



**SAN MIGUEL BREWERY  
HONG KONG LTD.**

香港生力啤酒廠有限公司

**INTERIM REPORT**  
**January to June 2006**  
中期報告  
二零零六年一月至六月

## **CORPORATE INFORMATION**

### **DIRECTORS**

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

#### *Non-Executive Director*

Minerva Lourdes Bibonia  
Ma. Belen C. Buensuceso  
Ferdinand K. Constantino  
Roberto N. Huang

#### *Independent Non-Executive Directors*

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

### **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**

Wan Yick Kin

### **AUDITORS**

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

### **SOLICITORS**

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

### **REGISTERED OFFICE**

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

### **SHARE REGISTRAR**

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

### **PRINCIPAL BANKERS**

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

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

## CHAIRMAN'S STATEMENT

To Our Shareholders,

### Financial Results

With half of the year now complete and an encouraging second half outlook ahead of us, our message is one of continued confidence through sustained investments in our brands and cost savings initiatives.

Consolidated volumes grew by 8.4% for the first six months of 2006. However consolidated gross turnover was \$574.298 million, representing a slight decline of 2.7% from the same period of 2005 because of a faster growth in the lower price segment of our markets. Gross profit margin grew incrementally from 28% in the first half of 2005 to 28.5% this year.

Consolidated loss after taxation attributable to equity holders of the Company for the six months ended 30th June 2006 was \$22.594 million which includes one-time redundancy cost incurred in GSMB of \$5.116 million after Minority Interest. Without the redundancy cost, consolidated loss would have been \$17.478 million. In spite of the loss, operating activities recorded a net cash inflow of \$47.169 million, 19.4% higher than the same period last year. As of 30th June 2006, cash and cash equivalents totaled \$406.909 million, an increase of \$23.578 million over the corresponding figure of \$383.331 million at the end of December 2005.

The Company maintained an extremely healthy balance sheet, sustaining \$347.223 million net current assets, a current ratio of 2.27 times and a quick ratio of 2.08 times. The company also sustained a low gearing, total net assets amounted to \$2,054.687 million and a low 7.3% debt to equity ratio.

### Dividends

The directors have resolved that no dividend be declared for the first six months ended 30th June 2006.

## Business Review

### *Hong Kong Operations*

Shift in consumer preference towards economy brands and intense price competition in the market continued to be the primary challenges for the beer industry and our Company in 2006.

Due to weak market conditions and narrower profit margins on economy-priced brands, our Hong Kong operations recorded a loss of \$7.480 million compared to the restated \$2.392 million loss last year.

Reflecting the market setbacks, the Company's sales to the local market were 4.6% below the first six months of the previous year. Nevertheless, the Company has put in place a new sales structure to intensify focus on key accounts development which is expected to improve volumes in the coming months and provide business stability despite an increasingly competitive situation.

Our premium brands provided a particularly bright spot for the business, finishing 33% higher than the previous year. Equally encouraging is the 8% increase in the volume of our economy-priced brands for the first half of 2006. The Company continues to be the biggest player in the beer market, successfully growing volume of its economy-priced brands over the last year.

On the whole, the Company managed to defend its leading position in the highly competitive marketplace and capitalized on its strengths in the growing economy segment to benefit from its penetration into other segments that are potentially more profitable.

Facing the challenges, the Company has taken measures to reinforce San Miguel popularity to sustain its leadership and boost its volume.

Building on the success of the "San Miguel WildDayOut" programs, more WildDayOut parties were organized in the first half of 2006 to solidify the brand San Miguel communication platform to young consumers. Early this year, a San Miguel neon sign has been added to the city's famous skyline. For the remainder of 2006, San Miguel intends to build brand presence above-the-line through the sponsorship of popular TV programs and

movies that cater to our core drinkers, among others. All these programs and activities, together with an emphasis on improved execution in the marketplace, will continue to serve our target to maintain market leadership in Hong Kong.

#### *South China Operations*

Operating profit of San Miguel (Guangdong) Brewery Company Limited surged 10 times to \$6.885 million in 2006 from \$0.704 million (restated) in 2005. Guangzhou San Miguel Brewery Company Limited booked a loss of \$27.283 million which includes redundancy cost of \$7.871 million. Together, the Company's South China operations recorded a loss of \$20.398 million, compared with last year's loss of \$14.955 million. Without the GSMB redundancy cost, South China operations would have recorded a loss of \$12.527 million, a 16% improvement over last year's loss.

