1 Significant accounting policies

A. STATEMENT OF COMPLIANCE

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1st January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in Note 2.

B. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31st December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

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

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. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Minority interests 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 and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies *(Continued)*

D. GOODWILL

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

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

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

E. INVESTMENT PROPERTIES

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income.

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

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

F. PROPERTY, PLANT AND EQUIPMENT

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 1K).

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

Asset category	**Useful life**
Land and buildings held for own use are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years	25 to 50 years
Machinery, equipment, furniture and fixtures	4 to 50 years
Motor vehicles	4 to 7 years

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

G. LEASED ASSETS

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

However, land held for own use under an operating lease, where the fair value cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

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

(iii) A prepaid land lease is amortised on a straight-line basis over the period of the lease term.

H. INTANGIBLE ASSETS

Trademarks and club debentures with indefinite useful lives are stated in the balance sheet at cost less impairment losses, and are tested annually for impairment (see Note 1K).

I. OTHER TANGIBLE ASSETS

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

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

1. Significant accounting policies *(Continued)*

J. OTHER INVESTMENTS

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

(ii) Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

K. IMPAIRMENT OF ASSETS

(i) Impairment of investments in dated debt securities and other receivables

Investment in dated debt securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

(ii) Impairment of other assets

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

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

1. Significant accounting policies *(Continued)*

K. IMPAIRMENT OF ASSETS *(Continued)*

(ii) Impairment of other assets (Continued)

– Reversals of impairment losses

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

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

L. INVENTORIES

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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

M. RECEIVABLES

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

N. INTEREST-BEARING BORROWINGS

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

O. PAYABLES

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

P. CASH AND CASH EQUIVALENTS

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

Q. 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 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 is recognised as it accrues using the effective interest method.

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

1. Significant accounting policies *(Continued)*

R. EMPLOYEE BENEFITS

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

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

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of 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 the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

In calculating the Group's obligation in respect of a plan, if 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 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.

(iii) Share-based payment

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

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

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

S. BORROWING COSTS

Borrowing costs are expensed in the income statement in the period in which they are incurred.

T. 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies *(Continued)*

T. 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 profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

U. TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

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

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

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

V. RELATED PARTIES

For the purposes of these 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

W. 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 entities 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. Changes in accounting policies and accounting estimate

in Hong Kong dollar thousands

(a) Changes in accounting policies – Nature of the changes

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1st January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in Note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 40).

(i) Stock option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees were granted stock options from the Company's ultimate holding company, San Miguel Corporation ("SMC"), over SMC's shares.

With effect from 1st January 2005, in order to comply with HKFRS 2, the Group adopted a new policy for stock options granted by SMC. Under this new policy, the Group recognises the fair value of such stock options as an expense with a corresponding increase in a capital contribution reserve within equity. For the inter-company charge levied by SMC on the Group for the stock options, the Group offsets it against the capital contribution reserve and recognises a liability.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of stock options:

– all options granted to employees on or before 7th November 2002; and

– all options granted to employees after 7th November 2002 but which had vested before 1st January 2005.

The adjustments for each financial statement line item affected for the years ended 31st December 2004 and 2005 are set out in Notes 2(b) and (c).

Details of SMC's stock options entitled by the Group's employees are set out in Note 32.

(ii) Changes in presentation (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1st January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests at the balance sheet date are presented in the consolidated balance sheet as part of equity, separately from interests attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company. These changes in presentation have been applied retrospectively with comparatives restated as shown in Note 2(b).

2. Changes in accounting policies and accounting estimate *(Continued)*

in Hong Kong dollar thousands

(a) Changes in accounting policies – Nature of the changes *(Continued)*

(iii) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were presented as fixed assets (renamed as Property, plant and equipment in these financial statements) and stated at cost less accumulated depreciation and impairment losses.

With effect from 1st January 2005, in order to comply with HKAS 17, the Group adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The land lease premium is amortised on a straight-line basis over the lease term.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

This new policy has been adopted retrospectively with comparatives restated as shown in Note 2(b). There is no net effect to the opening retained profits nor the profit or loss for the periods presented.

