# NOTES TO THE 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 (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants ("HKSA"), 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.

### B. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

### C. SUBSIDIARIES

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors.

An investment in a subsidiary is consolidated into the consolidated financial statements. 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 at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the Consolidated Balance Sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the Consolidated Income Statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable 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 good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's Balance Sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 1(l)).

### D. GOODWILL

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

(i) for acquisitions before 1st January 2001, positive goodwill, less any impairment losses (see Note 1(l)), is eliminated against reserves.

(ii) for acquisitions on or after 1st January 2001, positive goodwill is amortised to the Consolidated Income Statement on a straight-line basis over its estimated useful life of 20 years. Positive goodwill is stated in the Consolidated Balance Sheet at cost less accumulated amortisation and any impairment losses (see Note 1(l)).

On disposal of a subsidiary, any attributable amount of goodwill not previously amortised through the Consolidated Income Statement or which has previously been dealt with as a movement on reserves is included in the calculation of the profit or loss on disposal.

### E. HELD TO MATURITY SECURITIES

Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held to maturity securities. Held to maturity securities are stated in the Consolidated Balance Sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the Consolidated Income Statement, such provisions being determined for each investment individually.

## 1. Significant accounting policies *(Continued)*

### F. FIXED ASSETS

(i) Fixed assets are stated in the balance sheets at cost less accumulated depreciation (see Note 1(H)) and any impairment losses (see Note 1(I)), with the exception of construction in progress which is stated at cost less any impairment losses (see Note 1(I)).

(ii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Income Statement on the date of retirement or disposal.

### G. TRADEMARKS

Trademarks are stated in the balance sheets at cost less accumulated amortisation (see Note 1(H)) and any impairment losses (see Note 1(I)).

### H. DEPRECIATION AND AMORTISATION

(i) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

| Asset category | Useful life |
|---|---|
| Buildings | 25 to 50 years |
| Machinery, equipment, furniture and fixtures | 4 to 50 years |
| Motor vehicles | 4 to 7 years |

Leasehold land is depreciated over the remaining lease periods to the extent that such depreciation is material.

(ii) Amortisation of trademarks is calculated to write off the cost on a straight-line basis over an estimated useful life of 10 years.

### I. IMPAIRMENT OF 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 an impairment loss previously recognised no longer exists or may have decreased:

– Fixed assets;

– Interests in subsidiaries;

– Positive goodwill; and

– Trademarks.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

*(i) 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 the 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).

*(ii) Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses 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 the Consolidated Income Statement in the year in which the reversals are recognised.

## 1. Significant accounting policies *(Continued)*

### J. 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 the Consolidated Income Statement as follows:

(i) Revenue arising from sales of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

(ii) Interest income from bank deposits and held to maturity securities is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iii) Rental income receivable under operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

### K. PRODUCTS , MATERIALS AND SUPPLIES

Both materials and supplies and products in hand and in progress are valued 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### L. 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 the Consolidated Income Statement.

(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 is no longer probable that sufficient taxable profit 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 profit will be available.

### M. TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the Consolidated Income Statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

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

## 1. Significant accounting policies *(Continued)*

### N. 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.

### O. LEASED ASSETS

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

*(i) Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the Consolidated Balance Sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 1(H). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(I). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(J).

*(ii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the Consolidated Income Statement in equal instalments over the accounting periods covered by the lease term.

### P. BORROWING COSTS

Borrowing costs are expensed in the Consolidated Income Statement in the period in which they are incurred.

### Q. EMPLOYEE BENEFITS

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the Consolidated Income Statement as incurred, except to the extent that they are included in the inventories not yet recognised as an expense.

Staff employed by the Group outside Hong Kong are covered by local retirement arrangements. The overseas arrangements are defined contribution retirement schemes. Contributions to the schemes are recognised as an expense in the Consolidated Income Statement at rates specified in the rules of the schemes as incurred, except to the extent that they are included in the inventories not yet recognised as an expense.

(iii) The Group's net obligation in respect of the 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 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.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the Consolidated Income Statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(iv) In relation to stock options granted by the Company's ultimate holding company, no employee benefit cost or obligation is recognised at the date of grant and the date of exercise.

### R. RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## 1. Significant accounting policies (Continued)

### S. 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.

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 fixed assets. 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 enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year 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

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) "Income taxes" issued by the HKSA, the Group adopted a new policy for deferred tax as set out in Note 1(L). As a result of the adoption of this accounting policy, the Group's loss for the year has been increased by $8,341,000 (2002: profit decreased by $8,005,000) and the Company's loss for the year has been decreased by $2,060,000 (2002: profit decreased by $7,605,000), and the Group's and the Company's net assets at the year end have been decreased by $88,162,000 (2002: $80,000,000) and $47,821,000 (2002: $49,881,000) respectively.

