



SAN MIGUEL BREWERY
HONG KONG LTD.
香港生力啤酒廠有限公司

**ANNUAL
REPORT
2006 年報**



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

CORPORATE INFORMATION

DIRECTORS

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

Non-Executive Director

Minerva Lourdes B. Bibonia
Ferdinand K. Constantino

Independent Non-Executive Director

David K.P. Li, GBS, JP
Ng Wai Sun
Ian F. Wade
Adrian M.K. Li, *Alternate to David K.P. Li, GBS, JP*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Ng Wai Sun, *Chairman*
Ferdinand K. Constantino
Faustino F. Galang
David K.P. Li, GBS, JP
Ian F. Wade

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
18th 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
ING Bank N. V.
Standard Chartered Bank
The Bank of East Asia, Limited
The Hongkong and Shanghai
Banking Corporation Limited

Our Products

我們的產品



THE YEAR'S HIGHLIGHTS

(Expressed in Hong Kong dollars except number of shares issued, shareholders and personnel)

	2006	2005
Turnover (\$'000)	826,817	806,909
Loss for the year (\$'000)	(106,322)	(65,406)
Loss per share - Basic (\$)	(0.19)	(0.09)
Taxes paid, including beer tax (\$'000)	127,007	141,219
Taxes paid per share (\$)	0.34	0.38
Cash dividends attributable to the year (\$'000)	-	3,736
Cash dividends per share (\$)	-	0.01
Fixed assets (\$'000)	1,769,377	1,838,164
Net worth (\$'000)	1,974,097	2,062,073
Payroll (\$'000)	118,836	128,539
Number of shares issued	373,570,560	373,570,560
Number of shareholders	2,358	2,493
Number of personnel	768	1,151



Ramon S. Ang
Chairman

To Our Shareholders,

FINANCIAL RESULTS

2006 was an important year strategically for San Miguel Brewery Hong Kong Limited as the Company completed its major initiative of restructuring its South China operations and rationalising its production capacities in the region.

Amid demanding and a highly competitive operating environment, the Company delivered mixed results. Though consolidated beer volume grew by 8.6% over previous year, consolidated gross turnover was at par with 2005 at HK\$1.3 billion. Netting of all discounts and taxes, consolidated turnover at HK\$826.8 million was 2.4% above last year. The continuous growth of the low-priced segment, competitive pricing and the increase in production cost greatly affected the Company's results.

Consolidated loss attributable to equity shareholders after taxation and minority interests increased from HK\$35.0 million to HK\$70.1 million. This however included one-time restructuring costs

of South China operations of HK\$60.6 million after minority interests. Without the restructuring costs, consolidated loss would have been HK\$9.5 million.

The Company continued to be cash positive in 2006. Net cash balances at 31 December 2006 amounted to HK\$240.9 million (2005: HK\$237.9 million). Total net assets maintained at HK\$1,974.1 million (2005: HK\$2,062.1 million) together with a low debt to equity ratio of 0.09 (2005: 0.07) and current ratio of 2.2 times (2005: 2.5 times).

DIVIDENDS

Directors have resolved that no dividends will be declared for 2006.

BUSINESS REVIEW

HONG KONG OPERATIONS

Intense price competition in the local beer market and shift in consumer preference toward low-priced brands continued to be the primary challenges for the beer industry and our Company. For two consecutive years, the beer industry suffered a volume decline with 2006 registering a 1.6% contraction from the previous year. This was brought about by the emergence of wine (both still and sparkling) and whisky drinkers challenging beer's substantial share of alcoholic beverage market.

Meanwhile, though the increasing share of low-priced brands have slowed down from 40.7% in 2005 to 40.9% in 2006, the general prices of beer have defied the inflationary trend of composite price index. Instead of following the increasing price index at 2.3%, beer prices resisted and recorded a deflation of 2.9%.

Unfortunately, the 26.3% and 5.4% increases over previous year in sales volume of imported premium brands and low-priced brands respectively were not able to offset the performance of San Miguel in the Hong Kong market. Nevertheless, the San Miguel brand retained its position as the Number One brand in 2006.

To ensure its leadership position and meet the challenges of the market, the Company has reviewed and devised a holistic set of plans and programs to reinforce and build San Miguel's brand equity specifically geared towards fortifying the bond with customers and consumers.

CHAIRMAN'S STATEMENT

March 2006 witnessed the inaugural illumination of the giant San Miguel neon-sign on top of the Excelsior Hotel at Causeway Bay. This participation in the world-famous Hong Kong skyline shows San Miguel's dedication to highlight its position in the market.

In 2007, the Company will launch a new marketing campaign for the brand San Miguel which includes television commercials, complemented with market promotions revolving around the theme. Furthermore, point of sales visibility blitz, on-line communications and public relation programs will be intensified to support this drive.

Building on the huge success of the "San Miguel WildDayOut" programs in the last three years, the Company will continue to organize more WildDayOut bar shows and promotion programs to solidify the brand San Miguel communication platform to young consumers. All these will culminate with the year-end outdoor grand concert headlined by popular local and international artistes.

These programs and activities, on top of our continuous commitment to improve excellence in execution and management of cost base, will serve to help us achieve our target of maintaining market leadership in Hong Kong this year.

SOUTH CHINA OPERATIONS

The Company's total sales volume and gross turnover in South China grew by 10.2% and 5.5% over previous year respectively. Before a one-time restructuring costs of HK\$93.2 million (2005: HK\$63.3 million), South China operations recorded a profit after tax of HK\$5.0 million, against a loss of HK\$25.0 million in 2005.

Sales volume of San Miguel (Guangdong) Brewery Company Limited ("SMGB") continued to sustain its solid growth by 33.8% over the previous year, mainly driven by Dragon and Valor brand. The launching of Dragon television commercial in Shunde and nearby counties, "Refreshing to Fly" and eye-catching outlet signage in key outlets in Greater Foshan, have further improved the brand awareness and brand equity in the local beer market.

To cater to the volume requirements of Guangzhou San Miguel Brewery Company Limited ("GSMB") and its growing market requirements, SMGB has embarked on an expansion program last year aimed at increasing the brewery's production to an annual capacity of 1.3 million hectolitre in 2006. As of December 2006, SMGB has completed 82% of its phase I expansion. It is expected to be completed by May 2007 in time for the peak season.

On the other hand, GSMB has shown strong recovery and progress after the handover of the factory and production assets to Guangzhou Brewery last October. While the sales volume in 2006 declined by 0.9% over the previous year, the strategic intent to push for higher-priced products enabled sales revenue to increase by 5.0%.

The launch of the San Mig Light television commercial and outdoor advertising in core markets were very successful in driving brand awareness and consumption contributing significantly to San Mig Light's volume growth of 4.3% year on year.

For 2007, GSMB will continue to rebuild and improve its organization developing a cohesive and fully engaged team to enhance dealership and outlet management programs that will further strengthen the San Miguel brand.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

Similar to past years, the Company regularly sponsored and participated in various local community events in year 2006.

The Company is also committed to protecting the environment where it operates and ensures that environmental standards set by governments and other authorities are met or exceeded.

HUMAN RESOURCES

The Company continues to invest in its people. All employees continue to receive appropriate training and competent support from their colleagues, with emphasis on a strong team spirit to achieve targeted results in the highly competitive business

environment. To further foster camaraderie among employees in working towards a common goal, everyone is kept abreast of the latest developments within the Company via annual corporate direction briefings, intranet messaging and emails.

The Company also offers competitive remuneration packages commensurate with market standards and provides attractive fringe benefits, including medical and insurance coverage and retirement packages to all employees.

Moreover, to enhance employee's sense of belonging, the Company encourages employees and their families to participate in company-sponsored staff activities. Aside from promoting teamwork, this boosts employees' morale and creates a harmonious working environment.

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 throughout the year 2006 except all of the non-executive directors are not appointed for a specific term but are subject to retirement and rotation and re-election at the Company's Annual General Meeting. Details of compliances are set out in the Company's Annual Report's Corporate Governance section.

DIRECTORS

A number of directors resigned from the Board since we published our interim report on 12 September 2006. They were Ms. Ma. Belen C. Buensuceso and Mr. Roberto N. Huang. We thank Ms. Buensuceso and Mr. Huang for their contributions to the Group over the past years.

Likewise, Messrs Carlos M. Berba and Francis H. Jardeleza were nominated to fill the vacated office at the forthcoming Annual General Meeting.

FUTURE DIRECTION AND CHALLENGES

The objectives of the Company for the year 2007 are:

- In Hong Kong, to improve profitability, increase our market share and continue to reinforce the market leadership of San Miguel brand.
- In South China, to rebuild the organization after the restructuring of GSMB, strengthen San Miguel brand equity and consolidate the growth of Dragon brand.

Moving forward, as the Company has a number of dynamic growth strategies in place, together with the set of highly motivated teams and a healthy cash position to support these initiatives, we anticipate that we will be able to provide a firm foundation for the Company's sustained growth in 2007.

In closing, I would like to take this opportunity to thank our Board for its support and guidance, all the employees for their dedication and hard work, and our customers and business associates for their continuing support and trust over the years.

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



Ramon S. Ang
Chairman

6 March 2007

REPORT OF THE DIRECTORS

To be presented at the Forty-fourth Annual General Meeting of shareholders to be held at Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 16 April 2007 at 3:00 p.m.

The directors submit herewith their Annual Report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL PLACE OF BUSINESS

San Miguel Brewery Hong Kong Limited (the "Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 9/F, Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the manufacture and distribution of bottled, canned and draught beers. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements.

The analysis of geographical locations of the operations of the Company and its subsidiaries (the "Group") during the year is set out in note 13 to the financial statements.

As the Group's turnover and profit and loss are almost entirely attributable to these activities, no analysis by activity is provided.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	16.2%	
Five largest customers in aggregate	45.9%	
The largest supplier		5.8%
Five largest suppliers in aggregate		19.8%

The largest supplier was San Miguel Corporation Group, the ultimate holding company of the Company, in which Messrs Ramon S. Ang, Faustino F. Galang, Chong Yoon Fatt, Minerva Lourdes B. Bibonia, Ma. Belen C. Buensuceso, Ferdinand K. Constantino and Roberto N. Huang have beneficial interests to the extent that they either have equity interests in or are directors.

Save as disclosed above, none of the directors, their associates, or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers or suppliers.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 32 to 64.

TRANSFER TO RESERVES

Loss for the year of HK\$106.3 million (2005 (restated): HK\$65.4 million) has been transferred to reserves. Other movements in reserves are set out in note 29 to the financial statements.

DIVIDENDS

The directors have resolved that no final dividend be declared for the year ended 31 December 2006.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$8,000 (2005: HK\$17,000).

FIXED ASSETS

The Group spent HK\$55.1 million (2005: HK\$20.1 million) on fixed assets during the year. Details of these acquisitions and other movements in fixed assets are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 29 to the financial statements. There were no movements during the year.

DIRECTORS

With the exception of Ms. Minerva Lourdes B. Bibonia, the directors of the Company, whose names appear on page 2 of the Annual Report, were directors for the year and as at the date of this Annual Report.

Ms. Ma. Belen C. Buensuceso and Mr. Roberto N. Huang resigned from the office of director on 6 March 2007.

Messrs Ramon S. Ang, Faustino F. Galang and Ferdinand K. Constantino retire by rotation in accordance with Article 105 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Messrs Carlos Antonio M. Berba and Francis H. Jardeleza are nominated to fill the vacated office at the forthcoming Annual General Meeting.

None of the directors proposed for election and re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS

The directors of the Company who held office at 31 December 2006 had the following personal interests in the shares of the Company, its holding companies, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests required to be kept under Section 352 of the SFO:

(I) INTERESTS IN ISSUED SHARES

Directors	Number of ordinary shares of HK\$0.50 each in the Company	
	Number of shares held	% of total issued shares
David K. P. Li	300,000	0.08%

Directors	Number of common shares in San Miguel Corporation	
	Number of shares held	% of total issued shares
Class A (par value of 5 pesos each):		
Ramon S. Ang	6,050	0.000192%
Faustino F. Galang	83,800	0.002662%
Minerva Lourdes B. Bibonia	30,000	0.000953%
Ma. Belen C. Buensuceso	45,018	0.001430%
Ferdinand K. Constantino	89,160	0.002832%
Roberto N. Huang	12,430	0.000395%
Class B (par value of 5 pesos each):		
Faustino F. Galang	60,000	0.001906%
Minerva Lourdes B. Bibonia	30,000	0.000953%
Roberto N. Huang	2,750	0.000087%

(II) INTERESTS IN UNDERLYING SHARES

Certain directors of the Company have been granted stock options to subscribe for common shares in San Miguel Corporation ("SMC") under SMC's stock option scheme. Particulars of stock options in SMC held by directors during the year and as at 31 December 2006 are as follows:

Stock options in San Miguel Corporation								
Directors	Date granted	Exercise period up to	Exercise price per option (pesos)	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of options exercised during the year	No. of options outstanding at the year end	
Class A (par value of 5 pesos each):								
Ramon S. Ang	26 June 2003	26 June 2011	54.50	259,422	–	–	259,422	
	1 October 2004	1 October 2012	57.50	266,854	–	–	266,854	
	10 November 2005	10 November 2013	65.00	204,654	–	–	204,654	
Faustino F. Galang	26 June 2003	26 June 2011	54.50	28,435	–	–	28,435	
	1 October 2004	1 October 2012	57.50	87,751	–	–	87,751	
	10 November 2005	10 November 2013	65.00	67,090	–	–	67,090	
Chong Yoon Fatt	10 November 2005	10 November 2013	65.00	1,027	–	–	1,027	
	Minerva Lourdes B. Bibonia	26 June 2003	26 June 2011	54.50	11,928	–	–	11,928
		1 October 2004	1 October 2012	57.50	26,750	–	–	26,750
Ma. Belen C. Buensuceso	10 November 2005	10 November 2013	65.00	33,824	–	–	33,824	
	26 March 1998	26 March 2006	34.71	7,200	–	(7,200)	–	
	26 June 2003	26 June 2011	54.50	36,144	–	–	36,144	
Ferdinand K. Constantino	1 October 2004	1 October 2012	57.50	38,854	–	–	38,854	
	10 November 2005	10 November 2013	65.00	30,789	–	–	30,789	
	26 June 2003	26 June 2011	54.50	16,838	–	–	16,838	
Roberto N. Huang	1 October 2004	1 October 2012	57.50	56,643	–	–	56,643	
	10 November 2005	10 November 2013	65.00	48,391	–	–	48,391	
	26 June 2003	26 June 2011	54.50	36,144	–	–	36,144	
	1 October 2004	1 October 2012	57.50	40,529	–	–	40,529	
	10 November 2005	10 November 2013	65.00	31,967	–	–	31,967	

DIRECTORS' INTERESTS (Continued)

(II) INTERESTS IN UNDERLYING SHARES (Continued)

Stock options in San Miguel Corporation

Directors	Date granted	Exercise period up to	Exercise price per option (pesos)	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of options exercised during the year	No. of options outstanding at the year end
Class B (par value of 5 pesos each):							
Ramon S. Ang	26 June 2003	26 June 2011	62.50	111,181	-	-	111,181
	1 October 2004	1 October 2012	70.50	114,366	-	-	114,366
	10 November 2005	10 November 2013	89.50	136,436	-	-	136,436
Faustino F. Galang	26 June 2003	26 June 2011	62.50	12,186	-	-	12,186
	1 October 2004	1 October 2012	70.50	37,607	-	-	37,607
	10 November 2005	10 November 2013	89.50	44,727	-	-	44,727
Chong Yoon Fatt	10 November 2005	10 November 2013	89.50	684	-	-	684
Minerva Lourdes B. Bibonia	26 June 2003	26 June 2011	62.50	5,112	-	-	5,112
	1 October 2004	1 October 2012	70.50	11,464	-	-	11,464
	10 November 2005	10 November 2013	89.50	22,550	-	-	22,550
Ma. Belen C. Buensuceso	26 June 2003	26 June 2011	62.50	5,163	-	-	5,163
	1 October 2004	1 October 2012	70.50	16,652	-	-	16,652
	10 November 2005	10 November 2013	89.50	20,526	-	-	20,526
Ferdinand K. Constantino	26 June 2003	26 June 2011	62.50	7,216	-	-	7,216
	1 October 2004	1 October 2012	70.50	24,275	-	-	24,275
	10 November 2005	10 November 2013	89.50	32,260	-	-	32,260
Roberto N. Huang	26 June 2003	26 June 2011	62.50	15,490	-	-	15,490
	1 October 2004	1 October 2012	70.50	17,370	-	-	17,370
	10 November 2005	10 November 2013	89.50	21,312	-	-	21,312

Notes: The only stock option exercised by directors during the year were disclosed above. All interests in the share and underlying shares of the Company, its holding companies, subsidiaries and other associated corporations are long positions.

