



**SAN MIGUEL BREWERY  
HONG KONG LTD.**

香港生力啤酒廠有限公司

**INTERIM REPORT  
January to June 2005**

**中期報告  
二零零五年一月至六月**

## **CORPORATE INFORMATION**

### **DIRECTORS**

Ramon S. Ang *Chairman*  
Faustino F. Galang *Deputy Chairman*  
Ramon A. de la Llana *Managing Director*  
Ferdinand K. Constantino  
Francis H. Jardeleza  
David K.P. Li GBS, JP\*  
Estelito P. Mendoza  
Wai Sun Ng\*  
Gabriel L. Villareal  
Ian F. Wade\*  
Adrian M.K. Li  
*Alternate to David K.P. Li*

\* *Independent Non-Executive Directors*

### **AUDIT COMMITTEE**

David K.P. Li GBS, JP  
Wai Sun Ng  
Ian F. Wade

### **COMPANY SECRETARY**

Ben M.B. Wong

### **AUDITORS**

KPMG  
Certified Public Accountants  
8th Floor  
Prince's Building  
Hong Kong

### **SOLICITORS**

Johnson Stokes & Master  
18th Floor  
Prince's Building  
Hong Kong

### **REGISTERED OFFICE**

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

### **SHARE REGISTRARS**

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,

For the first six months of 2005, your Company retained its standing as the producer of Hong Kong's favourite beer and overall market leader in a weakening beer industry. In a good many areas, we performed well, but in some areas we fell short of expectations.

With the departure of Francisco C. Eizmendi, Jr. and Thomas R. Mainwaring, the former Chairman and former Chief Finance Officer respectively, I have assumed the role of Chairman of the Company. I would like to take this opportunity to thank them both for their many contributions to growing our business. On a personal note I am looking forward to working with everyone in the Company to deliver further value to our customers, consumers and particularly to you, our shareholders.

Consolidated gross turnover grew by 1.9% to \$590.324 million over the same period 2004. In Hong Kong, gross turnover increased by 2.6% to \$329.249 million; in mainland China, the gain was 0.9% to \$261.075 million.

Operations continue to be cash positive despite the consolidated loss after taxation for the six months to June 2005. Cash and cash equivalents at 30th June 2005 amounted to \$482.584 million, \$27.767 million higher than the corresponding figure of \$454.817 million at the end of December 2004.

Consolidated loss after taxation attributable to equity holders of the parent for the six months ended 30th June 2005 was \$12.415 million, as compared with

the loss of \$3.519 million in 2004. In 2004, the Company's results benefited from a tax refund of \$6.101 million from the prior year, for a comparable loss of \$9.620 million.

The first half of 2005 has proven to be a period of considerable challenges in our particular segment of the larger beverage market. While the local economy in Hong Kong continues to strengthen, the beer industry as a whole has contracted, reflecting shifting consumer preferences to other beverage products as well as consumer durables. Yet having recognised this trend early on, we have worked hard to keep pace and provide consumers products of ever greater quality, relevance and convenience.

Indeed, the strategic emphasis during much of the first half has been on further improving the brand value of our flagship brand in each of its markets and investing heavily in local market leader such as Dragon Beer.

Local market leading beer has proven to be important contributor to our overall revenues, providing critical scale to support the development and growth of the San Miguel brand in our key markets. We saw our strongest performances in San Miguel (Guangdong) Brewery Company Limited, which was supported by excellent growth from its local brand, Dragon Beer. Having recorded a 28% growth from the period 2003 to 2004, the brand grew a further 25.7% for the first six months of 2005.

Yet admittedly, the shift in sales mix from high-margin San Miguel brands to lower-margin local brands has redounded to weaker operating results for your business.

To directly address this problem, we have worked to create excitement for our products, generating our own consumption occasions to build a connection with younger drinkers, particularly in our primary market of Hong Kong. Our efforts have been largely successful. For the first six months of the year, we have managed not only to strengthen market share, but have also generated volume growth that inconsistent with the shrinking total beer drinker base. The strength of the core brand performance is a reflection of the sustained investment in brand building over the past few years.

