

for the year ended 31st December 2005

COMMITMENT TO CORPORATE GOVERNANCE

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

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2005 (the "year under review"), save for the deviations discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

THE BOARD

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

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

The Board held more than four Meetings during the year under review. The Chief Finance Officer and Company Secretary attended all the scheduled Board Meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

CORPORATE GOVERNANCE REPORT

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

		Scheduled Board Meetings	Audit Remuneration Committee Meetings	Committee Meetings	Nomination Meetings
	<i>Note</i>				
Independent Non-Executive Directors					
Dr. The Hon. Sir David K.P. Li		1/(4)	0/(2)	N/A	1/(3)
Mr. Ng Wai Sun		3/(4)	2/(2)	N/A	2/(3)
Mr. Ian F. Wade		1/(4)	1/(2)	N/A	0/(3)
Mr. Adrian M.K. Li – Alternate to Dr. The Hon. Sir David K.P. Li		3/(4)	2/(2)	N/A	2/(3)
Executive Directors					
Mr. Chong Yoon Fatt – Managing Director	(i)	1/(1)	N/A	N/A	1/(1)
Mr. Ramon A. de la Llana	(ii)	4/(4)	N/A	N/A	3/(3)
Mr. Thomas R. Mainwaring	(iii)	1/(1)	N/A	N/A	1/(1)
Non-Executive Directors					
Mr. Ramon S. Ang – Chairman	(iv)	4/(4)	N/A	N/A	3/(3)
Mr. Faustino F. Galang – Deputy Chairman	(v)	3/(4)	N/A	N/A	2/(3)
Mr. Ferdinand K. Constantino	(vi)	4/(4)	N/A	N/A	3/(3)
Mr. Benjamin P. Defensor, Jr.	(vii)	0/(0)	N/A	N/A	0/(0)
Mr. Francisco C. Eizmendi, Jr.	(viii)	2/(2)	N/A	N/A	2/(2)
Mr. Francis H. Jardeleza	(ix)	4/(4)	N/A	N/A	3/(3)
Mr. Estelito P. Mendoza		2/(4)	N/A	N/A	2/(3)
Mr. Carmelo L. Santiago	(x)	0/(0)	N/A	N/A	0/(0)
Mr. Gabriel L. Villareal		2/(4)	N/A	N/A	2/(3)

Notes:

- (i) Appointed as Managing Director on 9th December 2005.
- (ii) Resigned as Managing Director on 9th December 2005.
- (iii) Resigned as Executive Director on 15th April 2005.
- (iv) Re-designated from Non-Executive Director to Chairman on 10th June 2005.
- (v) Re-designated from Non-Executive Director to Deputy Chairman on 10th June 2005.
- (vi) Appointed as Non-Executive Director on 24th February 2005.
- (vii) Resigned as Non-Executive Director on 23rd February 2005.
- (viii) Resigned as Chairman and Non-Executive Director on 10th June 2005.
- (ix) Appointed as Non-Executive Director on 24th February 2005.
- (x) Resigned as Non-Executive Director on 23rd February 2005.

THE CHAIRMAN AND THE CHIEF EXECUTIVE

The Chairman of the Board is Mr. Ramon S. Ang, and the Chief Executive Officer (or Managing Director, in the case of the Company) is Mr. Chong Yoon Fatt. The Chairman's and the Managing Director's roles are clearly defined to ensure their independence, accountability and responsibility.

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

The Managing Director, supported by other Board members and the Senior Management, is responsible for managing the day-to-day business of the Company. He is also accountable to the Board for the implementation of the Company's overall strategies, and coordination of overall business operations.

DIRECTORS AND DIRECTORS' INDEPENDENCE

The Board currently consists of nine Non-Executive Directors and one Executive Director. Three of the Non-Executive Directors are independent.

Under the Company's Articles of Association, one-third of the Directors, including the Non-Executive Directors, are subject to retirement, rotation and re-election at each Annual General Meeting.

NON-EXECUTIVE DIRECTORS

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

INDEPENDENCE

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

Each Independent Non-Executive Director gives the Company an annual confirmation of his independence. The Company considers such Directors to be independent under the guidelines set out in rule 3.13 of the Listing Rules.

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

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Company for the year under review. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality. As at 31st December 2005, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The Company is currently in the process of developing the procedures for the review of the effectiveness of its system of internal control. The annual review requirement of the effectiveness of the Company's internal control system under the Code shall apply to the Company beginning its fiscal year ending 31st December 2006.