The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and exchange reserve and the comparative information adjusted for the amounts relating to prior periods as disclosed in the Consolidated Statement of Changes in Equity.

## 3. Gross 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.

Gross turnover represents the gross invoiced value of products sold.

## 4. (Loss)/profit from operations

*in dollar thousands*

| | Group 2003 | Group 2002 |
|---|---|---|
| The (loss)/profit from operations is arrived at after charging: | | |
| (a) Staff costs | | |
| Retirement costs | | |
| – Defined contribution retirement plans | **8,339** | 8,344 |
| – Defined benefit retirement plan (Notes 24(b) and (c)) | **9,462** | 6,489 |
| | **17,801** | 14,833 |
| Salaries, wages and other benefits | **124,480** | 131,168 |
| | **142,281** | 146,001 |
| (b) Other items | | |
| Depreciation | | |
| – Assets held for use under operating leases | **1,199** | 1,211 |
| – Other assets | **79,056** | 79,702 |
| Amortisation | | |
| – Trademarks | **1,627** | – |
| – Goodwill | **160** | – |
| Inventory costs | **350,896** | 379,422 |
| Operating lease charges | | |
| – Plant and machinery | **14,778** | 14,860 |
| – Land and buildings | **10,407** | 10,098 |
| Auditors' remuneration | **2,545** | 2,521 |

## 5. Finance costs

*in dollar thousands*

| | Group 2003 | 2002 |
|---|---|---|
| Interest on bank loans | **(4,416)** | (6,924) |
| Bank charges | **(142)** | (135) |
| | **(4,558)** | (7,059) |

## 6. Other net income

*in dollar thousands*

| | Group 2003 | 2002 |
|---|---|---|
| Interest income | **4,461** | 5,250 |
| Rental income | **4,956** | 5,077 |
| Loss on disposal of fixed assets | **(369)** | (425) |
| Other (expenses)/income | **(932)** | 1,795 |
| | **8,116** | 11,697 |

## 7. Income tax in the Consolidated Income Statement

*in dollar thousands*

### (a) Taxation in the Consolidated Income Statement represents:

| | Group 2003 | 2002 Restated |
|---|---|---|
| Current tax – Overseas | | |
| Under-provision in respect of prior year | **–** | 5,064 |
| Deferred tax | | |
| Origination and reversal of temporary differences | **4,434** | 11,161 |
| Effect of increase in tax rate on deferred tax balance at 1st January | **5,022** | – |
| | **9,456** | 11,161 |
| | **9,456** | 16,225 |

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

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

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate in Hong Kong from 16% to 17.5%. This increase is taken into account in the deferred tax calculation.

### (b) Reconciliation between tax expense and accounting (loss)/profit:

| | Group 2003 | 2002 Restated |
|---|---|---|
| (Loss)/profit from ordinary activities before taxation | **(27,083)** | 43,580 |
| Notional tax on (loss)/profit from ordinary activities before taxation calculated at the rates applicable to the tax jurisdictions concerned | **(4,121)** | 8,984 |
| Tax effect of non-deductible expenses | **816** | 1,377 |
| Tax effect of non-taxable revenue | **(5,000)** | (379) |
| Tax effect of unused tax losses not recognised | **12,739** | 4,086 |
| Tax effect of utilisation of tax losses not previously recognised | **–** | (2,907) |
| Increase in opening deferred tax liabilities resulting from an increase in Hong Hong Profits Tax rate | **5,022** | – |
| Under-provision of overseas tax in respect of prior year | **–** | 5,064 |
| Actual tax expense | **9,456** | 16,225 |

## 8. Directors' remuneration

*in dollar thousands*

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

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| Fees | **–** | 502 |
| Salaries and allowances | **5,247** | 5,397 |
| Discretionary bonus | **204** | 673 |
| Retirement fund contributions | **278** | 331 |
| | **5,729** | 6,903 |

Included in the directors' remuneration were fees of $Nil (2002: $402,000) paid to independent non-executive directors during the year.

The directors' remuneration is within the following bands:

| | Number of directors | |
|---|---|---|
| | **2003** | 2002 |
| $Nil to $1,000,000 | **11** | 8 |
| $2,000,001 to $2,500,000 | **1** | 1 |
| $3,000,001 to $3,500,000 | **1** | – |
| $4,000,001 to $4,500,000 | **–** | 1 |

## 9. Individuals with highest emoluments

*in dollar thousands*

Of the five individuals with the highest emoluments, two are directors (2002: two) whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2002: three) individuals are as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| Salaries and allowances | **3,928** | 3,928 |
| Discretionary bonus | **317** | 670 |
| Retirement fund contributions | **344** | 344 |
| | **4,589** | 4,942 |

The above emoluments are within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2003** | 2002 |
| $1,000,001 to $1,500,000 | **1** | – |
| $1,500,001 to $2,000,000 | **2** | 3 |

## 10. (Loss)/profit attributable to shareholders

The consolidated (loss)/profit attributable to shareholders includes a loss of $38,690,000 (2002 profit (restated): $39,687,000) which has been dealt with in the financial statements of the Company (Note 28).