Owing to the Company's healthy financial position, the loss does not severely impact the financial stability of its South China operations.

San Miguel (Guangdong) Brewery Company Limited once again reported very strong volume growth, with volumes soaring 21% in the first six months of 2006. The increase came primarily from the popularity of Valor and the leading local brand Dragon Beer.

The Company is expanding the brewery facilities of San Miguel (Guangdong) Brewery Company Limited in 2006 to satisfy the growing demand in the region; with the significant improvement in the distribution coverage in our core markets, aggressive outlet merchandising drive in key outlets and the launch of the new Dragon TVC in Shunde and in the nearby counties, we expect to further consolidate the strength of Dragon brand in Shunde to achieve even higher profitability.

Guangzhou San Miguel Brewery Company Limited has undergone considerable change over the year while operating in the most challenging market environment.

During the first six months of 2006, Guangzhou San Miguel Brewery Company Limited experienced a slowdown in revenue. Total sales volume dropped slightly by 3% over the same period in 2005.

To turnaround the business, Guangzhou San Miguel Brewery Company Limited has been aggressively implementing the planned sales and marketing initiatives to further strengthen San Miguel brand positioning in both established and new markets. These initiatives include the establishment and implementation of stable trade pricing guidelines across regions, development of dealership programs and outlet management activities, and the expansion of San Mig Light (SML) penetration in core markets.

The company has also accelerated its restructuring to improve its profitability. We continue to execute cost savings and productivity initiatives, which are helping our South China operations to partially mitigate the cost inflation we are experiencing. We have had good productivity savings year-to-date.

Throughout the year, the Company maintained its strength in the Hong Kong beer market by reinforcing the flagship brand San Miguel's popularity and increasing penetration of economy brands. It also achieved significant breakthroughs in South China with the outstanding performance of local brands like Dragon and Valor.

Moving forward, the Company has a number of dynamic growth strategies in place, together with a very healthy cash position and our highly motivated teams in both Hong Kong and South China, we have established a firm foundation for the future growth of the Company.

We take this opportunity to renew our commitment to work towards becoming the kind of company that will perform consistently year after year.



**Ramon S. Ang**  
*Chairman*

12th September 2006

## INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

### Interim Dividend

The directors have resolved that no dividend be declared for the first six months ended 30th June 2006.

### Interim Results

The interim results for the six months ended 30th June 2006 have not been audited by the Company's auditors, but were reviewed by the audit committee on 12th September 2006.

### Directors' Interests

As at 30th June 2006, the directors and their associates had the following beneficial interests in the issued share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required under Section 352 of the SFO:

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

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

Name of Director	Number of shares in San Miguel Corporation			Approximate % of shareholdings
	Personal interests	Family interests	Total	
<i>Class A (par value of 5 pesos each):</i>				
Ramon S. Ang	6,050	-	6,050	0.00192%
Faustino F. Galang	63,800	-	63,800	0.002030%
Minerva Lourdes Bibonia	20,000	-	20,000	0.000636%
Ma. Belen C. Buensuceso	45,018	-	45,018	0.001432%
Ferdinand K. Constantino	114,224	2,070	116,294	0.003699%
Roberto N. Huang	12,430	-	12,430	0.000395%
<i>Class B (par value of 5 pesos each):</i>				
Faustino F. Galang	60,000	-	60,000	0.001909%
Minerva Lourdes Bibonia	20,000	-	20,000	0.000636%
Roberto N. Huang	2,750	-	2,750	0.000087%

#### (2) Interests in Underlying Shares

Certain directors of the Company have been granted stock options to subscribe for common shares in San Miguel Corporation. Particulars of stock options in San Miguel Corporation held by

directors as at 30th June 2006 are as follows:

