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 Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 Company, 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(J)).

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(J)), 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(J)).

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.

1. Significant accounting policies *(Continued)*

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.

F. FIXED ASSETS

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

(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(I)) and any impairment losses (see Note 1(J)).

H. 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(I). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(J). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(M).

(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.

I. DEPRECIATION OF FIXED ASSETS AND AMORTISATION OF TRADEMARKS

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

1. Significant accounting policies *(Continued)*

J. 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.

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 moving 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. 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.

1. Significant accounting policies *(Continued)*

M. 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.

N. 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.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(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.

O. BORROWING COSTS

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

P. INCOME TAX

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities.

(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.

1. Significant accounting policies *(Continued)*

P. INCOME TAX *(Continued)*

(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.

(iv) Current tax balances and deferred tax balances are presented separately from each other and are not offset.

Q. TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction 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.

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.

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. 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.

3. Profit/(loss) from operations

in Hong Kong dollar thousands

	Group	
	2004	2003
The profit/(loss) from operations is arrived at after charging:		
(a) Staff costs		
Retirement costs		
– Defined contribution retirement plans	**8,396**	8,339
– Defined benefit retirement plan (Notes 23(b) and (c))	**5,556**	9,462
	13,952	17,801
Salaries, wages and other benefits	**122,149**	124,480
	136,101	142,281
(b) Other items		
Depreciation		
– Assets held for use under operating leases	**1,272**	1,199
– Other assets	**79,358**	79,056
Amortisation		
– Trademarks	**4,031**	1,627
– Goodwill	**274**	160
Inventory costs	**405,129**	350,896
Operating lease charges		
– Plant and machinery	**13,936**	14,778
– Land and buildings	**9,578**	10,407
Impairment loss on fixed assets	**5,183**	–
Auditors' remuneration	**2,111**	2,545

4. Finance costs

in Hong Kong dollar thousands

	Group	
	2004	2003
Interest on bank loans	**2,683**	4,416
Bank charges	**149**	142
	2,832	4,558

5. Other revenue and other net expenses

in Hong Kong dollar thousands

	Group	
	2004	2003
Other revenue		
Interest income	**4,930**	4,461
Rental income	**4,685**	4,956
	9,615	9,417
Other net expenses		
Loss on disposal of fixed assets	**(4,040)**	(369)
Other income/(expenses)	**776**	(932)
	(3,264)	(1,301)

6. Income tax in the Consolidated Income Statement

in Hong Kong dollar thousands

(a) Taxation in the Consolidated Income Statement represents:

	Group	
	2004	2003
Current tax – Overseas		
Tax refund in respect of previous years (Note (i))	**(6,101)**	–
Deferred tax		
Origination and reversal of temporary differences	**9,133**	4,434
Effect of increase in tax rate on deferred tax balance at 1st January (Note (ii))	**–**	5,022
	9,133	9,456
	3,032	9,456

No provision for Hong Kong Profits Tax has been made in the financial statements as accumulated tax losses brought forward exceed the estimated assessable profits for the year.

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

Notes:

(i) During the year, the Group received a tax refund from the PRC tax authority in relation to the re-investment of retained profits of a PRC subsidiary into registered capital of that subsidiary.

(ii) In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate in Hong Kong from 16% to 17.5%.

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

	Group	
	2004	2003
Profit/(loss) from ordinary activities before taxation	**15,844**	(27,083)
Notional tax on profit/(loss) from ordinary activities before taxation calculated at the rates applicable to the tax jurisdictions concerned	**2,856**	(4,121)
Tax effect of non-deductible expenses	**1,426**	816
Tax effect of non-taxable revenue	**(686)**	(5,000)
Tax effect of tax losses not recognised for deferred tax purposes	**5,537**	12,739
Increase in opening deferred tax liabilities resulting from an increase in the Hong Kong Profits Tax rate	**–**	5,022
Tax refund in respect of previous years	**(6,101)**	–
Actual tax expense	**3,032**	9,456

7. Directors' remuneration

in Hong Kong dollar thousands

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

	Group 2004	2003
Fees	**315**	–
Salaries and allowances	**3,561**	5,247
Discretionary bonus	**–**	204
Retirement fund contributions	**144**	278
	4,020	5,729

Included in the directors' remuneration were fees of $75,000 (2003: $Nil) paid to independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options of San Miguel Corporation, the ultimate holding company. In the absence of a ready market for the options granted, the directors are unable to arrive at a reliable assessment of the value of the options granted.