## 11. Dividends

*in dollar thousands*

### (a) Dividends attributable to the year

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| First interim dividend declared and paid of $nil per share (2002: $0.03 per share) | **–** | 11,207 |
| Second interim dividend declared and paid of $nil per share (2002: $0.03 per share) | **–** | 11,207 |
| Third interim dividend declared and paid of $nil per share (2002: $0.02 per share) | **–** | 7,471 |
| Total dividends declared and paid during the year (Note 28) | **–** | 29,885 |
| Final dividend proposed after the balance sheet date of $nil per share (2002: $0.02 per share) | **–** | 7,471 |
| | **–** | 37,356 |

No final dividend is proposed for the year ended 31st December 2003.

The 2002 final dividend proposed after the balance sheet date had not been recognised as a liability at 31st December 2002.

## 11. Dividends *(Continued)*

*in dollar thousands*

**(b) Dividends attributable to the previous year, approved and paid during the year**

| | Group 2003 | 2002 |
|---|---|---|
| Final dividend in respect of the previous year, approved and paid during the year, of $0.02 per share (2002: $0.04 per share) (Note 28) | **7,471** | 14,943 |

## 12. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to shareholders of $32,771,000 (2002 profit (restated): $31,721,000) and on 373,570,560 ordinary shares (2002: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the year.

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

## 13. Segment Reporting

*in dollar thousands*

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of assets is chosen because this is more relevant to the Group in making operating and financial decisions.

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 | |
|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 Restated |
| Revenue from external customers | **618,783** | 787,002 | **539,866** | 539,640 | **–** | – | **1,158,649** | 1,326,642 |
| Inter-segment revenue | **–** | – | **11,532** | – | **(11,532)** | – | **–** | – |
| Other revenue | **4,956** | 4,956 | **–** | 121 | **–** | – | **4,956** | 5,077 |
| Total revenue | **623,739** | 791,958 | **551,398** | 539,761 | **(11,532)** | – | **1,163,605** | 1,331,719 |
| Segment result | **(37,736)** | 53,668 | **10,750** | (8,279) | | | **(26,986)** | 45,389 |
| Unallocated operating income and expenses | | | | | | | **4,461** | 5,250 |
| Finance costs | | | | | | | **(4,558)** | (7,059) |
| Taxation | | | | | | | **(9,456)** | (16,225) |
| Minority interests | | | | | | | **3,768** | 4,366 |
| (Loss)/profit attributable to shareholders | | | | | | | **(32,771)** | 31,721 |
| Depreciation and amortisation for the year | **52,994** | 49,016 | **29,048** | 31,897 | | | **82,042** | 80,913 |
| Segment assets | **1,712,812** | 1,759,124 | **929,517** | 902,303 | **(7,304)** | (3,080) | **2,635,025** | 2,658,347 |
| Unallocated assets | | | | | | | **32,122** | 51,233 |
| Total assets | | | | | | | **2,667,147** | 2,709,580 |
| Segment liabilities | **70,787** | 71,042 | **121,994** | 111,972 | **(7,304)** | (3,080) | **185,477** | 179,934 |
| Unallocated liabilities | | | | | | | **360,457** | 363,168 |
| Total liabilities | | | | | | | **545,934** | 543,102 |
| Capital expenditure incurred during the year | **43,781** | 4,684 | **11,909** | 4,845 | | | **55,690** | 9,529 |

Revenue from external customers by location of customers is as follows:

| | 2003 | 2002 |
|---|---|---|
| Hong Kong | **611,138** | 743,966 |
| PRC | **497,595** | 539,640 |
| Others | **49,916** | 43,036 |
| | **1,158,649** | 1,326,642 |