Name of Director	Date granted	Exercisable period up to	Exercise price (pesos)	Share Options in San Miguel Corporation	
				Balance of options as at 30th June 2006	
<i>Class A (par value of 5 pesos each):</i>					
Ramon S. Ang	26/06/03	26/06/11	54.50	259,422	
	01/10/04	01/10/12	57.50	266,854	
	10/11/05	10/11/13	65.00	204,654	
Faustino F. Galang	26/06/03	26/06/11	54.50	28,435	
	01/10/04	01/10/12	57.50	87,751	
	10/11/05	10/11/13	65.00	67,090	
Chong Yoon Fatt	10/11/05	10/11/13	65.00	1,027	
	Minerva Lourdes Bibonia	26/06/03	26/06/11	54.50	11,928
		01/10/04	01/10/12	57.50	26,750
Ma. Belen C. Buensuceso	10/11/05	10/11/13	65.00	33,824	
	26/06/03	26/06/11	54.50	36,144	
	01/10/04	01/10/12	57.50	38,854	
Ferdinand K. Constantino	10/11/05	10/11/13	65.00	30,789	
	26/06/03	26/06/11	54.50	16,838	
	01/10/04	01/10/12	57.50	56,643	
Roberto N. Huang	10/11/05	10/11/13	65.00	48,391	
	26/06/03	26/06/11	54.50	36,144	
	01/10/04	01/10/12	57.50	40,529	
	10/11/05	10/11/13	65.00	31,967	
<i>Class B (par value of 5 pesos each):</i>					
Ramon S. Ang	26/06/03	26/06/11	62.50	111,181	
	01/10/04	01/10/12	70.50	114,366	
	10/11/05	10/11/13	89.50	136,436	
Faustino F. Galang	26/06/03	26/06/11	62.50	12,186	
	01/10/04	01/10/12	70.50	37,607	
	10/11/05	10/11/13	89.50	44,727	
Chong Yoon Fatt	10/11/05	10/11/13	89.50	684	
	Minerva Lourdes Bibonia	26/06/03	26/06/11	62.50	5,112
		01/10/04	01/10/12	70.50	11,464
Ma. Belen C. Buensuceso	10/11/05	10/11/13	89.50	22,550	
	26/06/03	26/06/11	62.50	5,163	
	01/10/04	01/10/12	70.50	16,652	
Ferdinand K. Constantino	10/11/05	10/11/13	89.50	20,526	
	26/06/03	26/06/11	62.50	7,216	
	01/10/04	01/10/12	70.50	24,275	
Roberto N. Huang	10/11/05	10/11/13	89.50	32,260	
	26/06/03	26/06/11	62.50	15,490	
	01/10/04	01/10/12	70.50	17,370	
	10/11/05	10/11/13	89.50	21,312	

#### Note:

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

None of the directors or their associates had any interests in the issued shares capital or in stock options of the Company or any of its associated corporations other than those disclosed above.

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

As at 30th June 2006 according to the register required under Section 336 of the SFO, the Company was

notified that the following shareholders had an interest of 5% or more of its issued share capital:

Name	Number of shares of \$0.50 each	
	Ordinary shares held	Percentage of total issued shares
Neptunia Corporation Limited (Note 1)	245,720,800	65.78%
HKSCC Nominees Limited	67,677,493	18.12%
Conroy Assets Limited (Note 2)	13,624,600	3.65%
Hamstar Profits Limited (Note 2)	10,078,400	2.70%

Note 1:

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

Note 2:

*Mr. Li Ka-Shing, Cheung Kong (Holdings) Limited, Li Ka-Shing Unity Trustee Company Limited, Li Ka-Shing Unity Trustee Corporation Limited and Li Ka-Shing Unity Trustcorp Limited are all deemed to hold the above disclosed interest of Conroy Assets Limited ("Conroy") and Hamstar Profits Limited ("Hamstar") in the Company. The aggregate interest of Conroy and Hamstar exceeding 5% of the issued share capital of the Company constitutes a duty of disclosure under the SFO.*

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.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2006.

### **Corporate Governance**

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

1. All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1) but are subject to retirement by rotation once every three years and re-election at the annual general meeting under the Company's Articles of Association.
2. The Company is currently in the process of developing the procedures for the review of the effectiveness of its internal control system under Code Provision C.2.1. The procedures would be

completed and implemented prior to the end of this year.

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 period under review.

### **Audit Committee**

For the period 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. Under its terms of reference, the audit committee assists the board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions.