(iv) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

In prior years, unlisted government bonds were classified as held to maturity securities and stated at amortised cost less provision.

With effect from 1st January 2005, and in accordance with HKAS 39, investment in unlisted government bonds are classified as loans and receivables and carried at amortised cost less impairment losses.

The change in accounting policy has been adopted retrospectively, with comparative amounts restated. There is no opening balance adjustment to retained profits at 1st January 2005.

The adjustment for each financial statement line item affected for the years ended 31st December 2004 and 2005 are set out in Notes 2(b) and (c).

(v) Amortisation of positive goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods:

– positive goodwill which arose prior to 1st January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business; and

– positive goodwill which arose on or after 1st January 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1st January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policy relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment.

This new policy has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line item affected for the year ended 31st December 2005 are set out in Note 2(c).

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1st January 2001) will not be recognised in the income statement on disposal or impairment of the acquired business, or under any other circumstances.

2. Changes in accounting policies and accounting estimate *(Continued)*

in Hong Kong dollar thousands

(a) Changes in accounting policies – Nature of the changes *(Continued)*

(vi) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in Note 1V has been expanded to clarify that related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. Additional disclosure on key management personnel remuneration has been included in Note 35(b) to the financial statements. Apart from this, the clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current year, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

(b) Changes in accounting policies – Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet for the year ended 31st December 2004. The effects of the changes in the accounting policies on the balances at 1st January 2004 and 2005 are disclosed in Note 31.

(i) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31st December 2004

	2004 (as previously reported)	Effect of new policies (increase/(decrease) in profit for the year) HKFRS 2	HKAS 1	2004 (restated – before reclassification of expenses)	Reclassification of expenses	2004 (restated – after reclassification of expenses)
		(Note 2(a)(i))	(Note 2(a)(ii))		(Note 38)	
Gross profit	365,689	–	–	365,689	–	365,689
Distribution costs (renamed as Selling and distribution expenses in the 2005 financial statements)	(39,839)	–	–	(39,839)	(182,133)	(221,972)
Administrative and selling expenses (renamed as Administrative expenses in the 2005 financial statements)	(293,016)	(308)	–	(293,324)	182,133	(111,191)
Other operating expenses	(20,509)	–	–	(20,509)	7,737	(12,772)
Profit from operations	12,325	(308)	–	12,017	7,737	19,754
Finance costs	(2,832)	–	–	(2,832)	–	(2,832)
Other revenue	9,615	–	–	9,615	–	9,615
Other net expenses	(3,264)	–	–	(3,264)	–	(3,264)
Impairment losses	–	–	–	–	(7,737)	(7,737)
Profit before taxation	15,844	(308)	–	15,536	–	15,536
Income tax	(3,032)	–	–	(3,032)	–	(3,032)
Profit after taxation	12,812	(308)	–	12,504	–	12,504
Minority interests	(1,234)	–	1,234	–	–	–
Profit for the year	11,578	(308)	1,234	12,504	–	12,504
Attributable to:						
Equity shareholders of the Company	11,578	(308)	–	11,270	–	11,270
Minority interests	–	–	1,234	1,234	–	1,234
Profit for the year	11,578	(308)	1,234	12,504	–	12,504
Earnings per share – Basic	0.03	–	–	0.03	–	0.03
Other significant disclosure item: *(increase)/decrease in expenses*						
– Staff costs	(136,101)	(308)	–	(136,409)	–	(136,409)

2. Changes in accounting policies and accounting estimate *(Continued)*

in Hong Kong dollar thousands

(b) Changes in accounting policies – Restatement of prior periods and opening balances *(Continued)*

(i) Effect on the consolidated financial statements (Continued)