Following stepped up efforts to push volumes and control costs, the second quarter produced a significantly stronger showing, with clear signs of recovery coming from a weak first quarter. While our Hong Kong operations' steadily strengthening performance and that of San Miguel (Guangdong) Brewery Company Limited, contrast with the results reported by Guangzhou San Miguel Brewery Company Limited, we remain optimistic about meeting our growth targets for the second half of the year and fully expect a return to profitability in the second half of 2005.

Looking ahead, we anticipate that the momentum of our flagship brand (buoyed in Hong Kong by a new advertising campaign, "Our City, Our Beer") and the strength of our local brands, will drive volume and turnover growth, even as certain aspects of our business remain challenging. We will work double-

time to retain consumers who enjoy our brands and attract and excite new consumers to win greater market share. This momentum will provide us with the platform to deliver continued earnings growth for the remainder of 2005.

I strongly believe that we have the right ingredients for success and through our efforts have helped create a solid foundation for future growth. Clearly, we still have more work to do, yet as Chairman of your Company, I am focused on driving the Company toward improved performance, consistency of operations and profitable growth.

In closing, I would like to take this opportunity to thank our employees for their dedication and hard work, the directors for their wise counsel, and our customers and suppliers for their continuing support.

Our thanks also go to you, our shareholders. We take this opportunity to renew our commitment to work towards becoming the kind of company that will perform consistently year after year. I look forward to keeping you updated on our progress.



**Ramon S. Ang**, *Chairman*

25th August 2005

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### ***Business Review***

#### **Hong Kong Operations**

The Company's Hong Kong operations recorded a loss of \$2.941 million, as compared with the profit of \$0.771 million in 2004. Nevertheless, this result represented an improvement of \$2.389 million over 2004 levels after excluding the tax refund of \$6.101 million.

Faced with a weaker beer market, total industry volume for the six months to June 2005 was 3% lower than the same period in 2004. Despite a marked shift in consumer preference in favour of low-priced brands, the Company's Hong Kong operations nevertheless managed 0.7% volume growth for the period. Exports volume grew 29.1% for the first half of 2005.

In light of the changing beer market and evolving consumer preferences, the Company has adopted different strategies in order to maintain overall market leadership.

Following proactive efforts over the past several years, the Company is now the largest player in Hong Kong's expanding low-priced brand segment. However, even as the Company continues to gain volume in the low-priced segment, the change in volume mix favouring low-priced brands has significantly reduced the Company's profit margins. As a result the Company has had to continually review its operating costs and structure in order to achieve profitability in the face of diminishing profit margins.

While a price increase of San Miguel brand in May 2004 helped improve profit margins, it also generated pressure on sales volumes, significantly diminishing the price difference between San Miguel brand and other premium beer competitors.

Export volumes continued to grow steadily, peaking during the summer season.

#### **South China Operations**

The Company's China operations' loss was \$15.727 million as compared with the loss of \$4.848 million

in 2004. The operating profit of San Miguel (Guangdong) Brewery Company Limited was \$0.730 million, a turnaround of \$1.164 million over last year's loss of \$0.434 million. However, the operating loss of Guangzhou San Miguel Brewery Company Limited was \$16.457 million, larger than last year's loss of \$4.414 million.

San Miguel (Guangdong) Brewery Company Limited's sales volume growth of 19.7% is directly attributable to the strength of the local flagship brand, Dragon Beer. The continuous success of Dragon Beer reflects the Company's full ownership and control of the marketing and sales of the brand since August 2003.

With rival brands seeking to take market share from Dragon Beer, San Miguel (Guangdong) Brewery Company Limited will implement programmes and plans to consolidate its market leadership in the Shunde region.

Total sales volume of Guangzhou San Miguel Brewery Company Limited for the first six months of 2005 grew 6.1% over the same period in 2004.

While the sales performance in Guangzhou city and Dongguan city remained steady, Guangzhou San Miguel Brewery Company Limited worked to improve sales and distribution network in other regions of Guangdong province where sales performance was weak.

In the second half of 2005, Guangzhou San Miguel Brewery Company Limited will implement plans and programmes to improve sales performance in these regions and launch marketing programmes in its core markets to strengthen the brand equity of San Miguel brand.