## 14. Fixed assets

*in dollar thousands*

| | | Total | Land | Buildings | Machinery, equipment, furniture & fixtures | Motor vehicles | Construction in progress |
|---|---|---|---|---|---|---|---|
| (a) | **Group** | | | | | | |
| | Cost | | | | | | |
| | At 1st January 2003 | 2,661,734 | 246,304 | 865,377 | 1,515,132 | 32,930 | 1,991 |
| | Exchange adjustments | (4,232) | (179) | (1,418) | (2,526) | (105) | (4) |
| | Additions | 16,650 | – | 547 | 12,222 | 491 | 3,390 |
| | Disposals | (5,131) | – | – | (3,452) | (1,679) | – |
| | Transfer from construction in progress | – | – | 1,153 | 2,881 | – | (4,034) |
| | At 31st December 2003 | 2,669,021 | 246,125 | 865,659 | 1,524,257 | 31,637 | 1,343 |
| | Accumulated depreciation | | | | | | |
| | At 1st January 2003 | 577,871 | 5,220 | 121,090 | 425,961 | 25,600 | – |
| | Exchange adjustments | (1,093) | (25) | (221) | (756) | (91) | – |
| | Charge for the year | 80,255 | 742 | 18,212 | 59,526 | 1,775 | – |
| | Written back on disposals | (4,658) | – | – | (3,024) | (1,634) | – |
| | At 31st December 2003 | 652,375 | 5,937 | 139,081 | 481,707 | 25,650 | – |
| | **Net book value at 31st December 2003** | **2,016,646** | **240,188** | **726,578** | **1,042,550** | **5,987** | **1,343** |
| | Net book value at 31st December 2002 | 2,083,863 | 241,084 | 744,287 | 1,089,171 | 7,330 | 1,991 |
| (b) | **Company** | | | | | | |
| | Cost | | | | | | |
| | At 1st January 2003 | 1,535,883 | 107,292 | 458,928 | 958,830 | 9,645 | 1,188 |
| | Additions | 4,445 | – | – | 2,563 | – | 1,882 |
| | Disposals | (2,473) | – | – | (1,241) | (1,232) | – |
| | Transfer from construction in progress | – | – | – | 2,201 | – | (2,201) |
| | At 31st December 2003 | 1,537,855 | 107,292 | 458,928 | 962,353 | 8,413 | 869 |
| | Accumulated depreciation | | | | | | |
| | At 1st January 2003 | 320,922 | – | 57,547 | 257,844 | 5,531 | – |
| | Charge for the year | 48,936 | – | 9,192 | 38,478 | 1,266 | – |
| | Written back on disposals | (2,447) | – | – | (1,215) | (1,232) | – |
| | At 31st December 2003 | 367,411 | – | 66,739 | 295,107 | 5,565 | – |
| | **Net book value at 31st December 2003** | **1,170,444** | **107,292** | **392,189** | **667,246** | **2,848** | **869** |
| | Net book value at 31st December 2002 | 1,214,961 | 107,292 | 401,381 | 700,986 | 4,114 | 1,188 |

(c) The analysis of net book value of land is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| Medium term leasehold land | | | | |
| – in Hong Kong | **209,014** | 209,014 | **107,292** | 107,292 |
| – outside Hong Kong | **31,174** | 32,070 | **–** | – |
| | **240,188** | 241,084 | **107,292** | 107,292 |

## 14. Fixed assets *(Continued)*

*in dollar thousands*

(d) The Group leases as lessor certain fixed assets to third parties. The gross amounts of fixed assets of the Group held for use under these short term operating leases were $115,850,000 (2002: $117,534,000) and the related accumulated depreciation charges were $10,469,000 (2002: $9,418,000).

The operating leases typically run for an initial period of one 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 lease payments receivable under non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| Within 1 year | **3,525** | 3,944 |
| After 1 year but within 5 years | **1,635** | 2,111 |
| | **5,160** | 6,055 |

## 15. Trademarks

*in dollar thousands*

| | Group and Company |
|---|---|
| | **2003** |
| Cost | |
| Addition during the year and balance at 31st December 2003 | **39,040** |
| Accumulated amortisation | |
| Charge for the year and balance at 31st December 2003 | **1,627** |
| Net book value at 31st December 2003 | **37,413** |

The amortisation charge for the year is included in "Other operating expenses" in the Consolidated Income Statement.

## 16. Goodwill

*in dollar thousands*

| | Group |
|---|---|
| | **2003** |
| Cost | |
| Addition arising from acquisition of additional interest in a subsidiary and balance at 31st December 2003 | **5,478** |
| Accumulated amortisation | |
| Charge for the year and balance at 31st December 2003 | **160** |
| Carrying amount at 31st December 2003 | **5,318** |

During the year, the Company's subsidiary, San Miguel Shunde Holdings Limited, purchased an additional interest in San Miguel Shunde Brewery Company Limited at a consideration of $5,478,000, giving rise to a positive goodwill.

The amortisation charge for the year is included in "Other operating expenses" in the Consolidated Income Statement.

