Restated 2006	2006
Severance payments	–	7,896	49,623
Penalty for early termination of the Lease Agreement	–	–	6,176
Compensation for repairs and maintenance for the leased assets paid to GB	–	–	9,150
Additional rental charges paid to GB	–	–	10,083
Loss on sale of the Production Assets	–	–	16,764
Others	–	–	1,363
	<b>–</b>	<b>7,896</b>	<b>93,159</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands)

### 6. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Six months period ended 30 June		Year ended 31 December
	2007	2006	2006
Current tax – Hong Kong Profits Tax			
Provision for the year	–	–	194
Over-provision in respect of prior years	–	–	(55)
	<u>–</u>	<u>–</u>	<u>139</u>
Deferred tax			
Origination and reversal of tax losses and temporary differences	–	–	10,169
Tax effect of recognising tax losses and deductible temporary differences not previously recognised for deferred tax purposes	<u>4,482</u>	<u>3,448</u>	<u>(16,857)</u>
	<u>4,482</u>	<u>3,448</u>	<u>(6,688)</u>
Income tax charge/(credit)	<u>4,482</u>	<u>3,448</u>	<u>(6,549)</u>

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purposes.

No provision for overseas taxation has been made for the foreign subsidiaries because the accumulated tax losses brought forward exceed the estimated assessable profits for the period.

### 7. Dividends

Directors have resolved that no interim dividends will be declared for 2007. No dividends have been declared or paid during 2006.

### 8. Loss per share

#### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the period ended 30 June 2007 of \$3,707,000 (30 June 2006 loss of: \$22,594,000; 31 December 2006 loss of \$70,144,000) and on 373,570,560 ordinary shares (at 30 June and 31 December 2006: 373,570,560 ordinary shares), being the weighted average number of ordinary shares in issue throughout the period/year.

#### (b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary share for the period/year.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands)

### 9. Fixed assets

	Property, plant and equipment	Investment properties	Interests in leasehold land held for own use under operating leases	Total
<b>Six months period ended 30 June 2007</b>				
At 1 January 2007	1,578,156	89,750	101,471	1,769,377
Additions	41,074	–	–	41,074
Disposals	(2,140)	–	–	(2,140)
Exchange adjustments	17,040	–	1,046	18,086
Depreciation and amortization	(31,939)	(1,324)	(1,281)	(34,544)
<b>At 30 June 2007</b>	<b>1,602,191</b>	<b>88,426</b>	<b>101,236</b>	<b>1,791,853</b>

### 10. Inventories

	As at 30 June 2007	As at 31 December 2006
Products in hand and in process	31,075	28,612
Materials and supplies	21,077	22,052
	<b>52,152</b>	<b>50,664</b>

### 11. Trade and other receivables

Credit is offered to customers following financial assessment and an established payment record. Security in the form of mortgages or bank guarantees is obtained from major customers. Credit limits are set for all customers and these are exceeded only with the approval of senior company officers. Customers considered to be a credit risk trade on a cash basis. Professional staff monitor trade receivable and follow up collections. General credit terms are payment by the end of the month following the month in which sales took place.

	As at 30 June 2007	As at 31 December 2006
Trade receivables	74,175	89,316
Other debtors, deposits and prepayments	27,188	26,734
	<b>101,363</b>	<b>116,050</b>

All of the trade and other receivables are expected to be recovered within one year.

The ageing of trade receivables (net of impairment losses for bad and doubtful debts) as at the balance sheet date is as follows:

	As at 30 June 2007	As at 31 December 2006
From invoice date		
Less than 30 days	40,837	44,522
31 to 60 days	16,924	30,556
61 to 90 days	2,194	4,960
over 90 days	14,220	9,278
	<b>74,175</b>	<b>89,316</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands)

### 11. Trade and other receivables (Continued)

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>As at 30 June 2007 '000</b>	As at 31 December 2006 '000
United States Dollars	<b>USD 63</b>	USD 1,642

### 12. Cash and cash equivalents

	<b>As at 30 June 2007</b>	As at 31 December 2006
Deposits with banks	<b>349,541</b>	338,311
Cash at bank and in hand	<b>58,179</b>	78,024
	<b>407,720</b>	416,335

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>As at 30 June 2007 '000</b>	As at 31 December 2006 '000
United States Dollars	<b>USD 15,045</b>	USD 13,018

### 13. Trade and other payables

	<b>As at 30 June 2007</b>	As at 31 December 2006
Trade payables	<b>46,213</b>	51,236
Other creditors and accrued charges	<b>102,090</b>	143,544
	<b>148,303</b>	194,780

All of the trade and other payables are expected to be settled within one year.