Consolidated balance sheet at 31st December 2004

	2004 (as previously reported)	Effect of new policies (increase/ (decrease) in net assets) HKFRS 2	HKAS 1	HKAS 17	HKAS 32	2004 (restated – before reclassification of balances)	Reclassification of balances	2004 (restated – after reclassification of balances)
		(Note 2(a)(i))	(Note 2(a)(ii))	(Note 2(a)(iii))	(Note 2(a)(iv))		(Note 38)	
Non-current assets								
Fixed assets (renamed as Property, plant and equipment in the 2005 financial statements)	1,939,135	–	–	(104,621)	–	1,834,514	(88,257)	1,746,257
Investment properties	–	–	–	–	–	–	88,257	88,257
Interests in leasehold land held for own use under operating leases	–	–	–	104,621	–	104,621	–	104,621
Held to maturity securities – unlisted	13,797	–	–	–	(13,797)	–	–	–
Intangible assets	33,435	–	–	–	–	33,435	6,046	39,481
Goodwill	5,044	–	–	–	–	5,044	–	5,044
Retirement benefit asset	1,888	–	–	–	–	1,888	–	1,888
Other assets	8,490	–	–	–	–	8,490	(8,490)	–
Other financial assets	–	–	–	–	13,797	13,797	8,490	22,287
	2,001,789	–	–	–	–	2,001,789	6,046	2,007,835
Current assets								
Trade and other receivables	104,350	–	–	–	–	104,350	(6,046)	98,304
Other current assets	577,786	–	–	–	–	577,786	–	577,786
	682,136	–	–	–	–	682,136	(6,046)	676,090
Current liabilities	(197,593)	–	–	–	–	(197,593)	–	(197,593)
Net current assets	484,543	–	–	–	–	484,543	(6,046)	478,497
Total assets less current liabilities	2,486,332	–	–	–	–	2,486,332	–	2,486,332
Non-current liabilities	(351,232)	–	–	–	–	(351,232)	–	(351,232)
Minority interests	(98,551)	–	98,551	–	–	–	–	–
NET ASSETS	2,036,549	–	98,551	–	–	2,135,100	–	2,135,100
CAPITAL AND RESERVES								
Attributable to equity shareholders of the Company								
Share capital	186,785	–	–	–	–	186,785	–	186,785
Reserves								
– Capital contribution reserve	–	430	–	–	–	430	–	430
– Other reserves	173,884	–	–	–	–	173,884	–	173,884
– Retained profits	1,675,880	(430)	–	–	–	1,675,450	–	1,675,450
	2,036,549	–	–	–	–	2,036,549	–	2,036,549
Attributable to minority interests	–	–	98,551	–	–	98,551	–	98,551
TOTAL EQUITY	2,036,549	–	98,551	–	–	2,135,100	–	2,135,100

2. Changes in accounting policies and accounting estimate *(Continued)*

in Hong Kong dollar thousands

(b) Changes in accounting policies – Restatement of prior periods and opening balances *(Continued)*

(ii) Effect on the Company's balance sheet at 31st December 2004

	2004 (as previously reported)	Effect of new policies (increase/(decrease) in net assets) HKFRS 2	HKAS 17	2004 (restated-before reclassification of balances)	Reclassification of balances	2004 (restated-after reclassification of balances)
		(Note 2(a)(i))	(Note 2(a)(iii))		(Note 38)	
Non-current assets						
Fixed assets (renamed as Property, plant and equipment in the 2005 financial statements)	1,125,171	–	(74,134)	1,051,037	–	1,051,037
Interests in leasehold land held for own use under operating leases	–	–	74,134	74,134	–	74,134
Intangible assets	33,435	–	–	33,435	5,031	38,466
Other non-current assets	1,217,989	–	–	1,217,989	–	1,217,989
	2,376,595	–	–	2,376,595	5,031	2,381,626
Current assets						
Trade and other receivables	73,271	–	–	73,271	(5,031)	68,240
Other current assets	64,303	–	–	64,303	–	64,303
	137,574	–	–	137,574	(5,031)	132,543
Current liabilities	(58,622)	–	–	(58,622)	–	(58,622)
Net current assets	78,952	–	–	78,952	(5,031)	73,921
Total assets less current liabilities	2,455,547	–	–	2,455,547	–	2,455,547
Non-current liabilities	(551,929)	–	–	(551,929)	–	(551,929)
NET ASSETS	1,903,618	–	–	1,903,618	–	1,903,618
CAPITAL AND RESERVES						
Share capital	186,785	–	–	186,785	–	186,785
Reserves						
– Capital contribution reserve	–	430	–	430	–	430
– Other reserves	65,739	–	–	65,739	–	65,739
– Retained profits	1,651,094	(430)	–	1,650,664	–	1,650,664
	1,903,618	–	–	1,903,618	–	1,903,618