Across the business, the Company has tightly managed costs and cash in an effort to spur margin expansion. Indeed, more operational discipline will ensure that the Company has the required resources to support the brands and the business.

### ***Dividends***

The Directors on 25th August 2005 declared an interim dividend of one cent per share for the six months ended 30th June 2005 payable on 30th September 2005 to shareholders of record on 19th September 2005.

## INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

### Interim Dividend

The directors have declared an interim dividend of one cent per share for the six months ended 30th June 2005 payable on Friday, 30th September 2005 to shareholders of record on Monday, 19th September 2005.

### Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 19th September 2005 to Wednesday, 21st September 2005, both days inclusive. To qualify for the dividend, shareholders should ensure that transfers are lodged at the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Friday, 16th September 2005.

### Interim Results

The interim results for the six months ended 30th June 2005 have not been audited by the Company's auditors, but were reviewed by the audit committee on 25th August 2005.

### Directors' Interests

As at 30th June 2005, the directors and their associates had the following beneficial interests in the issued share capital and the 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 under Section 352 of the SFO:

#### (1) Interests in Issued Share Capital

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

Name of Director	Number of shares in San Miguel Corporation		
	Personal interests	Family interests	Approximate % Total of shareholding

#### Class A (par value of 5 pesos each):

Ramon S. Ang	6,050	-	6,050	-
Faustino F. Galang	3,800	-	3,800	-
Ramon A. de la Llana	12,539	-	12,539	-
Ferdinand K. Constantino	94,224	2,070	96,294	-
Francis H. Jardeleza	11,665	-	11,665	-
Estelito P. Mendoza	31,972	-	31,972	-
Gabriel L. Villareal	24,572	11,550	36,122	-

#### Class B (par value of 5 pesos each):

Faustino F. Galang	40,000	-	40,000	-
Ramon A. de la Llana	5,600	-	5,600	-
Francis H. Jardeleza	73,800	-	73,800	-
Gabriel L. Villareal	-	31,900	31,900	-

As at 30th June 2005, the directors and their associates had the following beneficial interests in the share options of the Company's associated corporations (within the meaning of the SFO) as recorded in the register required under Section 352 of the SFO:

#### (2) Interests in Underlying Shares

Name of Director	Date granted	Exercisable period up to	Exercise price (pesos)	Balance of options as at
				30th June 2005

#### Class A (par value of 5 pesos each):

Ramon S. Ang	26/06/03 (Note 1)	26/06/11	54.50	259,422
	01/10/04	01/10/12	57.50	266,854
Faustino F. Galang	26/06/03 (Note 1)	26/06/11	54.50	85,306
	01/10/04	01/10/12	57.50	87,751
Ramon A. de la Llana	26/06/03 (Note 1)	26/06/11	54.50	13,876
	01/10/04	01/10/12	57.50	31,422
Ferdinand K. Constantino	26/06/03 (Note 1)	26/06/11	54.50	50,514
	01/10/04	01/10/12	57.50	56,643
Francis H. Jardeleza	26/06/03 (Note 1)	26/06/11	54.50	52,537
	01/10/04	01/10/12	57.50	56,476

Class B (par value of 5 pesos each):

Ramon S. Ang	26/06/03 (Note 1)	26/06/11	62.50	111,181
	01/10/04	01/10/12	70.50	114,366
Faustino F. Galang	26/06/03 (Note 1)	26/06/11	62.50	12,186
	01/10/04	01/10/12	70.50	37,607
Ramon A. de la Llana	26/06/03 (Note 1)	26/06/11	62.50	5,947
	01/10/04	01/10/12	70.50	13,466
Ferdinand K. Constantino	26/06/03 (Note 1)	26/06/11	62.50	14,432
	01/10/04	01/10/12	70.50	24,275
Francis H. Jardeleza	26/06/03 (Note 1)	26/06/11	62.50	22,516
	01/10/04	01/10/12	70.50	24,204

Note 1:

Stock options were approved and granted by the Board of San Miguel Corporation on 29th January 2004, and were retroactive to 26th June 2003.