Apart from the foregoing, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Apart from the foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by directors of listed companies.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 December 2006 amounting to 5% or more of the ordinary shares in issue:

Substantial shareholders	Ordinary shares of HK\$0.50 each	
	Number of ordinary shares held	% of total issued shares
Neptunia Corporation Limited (note 1)	245,720,800	65.78%
Conroy Assets Limited (note 2)	13,624,600	3.65%
Hamstar Profits Limited (note 2)	10,078,400	2.70%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

Notes:

- (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 ("Neptunia") 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 Neptunia.
- (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.

All interests in the share of the Company are long positions.

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Pursuant to an Agreement dated 12 June 1963, Neptunia Corporation Limited provides technical and advisory services to the Company and may be paid a General Managers' Commission. Messrs Ramon S. Ang, Faustino F. Galang, Chong Yoon Fatt, Minerva Lourdes Bibonia, Ma Belen C. Buensuceso, Ferdinand K. Constantino and Roberto N. Huang are interested parties to this contract to the extent that they either have equity interests in or are directors of San Miguel Corporation, the ultimate holding company of Neptunia Corporation Limited. General Managers' Commission has not been paid by the Company or charged by Neptunia Corporation Limited since the 1995 financial year.

Save as disclosed above, no contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

(1) CONNECTED TRANSACTIONS MADE WITH GUANGZHOU BREWERY

Guangzhou San Miguel Brewery Company Limited ("GSMB"), a subsidiary of the Company, entered into a factory lease agreement (the "Lease Agreement") with Guangzhou Brewery ("GB"), a substantial shareholder holding 30% interests of GSMB, upon the establishment of GSMB whereby GSMB agreed to lease the factory buildings, brewery equipment and related facilities from GB for production purposes. The Lease Agreement expires on 29 November 2020. However, after reviewing GSMB's operations, the Company believed that it was in its best interests to cease the manufacturing operations of GSMB and to terminate the Lease Agreement. On 29 September 2006, GSMB and GB entered into a Termination Agreement (the "Termination Agreement") in respect of the termination of the Lease Agreement (the "Lease Termination") and the sale of certain production assets owned by GSMB (the "Production Assets") to GB (the "Asset Sale").

CONNECTED TRANSACTIONS *(Continued)***(1) CONNECTED TRANSACTIONS MADE WITH GUANGZHOU BREWERY** *(Continued)*

The handover of the leased assets and the Production Assets from GSMB to GB took place on 31 October 2006. After cessation of the manufacturing operations, GSMB continues the sale and distribution of beer and sources beer products from its fellow subsidiary and other external manufacturers under toll-processing arrangements.

Since GB is a substantial shareholder of GSMB and GSMB is a subsidiary of the Company, GB is a connected person of the Company for the purposes of the Listing Rules. Accordingly, the Lease Termination and the Asset Sale constitute a connected transaction for the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements. An announcement was made by the Company on 29 September 2006 in this connection.

Pursuant to the terms of the Termination Agreement, GSMB paid GB the following amounts, totalling approximately RMB 32.2 million (equivalent to approximately HK\$31.6 million) in respect of the Lease Termination:

- (i) a security deposit already in GB's possession of RMB5 million together with the relevant interest of approximately RMB 1.1 million up to 31 October 2006, in accordance with the provisions in the Lease Agreement;
- (ii) a penalty for early termination of the Lease Agreement of approximately RMB 6.3 million in accordance with the provisions in the Lease Agreement;
- (iii) repairs and maintenance costs of the leased assets of approximately RMB 9.4 million, which were determined based on arm's length negotiations between the parties with reference to, among other things, the obligations of GSMB under the Lease Agreement to repair and maintain the leased assets to keep them in normal working condition, assessments of the working condition of the leased assets and estimates of the costs required to restore certain assets back to normal work condition, as well as book value of certain assets which are not capable of being restored to normal working condition; and
- (iv) gratuity payment of approximately RMB 10.4 million, representing 6 months' rental under the Lease Agreement, which was determined based on arm's length negotiations between the parties with reference to the estimated time that GB may require to return the factory to full scale operation after the completion date of the Termination Agreement.

Regarding the Asset Sale, pursuant to the Termination Agreement, GSMB will sell the Production Assets to GB for a consideration of approximately RMB 37.3 million (equivalent to approximately HK\$36.8 million), which consideration comprised buildings and structures of approximately RMB 12.2 million, and plant and machinery of approximately RMB 25.1 million. The consideration was determined based on arm's length negotiations with reference to the net book value of the Production Assets as shown in GSMB's accounts as at 31 August 2006.

The Company obtained a written approval from Neptunia Corporation Limited, which controls approximately 65.78% of the issued capital of the Company, in respect of the Termination Agreement and the transactions contemplated thereunder (which includes the Lease Termination and Assets Sale), and The Stock Exchange of Hong Kong Limited has granted the Company a waiver from strict compliance with the requirement to hold a shareholders' meeting for the approval of such connected transactions. The independent board committee ("IBC") established to advise the independent shareholders on the terms of the Termination Agreement and the independent financial adviser to the IBC have expressed that the terms of the Termination Agreement are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(2) CONNECTED TRANSACTIONS MADE WITH SAN MIGUEL CORPORATION AND ITS SUBSIDIARIES

In order to comply with the Listing Rules, the Company entered into an agreement (the "Agreement") with San Miguel Corporation ("SMC"), the ultimate holding company of the Company, on 11 March 2005 to govern the terms upon which the continuing connected transactions will be carried out between members of the Group and members of the SMC Group. The Agreement will expire on 31 December 2007. Under the Agreement, the Group entered into the following continuing connected transactions during the year. Each of the continuing connected transactions is not expected to exceed the following caps.

The Agreement was approved by independent shareholders at the Extraordinary General Meeting of the Company held on 7 April 2005.

	2006 Actual <i>HK\$'000</i>	2006 Cap <i>HK\$'000</i>	2007 Cap <i>HK\$'000</i>
Purchase of packaging materials (comprising cans, bottles, crown seals and crates) by the Group from the SMC Group	33,569	92,600	105,700
Purchase of packaged beer by the Group from the SMC Group	2,873	4,700	5,000
Sales of packaged beer by the Group to the SMC Group	23,373	53,600	60,700
Payment of commission by the Group to the SMC Group in respect of sales of packaged beer by the Group directly to customers in certain countries (other than Hong Kong, Macau and the PRC)	1,244	1,300	1,600

The on-going transactions had been reviewed by the independent non-executive directors of the Company who had confirmed that the on-going transactions were entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms and on terms in accordance with the Agreement that were fair and reasonable so far as the shareholders of the Company were concerned; and
- (3) the aggregate amount of the on-going transactions did not exceed the relevant caps as set out in the announcement dated 11 March 2005.

The Company has received from the auditors a letter reporting that the on-going transactions:

- (1) have received the approval of the board of directors of the Company;
- (2) were entered into in accordance with the pricing policies of the Group for those transactions involve provision of goods by the Group;
- (3) have been entered into in accordance with the Agreement dated 11 March 2005; and
- (4) have not exceeded the relevant caps as set out in the announcement dated 11 March 2005.

RETIREMENT AND PENSION PLANS, PERSONNEL AND PAYROLL

The Company and its subsidiaries in Hong Kong have sponsored a non-contributory defined benefit scheme, The San Miguel Brewery Hong Kong Limited Retirement Fund (the "Fund"), covering local permanent employees, which was registered in September 1995 under the Occupational Retirement Schemes Ordinance. The Fund is formally established under trust and the assets are separately held in an independently administered fund. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the Fund are made in accordance with the recommendations of independent actuaries who value the retirement scheme at regular intervals, usually triennially.

The Fund was granted exemption from Mandatory Provident Fund regulations by the Mandatory Provident Fund Scheme Authority on 24 July 2000, following modifications to the Fund benefits which comply with Mandatory Provident Fund regulations.

Pursuant to Government legislation, Allianz Global Investors Hong Kong Limited was selected by the Company as an alternative Mandatory Provident Fund ("MPF") service provider for employees of the Company who do not wish to remain in or join the Fund. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the MPF scheme vest in employee members immediately.

Employees in the subsidiaries in the People's Republic of China are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. Contributions to the Central Pension Scheme vest in employee members immediately. The only obligation for the subsidiaries with respect to the Central Pension Scheme is the associated required contribution under the Central Pension Scheme.

A formal actuarial assessment of the San Miguel Brewery Hong Kong Limited Retirement Fund with the recommendations on the level of contributions to the Fund in the coming three years was carried out as at 31 December 2006 and the results were as follows:

- (a) The actuary of the Fund is Mr A. Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age method was used. Other major assumptions used in the valuation were: Investment return 6.5% per annum; Long term salary escalation 3% per annum; Mortality Rates 2001 Hong Kong Life Tables; Normal retirement age 60; Early retirement rates allowed between ages 55 to 60.
- (b) The unaudited market value of the Fund assets was HK\$88.7 million as at 31 December 2006.
- (c) The minimum level of funding as recommended by the Fund actuary was 16% of salary for 2007, 2008 and 2009.
- (d) The solvency deficit was HK\$19.9 million, i.e. the obligation under this Fund was 86% covered by the Fund's assets, at 31 December 2006.

For the purposes of preparing the financial statements, an independent actuarial valuation was also carried at 31 December 2006 following the methodology set out in Hong Kong Accounting Standard 19, Employee benefits. Details of this valuation are set out in note 27 to the financial statements.

Particulars of the number of personnel and payroll expenses of the Group are set out on page 4 of this Annual Report.

REPORT OF THE DIRECTORS

LIQUIDITY AND FINANCIAL RESOURCES

Working capital at the end of the year was \$328.6 million compared with \$360.9 million in 2005.

Cash and bank deposits at year end were \$416.3 million (2005: \$383.3 million) and are sufficient to fund working capital requirements and capital expenditure in 2007.

BANK LOANS

The Group has short term credit facilities of \$207.4 million (2005: \$169.0 million) of which \$80.4 million (2005: \$50.4 million) had been utilised as at 31 December 2006.

Long term loans at year end amounted to \$95.0 million (2005: \$95.0 million).

Total borrowing at the year end for the Company were \$95.0 million (2005: \$95.0 million) and for the Group of \$175.4 million (2005: \$145.4 million).

Particulars of bank loans of the Company and the Group as at 31 December 2006 are set out in note 23 to the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66 of the Annual Report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed shares.

CODE OF BEST PRACTICE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance section on pages 18 to 24.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

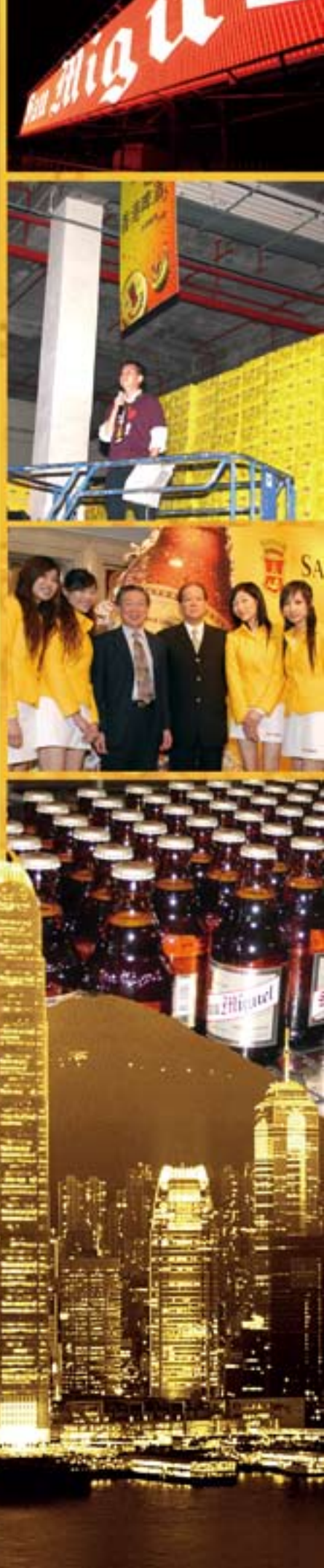
By order of the board



Ramon S. Ang
Chairman

Hong Kong, 6 March 2007

Our Company
我們的公司



CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2006

COMMITMENT TO CORPORATE GOVERNANCE

The Company is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The board and the senior management of the Company ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company. These include a board comprising high calibre members, board committees and effective internal systems and controls.

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006 (the "year under review"), save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviation therefrom, for the year under review.