Details of the share options granted to the directors are disclosed in note 24.

The directors' remuneration is within the following bands:

	Number of directors 2004	2003
$Nil to $1,000,000	**10**	11
$1,500,001 to $2,000,000	**1**	–
$2,000,001 to $2,500,000	**1**	1
$3,000,001 to $3,500,000	**–**	1

8. Individuals with highest emoluments

in Hong Kong dollar thousands

Of the five individuals with the highest emoluments, two are directors (2003: two) whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other three (2003: three) individuals are as follows:

	Group 2004	2003
Salaries and allowances	**3,978**	3,928
Discretionary bonus	**235**	317
Retirement fund contributions	**389**	344
	4,602	4,589

The above emoluments are within the following bands:

	Number of individuals 2004	2003
$1,000,001 to $1,500,000	**2**	1
$1,500,001 to $2,000,000	**1**	2

9. Profit/(loss) attributable to shareholders

The consolidated profit/(loss) attributable to shareholders includes a profit of $7,511,000 (2003 loss: $38,690,000) which has been dealt with in the financial statements of the Company (Note 27).

10. Dividend

in Hong Kong dollar thousands

(a) Dividend attributable to the year

	Group 2004	2003
Final dividend proposed after the balance sheet date of $0.01 (2003: $Nil) per share	**3,736**	–

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

10. Dividend *(Continued)*

in Hong Kong dollar thousands

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

	Group 2004	2003
Final dividend in respect of the previous year, approved and paid during the year, of $nil per share (2003: $0.02 per share) (Note 27)	–	7,471

11. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to shareholders of $11,578,000 (2003 loss: $32,771,000) and on 373,570,560 ordinary shares (2003: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the year.

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

12. Segment Reporting

in Hong Kong dollar thousands

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of customers is chosen. The segment presentation has been changed from location of assets to location of customers in 2004 because location of customers can better reflect the financial performance of the Group.

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

	Hong Kong		PRC		Inter-segment elimination		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Revenue from external customers	**696,997**	661,054	**564,235**	497,595	**–**	–	**1,261,232**	1,158,649
Inter-segment revenue	**29,815**	11,532	**–**	–	**(29,815)**	(11,532)	**–**	–
Other revenue	**4,685**	4,956	**–**	–	**–**	–	**4,685**	4,956
Total revenue	**731,497**	677,542	**564,235**	497,595	**(29,815)**	(11,532)	**1,265,917**	1,163,605
Segment result	**19,112**	(30,125)	**(5,366)**	3,139			**13,746**	(26,986)
Unallocated operating income and expenses							**4,930**	4,461
Finance costs							**(2,832)**	(4,558)
Taxation							**(3,032)**	(9,456)
Minority interests							**(1,234)**	3,768
Profit/(loss) attributable to shareholders							**11,578**	(32,771)
Depreciation and amortisation for the year	**55,936**	54,257	**28,999**	27,785			**84,935**	82,042
Segment assets	**1,847,192**	1,761,612	**823,882**	880,717	**(7,717)**	(7,304)	**2,663,357**	2,635,025
Unallocated assets							**20,568**	32,122
Total assets							**2,683,925**	2,667,147
Segment liabilities	**59,002**	72,400	**143,262**	120,381	**(7,717)**	(7,304)	**194,547**	185,477
Unallocated liabilities							**354,278**	360,457
Total liabilities							**548,825**	545,934
Capital expenditure incurred during the year	**4,536**	5,310	**7,920**	50,380			**12,456**	55,690

Additional information concerning geographical segments:

	Hong Kong 2004	Hong Kong 2003	PRC 2004	PRC 2003
Segment assets by the location of assets	**1,720,557**	1,712,812	**950,517**	929,517
Capital expenditure incurred during the year by the location of assets	**3,044**	43,781	**9,412**	11,909