Save as disclosed above, as at 30th June 2005, none of the directors or their associates had any interests in the issued share capital or share options of the Company or any of its associated corporations.

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

As at 30th June 2005 according to the register required under Section 336 of the SFO, the Company was notified that the following shareholders had an interest of 5% or more of its issued share capital:

Name	Number of shares of \$0.50 each	
	Ordinary shares held	% of total issued shares
Neptunia Corporation Limited (Note 1)	245,720,800	65.78%
HKSCC Nominees Limited	66,421,832	17.78%
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, Cheung Kong (Holdings) Limited, Li Ka-Shing Unity Trustee Company Limited, Li Ka-Shing Unity Trustee Corporation Limited and Li Ka-Shing Unity Trustcorp

Limited are all deemed to hold the above disclosed interest of Conroy Assets Limited ("Conroy") and Hamstar Profits Limited ("Hamstar") in the Company. The aggregate interest of Conroy and Hamstar exceeding 5% of the issued share capital of the Company constitutes a duty of disclosure under the SFO.

### Purchase, Sale and Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2005.

### Corporate Governance

The Company has complied with all Code Provisions set out in 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 ("Listing Rules") during the period under review except for the following deviations:

1. The board of directors of the Company is in the process of defining the composition and terms of reference of the remuneration committee (Code Provisions B.1.1 to B.1.5).
2. The board of directors is currently formalising functions delegated to management (Code Provision D.1.2).
3. All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1) but are subject to retirement and rotation and re-election at the Company's annual general meeting.

Other than the deviations mentioned above, the Company is also implementing procedures and enhancements to accomplish Code Provisions A.1.7, A.2.1, A.5.1, A.5.4, C.3.3 and C.3.4.

### Audit Committee

In accordance with Appendix 14, the board of directors established an audit committee on 1st January 1999 to review and supervise the Company's financial reporting and internal control systems. The audit committee now consists of three of the Company's independent non-executive directors.

## CONSOLIDATED INCOME STATEMENT – UNAUDITED

for six months ended 30th June, in Hong Kong dollar thousands except per share data

	Note	Six months ended 30th June		Year ended 31st December
		2005	2004	2004
<b>Gross turnover</b>	2	<b>590,324</b>	579,514	1,261,232
Discounts		<b>(149,325)</b>	(147,509)	(322,948)
Cost of sales		<b>(202,287)</b>	(189,709)	(412,141)
Beer duty and taxes		<b>(73,030)</b>	(74,735)	(160,454)
<b>Gross profit</b>		<b>165,682</b>	167,561	365,689
Distribution costs		<b>(16,220)</b>	(18,966)	(39,839)
Selling and administrative expenses		<b>(161,734)</b>	(155,874)	(293,016)
Other operating expenses		<b>(8,155)</b>	(5,685)	(20,509)
(Loss)/profit from operations		<b>(20,427)</b>	(12,964)	12,325
Finance costs		<b>(2,865)</b>	(1,129)	(2,832)
Other revenue		<b>6,598</b>	11,410	9,615
Other net expenses		<b>(570)</b>	(465)	(3,264)
<b>(Loss)/profit before taxation</b>	3	<b>(17,264)</b>	(3,148)	15,844
Income tax	4	<b>(333)</b>	(2,217)	(3,032)
<b>(Loss)/profit after taxation</b>	2	<b>(17,597)</b>	(5,365)	12,812
<b>Attributable to:</b>				
Equity holders of the parent	11	<b>(12,415)</b>	(3,519)	11,578
Minority interests	11	<b>(5,182)</b>	(1,846)	1,234
(Loss)/profit after taxation	11	<b>(17,597)</b>	(5,365)	12,812
<b>Dividends attributable to the interim period/year</b>	5			
Interim dividend declared after the interim period end		<b>(3,736)</b>	–	–
Final dividend proposed after the year end		–	–	(3,736)
		<b>(3,736)</b>	–	(3,736)
<b>(Loss)/earnings per share – Basic</b>	6	<b>(\$0.03)</b>	(\$0.01)	\$0.03