THE BOARD

The management and control of the business of the Company is vested in its board. It is the duty of the board to create value to the shareholders of the Company, establish the Company's strategic direction, set the Company's objectives and plan in accordance therewith, and provide leadership and ensure availability of resources in the attainment of such objectives. The board is bound to manage the Company in a responsible and effective manner, and therefore every director ensures that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The board and the executive management have clearly defined responsibilities under various internal control and checks-and-balance mechanisms. The board has delegated a schedule of responsibilities to the executive management of the Company. These responsibilities include: implementation of the decisions of the board and organization and direction of the day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the board; preparation and monitoring of annual production plans and operating budget; and control, supervision and monitoring of capital, technical and human resources.

The board held more than four meetings during the year under review. The chief finance officer and company secretary attended all the scheduled board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance, and kept detailed minutes of each meeting, which are available for all directors. At the meeting, the directors discussed and formulated overall strategies for the Company, monitor financial performance and discussed the annual and interim results, as well as other significant matters. Daily operational matters are delegated to management.

At least 14 days of notice of all board meetings was given to all directors, and all directors were given the opportunity to include matters for discussion in the agenda. An agenda and accompanying board papers are sent in full to all directors at least 3 days before every board meeting.

The number of full board meetings and committee meetings attended by each director during the year under review is set out in the following table. Figure in brackets indicates maximum number of meetings in the period in which the individual was a board member or board committee member (as the case may be).

Note	Scheduled board meetings	Audit committee meetings	Remuneration committee meetings	Nomination meetings
Independent non-executive directors				
Dr. The Hon. Sir David K.P. Li/ Alternate, Mr. Adrian M.K. Li	4/(5)	2/(2)	2/(2)	1/(1)
Mr. Ng Wai Sun	5/(5)	2/(2)	2/(2)	1/(1)
Mr. Ian F. Wade	4/(5)	2/(2)	2/(2)	1/(1)
Executive director				
Mr. Chong Yoon Fatt – managing director	5/(5)	n/a	n/a	1/(1)
Non-executive directors				
Mr. Ramon S. Ang, chairman	3/(5)	n/a	n/a	0/(1)
Mr. Faustino F. Galang, deputy chairman	5/(5)	n/a	2/(2)	1/(1)
Ms. Minerva Lourdes B. Bibonia (i)	3/(4)	n/a	n/a	n/a
Ms. Ma. Belen C. Buensuceso (i)	4/(4)	n/a	n/a	n/a
Mr. Ferdinand K. Constantino	5/(5)	n/a	2/(2)	1/(1)
Mr. Roberto N. Huang (i)	4/(4)	n/a	n/a	n/a
Mr. Francis H. Jardeleza (ii)	n/a	n/a	n/a	n/a
Mr. Estelito P. Mendoza (ii)	n/a	n/a	n/a	n/a

Notes:

- (i) Appointed as non-executive director on 24 February 2006.
- (ii) Resigned as non-executive director on 24 February 2006.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The chairman of the board is Mr. Ramon S. Ang, and the chief executive officer (or managing director, in the case of the Company) is Mr. Chong Yoon Fatt. The chairman's and the managing director's roles are clearly defined to ensure their independence, accountability and responsibility.

The chairman takes the lead in formulating overall strategies and policies of the Company; ensures the effective performance by the board of its functions, including compliance with good corporate governance practices; and encourages and facilitates active contribution of directors in board activities and constructive relations between executive and non-executive directors. The chairman also ensures effective communication with shareholders of the Company and receipt by the directors of adequate and complete information. The role of deputy chairman is carried out by Mr. Faustino F. Galang.

The managing director, supported by other board members and the senior management, is responsible for managing the day-to-day business of the Company. He is also accountable to the board for the implementation of the Company's overall strategies, and coordination of overall business operations.

CORPORATE GOVERNANCE REPORT

DIRECTORS AND DIRECTORS' INDEPENDENCE

The board currently consists of seven non-executive directors and one executive director. Three of the non-executive directors are independent. Further details of the composition of the board can be found on previous page.

All of the non-executive directors are not appointed for a specific term, but are subject to retirement and rotation and re-election at the Company's Annual General Meetings. Under the Company's Article of Association, one-third of the directors, including the non-executive directors, are subject to retirement, rotation and re-election at each annual general meeting.

NON-EXECUTIVE DIRECTORS

Non-executive directors are expected to participate in the activities of the board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of board authority is within the powers conferred to the board under its Articles of Association, by-laws and applicable laws, rules and regulations.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the board ensure that strong independent views and judgement are brought in the board's deliberations and that such views and judgement carry weight in the board's decision-making process. Their presence and participation also enable the board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

Each independent non-executive director gives the Company an annual confirmation of his independence. The Company considers such directors to be independent under the guidelines set out in rule 3.13 of the Listing Rules.

Each director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgement of the board and management with an appropriate consideration to materiality. As at 31 December 2006, the directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on page 65.

INTERNAL CONTROL

The board has overall responsibility for maintaining sound and effective internal control systems to safeguard the Company's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems.

During the year under review, with the assistance of an external advisor, the Company had conducted a high-level risk assessment and found that the Company has established high level controls of the strategic management, core business and resource management processes and risk management function that addressed those identified risk parameters. Based on the results, the external advisor noted no material or significant control design gaps. The external advisor had also conducted a COSO entity-level control gap analysis to ascertain if the Company has established entity-level controls that are consistent with the key concepts of the control framework recommended by the Committee of Sponsoring Organizations – Treadway Commission (“COSO”) – “Integrated Control Framework”.

In addition, the Systems and Business Control team of San Miguel Beer Division from San Miguel Corporation has also performed an audit on the effectiveness of the Company and its subsidiaries' high-level and entity-level controls in September and November 2006. Their findings and recommendations for control improvement were presented to the board, audit committee and executive management.

The board has conducted a review of the Company's internal control systems for the year ended 31 December 2006, including financial, operational and compliance control and risk management functions and assessed the effectiveness of internal control by considering reviews performed by the audit committee, executive management, external advisor and internal auditors.

SUPPORT FOR DIRECTORS

To assist the directors in the discharge of their duties, the Company provides every newly appointed director with a comprehensive induction program on the first occasion of his appointment, where such directors are provided with information on the Company's organization and business; the membership, duties and responsibilities of the board, board committees and senior management; corporate governance practices and procedures; and latest financial information on the operations of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key senior executives.

Throughout their tenure, the directors shall be provided with updates on the business of the Company, latest developments of the Listing Rules and other applicable legal and regulatory requirements, corporate social responsibility matters and other changes affecting the Company.

THE BOARD COMMITTEES**AUDIT COMMITTEE**

For the year under review, the audit committee is composed of three independent non-executive directors: Mr. Ng Wai Sun, Mr. Ian F. Wade and Dr. The Hon. Sir David K.P. Li, who acts as chairman of the committee. The audit committee met twice in 2006 with full minutes kept by the company secretary. Individual attendance of each committee member at these meetings is shown in the table presented above.

CORPORATE GOVERNANCE REPORT

Under its terms of reference, the audit committee shall assist 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 is further authorized by the board to investigate any activity within its terms of reference, and is tasked with recommending to the board appropriate actions emanating from such investigations. The audit committee has unrestricted access to personnel, records, internal and external auditors, risk assessment and assurance and senior management, as may be appropriate in the discharge of its functions.

In 2006, the audit committee discharged its responsibilities by:

- (a) making recommendations to the board on the reappointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;
- (b) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discussing with the external auditor the nature and scope of the audit and reporting obligations;
- (c) implementing the Company's policy on the engagement of an external auditor to supply non-audit services;
- (d) reviewing, and monitoring the integrity of, the financial statements of the Company and the Company's annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position;
- (e) reviewing the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;
- (f) coordinating with the internal auditors from San Miguel Corporation to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (g) reviewing the Company's financial and accounting policies and practices;
- (h) reviewing the external auditor's management letter, material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and
- (i) reporting to the board on the matters set out in the Code on Corporate Governance Practices on the audit committee.

The audit committee is authorized by the board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The audit committee is provided with sufficient resources by the Company to discharge its duties. The audit committee's specific terms of reference are available on request to any shareholders of the Company and are posted on the Company's websites, info.sanmiguel.com.hk and www.sanmiguel.com.hk.

During the year under review, the total fee in respect of audit and non-audit services (mainly tax review and corporate governance review) provided to the Company and its subsidiaries by external auditors amounted to HK\$2.6 million (2005: HK\$2.6 million) and HK\$0.4 million (2005: HK\$0.4 million) respectively.

REMUNERATION COMMITTEE

The remuneration committee was duly constituted on 9 December 2005 and is composed of three independent non-executive directors, namely: Dr. The Hon. Sir David K. P. Li, Mr. Ng Wai Sun and Mr. Ian F. Wade, and two non-executive directors, namely: Mr. Ferdinand K. Constantino and Mr. Faustino F. Galang. The remuneration committee is chaired by an independent non-executive director, Mr. Ng Wai Sun. The remuneration committee met twice in 2006 with full minutes kept by the company secretary. Individual attendance of each committee member at these meetings is shown in the table presented above.

The primary role of the remuneration committee under its terms of reference is to support and advise the board in fulfilling the board's 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, mainly by:
 - determining executive and director remuneration policy;
 - determining the remuneration of executive directors upon consultation with the chairman or managing director regarding their proposals for such remuneration;
 - reviewing and approving the remuneration of the executives who directly report to the managing director, and as appropriate, other senior management; and
 - reviewing and approving all equity based plans.

The remuneration committee has the right to seek any information it considers necessary to fulfil its duties, which includes the right to obtain appropriate external advice at the Company's expense. The remuneration committee is provided with sufficient resources by the Company to discharge its duties. The remuneration committee's specific terms of reference are available on request to any shareholders of the Company and are posted on the Company's websites, info.sanmiguel.com.hk and www.sanmiguel.com.hk.

For the year under review, the committee discussed the remuneration related matters in the scheduled meetings, and set the policy on the remuneration of its members and key senior executives in accordance with the Company's Articles of Association. All members attended those scheduled meetings. As recommended, no director fee would be paid for the year 2006.

The committee also determined the policy for the reimbursement of expenses which were properly incurred by the directors in the performance of their duties in accordance with the Company's Articles of Association. Details of the remuneration of directors and senior management for the year ended 31 December 2006 are set out in notes 8, 9 and 32(c) to the financial statements.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company has not established a nomination committee. Directors of the Company are responsible for making recommendations to the board for consideration and approval on nominations, appointment of directors and board succession, with a view to appoint to the board individuals with the relevant experience and capabilities to maintain and improve the competitiveness of the Company. The board formulates the policy, reviews the size, structure and composition of the board, and assesses the independence of its independent non-executive directors in accordance with the criteria prescribed under the Listing Rules and the Code.

CODE OF CONDUCT ON DIRECTORS' SECURITIES TRANSACTIONS

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 year under review.

COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establishing effective communications with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual report and also disseminates such information electronically through its websites, *info.sanmiguel.com.hk* and *www.sanmiguel.com.hk*.

The Company regards the Annual General Meeting as an important event as it provides an opportunity for direct communications between the board and its shareholders. All directors and senior management make an effort to attend the Annual General Meeting of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 21 days' notice of the date and venue of the Annual General Meeting of the Company. The Company supports the Code's principle to encourage shareholders' participation.

DIRECTORS

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

Non-Executive Director

Minerva Lourdes B. Bibonia
 Ferdinand K. Constantino

Independent Non-Executive Director

David K.P. Li, *GBS, JP*
 Ng Wai Sun
 Ian F. Wade
 Adrian M.K. Li, *Alternate to David K.P. Li, GBS, JP*

The details of the directors as at the date of this report are as follows:

Mr. Ramon S. ANG, *BSME*, aged 53, appointed on 27 November 1998, is Chairman of the Company. Mr. Ang is also Vice Chairman, President and Chief Operating Officer of San Miguel Corporation.

Mr. Faustino F. GALANG, *BSc, BA, MBE*, aged 60, appointed on 22 March 1991, is Deputy Chairman and a member of the Remuneration Committee of the Company. Mr. Galang is President of San Miguel Beer Divisions until November 2006. He is also a director of Neptunia Corporation Limited, a controlling shareholder of the Company.

Mr. CHONG Yoon Fatt, *MSc*, aged 60, appointed on 9 December 2005, is Managing Director of San Miguel Brewery Hong Kong Limited. Mr. Chong has 18 years of working experience in China beer industry, including managerial experience in various subsidiaries.

Ms. Minerva Lourdes B. BIBONIA, *BSc*, aged 48, appointed on 24 February 2006, is Senior Vice President, Corporate Marketing of San Miguel Corporation. She is also a director of San Miguel Brewing International Limited. Ms. Bibonia has 26 years of combined local and international marketing and sales experience.

Mr. Ferdinand K. CONSTANTINO, *BA Econ*, aged 55, appointed on 24 February 2005, is a member of the Remuneration Committee of the Company. He is Senior Vice President, Chief Finance Officer & Treasurer of San Miguel Corporation. Mr. Constantino is also a director of San Miguel Holdings Limited and San Miguel Brewing International Limited.

Dr. The Hon. Sir David K.P. LI, *GBS, OBE, JP, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Legion d'Honneur and Grand Officer of the Order of the Star of Italian Solidarity*, aged 68, appointed on 22 March 1991, is an Independent Non-Executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited and a director of numerous other companies in Hong Kong and overseas. Sir David is a member of both the Executive Council and the Legislative Council of Hong Kong. He is Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee and the Treasury Markets Association.

Mr. NG Wai Sun, aged 63, appointed on 1 April 2001, is an Independent Non-Executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. Ng is Chairman of Jibsen Capital (Holdings) Limited, he is also a director of the Tung Wah Group of Hospitals (2004-2006) and the China Overseas Friendship Association. Mr. Ng is the member of the Standing Committee of the Ninth Chinese People's Political Consultative Conference of Guangxi Zhuang Autonomous Region. Mr. Ng is also appointed as the Honorary Investment and Trade Representative of the Republic of the Philippines per Executive Order No. 20.

DIRECTORS AND MANAGEMENT EXECUTIVES

Mr. Ian F. WADE, aged 66, appointed on 25 March 1994, is an Independent Non-Executive Director and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Wade is the Group Managing Director of A.S. Watson & Co. Ltd., a wholly owned subsidiary of Hutchison Whampoa Ltd. Prior to joining the Hutchison Group, Mr. Wade was a member of the ASDA Board of Directors in the United Kingdom. Mr. Wade is a board member of the Connecticutbased U.S. internet travel company priceline.com. Mr. Wade has over 40 years of experience in the retail industry, and is a founding member and Honorary Advisor of the Hong Kong Retail Management Association. He is a member of the Elite Sports Committee, President of the Hong Kong Tennis Patrons' Association and a committee member of the Hong Kong Youth Arts Foundation. He also sits on the Board of the Hong Kong Red Cross and the Community Chest of Hong Kong, and is the Honorary President of the Hong Kong Amateur Athletics Association.