The audit committee's specific terms of reference are available on request to any shareholders of the Company and are posted on the Company's websites, [info.sanmiguel.com.hk](http://info.sanmiguel.com.hk) and [www.sanmiguel.com.hk](http://www.sanmiguel.com.hk).

### **Remuneration Committee**

The remuneration committee is duly constituted on 9th December 2005 and is composed of three independent non-executive directors, Dr. The Hon. Sir David K. P. Li, Mr. Ng Wai Sun and Mr. Ian F. Wade, and two non-executive directors, Mr. Ferdinand K. Constantino and Mr. Faustino F. Galang. The remuneration committee is chaired by an independent non-executive director, Mr. Ng Wai Sun. Under its terms of reference, the remuneration committee supports and advises the board in fulfilling its responsibility to the shareholders of the Company to (a) establish coherent remuneration policies and practices that will be observed and enable the Company to attract and retain top calibre executives and directors; (b) fairly and responsibly reward executives based on their performance and the performance of the Company, and the general pay environment; and (c) comply with the Code Provisions on remuneration of directors.

The remuneration committee's specific terms of reference are available on request to any shareholders of the Company and are posted on the Company's websites, [info.sanmiguel.com.hk](http://info.sanmiguel.com.hk) and [www.sanmiguel.com.hk](http://www.sanmiguel.com.hk).

## CONSOLIDATED INCOME STATEMENT – UNAUDITED

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

	Note	Six months ended 30th June		Year ended 31st December
		2006	Restated 2005	2005
<b>Gross turnover</b>	2	<b>574,298</b>	590,324	1,268,346
Discounts		<b>(130,260)</b>	(149,325)	(304,457)
Cost of sales		<b>(208,183)</b>	(202,287)	(440,817)
Beer duty and taxes		<b>(71,919)</b>	(73,030)	(156,980)
<b>Gross profit</b>		<b>163,936</b>	165,682	366,092
Selling and distribution expenses		<b>(134,641)</b>	(119,000)	(253,337)
Administrative expenses		<b>(45,898)</b>	(58,954)	(104,970)
Other operating expenses		<b>(5,528)</b>	(6,834)	(6,307)
(Loss)/profit from operations		<b>(22,131)</b>	(19,106)	1,478
Finance costs		<b>(3,645)</b>	(2,865)	(6,163)
Other revenue		<b>8,161</b>	6,598	15,065
Other net (expenses)/income		<b>(7,994)</b>	(570)	431
Impairment losses		<b>(1,752)</b>	(1,321)	(69,869)
<b>Loss before taxation</b>	3	<b>(27,361)</b>	(17,264)	(59,058)
Income tax	4	<b>(3,448)</b>	(333)	(6,979)
<b>Loss for the year</b>	2	<b>(30,809)</b>	(17,597)	(66,037)
<b>Attributable to:</b>				
Equity shareholders of the Company	12	<b>(22,594)</b>	(12,415)	(35,641)
Minority interests	12	<b>(8,215)</b>	(5,182)	(30,396)
<b>Loss for the year</b>	12	<b>(30,809)</b>	(17,597)	(66,037)
<b>Dividends payable to equity shareholders of the Company attributable to the interim period/year:</b>	5			
Interim dividend declared after the interim period end		–	(3,736)	(3,736)
		–	(3,736)	(3,736)
<b>Loss per share – Basic</b>	6	<b>(\$0.06)</b>	(\$0.03)	(\$0.10)