13. Fixed assets

in Hong Kong dollar thousands

	Total	Land	Buildings	Machinery, equipment, furniture & fixtures	Motor vehicles	Construction in progress
(a) Group						
Cost						
At 1st January 2004	2,669,021	246,125	865,659	1,524,257	31,637	1,343
Exchange adjustments	1,591	67	530	954	39	1
Additions	12,403	–	673	9,207	1,367	1,156
Disposals	(31,547)	–	(3,809)	(23,843)	(3,874)	(21)
Transfer from construction in progress	–	–	9	1,627	–	(1,636)
At 31st December 2004	2,651,468	246,192	863,062	1,512,202	29,169	843
Accumulated depreciation						
At 1st January 2004	652,375	5,937	139,081	481,707	25,650	–
Exchange adjustments	453	11	94	314	34	–
Charge for the year	80,630	744	18,111	60,183	1,592	–
Impairment loss	5,183	–	4,582	601	–	–
Written back on disposals	(26,308)	–	(658)	(22,142)	(3,508)	–
At 31st December 2004	712,333	6,692	161,210	520,663	23,768	–
Net book value at 31st December 2004	**1,939,135**	**239,500**	**701,852**	**991,539**	**5,401**	**843**
Net book value at 31st December 2003	2,016,646	240,188	726,578	1,042,550	5,987	1,343

Impairment loss

During the year, the directors carried out an assessment of the recoverable amount of the Group's fixed assets. Based on their assessment, the carrying value of fixed assets was written down by $5,183,000 (2003: $Nil). The recoverable amount of buildings subject to an impairment loss was based on the estimated net selling price determined by reference to recent market prices.

	Total	Land	Buildings	Machinery, equipment, furniture & fixtures	Motor vehicles	Construction in progress
(b) Company						
Cost						
At 1st January 2004	1,537,855	107,292	458,928	962,353	8,413	869
Additions	2,868	–	290	1,508	771	299
Disposals	(17,061)	–	–	(15,602)	(1,459)	–
Transfer from construction in progress	–	–	–	939	–	(939)
At 31st December 2004	1,523,662	107,292	459,218	949,198	7,725	229
Accumulated depreciation						
At 1st January 2004	367,411	–	66,739	295,107	5,565	–
Charge for the year	47,970	–	9,200	37,505	1,265	–
Written back on disposals	(16,890)	–	–	(15,556)	(1,334)	–
At 31st December 2004	398,491	–	75,939	317,056	5,496	–
Net book value at 31st December 2004	**1,125,171**	**107,292**	**383,279**	**632,142**	**2,229**	**229**
Net book value at 31st December 2003	1,170,444	107,292	392,189	667,246	2,848	869

13. Fixed assets *(Continued)*

in Hong Kong dollar thousands

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

	Group		Company	
	2004	2003	**2004**	2003
Medium term leasehold land				
– in Hong Kong	**209,014**	209,014	**107,292**	107,292
– outside Hong Kong	**30,486**	31,174	**–**	–
	239,500	240,188	**107,292**	107,292

(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 amounted to $121,672,000 (2003: $115,850,000) and the related accumulated depreciation charges amounted to $12,267,000 (2003: $10,469,000).

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

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

	Group	
	2004	2003
Within 1 year	**4,005**	3,525
After 1 year but within 5 years	**1,395**	1,635
	5,400	5,160

14. Trademarks

in Hong Kong dollar thousands

	Group and Company	
	2004	2003
Cost		
At 1st January	**39,040**	–
Addition	**53**	39,040
At 31st December	**39,093**	39,040
Accumulated amortisation		
At 1st January	**1,627**	–
Charge for the year	**4,031**	1,627
At 31st December	**5,658**	1,627
Net book value at 31st December	**33,435**	37,413

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

15. Goodwill

in Hong Kong dollar thousands

	Group	
	2004	2003
Cost		
At 1st January	**5,478**	–
Addition	**–**	5,478
At 31st December	**5,478**	5,478
Accumulated amortisation		
At 1st January	**160**	–
Charge for the year	**274**	160
At 31st December	**434**	160
Net book value at 31st December	**5,044**	5,318

Goodwill arose from the acquisition of an additional interest in San Miguel (Guangdong) Brewery Company Limited (formerly San Miguel Shunde Brewery Company Limited) during the year ended 31st December 2003.