## 17. Interests in subsidiaries

*in dollar thousands except share capital of subsidiaries*

| | Company | |
|---|---|---|
| | **2003** | 2002 |
| Unlisted shares, at cost | **603,249** | 603,249 |
| Amounts due from subsidiaries | **421,088** | 408,323 |
| Amounts due to subsidiaries | **(1,447)** | (37) |
| | **1,022,890** | 1,011,535 |
| Less: provision | **(166,978)** | (166,978) |
| | **855,912** | 844,557 |

## 17. Interests in subsidiaries *(Continued)*

*in dollar thousands except share capital of subsidiaries*

The following list is the subsidiaries of the Company:

| Company | Place of incorporation/ operation | Issued and fully paid up share capital (All being ordinary shares except otherwise stated) | Proportion of ownership interest held by Company | Proportion of ownership interest held by Subsidiaries | Principal activities |
|---|---|---|---|---|---|
| Best Investments International Inc. | British Virgin Islands | US$50,000 | 100% | – | Investment |
| | | Preference: US$60,000,000 | 100% | – | |
| Guangzhou San Miguel Brewery Company Limited | 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 Shunde Brewery Company Limited | PRC | Registered capital: US$27,933,000 | – | 100% | Manufacture and sale of beer |
| San Miguel Shunde Holdings Limited | Hong Kong | $2,000,000 | 92% | – | Investment holding |

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 28th November 2020.

During the year, San Miguel Shunde Holdings Limited increased its equity interest in San Miguel Shunde Brewery Company Limited ("SMSB") from 85% to 100%. SMSB became a wholly foreign owned enterprise and is to be operated up to 4th August 2042.

## 18. Other assets

Other assets represent deposits and the related interest receivables for the land and factory used by a PRC subsidiary.

## 19. Inventories

*in dollar thousands*

| | Group 2003 | Group 2002 | Company 2003 | Company 2002 |
|---|---|---|---|---|
| Products in hand and in process | **22,707** | 23,128 | **11,540** | 11,219 |
| Materials and supplies | **52,796** | 64,135 | **19,412** | 21,984 |
| | **75,503** | 87,263 | **30,952** | 33,203 |

The amount of inventories held by the Group carried at net realisable value is $11,061,000 (2002: $11,871,000).

## 20. Trade receivables and payables – ageing analysis

*in dollar thousands*

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

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

| | Group 2003 | Group 2002 | Company 2003 | Company 2002 |
|---|---|---|---|---|
| Less than 30 days | **34,531** | 66,988 | **24,943** | 39,990 |
| 31 to 60 days | **20,026** | 39,709 | **19,184** | 31,142 |
| 61 to 90 days | **7,558** | 15,206 | **7,101** | 14,998 |
| over 90 days | **9,123** | 34,355 | **4,240** | 27,652 |
| | **71,238** | 156,258 | **55,468** | 113,782 |

## 20. Trade receivables and payables – ageing analysis *(Continued)*

*in dollar thousands*

The ageing of trade payables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| Less than 30 days | **38,557** | 18,985 | **22,409** | 11,871 |
| 31 to 60 days | **1,161** | 4,291 | **49** | 2,715 |
| 61 to 90 days | **1,382** | 1,528 | **4** | 703 |
| over 90 days | **519** | 453 | **67** | 55 |
| | **41,619** | 25,257 | **22,529** | 15,344 |

## 21. Cash and cash equivalents

*in dollar thousands*

Cash and cash equivalents comprise:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| Deposits with banks | **294,801** | 220,622 | **–** | – |
| Cash at bank and in hand | **58,163** | 44,227 | **14,996** | 19,314 |
| | **352,964** | 264,849 | **14,996** | 19,314 |

## 22. Bank loans (unsecured)

*in dollar thousands*

Bank loans are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| Within 1 year or on demand | **65,998** | 77,998 | **–** | – |
| More than 1 year but less than 2 years | **195,000** | – | **195,000** | – |
| More than 2 years but less than 5 years | **–** | 195,000 | **–** | 195,000 |
| | **195,000** | 195,000 | **195,000** | 195,000 |
| | **260,998** | 272,998 | **195,000** | 195,000 |

## 23. Leased factory maintenance provision

*in dollar thousands*

Pursuant to a subsidiary's factory lease agreement which expires on 28th February 2021, the subsidiary is required to pay to the lessor an annual fee of RMB4.3 million (approximately $4.06 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 the subsidiary on the purchase or construction of any separate and identifiable equipment or building during the term of the lease.

As this factory lease is not expected to be terminated within the next twelve months, the accumulated provision is included in non-current liabilities.

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| Balance at 1st January | **39,948** | 35,874 |
| Provision made during the year | **4,059** | 4,078 |
| Exchange adjustments | **(178)** | (4) |
| Balance at 31st December | **43,829** | 39,948 |

## 24. Retirement benefit liability

*in dollar thousands*

The Group operates a defined benefit retirement plan which covers 27% 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, usually triennially. The latest actuarial valuation in this respect was carried out at 31st December 2003.