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



## CONSOLIDATED BALANCE SHEET – UNAUDITED

as at 30th June, in Hong Kong dollar thousands

	Note	As at 30th June 2006	As at 31st December 2005
<b>Non-current assets</b>			
Fixed assets	7		
– Property, plant and equipment		<b>1,638,673</b>	1,648,874
– Investment properties		<b>85,345</b>	86,437
– Interests in leasehold land held for own use under operating leases		<b>101,946</b>	102,853
Intangible assets		<b>39,537</b>	39,525
Goodwill		<b>5,044</b>	5,044
Retirement benefit asset		<b>3,937</b>	3,937
Other tangible assets		<b>47,892</b>	41,539
		<b>1,922,374</b>	1,928,209
<b>Current assets</b>			
Inventories	8	<b>50,763</b>	50,700
Trade and other receivables	9	<b>124,176</b>	126,743
Amounts due from holding companies and fellow subsidiaries		<b>39,546</b>	38,346
Current tax recoverable		–	798
Cash and cash equivalents	10	<b>406,909</b>	383,331
		<b>621,394</b>	599,918
<b>Current liabilities</b>			
Bank loans (unsecured)		<b>(50,489)</b>	(50,408)
Trade and other payables	11	<b>(160,028)</b>	(126,123)
Amounts due to holding companies and fellow subsidiaries		<b>(7,774)</b>	(9,327)
Leased factory maintenance provision		<b>(55,880)</b>	(53,208)
		<b>(274,171)</b>	(239,066)
<b>Net current assets</b>		<b>347,223</b>	360,852
<b>Total assets less current liabilities</b>		<b>2,269,597</b>	2,289,061
<b>Non-current liabilities</b>			
Bank loans (unsecured)		<b>(95,000)</b>	(95,000)
Deferred tax liabilities		<b>(119,910)</b>	(116,425)
		<b>(214,910)</b>	(211,425)
<b>NET ASSETS</b>		<b>2,054,687</b>	2,077,636
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>186,785</b>	186,785
Reserves	12	<b>1,804,783</b>	1,820,487
<b>Total equity attributable to equity shareholders of the Company</b>	12	<b>1,991,568</b>	2,007,272
Minority interests	12	<b>63,119</b>	70,364
<b>TOTAL EQUITY</b>	12	<b>2,054,687</b>	2,077,636

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

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

	Note	Six months ended 30th June		Year ended 31st December
		2006	2005	2005
<b>Total equity at 1st January:</b>				
Attributable to equity shareholders				
of the Company		<b>2,007,272</b>	2,036,549	2,036,549
Minority interests		<b>70,364</b>	98,551	98,551
		<b>2,077,636</b>	2,135,100	2,135,100
<b>Net income recognised directly in equity:</b>				
Exchange differences on translation of the financial statements of overseas subsidiaries	12	<b>7,860</b>	(318)	16,475
Net loss for the interim period/year	12	<b>(30,809)</b>	(17,597)	(66,037)
<b>Total recognised expense for the interim period/year</b>		<b>(22,949)</b>	(17,915)	(49,562)
Dividends declared or approved during the interim period/year	5	–	(3,736)	(7,472)
<b>Movements in equity arising from capital transactions</b>				
Equity settled share-based transactions		–	–	495
Inter-company charge levied by the ultimate holding company for the stock options		–	–	(925)
		–	–	(430)
<b>Total equity at 30th June</b>		<b>2,054,687</b>	2,113,449	2,077,636

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

## CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

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

		Six months ended 30th June	Year ended 31st December
	Note	2006	Restated 2005
			2005
<b>Operating activities</b>			
Loss before taxation		(27,361)	(17,264)
Adjustments for:			(59,058)
Amortisation of land lease premium for property held for own use		1,257	1,253
Depreciation of property, plant and equipment		36,560	36,861
Depreciation of investment properties		1,092	1,078
Impairment losses		1,752	1,321
Interest expenses		3,562	2,795
Interest income		(5,822)	(4,269)
(Profit)/loss on disposal of property, plant and equipment		(101)	378
Loss on disposal of other tangible assets		–	–
Amortisation of bottles and crates		3,430	6,785
Amortisation of trademarks		–	1,947
Equity settled share-based payment expenses		–	–
Foreign exchange (gains)/loss		(317)	266
<b>Operating profit before changes in working capital</b>		<b>14,052</b>	31,151
Decrease/(increase) in inventories		416	(2,403)
Increase in trade and other receivables		(133)	(24,570)
Increase in net amounts due from holding companies and fellow subsidiaries		(2,753)	(5,520)
Increase in trade and other payables		32,689	38,757
Increase in retirement benefit asset		–	–
Increase in leased factory maintenance provision		2,101	2,032
<b>Cash generated from operations</b>		<b>46,372</b>	39,447
Income tax			
Hong Kong Profits Tax refunded/(paid)		797	66
<b>Net cash generated from operating activities</b>		<b>47,169</b>	39,513
<b>Investing activities</b>			
Payment for purchase of property, plant and equipment		(20,717)	(9,740)
Payment for purchase of investment properties		–	–
Payment for purchase of trademarks		–	–
Payment for purchase of other tangible assets		(9,751)	–
Proceeds from disposal of property, plant and equipment		374	371
Interest received		6,776	2,524
<b>Net cash used in investing activities</b>		<b>(23,318)</b>	(6,845)
<b>Financing activities</b>			
Repayment of bank loans (unsecured)		–	–
Interest paid		(2,378)	(1,015)
Dividend paid		–	(3,736)
<b>Net cash used in financing activities</b>		<b>(2,378)</b>	(4,751)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>21,473</b>	27,917
<b>Cash and cash equivalents at beginning of period/year</b>		<b>383,331</b>	454,817
<b>Effect of foreign exchange rates changes</b>		<b>2,105</b>	(150)
<b>Cash and cash equivalents at end of period/year</b>	10	<b>406,909</b>	482,584
		383,331	383,331