Mr. Adrian M.K. LI, MA, MBA, LPC, aged 33, appointed Alternate Director to Dr. The Hon. Sir David K.P. Li on 1 August 2002, is General Manager and Head of Corporate Banking Division of The Bank of East Asia, Limited since 2000. Mr. Li is a member of the Ninth Guangdong Provincial Committee and formerly the Ninth & Tenth Guangzhou Committee of the Chinese People's Political Consultative Conference, P.R.C. He is also a committee member of the Ninth & Tenth All-China Youth Federation and Deputy Chairman of the Ninth Beijing Municipality Youth Federation. In addition, Mr. Li is the Council Member of the Vocational Training Council, a member of the Advisory Board and Chairman of the Investment Committee of the Hong Kong Export Credit Insurance Corporation and a member of the MPF Industry Schemes Committee of the Mandatory Provident Fund Schemes Authority. He sits on the Board of Ocean Park Corporation and is an Independent Non-Executive Director of Sino Land Company Limited, Tsim Sha Tsui Properties Limited, Sino Hotel (Holdings) Limited and China State Construction International Holdings Limited. Mr. Li is also a member of The Law Society of England and Wales and The Law Society of Hong Kong. He is the eldest son of Dr. The Hon. Sir David K.P. Li.

MANAGEMENT EXECUTIVES

Chong Yoon Fatt
Managing Director
Peter K.Y. Tam
Group General Manager
Kenneth T.C. Wong
Chief Finance Officer & Company Secretary
Herbert W.M. Chu
Managing Director,
Guangzhou San Miguel Brewery Company Limited
Terence T.A. Tan
General Manager – Logistics

The details of the management executives as at the date of this report are as follows:

Mr. CHONG Yoon Fatt, MSc, aged 60, appointed on 9 December 2005, is Managing Director of San Miguel Brewery Hong Kong Limited. Mr. Chong has 18 years of working experience in China beer industry, including managerial experience in various subsidiaries.

Mr. Peter K.Y. TAM, BBA, MBA, aged 48, Group General Manager, joined the Company in 1993. Mr. Tam has 22 years of experience in the selling and marketing of consumer products in Hong Kong and Mainland China.

Mr. Kenneth T.C. WONG, MBA, aged 43, Chief Finance Officer & Company Secretary, joined the Company in 2007. Mr. Wong is a member of Hong Kong Institute of Certified Public Accountants and The Chartered Institute of Management Accountants. He has over 20-year solid experience in finance and accounting in various industries.

Mr. Herbert W.M. CHU, BBA, MBA, aged 53, Managing Director of Guangzhou San Miguel Brewery Company Limited, joined the Company in 1977. During his 29 years of service with the Company, Mr. Chu has gained extensive experience in brewery operations, logistics, sales and marketing as well as public relations.

Mr. Terence T.A. TAN, BBBA, aged 49, General Manager – Logistics, joined the Company in 1998. Mr. Tan has more than 20 years of experience in the logistics industry in Singapore, Hong Kong and Mainland China.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the FORTY-FOURTH ANNUAL GENERAL MEETING of SAN MIGUEL BREWERY HONG KONG LIMITED will be held at Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 16 April 2007 at 3:00pm for the purpose of transacting the following ordinary business:

1. To receive and consider the audited financial statements, the report of the directors and the independent auditor's report for the year ended 31 December 2006;
2. To re-elect and elect directors; and
3. To appoint auditors and authorize the directors to fix their remuneration.

By Order of the Board

Kenneth Wong

Company Secretary

Hong Kong, 6 March 2007

Notes:

1. Shareholders are entitled to appoint one or more proxies to attend and vote in their stead at the meeting. A proxy need not be a shareholder of the Company.
2. To be valid, forms of proxy must be deposited at the registered office of the Company at 9/F, Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong not less than 48 hours before the meeting.

STATISTICAL ANALYSIS OF OPERATIONS

Years ended 31 December, in Hong Kong dollar thousands except per share data and number of personnel

TEN YEAR REVIEW

	2006	2005	2004
Turnover (1)	826,817	806,909	777,830
(Loss)/profit from operations	(11,607)	11,165	19,754
(Loss)/profit attributable to shareholders before extraordinary items	(13,163)	(2,111)	12,504
Extraordinary items (2)	(93,159)	(63,295)	–
(Loss)/profit attributable to shareholders	(106,322)	(65,406)	12,504
Taxes paid, including beer tax	127,007	141,219	135,185
Cash dividends attributable to the year	–	3,736	3,736
Cash dividends per share	–	\$0.01	\$0.01
Fixed assets and projects under development	1,769,377	1,838,164	1,939,135
Net worth (3), (4), (5)	1,974,097	2,062,073	2,117,652
Payroll (6)	118,836	128,539	122,149
Number of personnel (7)	768	1,151	1,145

- (1) Turnover has been adjusted where discounts and beer duty and taxes have been set-off with the gross turnover.
- (2) The extraordinary item in 2005 and 2006 represented the restructuring costs incurred on Guangzhou San Miguel Brewery Company Limited.
- (3) Net worth for the years 1997 to 2000 have been adjusted for change in accounting policy of dividend recognition.
- (4) Net worth for the years 2001 to 2004 have been adjusted for change in accounting policy of minority interests.
- (5) Net worth for the years 2002 to 2005 have been adjusted for change in accounting policy of defined benefit retirement plan.
- (6) Payroll has been corrected for inconsistent reporting in prior years for the years 1997 to 1998.
- (7) Number of personnel represents actual headcount as of the last working day of the year.

STATISTICAL ANALYSIS OF OPERATIONS

Years ended 31 December, in Hong Kong dollar thousands except per share data and number of personnel

2003	2002	2001	2000	1999	1998	1997
684,866	804,749	939,702	992,531	1,024,015	1,057,289	983,144
(29,950)	38,942	101,787	100,723	83,737	39,409	10,132
(35,848)	27,355	90,403	87,657	60,100	17,051	5,492
-	-	-	-	-	-	-
(35,848)	27,355	90,403	87,657	60,100	17,051	5,492
134,986	164,268	170,830	160,745	156,038	170,576	144,620
-	37,356	160,636	52,300	41,093	11,207	29,886
-	\$0.10	\$0.43	\$0.14	\$0.11	\$0.03	\$0.08
2,016,646	2,083,863	2,156,190	2,214,254	2,276,150	2,347,937	2,396,195
2,120,679	2,147,315	2,268,190	2,233,837	2,193,847	2,170,495	2,157,247
124,480	131,168	126,053	127,094	144,121	155,400	147,443
1,168	1,214	1,268	1,276	1,345	1,601	1,655

FINANCIAL STATEMENTS SECTION

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

Our Consumers

我們的顧客



CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 (restated) \$'000
Turnover	3, 13	826,817	806,909
Cost of sales		(444,311)	(443,559)
Gross profit		382,506	363,350
Other revenue	4	17,455	15,065
Other net (expenses)/income	4	(915)	431
Selling and distribution expenses		(286,873)	(253,054)
Administrative expenses		(104,343)	(105,226)
Other operating expenses		(19,437)	(9,401)
(Loss)/profit from operations		(11,607)	11,165
Finance costs	5(a)	(8,105)	(6,163)
Restructuring costs	6	(93,159)	(63,295)
Loss before taxation	5	(112,871)	(58,293)
Income tax credit/(charge)	7	6,549	(7,113)
Loss for the year	13	(106,322)	(65,406)
Attributable to:			
Equity shareholders of the Company	10, 29(a)	(70,144)	(35,010)
Minority interests	29(a)	(36,178)	(30,396)
Loss for the year	29(a)	(106,322)	(65,406)
Dividends payable to equity shareholders of the Company attributable to the year:	11		
Interim dividend declared during the year		–	(3,736)
Loss per share			
– Basic	12(a)	(\$0.19)	(\$0.09)
– Diluted	12(b)	N/A	N/A

The notes on pages 37 to 64 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006		2005 (restated)	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets	14(a)				
– Property, plant and equipment			1,578,156		1,648,874
– Investment properties			89,750		86,437
– Interests in leasehold land held for own use under operating leases			101,471		102,853
			1,769,377		1,838,164
Intangible assets	15		39,564		39,525
Goodwill	16		5,044		5,044
Other tangible assets	18		49,000		41,539
			1,862,985		1,924,272
Current assets					
Inventories	19	50,664		50,700	
Trade and other receivables	20	116,050		126,743	
Amounts due from holding companies and fellow subsidiaries	21	28,408		38,346	
Current tax recoverable	28(a)	–		798	
Cash and cash equivalents	22	416,335		383,331	
		611,457		599,918	
Current liabilities					
Bank loans (unsecured)	23	(80,374)		(50,408)	
Trade and other payables	24	(194,780)		(126,123)	
Amounts due to holding companies and fellow subsidiaries	21	(7,562)		(9,327)	
Current tax payable	28(a)	(104)		–	
Leased factory maintenance provision	26	–		(53,208)	
		(282,820)		(239,066)	
Net current assets			328,637		360,852
Total assets less current liabilities			2,191,622		2,285,124
Non-current liabilities					
Bank loans (unsecured)	23	(95,000)		(95,000)	
Retirement benefit liabilities	27(a)	(14,870)		(14,927)	
Deferred tax liabilities	28(b)	(107,655)		(113,124)	
			(217,525)		(223,051)
NET ASSETS			1,974,097		2,062,073
CAPITAL AND RESERVES					
Share capital	29(a)		186,785		186,785
Reserves			1,751,097		1,804,924
Total equity attributable to equity shareholders of the Company			1,937,882		1,991,709
Minority interests			36,215		70,364
TOTAL EQUITY			1,974,097		2,062,073

Approved and authorised for issue by the board of directors on 6 March 2007.

Directors:



RAMON S. ANG



CHONG YOON FATT

The notes on pages 37 to 64 form part of these financial statements.

BALANCE SHEET

as at 31 December 2006 (Expressed in Hong Kong dollars)

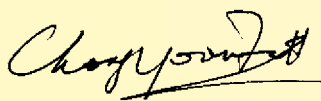
	Note	2006		2005 (restated)	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets	14(b)				
– Property, plant and equipment			978,326		1,020,023
– Interests in leasehold land held for own use under operating leases			70,645		72,390
			1,048,971		1,092,413
Intangible assets	15		38,489		38,487
Interests in subsidiaries	17		1,175,161		1,215,127
			2,262,621		2,346,027
Current assets					
Inventories	19	24,045		22,726	
Trade and other receivables	20	86,504		86,363	
Amounts due from holding companies and fellow subsidiaries	21	17,165		20,115	
Cash and cash equivalents	22	15,725		19,415	
			143,439	148,619	
Current liabilities					
Trade and other payables	24	(55,062)		(53,376)	
Amounts due to holding companies and fellow subsidiaries	21	(2,398)		(1,611)	
Amounts due to subsidiaries	25	(2,754)		(1,975)	
			(60,214)	(56,962)	
Net current assets			83,225		91,657
Total assets less current liabilities			2,345,846		2,437,684
Non-current liabilities					
Bank loans (unsecured)	23	(95,000)		(95,000)	
Amounts due to subsidiaries	25	(345,586)		(377,747)	
Retirement benefit liabilities	27(a)	(14,870)		(14,927)	
Deferred tax liabilities	28(b)	(52,692)		(52,279)	
			(508,148)	(539,953)	
NET ASSETS			1,837,698		1,897,731
CAPITAL AND RESERVES					
Share capital	29(b)		186,785		186,785
Reserves			1,650,913		1,710,946
TOTAL EQUITY			1,837,698		1,897,731

Approved and authorised for issue by the board of directors on 6 March 2007.

Directors:



RAMON S. ANG



CHONG YOON FATT

The notes on pages 37 to 64 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 (restated) \$'000
Exchange differences on translation of the financial statements of foreign subsidiaries	29(a)	22,713	16,475
Actuarial gains and losses of defined benefit retirement plan	29(a)	(5,293)	1,520
Deferred tax of actuarial gains and losses of defined benefit retirement plan	29(a)	926	(266)
Income and expense recognised directly in equity		18,346	17,729
Loss for the year			
As previously reported			(66,037)
Prior period adjustment arising from change in accounting policy	2		631
		(106,322)	(65,406)
Total recognised income and expense for the year (2005: as restated)		(87,976)	(47,677)
Attributable to:			
Equity shareholders of the Company		(53,827)	(19,490)
Minority interests		(34,149)	(28,187)
Total recognised income and expense for the year		(87,976)	(47,677)
Impact of change in accounting policy on retained earnings at 1 January attributable to:			
	2, 29(a)		
Equity shareholders of the Company		(15,563)	(17,448)
Minority interests		-	-
		(15,563)	(17,448)

The notes on pages 37 to 64 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 (restated) \$'000
Operating activities			
Loss before taxation		(112,871)	(58,293)
Adjustments for:			
– Amortisation of land lease premium		2,517	2,506
– Amortisation of bottles and crates		8,617	11,466
– Depreciation of property, plant and equipment		70,472	73,084
– Depreciation of investment properties		2,641	2,156
– Impairment loss on trade and other receivables		11,086	3,736
– Impairment loss on property, plant and equipment		–	57,298
– Impairment loss on investment properties		12,000	–
– Impairment loss on forfeited rental deposit and related interest receivable		–	5,841
– Impairment loss on other tangible assets		–	2,994
– Interest expenses		7,851	6,016
– Interest income		(12,403)	(10,418)
– Loss on disposal of property, plant and equipment		18,808	216
– Loss on disposal of other tangible assets		7,349	4,175
– Equity-settled share-based payment expenses		400	495
– Foreign exchange gains		(1,373)	(1,576)
Operating profit before changes in working capital		15,094	99,696
Decrease in inventories		36	4,098
Increase in trade and other receivables		(17,204)	(13,522)
Decrease/(increase) in net amounts due from holding companies and fellow subsidiaries		7,773	(27,356)
Increase in trade and other payables	(i)	8,801	6,263
Decrease in net retirement benefit liabilities		(5,350)	(2,814)
Increase in leased factory maintenance provision	(i)	3,587	4,158
Cash generated from operations		12,737	70,523
Income tax			
– Hong Kong Profits Tax refund/(paid)		763	(853)
Net cash generated from operating activities		13,500	69,670
Investing activities			
Payment for purchase of property, plant and equipment		(55,124)	(19,740)
Payment for purchase of investment properties		–	(336)
Payment for purchase of trademarks		(2)	(21)
Payment for purchase of other tangible assets		(21,961)	(20,898)
Proceeds from disposal of property, plant and equipment		37,231	430
Proceeds from redemption of dated debt securities		12,492	–
Interest received		16,896	8,733
Net cash used in investing activities		(10,468)	(31,832)
Financing activities			
Proceeds from new bank loans		29,843	–
Repayment of bank loans		–	(100,000)
Interest paid		(6,671)	(6,297)
Dividend paid		–	(7,472)
Net cash generated from/(used in) financing activities		23,172	(113,769)
Net increase/(decrease) in cash and cash equivalents		26,204	(75,931)
Cash and cash equivalents at 1 January		383,331	454,817
Effect of foreign exchange rates changes		6,800	4,445
Cash and cash equivalents at 31 December	22	416,335	383,331

Note (i):

Major non-cash transaction

During the year, leased factory maintenance provision amounting to \$58,672,000 was transferred to trade and other payables (see note 26).