For the purposes of adopting SSAP 34, an independent actuarial valuation was carried out for 31st December 2003, following the methodology set out in SSAP 34.

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

| | Group and Company | |
|---|---|---|
| | **2003** | 2002 |
| Present value of funded obligations | **95,630** | 107,183 |
| Fair value of plan assets | **(92,772)** | (71,798) |
| Net unrecognised actuarial losses | **(647)** | (23,228) |
| | **2,211** | 12,157 |

A portion of the above liability 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.

(b) Movements in the net liability recognised in the balance sheets are as follows:

| | Group and Company | |
|---|---|---|
| | **2003** | 2002 |
| At 1st January | **12,157** | 11,615 |
| Normal contributions paid to the plan | **(7,251)** | (5,947) |
| Special contributions paid to the plan | **(12,157)** | – |
| Expense recognised in the income statement (Note 4(a)) | **9,462** | 6,489 |
| At 31st December | **2,211** | 12,157 |

(c) Expense recognised in the Consolidated Income Statement is as follows:

| | Group and Company | |
|---|---|---|
| | **2003** | 2002 |
| Current service cost | **8,071** | 6,614 |
| Interest cost | **5,606** | 5,820 |
| Actuarial expected return on plan assets | **(5,200)** | (5,945) |
| Net actuarial losses recognised | **985** | – |
| | **9,462** | 6,489 |
| The expense is recognised in the following line items in the Consolidated Income Statement: | | |
| Cost of sales | **3,243** | 2,208 |
| Administrative and selling expenses | **6,219** | 4,281 |
| | **9,462** | 6,489 |
| Actual return on plan assets | **9,000** | (4,611) |

(d) The principal actuarial assumptions used as at 31st December 2003 are as follows:

| | Group and Company | |
|---|---|---|
| | **2003** | 2002 |
| Discount rate | **5.25%** | 5.50% |
| Expected rate of return on plan assets | **6.50%** | 8.00% |
| Future salary increases | **3.00%** | 5.00% |

## 25. Equity compensation benefits

Pursuant to a stock option plan adopted by the Company's ultimate holding company, San Miguel Corporation, stock options were granted to certain directors of the Company at nil consideration. The options are exercisable at the fair market value determined at the date of grant, with adjustments depending on the average stock prices (expressed in Philippines pesos) of the prior three months. The vesting periods are determined at the time the options are granted.

*Particulars of stock options granted to the Company's directors at balance sheet date*

| Date of grant | Exercise period up to | Exercise price (pesos) | 2003 Number | 2002 Number |
|---|---|---|---|---|
| *Class A (par value of 5 pesos each):* | | | | |
| 27/03/95 | 27/03/03 | 44.13 | – | 284,430 |
| 10/04/96 | 10/04/04 | 35.18 | – | 32,805 |
| 01/04/97 | 01/04/05 | 40.57 | **51,860** | 286,596 |
| 26/03/98 | 26/03/06 | 34.71 | **65,227** | 418,853 |
| | | | **117,087** | 1,022,684 |
| *Class B (par value of 5 pesos each):* | | | | |
| 01/04/97 | 01/04/05 | 70.25 | **24,682** | 125,284 |
| 26/03/98 | 26/03/06 | 49.83 | **27,955** | 179,559 |
| | | | **52,637** | 304,843 |

*Details of stock options exercised by the Company's directors during the year*

| Exercise date | Exercise price (pesos) | 2003 Number |
|---|---|---|
| *Class A (par value of 5 pesos each)* | | |
| 03/03/03 – 04/03/03 | 44.13 | **284,430** |
| 04/03/03 | 35.18 | **32,805** |
| 04/03/03 – 12/06/03 | 40.57 | **232,833** |
| 04/03/03 – 12/06/03 | 34.71 | **348,253** |
| | | **898,321** |
| *Class B (par value of 5 pesos each)* | | |
| 03/03/03 – 03/06/03 | 49.83 | **149,251** |

*Details of stock options held by the Company's directors lapsed during the year*

| Date of grant | Exercise period up to | Exercise price (pesos) | 2003 Number |
|---|---|---|---|
| *Class B (par value of 5 pesos each)* | | | |
| 01/04/97 | 01/04/05 | 70.25 | **91,631** |