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of preparation

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

The financial information relating to the financial year ended 31st December 2005 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24th February 2006.

The same accounting policies adopted in the 2005 financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 financial statements.

## 2. Segment reporting

*in Hong Kong dollar thousands*

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

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

	Hong Kong			PRC			Inter-segment elimination			Consolidated		
	Six months ended		Year	Six months ended		Year	Six months ended		Year	Six months ended		Year
	30th June		ended 31st	30th June		ended 31st	30th June		ended 31st	30th June		ended 31st
			December			December			December			December
	Restated		Restated			Restated			Restated			
	2006	2005	2005	2006	2005	2005	2006	2005	2005	2006	2005	2005
Revenue from external customers	319,406	329,249	703,946	254,892	261,075	564,400	-	-	-	574,298	590,324	1,268,346
Inter-segment revenue	17,727	16,392	35,091	-	-	-	(17,727)	(16,392)	(35,091)	-	-	-
Other revenue	2,248	2,329	4,647	-	-	-	-	-	-	2,248	2,329	4,647
Total revenue	339,381	347,970	743,684	254,892	261,075	564,400	(17,727)	(16,392)	(35,091)	576,546	592,653	1,272,993
Segment result	(7,480)	(2,392)	11,658	(20,398)	(14,955)	(5,101)				(27,878)	(17,347)	6,557
Unallocated operating income and expenses										5,914	4,269	10,417
Finance costs										(3,645)	(2,865)	(6,163)
Impairment losses	(210)	(549)	(758)	(1,542)	(772)	(69,111)				(1,752)	(1,321)	(69,869)
Income tax										(3,448)	(333)	(6,979)
Loss for the year										(30,809)	(17,597)	(66,037)

### 3. Loss before taxation

in Hong Kong dollar thousands

	Six months ended 30th June		Year ended 31st December
	2006	Restated 2005	2005
Loss before taxation is stated after charging/ (crediting) the following items:			
Amortisation			
– Land lease premium for property held for own use	1,257	1,253	2,506
– Bottles and crates			
• Other tangible assets	3,528	–	4,681
• Inventories	–	6,785	6,785
– Trademarks	–	1,947	–
Depreciation			
– Investment properties	1,092	1,078	2,156
– Property, plant and equipment	36,560	36,861	73,084
Interest expenses	3,562	2,795	6,016
Inventory costs	205,273	199,136	434,407
Interest income	(5,914)	(4,269)	(10,418)
(Profit)/loss on disposal of property, plant and equipment	(101)	378	216

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

in Hong Kong dollar thousands

Taxation in the consolidated income statement represents:

	Six months ended 30th June		Year ended 31st December
	2006	2005	2005
Current tax – Hong Kong Profits Tax			
Provision for the year	–	–	121
Deferred tax	3,448	333	6,858
	<b>3,448</b>	<b>333</b>	<b>6,979</b>

The provision for Hong Kong Profits Tax for 2005 is calculated at 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 in the financial statements as the overseas subsidiaries sustained losses for taxation purposes.