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

16. Interests in subsidiaries

in Hong Kong dollar thousands except share capital of subsidiaries

	Company 2004	Company 2003
Unlisted shares, at cost	**603,249**	603,249
Amounts due from subsidiaries	**779,830**	421,088
Amounts due to subsidiaries	**–**	(1,447)
	1,383,079	1,022,890
Less: impairment losses	**(166,978)**	(166,978)
	1,216,101	855,912

The following list is the subsidiaries of the Company:

Company	Place of incorporation/ operation	Issued and paid-up share capital/ registered capital	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 (Note (i))	PRC	Registered capital: US$36,507,000	–	70%	Manufacture and sale of beer
Hongkong Brewery Limited	Hong Kong	$100	100%	–	Dormant
Ravelin Limited	Hong Kong	$10,000,000	100%	–	Property holding
San Miguel (Guangdong) Limited	Hong Kong	A: US$9,000,000	92.989%	–	Investment holding
		B: $1,000	100%	–	
San Miguel (Guangdong) Brewery Company Limited (Note (ii))	PRC	Registered capital: US$39,933,000	–	100%	Manufacture and sale of beer
San Miguel Shunde Holdings Limited	Hong Kong	$2,000,000	92%	–	Investment holding

Notes:

(i) 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.

(ii) During the year, San Miguel Shunde Brewery Company Limited changed its name to San Miguel (Guangdong) Brewery Company Limited. The company is a wholly-foreign owned enterprise and is to be operated up to 4th August 2042.

17. Other assets

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

18. Inventories

in Hong Kong dollar thousands

	Group 2004	Group 2003	Company 2004	Company 2003
Products in hand and in process	**29,763**	22,707	**12,325**	11,540
Materials and supplies	**63,645**	52,796	**20,167**	19,412
	93,408	75,503	**32,492**	30,952

The amount of inventories held by the Group carried at net realisable value is $18,902,000 (2003: $11,061,000).

19. Trade receivables and payables – ageing analysis

in Hong Kong dollar thousands

Credit is offered to customers following financial assessment and an established payment record. Security in the form of mortgages or bank guarantees is obtained from major customers. Credit limits are set for all customers and these are exceeded only with the approval of senior company officers. Customers considered to be a credit risk trade on a cash basis. Professional staff monitor 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		Company	
From invoice date	**2004**	2003	**2004**	2003
Less than 30 days	**25,800**	34,531	**21,495**	24,943
31 to 60 days	**21,572**	20,026	**19,851**	19,184
61 to 90 days	**7,716**	7,558	**7,060**	7,101
over 90 days	**9,564**	9,123	**6,359**	4,240
	64,652	71,238	**54,765**	55,468

The ageing of trade payables is as follows:

	Group		Company	
From invoice date	**2004**	2003	**2004**	2003
Less than 30 days	**41,172**	38,557	**13,599**	22,409
31 to 60 days	**1,709**	1,161	**1,103**	49
61 to 90 days	**285**	1,382	**190**	4
over 90 days	**1,546**	519	**1,075**	67
	44,712	41,619	**15,967**	22,529

20. Cash and cash equivalents

in Hong Kong dollar thousands

Cash and cash equivalents comprise:

	Group		Company	
	2004	2003	**2004**	2003
Deposits with banks	**386,284**	294,801	**–**	–
Cash at bank and in hand	**68,533**	58,163	**22,502**	14,996
	454,817	352,964	**22,502**	14,996

21. Bank loans (unsecured)

in Hong Kong dollar thousands

Bank loans are repayable as follows:

	Group		Company	
	2004	2003	**2004**	2003
Within 1 year or on demand	**50,552**	65,998	**–**	–
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
	245,552	260,998	**195,000**	195,000

On 18th February 2005, the Group renewed a bank loan of HK$195,000,000, which will mature on 25th February 2005, for further three years. As a result the bank loan has been classified as a non-current liability in the balance sheets.