## 26. Deferred taxation

*in dollar thousands*

### (a) The Group

The components of 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 | Provision for bad debts and inventories | Retirement benefit liability | Tax losses | Others | Total |
|---|---|---|---|---|---|---|
| At 1st January 2002 | | | | | | |
| – as previously reported | 6,026 | – | – | – | – | 6,026 |
| – prior period adjustment | 172,626 | (2,492) | (1,858) | (94,641) | (1,036) | 72,599 |
| – as restated | 178,652 | (2,492) | (1,858) | (94,641) | (1,036) | 78,625 |
| Exchange adjustments | (4) | – | – | – | – | (4) |
| Charged/(credited) to consolidated income statement | 6,139 | (2,038) | (90) | 12,133 | (4,983) | 11,161 |
| **At 31st December 2002 (restated)** | **184,787** | **(4,530)** | **(1,948)** | **(82,508)** | **(6,019)** | **89,782** |
| At 1st January 2003 | | | | | | |
| – as previously reported | 8,514 | – | – | – | (5,121) | 3,393 |
| – prior period adjustment | 176,273 | (4,530) | (1,948) | (82,508) | (898) | 86,389 |
| – as restated | 184,787 | (4,530) | (1,948) | (82,508) | (6,019) | 89,782 |
| Exchange adjustments | (236) | 16 | – | – | 26 | (194) |
| Charged/(credited) to consolidated income statement | 18,398 | (436) | (141) | (9,706) | 1,341 | 9,456 |
| **At 31st December 2003** | **202,949** | **(4,950)** | **(2,089)** | **(92,214)** | **(4,652)** | **99,044** |

The Group has not recognised deferred tax assets of $43,423,000 (2002: $43,101,000) in respect of tax losses which will expire in five years.

## 26. Deferred taxation *(Continued)*

*in dollar thousands*

### (b) The Company

The components of 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 | Provision for bad debts | Retirement benefit liability | Tax losses | Others | Total |
|---|---|---|---|---|---|---|
| At 1st January 2002 | | | | | | |
| – as previously reported | – | – | – | – | – | – |
| – prior period adjustment | 137,015 | (1,060) | (1,858) | (92,661) | 840 | 42,276 |
| – as restated | 137,015 | (1,060) | (1,858) | (92,661) | 840 | 42,276 |
| Charged/(credited) to income statement | (3,539) | 91 | (90) | 11,983 | (840) | 7,605 |
| **At 31st December 2002 (restated)** | **133,476** | **(969)** | **(1,948)** | **(80,678)** | **–** | **49,881** |
| At 1st January 2003 | | | | | | |
| – as previously reported | – | – | – | – | – | – |
| – prior period adjustment | 133,476 | (969) | (1,948) | (80,678) | – | 49,881 |
| – as restated | 133,476 | (969) | (1,948) | (80,678) | – | 49,881 |
| Charged/(credited) to income statement | 8,694 | (12) | (141) | (10,601) | – | (2,060) |
| **At 31st December 2003** | **142,170** | **(981)** | **(2,089)** | **(91,279)** | **–** | **47,821** |

## 27. Share capital

*in dollar thousands*

| | Company | |
|---|---|---|
| | **2003** | 2002 |
| 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 |

## 28. Reserves

*in dollar thousands*

| | Total | Share premium | Capital reserve | Exchange fluctuation reserve | Retained profits |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Balance at 1st January 2002 | | | | | |
| – as previously reported | 1,963,439 | 65,739 | 57,312 | (4,920) | 1,845,308 |
| – prior period adjustment in respect of deferred tax (Note 2) | (71,999) | – | – | – | (71,999) |
| – as restated | 1,891,440 | 65,739 | 57,312 | (4,920) | 1,773,309 |
| Dividends approved in respect of the previous year (Note 11(b)) | (14,943) | – | – | – | (14,943) |
| Dividends declared in respect of the current year (Note 11(a)) | (29,885) | – | – | – | (29,885) |
| Exchange differences on translation of financial statements of overseas subsidiaries (as restated) | (15) | – | – | (15) | – |
| Profit for the year (as restated) | 31,721 | – | – | – | 31,721 |
| **Balance at 31st December 2002** | **1,878,318** | **65,739** | **57,312** | **(4,935)** | **1,760,202** |
| Balance at 1st January 2003 | | | | | |
| – as previously reported | 1,958,318 | 65,739 | 57,312 | (4,939) | 1,840,206 |
| – prior period adjustment in respect of deferred tax (Note 2) | (80,000) | – | – | 4 | (80,004) |
| – as restated | 1,878,318 | 65,739 | 57,312 | (4,935) | 1,760,202 |
| Dividends approved in respect of the previous year (Note 11(b)) | (7,471) | – | – | – | (7,471) |
| Transfer to capital reserve | – | – | 55,658 | – | (55,658) |
| Exchange differences on translation of financial statements of overseas subsidiaries | (802) | – | – | (802) | – |
| Loss for the year | (32,771) | – | – | – | (32,771) |
| **Balance at 31st December 2003** | **1,837,274** | **65,739** | **112,970** | **(5,737)** | **1,664,302** |

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

The exchange fluctuation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for translation of foreign currencies (Note 1(M)).