## 5. Dividends

in Hong Kong dollar thousands except per share data

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

	<b>Six months ended 30th June</b>		Year ended 31st December
	<b>2006</b>	2005	2005
Interim dividend declared after the interim period end of \$nil (2005: \$0.01) per ordinary share	<u>–</u>	<u>3,736</u>	<u>3,736</u>

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

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

	<b>Six months ended 30th June</b>		Year ended 31st December
	<b>2006</b>	2005	2005
Final dividend in respect of the previous financial year, approved and paid during the interim period/year of \$nil (2005: \$0.01) per ordinary share (Note 12)	<u>–</u>	<u>3,736</u>	<u>3,736</u>

## 6. Loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the period ended 30th June 2006 of \$22,594,000 (30th June 2005 loss (restated) of: \$12,415,000; 31st December 2005 loss of \$35,641,000) and on 373,570,560 ordinary shares (at 30th June and 31st December 2005: 373,570,560 ordinary shares), being the weighted average number of ordinary shares in issue throughout the period/year.

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

## 7. Fixed assets

in Hong Kong dollar thousands

	<b>Property, plant and equipment</b>	<b>Investment properties</b>	<b>Interests in leasehold land held for own use under operating leases</b>	<b>Total</b>
	<b>Six months ended 30th June</b>			
	<b>2006</b>			
At 1st January 2006	1,648,874	86,437	102,853	1,838,164
Additions	20,717	–	–	20,717
Disposals	(274)	–	–	(274)
Exchange adjustments	5,916	–	350	6,266
Depreciation and amortization	(36,560)	(1,092)	(1,257)	(38,909)
At 30th June 2006	<u>1,638,673</u>	<u>85,345</u>	<u>101,946</u>	<u>1,825,964</u>

## 8. Inventories

in Hong Kong dollar thousands

	<b>As at 30th June 2006</b>	As at 31st December 2005
Products in hand and in process	<b>32,453</b>	27,861
Materials and supplies	<b>18,310</b>	22,839
	<b><u>50,763</u></b>	<u>50,700</u>

## 9. Trade and other receivables

in Hong Kong dollar thousands unless stated otherwise

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

	<b>As at 30th June 2006</b>	As at 31st December 2005
Trade receivables	<b>95,184</b>	84,119
Other debtors, deposits and prepayments	<b>28,992</b>	28,124
Dated debt securities (unlisted)	–	14,500
	<b><u>124,176</u></b>	<u>126,743</u>

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

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

	<b>As at 30th June 2006</b>	As at 31st December 2005
From invoice date		
Less than 30 days	<b>61,620</b>	35,503
31 to 60 days	<b>7,692</b>	24,942
61 to 90 days	<b>17,183</b>	11,527
over 90 days	<b>8,689</b>	12,147
	<b><u>95,184</u></b>	<u>84,119</u>

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

	<b>As at 30th June 2006 '000</b>	As at 31st December 2005 '000
United States Dollars	<b>USD <u>975</u></b>	USD <u>1,016</u>

## 10. Cash and cash equivalents

*in Hong Kong dollar thousands unless stated otherwise*

	<b>As at 30th June 2006</b>	As at 31st December 2005
Deposits with banks	<b>344,662</b>	317,133
Cash at bank and in hand	<b>62,247</b>	66,198
	<b><u>406,909</u></b>	<u>383,331</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:

	<b>As at 30th June 2006 '000</b>	As at 31st December 2005 '000
United States Dollars	<b>USD 12,210</b>	USD 10,579

## 11. Trade and other payables

*in Hong Kong dollar thousands unless stated otherwise*

	<b>As at 30th June 2006</b>	As at 31st December 2005
Trade payables	<b>52,054</b>	40,382
Other creditors and accrued charges	<b>107,974</b>	85,741
	<b><u>160,028</u></b>	<u>126,123</u>

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

The ageing of trade payables is as follows:

	<b>As at 30th June 2006</b>	As at 31st December 2005
From invoice date		
Less than 30 days	<b>49,999</b>	36,678
31 to 60 days	<b>1,193</b>	1,409
61 to 90 days	<b>232</b>	371
over 90 days	<b>630</b>	1,924
	<b><u>52,054</u></b>	<u>40,382</u>

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

	<b>As at 30th June 2006 '000</b>	As at 31st December 2005 '000
United States Dollars	<b>USD 555</b>	USD 558
Euro	<b>EUR 70</b>	EUR 92
Australian Dollars	<b>AUD 19</b>	AUD 16