The Notes on pages 11 to 16 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET – UNAUDITED

as at 30th June, in Hong Kong dollar thousands

	Note	As at 30th June 2005	As at 31st December 2004
<b>Non-current assets</b>			
Fixed assets	7	1,908,439	1,939,135
Held to maturity securities – unlisted		135	13,797
Trademarks		31,488	33,435
Goodwill		5,044	5,044
Retirement benefit asset		1,505	1,888
Other assets		8,506	8,490
		<u>1,955,117</u>	2,001,789
<b>Current assets</b>			
Inventories	8	89,026	93,408
Trade and other receivables	9	143,356	104,350
Current tax recoverable		–	66
Amounts due from holding company and fellow subsidiaries		34,043	29,495
Cash and cash equivalents	10	482,584	454,817
		<u>749,009</u>	682,136
<b>Current liabilities</b>			
Bank loans (unsecured)		(50,514)	(50,552)
Trade and other payables	9	(160,670)	(120,134)
Amounts due to holding company and fellow subsidiaries		(25,935)	(26,907)
		<u>(237,119)</u>	(197,593)
<b>Net current assets</b>		<u>511,890</u>	484,543
<b>Total assets less current liabilities</b>		<u>2,467,007</u>	2,486,332
<b>Non-current liabilities</b>			
Interest-bearing liabilities (unsecured)		(195,000)	(195,000)
Leased factory maintenance provision		(49,964)	(47,968)
Deferred taxation		(108,594)	(108,264)
		<u>(353,558)</u>	(351,232)
<b>NET ASSETS</b>		<u>2,113,449</u>	2,135,100
<b>CAPITAL AND RESERVES</b>			
Share capital		186,785	186,785
Reserves	11	1,833,369	1,849,764
<b>Total equity attributable to equity holders of the parent</b>	11	<u>2,020,154</u>	2,036,549
Minority interests	11	93,295	98,551
<b>TOTAL EQUITY</b>	11	<u>2,113,449</u>	2,135,100

The Notes on pages 11 to 16 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

for six months ended 30th June, in Hong Kong dollar thousands

	Note	Six months ended 30th June		Year ended 31st December
		2005	2004	2004
<b>Total equity at beginning of interim period/year</b>		<b>2,135,100</b>	2,121,213	2,121,213
Exchange difference arising on translation of the financial statements of foreign entities	11	<b>(318)</b>	2,902	1,075
<b>Net (loss)/gain recognised directly in equity</b>		<b>(318)</b>	2,902	1,075
Net (loss)/profit for the interim period/year	11	<b>(17,597)</b>	(5,365)	12,812
<b>Total recognised income and expense for the interim period/year</b>		<b>(17,915)</b>	(2,463)	13,887
<i>Attributable to:</i>				
Equity holders of the parent		<b>(12,659)</b>	(2,495)	12,490
Minority interests		<b>(5,256)</b>	32	1,397
		<b>(17,915)</b>	(2,463)	13,887
Dividends declared or approved during the interim period/year	5	<b>(3,736)</b>	–	–
<b>Total equity at the end of interim period/year</b>		<b>2,113,449</b>	2,118,750	2,135,100

The Notes on pages 11 to 16 form part of this interim financial report.

## CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

for six months ended 30th June, in Hong Kong dollar thousands

	Note	Six months ended 30th June		Year ended 31st December
		2005	2004	2004
<b>Operating activities</b>				
(Loss)/profit before taxation		<b>(17,264)</b>	(3,148)	15,844
Adjustments for:				
Depreciation of fixed assets		<b>39,192</b>	38,345	80,630
Impairment loss of fixed assets		–	–	5,183
Interest expense		<b>2,795</b>	1,058	2,683
Interest income		<b>(4,269)</b>	(2,058)	(4,930)
Loss on disposal of fixed assets		<b>378</b>	656	4,040
Amortisation of trademarks		<b>1,947</b>	1,972	4,031
Amortisation of goodwill		–	137	274
Foreign exchange loss/(gain)		<b>266</b>	(568)	(133)
<b>Operating profit before changes in working capital</b>		<b>23,045</b>	36,394	107,622
Decrease/(increase) in inventories		<b>4,382</b>	(429)	(17,905)
(Increase)/decrease in trade and other receivables		<b>(23,249)</b>	(6,513)	10,776
(Increase)/decrease in net amounts due from holding company and fellow subsidiaries		<b>(5,520)</b>	5,913	5,085
Increase/(decrease) in trade and other payables		<b>38,757</b>	9,192	(1,857)
Decrease in retirement benefit liability/asset		–	–	(4,099)
Increase in leased factory maintenance provision		<b>2,032</b>	2,038	4,066
<b>Cash generated from operations</b>		<b>39,447</b>	46,595	103,688
Income tax				
Hong Kong profits tax refunded/(paid)		<b>66</b>	–	(66)
Overseas tax refunded		–	–	6,101
<b>Net cash from operating activities</b>		<b>39,513</b>	46,595	109,723
<b>Investing activities</b>				
Payment for purchase of fixed assets		<b>(9,740)</b>	(6,764)	(12,403)
Payment for purchase of trademarks		–	(49)	(53)
Proceeds from disposal of fixed assets		<b>371</b>	281	1,199
Proceeds from redemption of held to maturity securities		–	6,596	15,975
Interest received		<b>2,524</b>	956	5,325
<b>Net cash (used in)/from investing activities</b>		<b>(6,845)</b>	1,020	10,043
<b>Financing activities</b>				
Repayment of bank loans		–	–	(15,555)
Interest paid		<b>(1,015)</b>	(1,005)	(2,635)
Dividends paid		<b>(3,736)</b>	–	–
<b>Net cash used in financing activities</b>		<b>(4,751)</b>	(1,005)	(18,190)
<b>Net increase in cash and cash equivalents</b>		<b>27,917</b>	46,610	101,576
<b>Cash and cash equivalents at beginning of period/year</b>		<b>454,817</b>	352,964	352,964
<b>Effect of foreign exchange rate changes</b>		<b>(150)</b>	745	277
<b>Cash and cash equivalents at end of period/year</b>	10	<b>482,584</b>	400,319	454,817

The Notes on pages 11 to 16 form part of this interim financial report.

# NOTES TO THE FINANCIAL STATEMENTS

## 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.

The financial information relating to the financial year ended 31st December 2004 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 31st December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24th February 2005.

The same accounting policies adopted in the 2004 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 2004 financial statements.

## 2. Segment Reporting

*in Hong Kong dollar thousands*

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. The segment presentation has been changed from location of assets to location of customers because location of customers can better reflect the financial performance of the Group.

No business segments analysis of the Group is presented as all the Group's turnover and trading result are generated from the manufacture and distribution of bottled, canned and draught beers.

	Hong Kong			PRC			Inter-segment elimination			Consolidated		
	Six months ended	Year ended		Six months ended	Year ended		Six months ended	Year ended		Six months ended	Year ended	
	30th June	31st December	31st December	30th June	31st December	31st December	30th June	31st December	31st December	30th June	31st December	31st December
	2005	2004	2004	2005	2004	2004	2005	2004	2004	2005	2004	2004
Revenue from external customers	329,249	320,863	696,997	261,075	258,651	564,235	-	-	-	590,324	579,514	1,261,232
Inter-segment revenue	16,392	11,925	29,815	-	-	-	(16,392)	(11,925)	(29,815)	-	-	-
Other revenue	2,329	2,482	4,685	-	-	-	-	-	-	2,329	2,482	4,685
Total revenue	347,970	335,270	731,497	261,075	258,651	564,235	(16,392)	(11,925)	(29,815)	592,653	581,996	1,265,917
Segment result	(2,941)	771	19,112	(15,727)	(4,848)	(5,366)				(18,668)	(4,077)	13,746
Unallocated operating income and expenses										4,269	2,058	4,930
Finance costs										(2,865)	(1,129)	(2,832)
Income tax										(333)	(2,217)	(3,032)
(Loss)/profit after taxation										(17,597)	(5,365)	12,812