22. Leased factory maintenance provision

in Hong Kong 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 $4.07 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	
	2004	2003
Balance at 1st January	**43,829**	39,948
Provision made during the year	**4,066**	4,059
Exchange adjustments	**73**	(178)
Balance at 31st December (Note 28(b))	**47,968**	43,829

23. Retirement benefit (asset)/liability

in Hong Kong dollar thousands

The Group operates a defined benefit retirement plan which covers 26% of the Group's employees. The plan is administered by an independent trustee, with the assets held separately from those of the Group. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the plan are made in accordance with the recommendations of an independent actuary who values the retirement plan at regular intervals. The latest actuarial valuation in this respect was carried out at 31st December 2004.

For the purposes of preparing these financial statements, an independent actuarial valuation was also carried out for 31st December 2004 following the methodology set out in Statement of Standard Accounting Practice 34.

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

	Group and Company	
	2004	2003
Present value of funded obligations	**111,997**	95,630
Fair value of plan assets	**(92,736)**	(92,772)
Net unrecognised actuarial losses	**(21,149)**	(647)
Retirement benefit (asset)/liability	**(1,888)**	2,211

A portion of the above (asset)/liability is expected to be recovered/settled after more than one year. However, it is not practicable to segregate this amount from the amounts receivable/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 (asset)/liability recognised in the balance sheets are as follows:

	Group and Company	
	2004	2003
At 1st January	**2,211**	12,157
Normal contributions paid to the plan	**(9,655)**	(7,251)
Special contributions paid to the plan	**–**	(12,157)
Expense recognised in the income statement (Note 3(a))	**5,556**	9,462
At 31st December	**(1,888)**	2,211

23. Retirement benefit (asset)/liability *(Continued)*

in Hong Kong dollar thousands

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

	Group and Company	
	2004	2003
Current service cost	**6,802**	8,071
Interest cost	**4,767**	5,606
Actuarial expected return on plan assets	**(6,013)**	(5,200)
Net actuarial losses recognised	**–**	985
	5,556	9,462
The expense is recognised in the following line items in the Consolidated Income Statement:		
Cost of sales	**1,829**	3,243
Administrative and selling expenses	**3,727**	6,219
	5,556	9,462
Actual return on plan assets – gain	**1,060**	9,000

(d) The principal actuarial assumptions used as at 31st December 2004 are as follows:

	Group and Company	
	2004	2003
Discount rate	**3.75%**	5.25%
Expected rate of return on plan assets	**6.50%**	6.50%
Future salary increases	**3.00%**	3.00%

24 Equity compensation benefits

Pursuant to a share option plan adopted by the Company's ultimate holding company, San Miguel Corporation, share 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 share options granted to the Company's directors at balance sheet date

Date of grant	Exercise period up to	Exercise price (pesos)		2004 Number	2003 Number
Class A (par value of 5 pesos each):					
01/04/97	01/04/05	40.57		**–**	51,860
26/03/98	26/03/06	34.71		**–**	65,227
26/06/03	26/06/11	54.50	(Note a)	**375,023**	–
01/10/04	01/10/12	57.50		**396,714**	–
				771,737	117,087
Class B (par value of 5 pesos each):					
01/04/97	01/04/05	70.25		**24,682**	24,682
26/03/98	26/03/06	49.83		**–**	27,955
26/06/03	26/06/11	62.50	(Note a)	**160,724**	–
01/10/04	01/10/12	70.50		**170,019**	–
				355,425	52,637

Note a: These share options were approved and granted by the board of San Miguel Corporation on 29th January 2004, and were retroactive to 26th June 2003.

24. Equity compensation benefits *(Continued)*

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

Exercise date	Exercise price (pesos)	2004 Number
Class A (par value of 5 pesos each)		
01/03/04	40.57	**51,860**
01/03/04 – 23/03/04	34.71	**65,227**
		117,087
Class B (par value of 5 pesos each)		
01/03/04 – 23/03/04	49.83	**27,955**

25. Income tax in the balance sheets

in Hong Kong dollar thousands

(a) Current tax recoverable in the Consolidated Balance Sheet represents:

	Group 2004	Group 2003
Provisional Hong Kong Profits Tax paid	**66**	–

(b) Deferred tax liabilities recognised:

(i) 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 2003	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**
At 1st January 2004	202,949	(4,950)	(2,089)	(92,214)	(4,652)	99,044
Exchange adjustments	102	(7)	–	–	(8)	87
Charged/(credited) to Consolidated Income Statement	3,887	(948)	1,143	6,994	(1,943)	9,133
At 31st December 2004	206,938	(5,905)	(946)	(85,220)	(6,603)	108,264

The Group has not recognised deferred tax assets of $39,886,000 (2003: $43,423,000) in respect of tax losses of $147,727,000 (2003: $160,826,000) which will expire in five years.