The notes on pages 37 to 64 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting periods of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in next year are discussed in note 36.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that means the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(n) or (o) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment are held for own use and stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)), with the exception of construction in progress which is stated at cost less any impairment losses (see note 1(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

Land and buildings are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years	25 to 50 years
Machinery, equipment, furniture and fixtures	4 to 50 years
Motor vehicles	4 to 7 years

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

No provision for depreciation is made on construction in progress until such time when the assets are completed and ready for use.

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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(g)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)). Depreciation is calculated to write off the cost of investment properties, less their residual values, if any, using the straight-line method over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years.

Rental income from investment properties is accounted for as described in note 1(t)(iii).

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

However, land held for own use under an operating lease, where the fair value cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Intangible assets (other than goodwill)

Intangible assets are trademarks and club debentures acquired by the Group and stated in the balance sheet at cost less impairment losses (see note 1(k)).

These intangible assets are not amortised as their useful lives are assessed to be indefinite, and are tested annually for impairment (see note 1(k)).

The conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset.

(i) Other tangible assets

Other tangible assets are returnable bottles and crates used by subsidiaries in the People's Republic of China ("PRC").

Returnable bottles and crates are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(k)). Amortisation is calculated to write off the cost of bottles and crates, less their residual values, using the straight-line method over two and seven years respectively.

Both the useful lives of bottles and crates and their residual values are reviewed annually.

(j) Other investments

Unlisted dated debt securities held by the Group are classified as loans and receivables, and are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 1(k)).

(k) Impairment of assets

(i) Impairment of dated debt securities and receivables

Dated debt securities and receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- Investment properties;
- Property, plant and equipment;
- Interests in leasehold land held for own use under operating leases;
- Investment in subsidiaries;
- Goodwill;
- Intangible assets; and
- Other tangible assets.

1 Significant accounting policies (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Payables

Payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses in respect of the defined benefit retirement plan are recognised in full in the period in which they occur, outside profit or loss, in equity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(q) Employee benefits (continued)

(iii) Share-based payment

The fair value of stock options granted to the employees by the Company's ultimate holding company, San Miguel Corporation ("SMC"), is recognised as an employee cost with a corresponding increase in capital contribution reserve. The inter-company charge in relation to these stock options levied on the Company by SMC is offset against the capital contribution reserve and with a corresponding adjustment to liabilities.

The fair value of stock options is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the stock options, the total estimated fair value of the stock options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of stock options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital contribution reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of stock options that vest.

(iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 Significant accounting policies (continued)

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(v) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen geographical segment information as the primary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

2 Change in accounting policy

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The following sets out information on the significant change in accounting policy for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

Defined benefit retirement plan – Actuarial gains and losses

In prior years, cumulative unrecognised actuarial gains and losses to the extent of the amount in excess of 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets, were recognised in profit or loss over the expected average remaining working lives of employees participating in the plan. Otherwise, the actuarial gain or loss was not recognised.

With effect from 1 January 2006, the Group has adopted the Amendment to HKAS 19, Employee benefits – Actuarial gains and losses, group plans and disclosures. Amendment to HKAS 19 provides an option to recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity. The Group has elected to take the option to recognise all actuarial gains and losses in equity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 Change in accounting policy (continued)

Defined benefit retirement plan – Actuarial gains and losses (continued)

The change in accounting policy has been applied retrospectively with comparatives restated. The adjustments for each financial statement line item affected for the years ended 31 December 2005 and 2006 are set out below:

	2006 \$'000	2005 \$'000
Consolidated income statement for the year ended 31 December		
<i>(Increase/(decrease) in net loss)</i>		
Cost of sales	(237)	(252)
Selling and distribution expenses	(267)	(283)
Administrative expenses	(217)	(230)
Income tax expense	127	134
Loss for the year	<u>(594)</u>	<u>(631)</u>
Loss per share (basic)	<u>–</u>	<u>(\$0.01)</u>
Other significant disclosure item		
<i>(Increase/(decrease) in expenses)</i>		
Staff costs	<u>(721)</u>	<u>(765)</u>
Consolidated statement of recognised income and expense for the year ended 31 December		
<i>(Increase/(decrease) in total recognised income and expense)</i>		
Defined benefit retirement plan actuarial gains and losses recognised directly in equity	(5,293)	1,520
Income tax recognised directly in equity	926	(266)
Loss for the year	594	631
Total recognised income and expense for the year	<u>(3,773)</u>	<u>1,885</u>

Balance sheets at 31 December

	The Group and the Company	
	2006 \$'000	2005 \$'000
<i>(Increase/(decrease) in net assets)</i>		
Retirement benefit liabilities	(23,436)	(18,864)
Deferred tax liabilities	4,100	3,301
Net assets	<u>(19,336)</u>	<u>(15,563)</u>
Reserves and total equity	<u>(19,336)</u>	<u>(15,563)</u>

3 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.

4 Other revenue and other net (expenses)/income

	2006 \$'000	2005 \$'000
Other revenue		
Interest income	12,403	10,418
Rental income	5,052	4,647
	<u>17,455</u>	<u>15,065</u>
Other net (expenses)/income		
Net loss on disposal of property, plant and equipment	(2,044)	(216)
Others	1,129	647
	<u>(915)</u>	<u>431</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

	2006 \$'000	2005 (restated) \$'000
(a) Finance costs		
Interest on bank loans	7,851	6,016
Bank charges	254	147
	8,105	6,163
(b) Staff costs		
Retirement costs		
– Defined contribution retirement plans	9,647	8,933
– Defined benefit retirement plan (2005: restated) (note 27(a)(v))	5,440	5,625
	15,087	14,558
Equity-settled share-based payment expenses	400	495
Salaries, wages and other benefits	118,836	128,539
Severance payments (note 6)	49,623	–
	183,946	143,592
(c) Other items		
Amortisation		
– Land lease premium	2,517	2,506
– Bottles and crates		
– Other tangible assets	8,617	4,681
– Inventories	–	6,785
Depreciation		
– Property, plant and equipment	70,472	73,084
– Investment properties	2,641	2,156
Cost of inventories	437,874	434,407
Operating lease charges: minimum lease payments		
– Land and buildings	8,670	9,965
– Plant and machinery	12,272	14,153
Rental receivable from investment properties less direct outgoings of \$2,621,000 (2005: \$2,143,000)	(2,431)	(2,504)
Net foreign exchange gain	(834)	(486)
Auditors' remuneration	2,592	2,642
Impairment losses (note)		
– Property, plant and equipment	–	57,298
– Investment properties	12,000	–
– Other tangible assets	–	2,994
– Trade and other receivables	11,086	3,736
– Forfeited rental deposit and related interest receivable	–	5,841

Note: Impairment losses are recognised in the following line items in the consolidated income statement:

	2006				Total
	Cost of sales	Administrative expenses	Other operating expenses	Restructuring costs	
Impairment losses of					
– Investment properties	–	12,000	–	–	12,000
– Trade and other receivables	–	–	11,086	–	11,086
	–	12,000	11,086	–	23,086
	2005				
	Cost of sales	Administrative expenses	Other operating expenses	Restructuring costs	Total
Impairment losses of					
– Property, plant and equipment	–	486	–	56,812	57,298
– Other tangible assets	2,994	–	–	–	2,994
– Trade and other receivables	–	–	3,094	642	3,736
– Forfeited rental deposit and related interest receivable	–	–	–	5,841	5,841
	2,994	486	3,094	63,295	69,869

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 Restructuring costs

Guangzhou San Miguel Brewery Company Limited ("GSMB"), a subsidiary of the Company, entered into a factory lease agreement (the "Lease Agreement") with Guangzhou Brewery ("GB"), a substantial shareholder holding 30% interests of GSMB, upon the establishment of GSMB whereby GSMB agreed to lease the factory buildings, brewery equipment and related facilities from GB for production purposes. The Lease Agreement expires on 29 November 2020.

As mentioned in the 2005 audited financial statements of the Group, management performed a review of GSMB's operations in 2005 given that GSMB has been facing intense competition in the PRC. Based on their review, management planned to cease the production activities of GSMB in 2006 and terminate the Lease Agreement. On 28 December 2005, a non-binding memorandum of understanding ("MOU") was signed between GSMB and GB in this respect.

Further to the signing of the above non-binding MOU, on 29 September 2006, GSMB and GB entered into a Termination Agreement (the "Termination Agreement") in respect of the termination of the Lease Agreement and the sale of certain production assets owned by GSMB (the "Production Assets") to GB. The handover of the leased assets and Production Assets from GSMB to GB took place on 31 October 2006. After cessation of the manufacturing operations, GSMB continues the sale and distribution of beer and sources beer products from its fellow subsidiary, San Miguel (Guangdong) Brewery Company Limited ("SMGB") and other external manufacturers under toll-processing arrangements.

During the year ended 31 December 2005, impairment losses on the Production Assets and rental deposit for the Lease Agreement totalling \$63,295,000 were recognised in the financial statements. An additional one-off charge amounting to \$93,159,000 was incurred during the year ended 31 December 2006 which comprised the following:

	2006 \$'000	2005 \$'000
Severance payments (note 5(b))	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	–
Impairment loss on the Production Assets	–	56,812
Impairment loss on forfeited rental deposit and related interest receivable	–	5,841
Others	1,363	642
	93,159	63,295

The signing of the Termination Agreement with GB constitutes a connected transaction under the Listing Rules.

7 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2006 \$'000	2005 (restated) \$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	194	121
Over-provision in respect of prior years	(55)	–
	139	121
Deferred tax		
Origination and reversal of temporary differences (2005: restated)	10,169	6,992
Tax effect of recognising tax losses and deductible temporary differences not previously recognised for deferred tax purposes (note)	(16,857)	–
	(6,688)	6,992
Income tax (credit)/charge	(6,549)	7,113

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits of one of the Hong Kong subsidiaries for the year. 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 either because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purposes.

Note: This balance arose from the recognition of tax losses and deductible temporary differences of San Miguel (Guangdong) Brewery Company Limited ("SMGB") brought forward from previous years. SMGB has started making profits since 2005 and a portion of the tax losses have been utilised by SMGB during both the current and prior years. In addition, according to the five year long range plan approved by management, SMGB will continue making profits. These evidence that it is probable that sufficient taxable profits will be available to utilise the tax losses and deductible temporary differences and thus the tax benefits have been recognised accordingly.

During the year ended 31 December 2005, all the tax losses and deductible temporary differences of SMGB were not recognised for deferred tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 Income tax in the consolidated income statement (continued)

(b) Reconciliation between tax (credit)/charge and accounting loss at applicable tax rates:

	2006 \$'000	2005 (restated) \$'000
Loss before taxation	<u>(112,871)</u>	<u>(58,293)</u>
Notional tax on loss before taxation calculated at the rates applicable to the tax jurisdictions concerned	(25,230)	(18,021)
Tax effect of non-deductible expenses	8,073	4,711
Tax effect of non-taxable revenue	(2,044)	(1,354)
Tax effect of tax losses and deductible temporary differences not recognised for deferred tax purposes	29,564	21,777
Tax effect of recognising tax losses and deductible temporary differences not previously recognised for deferred tax purposes	(16,857)	–
Over-provision in respect of prior years	(55)	–
Actual tax (credit)/charge	<u>(6,549)</u>	<u>7,113</u>

8 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note)	2006 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Executive directors							
Chong Yoon Fatt	–	1,839	346	94	2,279	–	2,279
Non-executive directors							
Ramon S. Ang	–	–	–	–	–	–	–
Faustino F. Galang	–	–	–	–	–	–	–
Minerva Lourdes B. Bibonia	–	–	–	–	–	–	–
Ma. Belen C. Buensuceso	–	–	–	–	–	–	–
Ferdinand K. Constantino	–	–	–	–	–	–	–
Roberto N. Huang	–	–	–	–	–	–	–
Independent non-executive directors							
David K. P. Li	–	–	–	–	–	–	–
Ng Wai Sun	–	–	–	–	–	–	–
Ian F. Wade	–	–	–	–	–	–	–
	<u>–</u>	<u>1,839</u>	<u>346</u>	<u>94</u>	<u>2,279</u>	<u>–</u>	<u>2,279</u>
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note)	2005 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Executive directors							
Chong Yoon Fatt	1	–	–	–	1	–	1
Ramon A. de la Llana	24	1,426	63	–	1,513	–	1,513
Thomas R. Mainwaring	7	527	–	42	576	64	640
Non-executive directors							
Ramon S. Ang	33	–	–	–	33	–	33
Faustino F. Galang	25	–	–	–	25	–	25
Ferdinand K. Constantino	21	–	–	–	21	–	21
Benjamin P. Defensor, Jr	4	–	–	–	4	–	4
Francisco C. Eizmendi, Jr	18	–	–	–	18	–	18
Francis H. Jardeleza	21	–	–	–	21	–	21
Estelito P. Mendoza	25	–	–	–	25	–	25
Carmelo L. Santiago	4	–	–	–	4	–	4
Gabriel L. Villareal	25	–	–	–	25	–	25
Independent non-executive directors							
David K. P. Li	25	–	–	–	25	–	25
Ng Wai Sun	25	–	–	–	25	–	25
Ian F. Wade	25	–	–	–	25	–	25
	<u>283</u>	<u>1,953</u>	<u>63</u>	<u>42</u>	<u>2,341</u>	<u>64</u>	<u>2,405</u>

Note: These represent the estimated value of stock options granted to certain directors under the stock option scheme of the Company's ultimate holding company, San Miguel Corporation. The value of these stock options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(q)(iii).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one is a director (2005: one) whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other four (2005: four) individuals are as follows:

	2006 \$'000	2005 \$'000
Salaries and other emoluments	5,546	5,115
Discretionary bonuses	244	337
Share-based payments	287	197
Retirement scheme contributions	664	510
	<u>6,741</u>	<u>6,159</u>

The emoluments of the four (2005: four) individuals with the highest emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
\$1,000,001 to \$1,500,000	2	2
\$1,500,001 to \$2,000,000	1	2
\$2,000,001 to \$2,500,000	<u>1</u>	<u>-</u>

10 Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes a loss of \$55,666,000 (2005 (restated): profit of \$18,209,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006 \$'000	2005 \$'000
Interim dividend declared and paid of \$Nil (2005: \$0.01) per ordinary share (note 29)	<u>-</u>	<u>3,736</u>

No final dividend is proposed for the years ended 31 December 2006 and 2005.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 \$'000	2005 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$Nil (2005: \$0.01) per ordinary share (note 29)	<u>-</u>	<u>3,736</u>

12 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 of \$70,144,000 (2005 (restated): \$35,010,000) and on 373,570,560 ordinary shares (2005: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the year.