### 3. (Loss)/profit before taxation

*in Hong Kong dollar thousands*

	Six months ended		Year ended
	30th June		31st December
	2005	2004	2004
(Loss)/profit before taxation is stated after charging/ (crediting) the following items:			
Depreciation of fixed assets	<b>39,192</b>	38,345	80,630
Amortisation of trademarks and goodwill	<b>1,947</b>	2,109	4,305
Interest expenses	<b>2,795</b>	1,058	2,683
Inventory costs	<b>236,953</b>	186,352	405,129
Interest income	<b>(4,269)</b>	(2,058)	(4,930)
Loss on disposal of fixed assets	<b>378</b>	656	4,040

### 4. Income tax in the Consolidated Income Statement

*in Hong Kong dollar thousands*

	Six months ended		Year ended
	30th June		31st December
	2005	2004	2004
<b>Overseas taxation</b>			
Tax refund in respect of previous years	–	–	(6,101)
<b>Deferred taxation</b>	<b>(333)</b>	(2,217)	9,133
	<b>(333)</b>	(2,217)	3,032

No provision for Hong Kong profits tax has been made in the financial statements as the Company sustained losses for taxation purposes.

No provision for overseas taxation has been made in the financial statements as the overseas subsidiaries sustained losses for taxation purposes.

In 2004, the Group received a tax refund from the PRC tax authority in relation to the re-investment of retained profits of a PRC subsidiary into registered capital of that subsidiary.

## 5. Dividends

in Hong Kong dollar thousands

(a) Dividends attributable to the interim period/year

	Six months ended		Year ended
	30th June		31st December
	2005	2004	2004
Interim dividend declared after the interim period end of \$0.01 per share (2004: \$nil per share)	<u>3,736</u>	<u>—</u>	<u>—</u>
	<u>3,736</u>	<u>—</u>	<u>—</u>

The interim dividend declared after balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous year, approved and paid during the interim period/year

	Six months ended		Year ended
	30th June		31st December
	2005	2004	2004
Final dividend in respect of the previous year, approved and paid during the interim period/year, of \$0.01 per share (2004: \$nil per share) (note 11)	<u>3,736</u>	<u>—</u>	<u>—</u>

## 6. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on (loss)/profit attributable to equity holders of the parent for the period ended 30th June 2005 of a loss of \$12,415,000 (30th June 2004 loss of: \$3,519,000; 31st December 2004 profit of: \$11,578,000) and on 373,570,560 ordinary shares (at 30th June and 31st December 2004: 373,570,560 ordinary shares), being the weighted average number of shares in issue during the period/year.

The amount of diluted (loss)/earnings per share is not presented as there were no dilutive potential ordinary shares in existence.

## 7. Fixed assets

*in Hong Kong dollar thousands*

	<b>Plant, property and equipment</b>
	<b>Six months ended 30th June</b>
	<b>2005</b>
At 1st January 2005	<b>1,939,135</b>
Additions	<b>9,822</b>
Disposals	<b>(748)</b>
Exchange adjustments	<b>(578)</b>
Depreciation	<b>(39,192)</b>
At 30th June 2005	<b><u>1,908,439</u></b>

## 8. Inventories

*in Hong Kong dollar thousands*

	<b>As at 30th June</b>	As at 31st December
	<b>2005</b>	2004
Products in hand and in process	<b>31,190</b>	29,763
Materials and supplies	<b>57,836</b>	63,645
	<b><u>89,026</u></b>	<u>93,408</u>

## 9. Trade receivables and payables – ageing analysis

*in Hong Kong dollar thousands*

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 accounts receivable and follow up collections. General credit terms are payment by the end of the month following the month in which sales took place.

The ageing of trade receivables (net of provision for bad and doubtful debts) is as follows:

	<b>As at 30th June</b>	As at 31st December
	<b>2005</b>	2004
From invoice date		
Less than 30 days	<b>43,659</b>	25,800
31 to 60 days	<b>20,566</b>	21,572
61 to 90 days	<b>6,879</b>	7,716
over 90 days	<b>15,818</b>	9,564
	<b><u>86,922</u></b>	<u>64,652</u>

The ageing of trade payables is as follows:

	<b>As at 30th June</b>	As at 31st December
	<b>2005</b>	2004
From invoice date		
Less than 30 days	<b>46,574</b>	41,172
31 to 60 days	<b>3,204</b>	1,709
61 to 90 days	<b>1,735</b>	285
over 90 days	<b>2,490</b>	1,546
	<b>54,003</b>	44,712

## 10. Cash and cash equivalents

*in Hong Kong dollar thousands*

Cash and cash equivalents comprise:

	<b>As at 30th June</b>	As at 31st December
	<b>2005</b>	2004
Deposits with banks	<b>403,255</b>	386,284
Cash at bank and in hand	<b>79,329</b>	68,533
	<b>482,584</b>	454,817

## 11. Reserves

*in Hong Kong dollar thousands*

	Attributable to equity holders of the parent							
	Share capital	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve	Total	Minority interests	Total equity
Balance at 1st January 2004	186,785	65,739	112,970	(5,737)	1,664,302	2,024,059	97,154	2,121,213
Loss for the period	—	—	—	—	(3,519)	(3,519)	(1,846)	(5,365)
Exchange gain arising on consolidation	—	—	—	1,024	—	1,024	1,878	2,902
Balance at 30th June 2004	<b>186,785</b>	<b>65,739</b>	<b>112,970</b>	<b>(4,713)</b>	<b>1,660,783</b>	<b>2,021,564</b>	<b>97,186</b>	<b>2,118,750</b>
Balance at 1st July 2004	186,785	65,739	112,970	(4,713)	1,660,783	2,021,564	97,186	2,118,750
Gain for the period	—	—	—	—	15,097	15,097	3,080	18,177
Exchange loss arising on consolidation	—	—	—	(112)	—	(112)	(1,715)	(1,827)
Balance at 31st December 2004	<b>186,785</b>	<b>65,739</b>	<b>112,970</b>	<b>(4,825)</b>	<b>1,675,880</b>	<b>2,036,549</b>	<b>98,551</b>	<b>2,135,100</b>
Balance at 1st January 2005	186,785	65,739	112,970	(4,825)	1,675,000	2,036,549	98,551	2,135,100
Dividends attributable to the previous year, approved and paid during the period (note 5)	—	—	—	—	(3,736)	(3,736)	—	(3,736)
Loss for the period	—	—	—	—	(12,415)	(12,415)	(5,182)	(17,597)
Exchange loss arising on consolidation	—	—	—	(244)	—	(244)	(74)	(318)
<b>Balance at 30th June 2005</b>	<b>186,785</b>	<b>65,739</b>	<b>112,970</b>	<b>(5,069)</b>	<b>1,659,729</b>	<b>2,020,154</b>	<b>93,295</b>	<b>2,113,449</b>

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The exchange fluctuation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for translation of foreign currencies.

The capital reserve of the Group represents the reserve arising from the capitalisation of retained profits of a PRC subsidiary.

## 12. Material related party transactions

The Group purchased and sold products and materials from and to companies that either had a controlling interest in the Group or were also subsidiaries of the ultimate holding company. These transactions were carried out under the same terms as the related parties trade with other customers. For the six months ended 30th June 2005, total purchases from and sales to these related parties were \$25,363,000 (\$27,532,000 for the six months ended 30th June 2004) and \$17,081,000 (\$14,740,000 for the six months ended 30th June 2004) respectively. The net amount due to these related parties amounted to \$8,108,000 (\$1,760,000 as at 30th June 2004) on 30th June 2005.

## 13. Commitments

*in Hong Kong dollar thousands*

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

	<b>As at 30th June 2005</b>	As at 31st December 2004
Contracted for	<b>579</b>	1,120
Authorised by the directors but not contracted for	<b>25,381</b>	3,516
	<b>25,960</b>	4,636

## 14. Contingent liabilities

*in Hong Kong dollar thousands*

In accordance with a subsidiary company's factory lease agreement, except for certain specified reasons, the subsidiary company is required to pay the lessor a penalty of \$10.58 million (adjusted for exchange differences) if the agreement is terminated before 28th February 2021, the expiry date of the lease.

As at 30th June 2005, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to subsidiary companies.

	<b>As at 30th June 2005</b>	As at 31st December 2004
Guarantees to banks	<b>50,513</b>	50,552



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