25. Income tax in the balance sheets *(Continued)*

in Hong Kong dollar thousands

(b) Deferred tax liabilities recognised: *(Continued)*

(ii) 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	Total
At 1st January 2003	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**
At 1st January 2004	142,170	(981)	(2,089)	(91,279)	47,821
(Credited)/charged to income statement	(4,390)	(31)	1,143	6,086	2,808
At 31st December 2004	**137,780**	**(1,012)**	**(946)**	**(85,193)**	**50,629**

26. Share capital

in Hong Kong dollar thousands

	Company **2004**	2003
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

27. Reserves

in Hong Kong dollar thousands

(a) The Group

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Retained profits
Balance at 1st January 2003	1,878,318	65,739	57,312	(4,935)	1,760,202
Dividend approved in respect of the previous year (Note 10(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**
Balance at 1st January 2004	1,837,274	65,739	112,970	(5,737)	1,664,302
Exchange differences on translation of financial statements of overseas subsidiaries	912	–	–	912	–
Profit for the year	11,578	–	–	–	11,578
Balance at 31st December 2004	**1,849,764**	**65,739**	**112,970**	**(4,825)**	**1,675,880**

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(Q)).

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 (2003: $31,879,000) directly eliminated against retained profits in a prior year.

(b) The Company

	Total	Share premium	Retained profits
Balance at 1st January 2003	1,755,483	65,739	1,689,744
Dividend approved in respect of the previous year (Note 10(b))	(7,471)	–	(7,471)
Loss for the year (Note 9)	(38,690)	–	(38,690)
Balance at 31st December 2003	**1,709,322**	**65,739**	**1,643,583**
Balance at 1st January 2004	1,709,322	65,739	1,643,583
Profit for the year (Note 9)	7,511	–	7,511
Balance at 31st December 2004	**1,716,833**	**65,739**	**1,651,094**

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 2004 were $1,651,094,000 (2003: $1,643,583,000).

28. Commitments

in Hong Kong dollar thousands

(a) Capital commitments outstanding at 31st December 2004 not provided for in the financial statements were as follows:

	Group		Company	
	2004	2003	**2004**	2003
Contracted for	**1,120**	2,383	**1,120**	1,993
Authorised but not contracted for	**3,516**	7,684	**215**	1,602
	4,636	10,067	**1,335**	3,595

(b) At 31st December 2004, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group		Company	
	2004	2003	**2004**	2003
Land and buildings				
Within 1 year	**8,590**	8,613	**864**	936
After 1 year but within 5 years	**23,534**	22,529	**–**	504
After 5 years	**64,280**	62,726	**–**	–
	96,404	93,868	**864**	1,440
Plant and machinery				
Within 1 year	**13,670**	14,465	**–**	212
After 1 year but within 5 years	**54,679**	57,014	**–**	–
After 5 years	**263,395**	283,882	**–**	–
	331,744	355,361	**–**	212
	428,148	449,229	**864**	1,652

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 $47,968,000 (2003: $43,829,000) which has been accrued and disclosed as "leased factory maintenance provision" in the Consolidated Balance Sheet and Note 22.

29. 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 2004, purchases from and sales to these related parties totalled $56,733,000 (2003: $33,258,000) and $29,551,000 (2003: $39,738,000) respectively. The net amount due from these related parties amounted to $2,588,000 on 31st December 2004 (2003: $7,673,000).

30. Contingent liabilities

in Hong Kong 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 2004, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to a subsidiary.

	Company	
	2004	2003
Guarantees to banks	**50,552**	65,998

31. Post balance sheet event

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 10.

32. 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 2004.