(b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary shares for both years.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 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.

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	
	2006	2005 (restated)	2006	2005	2006	2005	2006	2005 (restated)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	408,664	434,495	418,153	372,414	-	-	826,817	806,909
Inter-segment revenue	36,825	35,091	-	-	(36,825)	(35,091)	-	-
Other revenue from external customers	5,052	4,647	-	-	-	-	5,052	4,647
Total revenue	450,541	474,233	418,153	372,414	(36,825)	(35,091)	831,869	811,556
Segment result (2005: restated)	(32,379)	11,531	8,369	(10,783)			(24,010)	748
Unallocated operating income and expenses							12,403	10,417
Finance costs							(8,105)	(6,163)
Restructuring costs	-	-	(93,159)	(63,295)			(93,159)	(63,295)
Income tax credit/(charge) (2005: restated)							6,549	(7,113)
Loss for the year (2005: restated)							(106,322)	(65,406)
Depreciation and amortisation for the year	57,800	59,053	26,447	30,159			84,247	89,212
Impairment losses of								
- property, plant and equipment	-	-	-	57,298			-	57,298
- investment properties	12,000	-	-	-			12,000	-
- other tangible assets	-	-	-	2,994			-	2,994
- trade and other receivables	11,920	759	(834)	2,977			11,086	3,736
- forfeited rental deposit and related interest receivable	-	-	-	5,841			-	5,841
Segment assets (2005: restated)	1,557,038	1,609,143	509,571	518,099	(9,390)	(4,885)	2,057,219	2,122,357
Unallocated assets							417,223	401,833
Total assets							2,474,442	2,524,190
Segment liabilities (2005: restated)	83,238	71,069	141,991	137,212	(9,390)	(4,885)	215,839	203,396
Unallocated liabilities							284,506	258,721
Total liabilities							500,345	462,117
Capital expenditure incurred during the year	23,570	20,898	53,517	17,103			77,087	38,001
Additional information concerning geographical segments:								
Segment assets by the location of assets	1,380,015	1,439,095	686,594	688,147	(9,390)	(4,885)	2,057,219	2,122,357
Capital expenditure incurred during the year by the location of assets	1,922	14,173	75,165	23,828			77,087	38,001

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 Fixed assets (a) The Group

	Property, plant and equipment					Investment properties \$'000	Interests in leasehold land held for own use under operating leases \$'000	Total fixed assets \$'000
	Land and buildings held for own use \$'000	Machinery, equipment, furniture and fixtures \$'000	Motor vehicles \$'000	Construction in progress \$'000	Sub-total \$'000			
Cost:								
At 1 January 2005	899,789	1,512,202	29,169	843	2,442,003	98,153	111,312	2,651,468
Exchange adjustments	7,082	12,881	486	11	20,460	-	900	21,360
Additions	1,587	16,371	290	1,492	19,740	336	-	20,076
Disposals	(14)	(5,506)	(727)	-	(6,247)	-	-	(6,247)
Transfer from construction in progress	-	1,093	-	(1,093)	-	-	-	-
At 31 December 2005	908,444	1,537,041	29,218	1,253	2,475,956	98,489	112,212	2,686,657
Accumulated amortisation, depreciation and impairment losses:								
At 1 January 2005	151,315	520,663	23,768	-	695,746	9,896	6,691	712,333
Exchange adjustments	1,521	4,619	415	-	6,555	-	162	6,717
Charge for the year	19,153	52,622	1,309	-	73,084	2,156	2,506	77,746
Impairment losses	7,825	49,161	-	312	57,298	-	-	57,298
Written back on disposals	-	(5,011)	(590)	-	(5,601)	-	-	(5,601)
At 31 December 2005	179,814	622,054	24,902	312	827,082	12,052	9,359	848,493
Net book value:								
At 31 December 2005	728,630	914,987	4,316	941	1,648,874	86,437	102,853	1,838,164
Cost:								
At 1 January 2006	908,444	1,537,041	29,218	1,253	2,475,956	98,489	112,212	2,686,657
Exchange adjustments	11,344	20,603	783	44	32,774	-	1,440	34,214
Additions	851	43,838	711	9,724	55,124	-	-	55,124
Disposals	(29,107)	(198,187)	(8,143)	-	(235,437)	-	-	(235,437)
Transfer from construction in progress	270	1,581	-	(1,851)	-	-	-	-
Transfer from land and buildings held for own use	(20,457)	-	-	-	(20,457)	20,457	-	-
At 31 December 2006	871,345	1,404,876	22,569	9,170	2,307,960	118,946	113,652	2,540,558
Accumulated amortisation, depreciation and impairment losses:								
At 1 January 2006	179,814	622,054	24,902	312	827,082	12,052	9,359	848,493
Exchange adjustments	3,097	10,073	680	11	13,861	-	305	14,166
Charge for the year	18,587	50,884	1,001	-	70,472	2,641	2,517	75,630
Impairment losses	-	-	-	-	-	12,000	-	12,000
Written back on disposals	(22,395)	(148,892)	(7,498)	(323)	(179,108)	-	-	(179,108)
Transfer from land and buildings held for own use	(2,503)	-	-	-	(2,503)	2,503	-	-
At 31 December 2006	176,600	534,119	19,085	-	729,804	29,196	12,181	771,181
Net book value:								
At 31 December 2006	694,745	870,757	3,484	9,170	1,578,156	89,750	101,471	1,769,377

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 Fixed assets (continued)

(b) The Company

	Property, plant and equipment					Interests in leasehold land held for own use under operating leases \$'000	Total fixed assets \$'000
	Land and buildings held for own use \$'000	Machinery, equipment, furniture and fixtures \$'000	Motor vehicles \$'000	Construction in progress \$'000	Sub-total \$'000		
Cost:							
At 1 January 2005	492,376	949,198	7,725	229	1,449,528	74,134	1,523,662
Additions	681	12,623	-	5	13,309	-	13,309
Disposals	-	(1,113)	(565)	-	(1,678)	-	(1,678)
Transfer from construction in progress	-	214	-	(214)	-	-	-
At 31 December 2005	493,057	960,922	7,160	20	1,461,159	74,134	1,535,293
Accumulated amortisation and depreciation:							
At 1 January 2005	75,939	317,056	5,496	-	398,491	-	398,491
Charge for the year	10,086	33,173	939	-	44,198	1,744	45,942
Written back on disposals	-	(1,107)	(446)	-	(1,553)	-	(1,553)
At 31 December 2005	86,025	349,122	5,989	-	441,136	1,744	442,880
Net book value:							
At 31 December 2005	407,032	611,800	1,171	20	1,020,023	72,390	1,092,413
Cost:							
At 1 January 2006	493,057	960,922	7,160	20	1,461,159	74,134	1,535,293
Additions	473	1,202	-	35	1,710	-	1,710
Disposals	-	(1,406)	(1,156)	-	(2,562)	-	(2,562)
Transfer from construction in progress	-	40	-	(40)	-	-	-
At 31 December 2006	493,530	960,758	6,004	15	1,460,307	74,134	1,534,441
Accumulated amortisation and depreciation:							
At 1 January 2006	86,025	349,122	5,989	-	441,136	1,744	442,880
Charge for the year	10,152	32,645	605	-	43,402	1,745	45,147
Written back on disposals	-	(1,401)	(1,156)	-	(2,557)	-	(2,557)
At 31 December 2006	96,177	380,366	5,438	-	481,981	3,489	485,470
Net book value:							
At 31 December 2006	397,353	580,392	566	15	978,326	70,645	1,048,971

(c) Impairment losses

During the year, the management performed a review of the recoverable amount of investment properties. Based on their review, the carrying value of investment properties was written down by \$12,000,000. The recoverable amount of investment properties was determined with reference to the valuation performed by an independent firm of surveyors. Further details on the valuation performed by the independent firm of surveyors are set out in note 14(g).

During the year ended 31 December 2005, impairment losses totalling \$57,298,000 were recognised, of which \$56,812,000 was related to the production assets owned by GSMB sold to GB under GSMB's restructuring mentioned in note 6. The remaining impairment loss of \$486,000 represented the write down of certain properties owned by GSMB to the recoverable amount. The recoverable amount of such properties was based on the estimated net selling price determined by reference to market prices.

(d) Disposals of fixed assets

During the year, the Group disposed of certain property, plant and equipment with an aggregate net book value of \$56,329,000 (2005: \$646,000), of which an amount of \$53,547,000 (2005: \$Nil) was related to the production assets owned by GSMB sold to GB under the restructuring mentioned in note 6. The Group recognised a loss of \$16,764,000 (2005: \$Nil) from this transaction (note 6).

(e) The analysis of net book value of properties is as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Medium term leases				
- in Hong Kong	636,616	664,511	467,998	479,422
- outside Hong Kong	249,350	253,409	-	-
	885,966	917,920	467,998	479,422
Representing:				
Land and buildings held for own use	694,745	728,630	397,353	407,032
Investment properties	89,750	86,437	-	-
Interests in leasehold land held for own use under operating leases	101,471	102,853	70,645	72,390
	885,966	917,920	467,998	479,422

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 Fixed assets (continued)

(f) Fixed assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2006 \$'000	2005 \$'000
Within 1 year	4,841	3,544
After 1 year but within 5 years	5,360	3,194
	10,201	6,738

(g) The fair value of the investment properties at 31 December 2006 is \$90,240,000 (2005: \$66,370,000), which are valued on an open market basis assuming sale with existing tenancies by using the investment method and otherwise with vacant possession by using the sales comparison approach. The valuation was carried out by an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, who have among their staff Members of the Hong Kong Institute of Surveyors with rich experience in the location and category of property being valued.

(h) During the year certain land and building held for own use by the Group was leased out to third parties for rental income. In accordance with HKAS 16 and 40, the related portion of property was transferred from land and buildings to investment properties at the carrying amount on the date of transfer.

15 Intangible assets

	The Group			The Company		
	Trademarks \$'000	Club debentures \$'000	Total \$'000	Trademarks \$'000	Club debentures \$'000	Total \$'000
Cost:						
At 1 January 2005	39,093	6,046	45,139	39,093	5,031	44,124
Exchange adjustments	–	23	23	–	–	–
Additions	21	–	21	21	–	21
At 31 December 2005	39,114	6,069	45,183	39,114	5,031	44,145
Accumulated amortisation:						
At 1 January and 31 December 2005	5,658	–	5,658	5,658	–	5,658
Net book value:						
At 31 December 2005	33,456	6,069	39,525	33,456	5,031	38,487
Cost:						
At 1 January 2006	39,114	6,069	45,183	39,114	5,031	44,145
Exchange adjustments	–	37	37	–	–	–
Additions	2	–	2	2	–	2
At 31 December 2006	39,116	6,106	45,222	39,116	5,031	44,147
Accumulated amortisation:						
At 1 January and 31 December 2006	5,658	–	5,658	5,658	–	5,658
Net book value:						
At 31 December 2006	33,458	6,106	39,564	33,458	5,031	38,489

Trademarks were regarded as having indefinite useful lives because the trademarked products were expected to generate net cash inflows to the Group indefinitely.

Consideration of impairment testing for trademarks is set out under note 16.

16 Goodwill

	The Group 2006 \$'000	2005 \$'000
Cost and carrying amount:		
At 1 January and 31 December	5,044	5,044

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(Expressed in Hong Kong dollars)

16 Goodwill (continued)

Impairment test for cash-generating units containing goodwill and trademarks

Goodwill arose from the acquisition of an additional interest in San Miguel (Guangdong) Brewery Company Limited ("SMGB") while trademarks are related to products produced by SMGB. Therefore both the goodwill and trademarks are allocated to SMGB operations for impairment testing purposes.

The recoverable amount of SMGB operations has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on the five-year long range plan approved by management, and a discount rate of 7.1% (2005: 7.3%). Cash flows beyond that five-year period have been extrapolated using a nil per cent growth rate. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause carrying amount to exceed its recoverable amount.

Key assumptions used for value-in-use calculation:

	2006	2005
Growth rate	19%	19%
Gross contribution rate	40%	40%
Discount rate	7.1%	7.3%

Management determined the growth rate and gross contribution rate based on the past performance and its expectation for market development. The discount rate used is the weighted average cost of capital of the Group.

17 Interests in subsidiaries

	The Company	
	2006 \$'000	2005 \$'000
Unlisted shares/capital contributions at cost	603,249	603,249
Amounts due from subsidiaries	781,890	778,856
	1,385,139	1,382,105
Less: Impairment losses	(209,978)	(166,978)
	1,175,161	1,215,127

Amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

The following list contains the particulars of all the subsidiaries of the Company. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/operation	Issued and paid-up share capital/registered capital	Proportion of ownership		Principal activity
			Company	Subsidiary	
Best Investments International Inc.	British Virgin Islands	US\$50,000	100%	–	Investment
		Preference: US\$60,000,000	100%	–	
Guangzhou San Miguel Brewery Company Limited (note (i))	PRC	Registered capital: US\$36,507,000	–	70%	Manufacture and sale of beer
Hongkong Brewery Limited	Hong Kong	\$100	100%	–	Dormant
Ravelin Limited	Hong Kong	\$10,000,000	100%	–	Property holding
San Miguel (Guangdong) Limited	Hong Kong	A: US\$9,000,000	92.989%	–	Investment holding
		B: \$1,000	100%	–	
San Miguel (Guangdong) Brewery Company Limited (note (ii))	PRC	Registered capital: US\$39,933,000	–	100%	Manufacture and sale of beer
San Miguel Shunde Holdings Limited	Hong Kong	\$2,000,000	92%	–	Investment holding

Notes:

- Guangzhou San Miguel Brewery Company Limited is an equity joint venture formed between the Company's subsidiary, San Miguel (Guangdong) Limited, and Guangzhou Brewery. According to the shareholders' agreement, the Company has an operating period of 30 years expiring on 29 November 2020.
- San Miguel (Guangdong) Brewery Company Limited is a wholly-foreign owned enterprise with an operating period of 50 years expiring on 4 August 2042.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 Other tangible assets

Other tangible assets represent the carrying value of bottles and crates of the PRC subsidiaries.