The ageing of trade payables as of the balance sheet date is as follows:

	<b>As at 30 June 2007</b>	As at 31 December 2006
From invoice date		
Less than 30 days	<b>41,093</b>	47,637
31 to 60 days	<b>1,640</b>	2,443
61 to 90 days	<b>2,538</b>	534
over 90 days	<b>942</b>	622
	<b>46,213</b>	51,236

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>As at 30 June 2007 '000</b>	As at 31 December 2006 '000
United States Dollars	<b>USD 356</b>	USD 731
Euro	<b>EUR 58</b>	EUR 125
Australian Dollars	<b>AUD -</b>	AUD 17

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands)

### 14. Capital and reserves

	Attributable to equity shareholders of the Company						Total	Minority interests	Total equity
	Share Capital	Share premium	Capital reserve	Exchange fluctuation reserve	Capital contribution reserve	Retained profits			
At 1 January 2006	186,785	65,739	112,970	9,441	–	1,632,337	2,007,272	70,364	2,077,636
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	6,890	–	–	6,890	970	7,860
Loss for the period	–	–	–	–	–	(22,594)	(22,594)	(8,215)	(30,809)
At 30 June 2006	<u>186,785</u>	<u>65,739</u>	<u>112,970</u>	<u>16,331</u>	<u>–</u>	<u>1,609,743</u>	<u>1,991,568</u>	<u>63,119</u>	<u>2,054,687</u>
At 1 July 2006									
– as previously reported	186,785	65,739	112,970	16,331	–	1,609,743	1,991,568	63,119	2,054,687
– prior period adjustment in respect of defined benefit retirement plan	–	–	–	–	–	(15,563)	(15,563)	–	(15,563)
– as restated	186,785	65,739	112,970	16,331	–	1,594,180	1,976,005	63,119	2,039,124
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	13,794	–	–	13,794	1,059	14,853
Equity-settled share-based transactions	–	–	–	–	400	–	400	–	400
Inter-company charge levied by the ultimate holding company for the stock options	–	–	–	–	(400)	–	(400)	–	(400)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	(5,293)	(5,293)	–	(5,293)
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	926	926	–	926
Loss for the period	–	–	–	–	–	(47,550)	(47,550)	(27,963)	(75,513)
At 31 December 2006	<u>186,785</u>	<u>65,739</u>	<u>112,970</u>	<u>30,125</u>	<u>–</u>	<u>1,542,263</u>	<u>1,937,882</u>	<u>36,215</u>	<u>1,974,097</u>
At 1 January 2007	186,785	65,739	112,970	30,125	–	1,542,263	1,937,882	36,215	1,974,097
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	18,358	–	–	18,358	1,207	19,565
Equity-settled share-based transactions	–	–	–	–	52	–	52	–	52
Inter-company charge levied by the ultimate holding company for the stock options	–	–	–	–	(52)	–	(52)	–	(52)
Loss for the period	–	–	–	–	–	(3,707)	(3,707)	841	(2,866)
At 30 June 2007	<u>186,785</u>	<u>65,739</u>	<u>112,970</u>	<u>48,483</u>	<u>–</u>	<u>1,538,556</u>	<u>1,952,533</u>	<u>38,263</u>	<u>1,990,796</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands)

### 15. Commitments

The Group's commitments for capital expenditure, for which no provision has been made in the financial statements, totally approximately:

	<b>As at 30 June 2007</b>	As at 31 December 2006
Contracted for	<b>132,569</b>	23,443
Authorised but not contracted for	<b>1,955</b>	5,078
	<b>134,524</b>	28,521

### 16. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Transactions with group companies

	<i>Note</i>	<b>Transactions</b>		<b>Balances</b>	
		<b>As at 30 June 2007</b>	As at 31 December 2006	<b>As at 30 June 2007</b>	As at 31 December 2006
Purchases from:	(i)				
– ultimate holding company		<b>1,090</b>	2,450	<b>207</b>	325
– fellow subsidiaries		<b>17,556</b>	33,992	<b>10,260</b>	4,140
Sales to:	(i)				
– immediate holding company		<b>5,144</b>	23,028	<b>2,257</b>	5,610
– fellow subsidiaries		–	345	<b>9</b>	2,729
Commission fee to immediate holding company	(ii)	–	1,244	–	–

- (i) Sales to and purchases from group companies were carried out at terms mutually agreed by both parties.
- (ii) Commission is paid to the immediate holding company for the sales referred to the Group. It is determined by reference to the profit margin which would have been made by the immediate holding company had such sales been made by the Group to the immediate holding company and then on-sold by the immediate holding company to the customers.

### 17. Contingent liabilities

As at 30 June 2007, there was a contingent liability in respect of a guarantee given to a bank by the Company to secure a banking facility made available to a wholly owned subsidiary which expires on 28 February 2008.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee issued is the facility drawn down by the subsidiary of \$50,805,000 (2006: \$50,531,000).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured and its transaction price was \$nil (2006: \$nil).



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