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

There is positive goodwill of $31,879,000 (2002: $31,879,000) directly eliminated against retained profits in a prior year.

## 28. Reserves *(Continued)*

*in dollar thousands*

| | Total | Share premium | Retained profits |
|---|---|---|---|
| **Company** | | | |
| Balance at 1st January 2002 | | | |
| – as previously reported | 1,802,900 | 65,739 | 1,737,161 |
| – prior period adjustment in respect of deferred tax (Note 2) | (42,276) | – | (42,276) |
| – as restated | 1,760,624 | 65,739 | 1,694,885 |
| Dividends approved in respect of the previous year (Note 11(b)) | (14,943) | – | (14,943) |
| Dividends declared in respect of the current year (Note 11(a)) | (29,885) | – | (29,885) |
| Profit for the year (as restated) (Note 10) | 39,687 | – | 39,687 |
| **Balance at 31st December 2002** | **1,755,483** | **65,739** | **1,689,744** |
| Balance at 1st January 2003 | | | |
| – as previously reported | 1,805,364 | 65,739 | 1,739,625 |
| – prior period adjustment in respect of deferred tax (Note 2) | (49,881) | – | (49,881) |
| – as restated | 1,755,483 | 65,739 | 1,689,744 |
| Dividends approved in respect of the previous year (Note 11(b)) | (7,471) | – | (7,471) |
| Loss for the year (Note 10) | (38,690) | – | (38,690) |
| **Balance at 31st December 2003** | **1,709,322** | **65,739** | **1,643,583** |

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

The distributable reserves of the Company as at 31st December 2003 were $1,643,583,000 (2002 (restated): $1,689,744,000).

## 29. Commitments

*in dollar thousands*

(a) Capital commitments outstanding at 31st December 2003 not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| Contracted for | **2,383** | 826 | **1,993** | 593 |
| Authorised but not contracted for | **7,684** | 5,373 | **1,602** | 1,621 |
| | **10,067** | 6,199 | **3,595** | 2,214 |

## 29. Commitments *(Continued)*

*in dollar thousands*

(b) At 31st December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| **Land and buildings** | | | | |
| Within 1 year | **8,613** | 9,355 | **936** | 480 |
| After 1 year but within 5 years | **22,529** | 22,208 | **504** | 360 |
| After 5 years | **62,726** | 67,452 | **–** | – |
| | **93,868** | 99,015 | **1,440** | 840 |
| **Plant and machinery** | | | | |
| Within 1 year | **14,465** | 14,445 | **212** | 128 |
| After 1 year but within 5 years | **57,014** | 57,270 | **–** | – |
| After 5 years | **283,882** | 299,480 | **–** | – |
| | **355,361** | 371,195 | **212** | 128 |
| | **449,229** | 470,210 | **1,652** | 968 |

The Group, as lessee, leases a number of properties and items of plant and machinery 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, with the exception of assets leased in one of the Group's PRC factories which run for thirty years. None of the leases includes contingent rentals.

Included in the amounts of future lease payments in respect of plant and machinery presented above is an amount of $43,829,000 (2002: $39,948,000) which has been accrued and disclosed as "leased factory maintenance provision" in the Consolidated Balance Sheet and Note 23.

## 30. Material related party transactions

The Group purchased and sold materials and products from and to companies that either had a controlling interest in the Group or were also subsidiaries of the ultimate holding company. These transactions were carried out under the same terms as the related parties trade with other customers. During 2003, purchases from and sales to these related parties totalled $33,258,000 (2002: $64,268,000) and $39,738,000 (2002: $35,547,000) respectively. The net amount due from these related parties amounted to $7,673,000 on 31st December 2003 (2002: $8,089,000).

## 31. Contingent liabilities

*in dollar thousands*

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

(b) As at 31st December 2003, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to a subsidiary.

| | Company | |
|---|---|---|
| | **2003** | 2002 |
| Guarantees to banks | **65,998** | 77,998 |

## 32. Comparative figures

(a) Comparative figures have been adjusted as a result of the change in accounting policy for deferred tax, details of which are set out in Note 2.

(b) Free of charge beer (a form of discount) which was included in the "Administrative and selling expenses" in 2002 annual report has been reclassified under "Discounts" to conform with the current year's presentation.

## 33. Ultimate holding company

San Miguel Corporation, incorporated in the Republic of the Philippines, is regarded by the directors as being the Company's ultimate holding company at 31st December 2003.