	The Group	
	2006 \$'000	2005 \$'000
Cost:		
At 1 January	72,656	–
Transfer from inventories on 1 July	–	56,712
Exchange adjustments	2,563	552
Additions	21,961	20,898
Disposals	(15,064)	(5,506)
At 31 December	82,116	72,656
Accumulated amortisation and impairment losses:		
At 1 January	31,117	–
Transfer from inventories on 1 July	–	24,456
Exchange adjustments	1,097	317
Charge for the year	8,617	4,681
Impairment losses	–	2,994
Written back on disposals	(7,715)	(1,331)
At 31 December	33,116	31,117
Net book value:		
At 31 December	49,000	41,539

Effective from 1 July 2005, all bottled beer sold by the PRC subsidiaries are under returnable bottles arrangement. The bottles and crates are expected to have useful lives of more than one year and are classified as other tangible assets from 1 July 2005 onwards.

Before 1 July 2005, only bottled beer sold in crates were under returnable bottles arrangement and all the bottles and crates of the PRC subsidiaries were included in inventories.

19 Inventories

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Products in hand and in process	28,612	27,861	12,869	13,428
Materials and supplies	22,052	22,839	11,176	9,298
	50,664	50,700	24,045	22,726

20 Trade and other receivables

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade receivables	89,316	84,119	69,092	73,301
Other debtors, deposits and prepayments	26,734	28,124	17,412	13,062
Dated debt securities (unlisted)	–	14,500	–	–
	116,050	126,743	86,504	86,363

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

During the year, the Group recognised impairment losses on trade and other receivables amounting to \$11,086,000 (2005: \$3,736,000) in the consolidated income statement, of which \$11,500,000 (2005: \$Nil) is attributable to disputes with trade debtors on certain trading terms. The disputes caused the Group to reduce the carrying amount of the related trade receivables to an estimated recoverable amount.

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

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
From invoice date				
Less than 30 days	44,522	35,503	27,823	25,760
31 to 60 days	30,556	24,942	28,908	23,952
61 to 90 days	4,960	11,527	4,606	11,451
Over 90 days	9,278	12,147	7,755	12,138
	89,316	84,119	69,092	73,301

The Group's credit policy is set out in note 30(a).

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:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	USD1,642	USD1,016	USD1,642	USD1,016

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 Amounts due from/(to) holding companies and fellow subsidiaries

Amounts due from/(to) holding companies and fellow subsidiaries are unsecured and interest-free. Included in the balances are the following amounts which are trade related and are repayable under normal trade terms:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts due from holding companies and fellow subsidiaries	<u>8,339</u>	<u>9,282</u>	<u>8,241</u>	<u>9,200</u>
Amounts due to holding companies and fellow subsidiaries	<u>(4,465)</u>	<u>(2,286)</u>	<u>(2,398)</u>	<u>(1,109)</u>

The remaining balances do not have fixed repayment terms.

Included in amounts due from/(to) holding companies and fellow subsidiaries are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
Amounts due from holding companies and fellow subsidiaries				
United States Dollars	<u>USD 3,633</u>	<u>USD 1,197</u>	<u>USD 2,208</u>	<u>USD 1,186</u>
Amounts due to holding companies and fellow subsidiaries				
United States Dollars	<u>USD (682)</u>	<u>USD (129)</u>	<u>USD (284)</u>	<u>USD (109)</u>

22 Cash and cash equivalents

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
Deposits with banks	338,311	317,133	-	-
Cash at bank and in hand	<u>78,024</u>	<u>66,198</u>	<u>15,725</u>	<u>19,415</u>
	<u>416,335</u>	<u>383,331</u>	<u>15,725</u>	<u>19,415</u>

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:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	<u>USD 13,018</u>	<u>USD 10,579</u>	<u>USD 1,181</u>	<u>USD 266</u>

23 Bank loans (unsecured)

At 31 December 2006, the bank loans were repayable as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Within 1 year or on demand	80,374	50,408	-	-
After 1 year but within 2 years	95,000	-	95,000	-
More than 2 years but less than 5 years	-	95,000	-	95,000
	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>
	<u>175,374</u>	<u>145,408</u>	<u>95,000</u>	<u>95,000</u>

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	<u>USD 6,500</u>	<u>USD 6,500</u>	<u>USD -</u>	<u>USD -</u>

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(Expressed in Hong Kong dollars)

24 Trade and other payables

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade payables	51,236	40,382	29,227	24,501
Other creditors and accrued charges	143,544	85,741	25,835	28,875
	194,780	126,123	55,062	53,376

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:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
From invoice date				
Less than 30 days	47,637	36,678	28,517	22,573
31 to 60 days	2,443	1,409	580	909
61 to 90 days	534	371	57	132
Over 90 days	622	1,924	73	887
	51,236	40,382	29,227	24,501

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:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	USD 731	USD 558	USD 731	USD 558
Euro	EUR 125	EUR 92	EUR 125	EUR 92
Australian Dollars	AUD 17	AUD 16	AUD 17	AUD 16

25 Amounts due to subsidiaries

Amounts due to subsidiaries are unsecured and interest-free. The balances included in current liabilities are trade related and are repayable under normal trade terms. The balances included in non-current liabilities do not have fixed repayment terms but are not repayable within one year.

26 Leased factory maintenance provision

Pursuant to the factory lease agreement of Guangzhou San Miguel Brewery Company Limited ("GSMB") which expires on 29 November 2020, GSMB is required to pay to the lessor an annual fee of RMB4.3 million for maintaining the leased factory, for which provision is made each year. The fee is payable upon expiration or early termination of the lease agreement and may be settled by any qualifying capital expenditure incurred by GSMB on the purchase or construction of any separate and identifiable equipment or building during the term of the lease.

As disclosed in note 6, GSMB and the lessor entered into an agreement on 29 September 2006 to early terminate the lease, accordingly the provision became payable to the lessor during the year and was transferred to "Trade and other payables".

	The Group	
	2006 \$'000	2005 \$'000
Balance at 1 January	53,208	47,968
Exchange adjustments	1,877	1,082
Provision made during the year	3,587	4,158
Transfer to "Trade and other payables" during the year	(58,672)	-
Balance at 31 December	-	53,208

27 Employee retirement benefits

(a) Defined benefit retirement plan

The Group operates a defined benefit retirement plan which covers 26% of the Group's employees. The plan is administered by an independent trustee, with the assets held separately from those of the Group. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the plan are made in accordance with the recommendations of an independent actuary who values the retirement plan at regular intervals. The latest actuarial valuation in this respect was carried out at 31 December 2006 by qualified staff of Watson Wyatt Hong Kong Limited, who are members of the Society of Actuaries of Canada, using the attained age method.

For the purposes of preparing these financial statements, an independent actuarial valuation was also carried out for 31 December 2006 by the above independent actuary following the methodology set out in HKAS 19, Employee benefits.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 Employee retirement benefits (continued)

(a) Defined benefit retirement plan (continued)

(i) The amounts recognised in the balance sheets are as follows:

	The Group and the Company	
	2006 \$'000	2005 (restated) \$'000
Present value of funded obligations	103,566	96,361
Fair value of plan assets	(88,696)	(81,434)
Retirement benefit liabilities	<u>14,870</u>	<u>14,927</u>

A portion of the above liabilities is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay \$12,535,000 in contributions to the defined benefit retirement plan in 2007.

(ii) Plan assets consist of the following:

	The Group and the Company	
	2006 \$'000	2005 \$'000
Equity securities	52,863	48,860
Capital guarantee instruments	33,616	28,502
Cash	2,217	4,072
	<u>88,696</u>	<u>81,434</u>

(iii) Movements in the present value of the defined benefit obligations:

	The Group and the Company	
	2006 \$'000	2005 \$'000
At 1 January	96,361	111,997
Benefits paid by the plan	(10,007)	(17,231)
Current service cost	6,768	7,687
Interest cost	4,209	4,034
Actuarial losses/(gains)	6,449	(10,126)
Transferred to other schemes	(214)	–
At 31 December	<u>103,566</u>	<u>96,361</u>

(iv) Movements in plan assets:

	The Group and the Company	
	2006 \$'000	2005 \$'000
At 1 January	81,434	92,736
Contributions paid to the plan	10,790	8,439
Benefits paid by the plan	(10,007)	(17,231)
Actuarial expected return on plan assets	5,537	6,096
Actuarial gains/(losses)	1,156	(8,606)
Transferred to other schemes	(214)	–
At 31 December	<u>88,696</u>	<u>81,434</u>

(v) Expense recognised in consolidated profit or loss is as follows:

	2006	2005
	\$'000	(restated) \$'000
Current service cost	6,768	7,687
Interest cost	4,209	4,034
Expected return on plan assets	(5,537)	(6,096)
Expense charged to consolidated profit or loss (note 5(b))	<u>5,440</u>	<u>5,625</u>
The expense is recognised in the following line items in the consolidated income statement:		
– Cost of sales	1,741	1,857
– Selling and distribution expenses	2,067	2,081
– Administrative expenses	1,632	1,687
	<u>5,440</u>	<u>5,625</u>
Actual return on plan assets – gain/(loss)	<u>6,693</u>	<u>(2,510)</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 Employee retirement benefits (continued)

(a) Defined benefit retirement plan (continued)

(vi) The cumulative amount of actuarial gains and losses recognised directly in equity:

	2006 \$'000	2005 (restated) \$'000
At 1 January	(20,614)	(22,134)
Amount recognised during the year	(5,293)	1,520
At 31 December	<u>(25,907)</u>	<u>(20,614)</u>

(vii) The principal actuarial assumptions used are as follows:

	The Group and the Company	
	2006	2005
Discount rate	3.75%	4.50%
Expected rate of return on plan assets	6.50%	6.50%
Future salary increases	3.00%	3.00%

The expected rate of return on plan assets is based on the portfolio as a whole and exclusively on historical returns, without adjustments.

Historical information

	The Group and the Company				
	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Present value of the defined benefit obligations	103,566	96,361	111,997	95,630	107,183
Fair value of plan assets	(88,696)	(81,434)	(92,736)	(92,772)	(71,798)
Deficit	<u>14,870</u>	<u>14,927</u>	<u>19,261</u>	<u>2,858</u>	<u>35,385</u>
Experience adjustments on:					
Plan liabilities	(900)	(2,679)	442	(2,918)	(311)
Plan assets	<u>(1,156)</u>	<u>8,606</u>	<u>4,953</u>	<u>(3,800)</u>	<u>10,606</u>

(b) Defined contribution retirement plans

- (i) Staff employed by the Group in Hong Kong not joining the above defined benefit retirement plan are required to join the Group's mandatory provident fund plan under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The mandatory provident fund plan is a defined contribution retirement plan administered by an independent corporate trustee. Under the plan, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the plan vest immediately.
- (ii) Employees of the subsidiaries in the PRC are members of the central pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of employees' remuneration to the central pension scheme to fund the benefits. The only obligation for the Group with respect to the central pension scheme is the associated required contribution under the central pension scheme. Contributions to the plan vest immediately.

28 Income tax in the balance sheet

(a) Current tax (payable)/recoverable in the consolidated balance sheet represents:

	2006 \$'000	2005 \$'000
Provision for Hong Kong Profits Tax for the year	(194)	(121)
Provisional Hong Kong Profits Tax paid	90	919
Current tax (payable)/recoverable	<u>(104)</u>	<u>798</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 Income tax in the balance sheet (continued)

(b) Net deferred tax liabilities recognised

(i) *The Group*

The components of net deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation \$'000	Impairment losses of receivables and inventories \$'000	Retirement benefit liabilities \$'000	Tax losses \$'000	Others \$'000	Total \$'000
At 1 January 2005						
– as previously reported	206,938	(5,905)	(946)	(85,220)	(6,603)	108,264
– prior period adjustment in respect of defined benefit retirement plan	–	–	(3,873)	172	–	(3,701)
– as restated	206,938	(5,905)	(4,819)	(85,048)	(6,603)	104,563
Exchange adjustments (Credited)/charged to consolidated profit or loss (restated)	1,562	(111)	–	–	(148)	1,303
Charged to equity	(12,632)	4,236	784	8,525	6,079	6,992
	–	–	266	–	–	266
At 31 December 2005 (as restated)	195,868	(1,780)	(3,769)	(76,523)	(672)	113,124
At 1 January 2006						
– as previously reported	195,868	(1,780)	(162)	(76,829)	(672)	116,425
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	(3,607)	306	–	(3,301)
– as restated	195,868	(1,780)	(3,769)	(76,523)	(672)	113,124
Exchange adjustments (Credited)/charged to consolidated profit or loss	2,195	(26)	–	–	(24)	2,145
Charged to equity	(2,793)	708	1,613	(3,754)	(2,462)	(6,688)
	–	–	(926)	–	–	(926)
At 31 December 2006	195,270	(1,098)	(3,082)	(80,277)	(3,158)	107,655

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 Income tax in the balance sheet (continued)

(b) Net deferred tax liabilities recognised (continued)

(i) The Group (continued)

Deferred tax assets have not been recognised in respect of the following items:

	2006 \$'000	2005 \$'000
Tax losses	138,218	132,341
Deductible temporary differences	50,333	33,537
	188,551	165,878

Deferred tax assets have not been recognised in respect of the above items as it is not probable that future taxable profits against which the above items can be utilised will be available in the relevant tax jurisdictions and entities.