## 12. Reserves

*in Hong Kong dollar thousands except per share data*

	Attributable to equity shareholders of the Company								
	Share Capital	Share premium	Capital reserve	Exchange fluctuation reserve	Capital contribution reserve	Retained profits	Total	Minority interests	Total equity
At 1st January 2005	186,785	65,739	112,970	(4,825)	–	1,675,880	2,036,549	98,551	2,135,100
Dividends approved in respect of the previous financial year	–	–	–	–	–	(3,736)	(3,736)	–	(3,736)
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	(244)	–	–	(244)	(74)	(318)
Loss for the period	–	–	–	–	–	(12,415)	(12,415)	(5,182)	(17,597)
At 30th June 2005	<u>186,785</u>	<u>65,739</u>	<u>112,970</u>	<u>(5,069)</u>	<u>–</u>	<u>1,659,729</u>	<u>2,020,154</u>	<u>93,295</u>	<u>2,113,449</u>
At 1st July 2005									
– as previously reported	186,785	65,739	112,970	(5,069)	–	1,659,729	2,020,154	93,295	2,113,449
– prior period adjustment in respect of share-based payment	–	–	–	–	430	(430)	–	–	–
– as restated	186,785	65,739	112,970	(5,069)	430	1,659,299	2,020,154	93,295	2,113,449
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	14,510	–	–	14,510	2,283	16,793
Equity-settled share-based transactions	–	–	–	–	495	–	495	–	495
Inter-company charge levied by SMC for the stock options	–	–	–	–	(925)	–	(925)	–	(925)
Loss for the period	–	–	–	–	–	(23,226)	(23,226)	(25,214)	(48,440)
Dividend declared in respect of the current year	–	–	–	–	–	(3,736)	(3,736)	–	(3,736)
At 31st December 2005	<u>186,785</u>	<u>65,739</u>	<u>112,970</u>	<u>9,441</u>	<u>–</u>	<u>1,632,337</u>	<u>2,007,272</u>	<u>70,364</u>	<u>2,077,636</u>
At 1st January 2006	186,785	65,739	112,970	9,441	–	1,632,337	2,007,272	70,364	2,077,636
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	6,890	–	–	6,890	970	7,860
Loss for the period	–	–	–	–	–	(22,594)	(22,594)	(8,215)	(30,809)
At 30th June 2006	<u>186,785</u>	<u>65,739</u>	<u>112,970</u>	<u>16,331</u>	<u>–</u>	<u>1,609,743</u>	<u>1,991,568</u>	<u>63,119</u>	<u>2,054,687</u>

### 13. Commitments

*in Hong Kong dollar thousands*

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

	<b>As at 30th June 2006</b>	As at 31st December 2005
Contracted for	<b>48,795</b>	327
Authorised but not contracted for	<b>5,136</b>	519
	<b>53,931</b>	846

### 14. Material related party transactions

*in Hong Kong dollar thousands*

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

Transactions with group companies

	Note	Transactions		Balances	
		<b>As at 30th June 2006</b>	As at 31st December 2005	<b>As at 30th June 2006</b>	As at 31st December 2005
Purchases from:	(i)				
– ultimate holding company		<b>1,130</b>	2,382	<b>136</b>	459
– fellow subsidiaries		<b>14,045</b>	33,589	<b>2,776</b>	1,827
Sales to:	(i)				
– immediate holding company		<b>13,430</b>	39,846	<b>8,571</b>	9,282
– fellow subsidiaries		–	644	–	–
Commission fee to immediate holding company	(ii)	<b>1,244</b>	1,037	–	–

(i) Sales to and purchases from group companies were carried out on normal commercial terms basis.

(ii) Commission is paid to the immediate holding company for the sales referred to the Group. It is determined by reference to the profit margin which would have been made by the immediate holding company had such sales been made by the Group to the immediate holding company and then on-sold by the immediate holding company to the customers.

### 15. Contingent liabilities

*in Hong Kong dollar thousands*

As at 30th June 2006, there were contingent liabilities in respect of a guarantee given to a bank by the Company to secure banking facilities made available to a subsidiary.

	<b>As at 30th June 2006</b>	As at 31st December 2005
Guarantee to a bank	<b>50,489</b>	50,408



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