CORPORATE GOVERNANCE REPORT

PERFORMANCE DEVELOPMENT

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

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

THE BOARD COMMITTEES

AUDIT COMMITTEE

For the year under review, the Audit Committee is composed of three Independent Non-Executive Directors: Mr. Ng Wai Sun, Mr. Ian F. Wade and Dr. The Hon. Sir David K.P. Li, who acts as Chairman of the Committee. The Audit Committee met twice in 2005 with full minutes kept by the Company Secretary. Individual attendance of each committee member at these meetings is shown in the table presented above.

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, internal and external auditors, risk assessment and assurance and senior management, as may be appropriate in the discharge of its functions.

In 2005, the Audit Committee discharged its responsibilities by:

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

The Audit Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The Audit Committee is provided with sufficient resources by the Company to discharge its duties. The Audit Committee's specific terms of reference was available on request to any shareholders of the Company and would be posted on the Company's website.

REMUNERATION COMMITTEE

The Remuneration Committee is duly constituted on 9th December 2005 and is composed of three Independent Non-Executive Directors, namely: Dr. The Hon. Sir David K. P. Li, Mr. Ng Wai Sun and Mr. Ian F. Wade, and two Non-Executive Directors, namely: Mr. Ferdinand K. Constantino and Mr. Faustino F. Galang. The Remuneration Committee would be chaired by an Independent Non-Executive Director.

As the Remuneration Committee has been duly constituted recently on 9th December 2005, it has yet to discharge its functions under the Code. The first Remuneration Committee Meeting is scheduled to be held on 24th February 2006.

The primary role of the Remuneration Committee under its terms of reference is to support and advise the Board in fulfilling the Board's responsibility to the shareholders of the Company to (a) establish coherent remuneration policies and practices that will be observed and enable the Company to attract and retain top calibre executives and Directors, (b) fairly and responsibly reward executives based on their performance and the performance of the Company, and the general pay environment; and (c) comply with the Code Provisions on remuneration of Directors, mainly by:

- determining executive and Director remuneration policy;
- determining the remuneration of Executive Directors upon consultation with the Chairman or Managing Director regarding their proposals for such remuneration;
- reviewing and approving the remuneration of the executives who directly report to the Managing Director, and as appropriate, other Senior Management; and
- reviewing and approving all equity based plans.

The Remuneration Committee has the right to seek any information it considers necessary to fulfil its duties, which includes the right to obtain appropriate external advice at the Company's expense. The Remuneration Committee is provided with sufficient resources by the Company to discharge its duties. The Remuneration Committee's specific terms of reference was available on request to any shareholders of the Company and would be posted on the Company's website.

For the year under review, the Board discussed the remuneration related matters in one of the four scheduled Board Meetings, and set the policy on the remuneration of its members and key senior executives in accordance with the Company's Articles of Association. All Directors except Mr. Faustino F. Galang, Dr. The Hon. Sir David K. P. Li and Mr. Ian F. Wade attended that scheduled Board meeting. Each Director is paid 50% of an annual fee which is currently \$80,000 and \$50,000 for Chairman and Director respectively.

The Board also determined the policy for the reimbursement of expenses which were properly incurred by the Directors in the performance of their duties in accordance with the Company's Articles of Association. Details of the remuneration of Directors and Senior Management for the year ended 31st December 2005 are set out in Notes 9 and 35(b) to the financial statements.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

Directors of the Company are responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors and Board succession, with a view to appoint to the Board individuals with the relevant experience and capabilities to maintain and improve the competitiveness of the Company. The Board formulates the policy, reviews the size, structure and composition of the Board, and assesses the independence of its Independent Non-Executive Directors in accordance with the criteria prescribed under the Listing Rules and the Code.

CODE OF CONDUCT ON DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined in the Code, including the Directors of the Company, any employee of the Company, or a Director or employee of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Specific enquiry has been made of all the Directors of the Company who have confirmed in writing their compliance with the required standards set out in the Code of Conduct during the year under review.

EXTERNAL AUDITORS

KPMG has been appointed as the External Auditors of the Company for the year under review by the shareholders of the Company at the Annual General Meeting. An amount of \$2.3 million (2004: \$2.2 million) was charged to the 2005 financial statements of the Company and its subsidiaries for KPMG's 2005 statutory audit services. The amount paid by the Company for other non-audit services provided by KPMG for the Company and its subsidiaries during the year under review (i.e. taxation computation review and corporate governance review) was \$0.4 million (2004: nil).

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Report of the Auditors" on page 76.

COMMUNICATION WITH SHAREHOLDERS

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

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