The tax losses can be carried forward up to five years from the year in which the loss originated, and will expire in the following years:

	2006 \$'000	2005 \$'000
2006	–	46,618
2007	12,628	12,197
2008	16,731	35,151
2009	–	7,560
2010	31,903	30,815
2011	76,956	–
	138,218	132,341

(ii) The Company

The components of net deferred tax liabilities recognised in the balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation \$'000	Impairment losses of receivables \$'000	Retirement benefit liabilities \$'000	Tax losses \$'000	Total \$'000
At 1 January 2005					
– as previously reported	137,780	(1,012)	(946)	(85,193)	50,629
– prior period adjustment in respect of defined benefit retirement plan	–	–	(3,873)	172	(3,701)
– as restated	137,780	(1,012)	(4,819)	(85,021)	46,928
(Credited)/charged to profit or loss (restated)	(4,183)	(14)	784	8,498	5,085
Charged to equity	–	–	266	–	266
At 31 December 2005 (as restated)	133,597	(1,026)	(3,769)	(76,523)	52,279
At 1 January 2006					
– as previously reported	133,597	(1,026)	(162)	(76,829)	55,580
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	(3,607)	306	(3,301)
– as restated	133,597	(1,026)	(3,769)	(76,523)	52,279
(Credited)/charged to profit or loss	(3,970)	30	1,613	3,666	1,339
Credited to equity	–	–	(926)	–	(926)
At 31 December 2006	129,627	(996)	(3,082)	(72,857)	52,692

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 Capital and reserves

(a) The Group

	Attributable to equity shareholders of the Company								
	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Exchange fluctuation reserve \$'000	Capital contribution reserve \$'000	Retained profits \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
At 1 January 2005									
– as previously reported	186,785	65,739	112,970	(4,825)	430	1,675,450	2,036,549	98,551	2,135,100
– prior period adjustment in respect of defined benefit retirement plan	–	–	–	–	–	(17,448)	(17,448)	–	(17,448)
– as restated	186,785	65,739	112,970	(4,825)	430	1,658,002	2,019,101	98,551	2,117,652
Dividends approved in respect of the previous financial year (note 11(b))	–	–	–	–	–	(3,736)	(3,736)	–	(3,736)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	14,266	–	–	14,266	2,209	16,475
Equity-settled share-based transactions	–	–	–	–	495	–	495	–	495
Inter-company charge levied by the ultimate holding company for the stock options	–	–	–	–	(925)	–	(925)	–	(925)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	1,520	1,520	–	1,520
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	(266)	(266)	–	(266)
Loss for the year (restated)	–	–	–	–	–	(35,010)	(35,010)	(30,396)	(65,406)
Dividend declared in respect of the current year (note 11(a))	–	–	–	–	–	(3,736)	(3,736)	–	(3,736)
At 31 December 2005 (as restated)	186,785	65,739	112,970	9,441	–	1,616,774	1,991,709	70,364	2,062,073
At 1 January 2006									
– as previously reported	186,785	65,739	112,970	9,441	–	1,632,337	2,007,272	70,364	2,077,636
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	–	–	–	(15,563)	(15,563)	–	(15,563)
– as restated	186,785	65,739	112,970	9,441	–	1,616,774	1,991,709	70,364	2,062,073
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	20,684	–	–	20,684	2,029	22,713
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 year	–	–	–	–	–	(70,144)	(70,144)	(36,178)	(106,322)
At 31 December 2006	186,785	65,739	112,970	30,125	–	1,542,263	1,937,882	36,215	1,974,097

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 Capital and reserves (continued)

(b) The Company

	Share capital \$'000	Share premium \$'000	Capital contribution reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 2005					
– as previously reported	186,785	65,739	430	1,650,664	1,903,618
– prior period adjustment in respect of defined benefit retirement plan	–	–	–	(17,448)	(17,448)
– as restated	186,785	65,739	430	1,633,216	1,886,170
Dividends approved in respect of the previous financial year (note 11(b))	–	–	–	(3,736)	(3,736)
Equity-settled share-based transactions	–	–	495	–	495
Inter-company charge levied by the ultimate holding company for the stock options	–	–	(925)	–	(925)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	1,520	1,520
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	(266)	(266)
Profit for the year (restated) (note 10)	–	–	–	18,209	18,209
Dividend declared in respect of the current year (note 11(a))	–	–	–	(3,736)	(3,736)
At 31 December 2005 (as restated)	186,785	65,739	–	1,645,207	1,897,731
At 1 January 2006					
– as previously reported	186,785	65,739	–	1,660,770	1,913,294
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	–	(15,563)	(15,563)
– as restated	186,785	65,739	–	1,645,207	1,897,731
Equity-settled share-based transactions	–	–	400	–	400
Inter-company charge levied by the ultimate holding company for the stock options	–	–	(400)	–	(400)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	(5,293)	(5,293)
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	926	926
Loss for the year (note 10)	–	–	–	(55,666)	(55,666)
At 31 December 2006	186,785	65,739	–	1,585,174	1,837,698

(c) Share capital

	The Company	
	2006 \$'000	2005 \$'000
Authorised: 400,000,000 ordinary shares of \$0.50 each	200,000	200,000
Issued and fully paid: 373,570,560 ordinary shares of \$0.50 each	186,785	186,785

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 Capital and reserves (continued)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

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

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

(iv) Capital contribution reserve

The capital contribution reserve represents the fair value of the actual or estimated number of unexercised stock options granted to the Company's employees by the ultimate holding company recognised in accordance with the accounting policy adopted for share-based payment in note 1(q)(iii).

(e) Distributable reserves

The distributable reserves of the Company as at 31 December 2006 were \$1,585,174,000 (2005 (restated): \$1,645,207,000).

30 Financial instruments

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

Investments in dated debt securities and placement of bank deposits are normally with counterparties having sound credit ratings.

At the balance sheet date, the Group has certain concentration of credit risk as 54% (2005: 52%) of the total trade and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is presented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2006		2005	
	Effective interest rate %	Total – 1 year or less \$'000	Effective interest rate %	Total – 1 year or less \$'000
The Group				
<i>Repricing dates for assets/(liabilities) which reprice before maturity</i>				
Cash at bank and in hand (note 22)	1.08	78,024	1.24	66,198
Bank loans (unsecured) (note 23)	5.00	(175,374)	4.68	(145,408)
		(97,350)		(79,210)
<i>Maturity dates for assets which do not reprice before maturity</i>				
Deposits with banks (note 22)	3.46	338,311	3.19	317,133
Dated debt securities (note 20)	N/A	–	3.14	14,500
		338,311		331,633
The Company				
<i>Repricing dates for assets/(liabilities) which reprice before maturity</i>				
Cash at bank and in hand (note 22)	2.39	15,725	2.32	19,415
Bank loans (unsecured) (note 23)	4.58	(95,000)	4.59	(95,000)
		(79,275)		(75,585)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 Financial instruments (continued)

(d) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in United States dollars ("USD"), Australian dollars ("AUD") and Euro ("EUR"). As Hong Kong Dollar ("HKD") is pegged to USD, the management does not expect any significant movements in the USD/HKD exchange rate. For other currencies like AUD and EUR, since the volume of transactions denominated in these currencies is not significant, management considers the exposure to currency risk to be low.

(e) Fair value

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

The non-trade balances with holding companies and fellow subsidiaries are unsecured, interest-free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose fair values.

31 Commitments

(a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Contracted for	23,443	327	461	327
Authorised but not contracted for	5,078	519	22	519
	<u>28,521</u>	<u>846</u>	<u>483</u>	<u>846</u>

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Land and buildings</i>				
Within 1 year	1,467	2,410	19	456
After 1 year but within 5 years	1,494	272	–	19
After 5 years	–	633	–	–
	<u>2,961</u>	<u>3,315</u>	<u>19</u>	<u>475</u>
<i>Plant and machinery</i>				
Within 1 year	575	58,781	575	–
After 1 year but within 5 years	2,014	–	2,014	–
	<u>2,589</u>	<u>58,781</u>	<u>2,589</u>	<u>–</u>
	<u>5,550</u>	<u>62,096</u>	<u>2,608</u>	<u>475</u>

The Group, as lessee, leases a number of properties and items of machinery and equipment under operating leases. The leases typically run for an initial period of two years with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

One of the subsidiaries, Guangzhou San Miguel Brewery Company Limited also leased plant, machinery and equipment under an operating lease which ran for thirty years. As mentioned in note 6, the lease was early terminated during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 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.

(a) Transactions with group companies

	Note	Transactions		Balances at year end	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Purchases from	(i)				
– ultimate holding company		2,450	2,382	325	459
– fellow subsidiaries		33,992	33,589	4,140	1,827
Sales to	(i)				
– intermediate holding company		23,028	39,846	5,610	9,282
– fellow subsidiaries		345	644	2,729	–
Commission fee to intermediate holding company	(ii)	1,244	1,037	–	–

Notes:

- (i) Sales to and purchases from group companies were carried out at terms mutually agreed by both parties. The terms of the outstanding balances are set out in note 21.
- (ii) Commission is paid to the intermediate 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 intermediate holding company had such sales been made by the Group to the intermediate holding company and then on-sold by the intermediate holding company to the customers.

These transactions also constitute connected transactions under the Listing Rules.

(b) Other transactions with group companies

	Amounts		Balances at year end	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Expenses paid on behalf of group companies				
– ultimate holding company	7,203	3,421	6,520	–
– intermediate holding company	17,235	26,150	13,393	27,266
– fellow subsidiaries	120	86	156	1,798
Expenses paid by group companies on the Group's behalf				
– ultimate holding company	–	5,978	–	5,978
– intermediate holding company	–	181	–	181
– fellow subsidiaries	2,215	882	3,097	882

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2006 \$'000	2005 \$'000
Short-term employee benefits	14,547	8,922
Post-employment benefits	1,488	558
Equity compensation benefits	400	261
	16,435	9,741

Total remuneration is included in "staff costs" (see note 5(b)).

33 Contingent liabilities

As at 31 December 2006, 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 \$50,531,000 (2005: \$50,408,000).

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 (2005: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 Comparative figures

- (a) Certain comparative figures have been adjusted as a result of the change in accounting policy as set out in note 2.
- (b) Classification of certain profit or loss items has been changed as follows:
 - (i) Impairment loss of \$69,869,000 which was included in "Impairment losses" in the 2005 financial statements has been reclassified under costs of sales of \$2,994,000, administrative expenses of \$486,000, other operating expenses of \$3,094,000 and restructuring costs of \$63,295,000 to conform with the current year's presentation.
 - (ii) Gross turnover of \$1,268,346,000, discounts of \$304,457,000 and beer duty and taxes of \$156,980,000 were separately shown in the consolidated income statement in the 2005 financial statements. In order to conform with the current year's presentation, the discounts and beer duty and taxes have been reclassified to set-off with the gross turnover.
- (c) In the Company's balance sheet, amounts due to subsidiaries of \$1,975,000 which were trade related and were included in non-current liabilities in the 2005 financial statements, have been reclassified to current liabilities.
- (d) Cash and cash equivalents of \$383,331,000 which were included under segment assets in the segment reporting disclosure note in the 2005 financial statements have been reclassified to unallocated assets.

The directors of the Company consider that the revised presentation reflects more appropriately the nature of these items.

35 Immediate and ultimate controlling party

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Neptunia Corporation Limited and San Miguel Corporation respectively. Neptunia Corporation Limited is incorporated in Hong Kong while San Miguel Corporation is incorporated in the Republic of the Philippines.

36 Accounting estimates and judgements

Notes 16 and 27 contain information about the assumptions and their risk factors relating to goodwill and trademarks impairment and retirement benefit liabilities respectively. Apart from the above, the Group believes the following critical accounting policies also involve significant estimates and judgements used in the preparation of the financial statements:

(a) Impairment of property, plant and equipment, interests in leasehold land held for own use under operating leases and investment properties

If the circumstances indicate that the carrying values of property, plant and equipment, interests in leasehold land held for own use under operating leases and investment properties may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of assets". Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. However, actual sale volume, selling price and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected.

(b) Depreciation of property, plant and equipment and investment properties

Property, plant and equipment and investment properties are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Amortisation of other tangible assets

Other tangible assets are amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values. The Group reviews the estimated useful lives and estimated residual values of the assets regularly in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets. The amortisation charge for future periods is adjusted if there are significant changes from previous estimates.

(d) Impairment loss for bad and doubtful debts

The Group maintains an impairment loss for bad and doubtful debts for estimated losses resulting from the inability of the debtors to make required payments. The Group bases the estimates of future cash flows on the ageing of the trade receivables balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(e) Write down of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption and management judgement. Based on this review, write down of inventories will be made when the carrying amount of inventories decline below the estimated net realisable value. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

To the shareholders of San Miguel Brewery Hong Kong Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of San Miguel Brewery Hong Kong Limited (the "Company") set out on pages 32 to 64, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

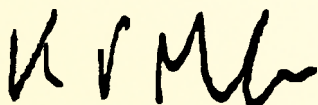
We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements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

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

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

OPINION

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

**KPMG***Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

6 March 2007

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Results					
Turnover	826,817	806,909	777,830	684,866	804,749
(Loss)/profit before taxation	(112,871)	(58,293)	15,536	(26,220)	43,580
Income tax credit/(charge)	6,549	(7,113)	(3,032)	(9,628)	(16,225)
(Loss)/profit for the year	(106,322)	(65,406)	12,504	(35,848)	27,355
Attributable to:					
– Equity shareholders of the Company	(70,144)	(35,010)	11,270	(39,616)	22,989
– Minority interests	(36,178)	(30,396)	1,234	3,768	4,366
(Loss)/profit for the year	(106,322)	(65,406)	12,504	(35,848)	27,355
(Loss)/earnings per share					
– Basic	(\$0.19)	(\$0.09)	\$0.03	(\$0.09)	\$0.08
Cash dividends per share	–	\$0.01	\$0.01	–	\$0.10
Assets and liabilities					
Fixed assets	1,769,377	1,838,164	1,939,135	2,016,646	2,083,863
Intangible assets	39,564	39,525	39,481	37,413	–
Goodwill	5,044	5,044	5,044	5,318	–
Other financial assets	–	–	22,287	21,827	37,383
Other tangible assets	49,000	41,539	–	–	–
Net current assets	328,637	360,852	478,497	380,093	382,119
Total assets less current liabilities	2,191,622	2,285,124	2,484,444	2,461,297	2,503,365
Long term bank loans (unsecured)	(95,000)	(95,000)	(195,000)	(195,000)	(195,000)
Leased factory maintenance provision	–	–	(47,968)	(43,829)	(39,948)
Retirement benefit liabilities	(14,870)	(14,927)	(19,261)	(2,858)	(35,385)
Deferred tax liabilities	(107,655)	(113,124)	(104,563)	(98,931)	(85,717)
Net assets	1,974,097	2,062,073	2,117,652	2,120,679	2,147,315
Capital and reserves					
Share capital	186,785	186,785	186,785	186,785	186,785
Reserves	1,751,097	1,804,924	1,832,316	1,836,740	1,859,155
Total equity attributable to equity shareholders of the Company	1,937,882	1,991,709	2,019,101	2,023,525	2,045,940
Minority interests	36,215	70,364	98,551	97,154	101,375
Total equity	1,974,097	2,062,073	2,117,652	2,120,679	2,147,315

Notes:

- (1) Pursuant to the Amendment to HKAS 19, Employee benefits-Actuarial gains and losses, group plans and disclosures, the Group changed its accounting policy relating to retirement benefit liabilities with effect from 1 January 2006. The change has been applied retrospectively with comparative figures being restated.
- (2) In order to comply with HKFRS 2, Share-based payment, the Group adopted a new accounting policy for employee stock options with effect from 1 January 2005. The Group took advantage of the transitional provisions set out in HKFRS 2, under which the new policies were not applied retrospectively to the following grants of options:
 - (a) all options granted to employees on or before 7 November 2002; and
 - (b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.
- (3) In order to comply with HKFRS 3, Business combinations and HKAS 36, Impairment of assets, the Group changed its accounting policies relating to goodwill with effect from 1 January 2005. In accordance with the transitional provisions of the standards, the changes have been applied prospectively from 1 January 2005. Figures in years earlier than 2005 are stated in accordance with the policies before the change on a consistent basis.

Marketing Initiatives

市務活動







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