2. Changes in accounting policies and accounting estimate *(Continued)*

in Hong Kong dollar thousands

(c) Changes in accounting policies – Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet for the year ended 31st December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31st December 2005

	Effect of new policies ((increase)/ decrease in loss for the year)			
	HKFRS 2	**HKAS 1**	**HKFRS 3**	**Total**
	(Note 2(a)(i))	(Note 2(a)(ii))	(Note 2(a)(v))	
Gross profit	–	–	–	–
Selling and distribution expenses	–	–	–	–
Administrative expenses	(495)	–	–	(495)
Other operating expenses	–	–	274	274
Profit from operations and loss before taxation	(495)	–	274	(221)
Income tax	–	–	–	–
Loss after tax	(495)	–	274	(221)
Minority interests	–	(30,396)	–	(30,396)
Loss for the year	(495)	(30,396)	274	(30,617)
Attributable to:				
Equity shareholders of the Company	(495)	–	274	(221)
Minority interests	–	(30,396)	–	(30,396)
Loss for the year	(495)	(30,396)	274	(30,617)
Loss per share – Basic	–	–	–	–
Other significant disclosure items:				
(increase)/decrease in expenses				
– Staff costs	(495)	–	–	(495)
– Amortisation of goodwill	–	–	274	274

2. Changes in accounting policies and accounting estimate *(Continued)*

in Hong Kong dollar thousands

(c) Changes in accounting policies – Estimated effect of changes in accounting policies on the current period *(Continued)*

(i) Effect on the consolidated financial statements (Continued)

Estimated effect on the consolidated balance sheet at 31st December 2005

	Effect of new policies (increase/(decrease) in net assets)					
	HKFRS 2	HKAS 1	HKAS 17	HKAS 32&39	HKFRS 3	Total
	(Note 2(a)(i))	(Note 2(a)(ii))	(Note 2(a)(iii))	(Note 2(a)(iv))	(Note 2(a)(v))	
Non-current assets						
Property, plant and equipment	–	–	(102,853)	–	–	(102,853)
Interests in leasehold land held for own use under operating leases	–	–	102,853	–	–	102,853
Goodwill	–	–	–	–	274	274
	–	–	–	–	274	274
Current assets						
Trade and other receivables	–	–	–	14,500	–	14,500
Held to maturity securities – unlisted	–	–	–	(14,500)	–	(14,500)
Current liabilities						
Amounts due to holding companies and fellow subsidiaries	(925)	–	–	–	–	(925)
Net current assets	(925)	–	–	–	–	(925)
Total assets less current liabilities	(925)	–	–	–	274	(651)
Minority interests	–	70,364	–	–	–	70,364
NET ASSETS	(925)	70,364	–	–	274	69,713
CAPITAL AND RESERVES						
Attributable to equity shareholders of the Company						
Reserves						
– Retained profits	(925)	–	–	–	274	(651)
	(925)	–	–	–	274	(651)
Attributable to minority interests	–	70,364	–	–	–	70,364
TOTAL EQUITY	(925)	70,364	–	–	274	69,713

2. Changes in accounting policies and accounting estimate *(Continued)*

in Hong Kong dollar thousands

(c) Changes in accounting policies – Estimated effect of changes in accounting policies on the current period *(Continued)*

(ii) Effect on the Company's balance sheet at 31st December 2005

	Effect of new policies (increase/(decrease) in net assets)		
	HKFRS 2	HKAS 17	Total
	(Note 2(a)(i))	(Note 2(a)(iii))	
Non-current assets			
Property, plant and equipment	–	(72,390)	(72,390)
Interests in leasehold land held for own use under operating leases	–	72,390	72,390
	–	–	–
Current liabilities			
Amounts due to holding companies and fellow subsidiaries	(925)	–	(925)
Net current assets	(925)	–	(925)
Total assets less current liabilities and net assets	(925)	–	(925)
CAPITAL AND RESERVES			
Reserves			
– Retained profits	(925)	–	(925)
	(925)	–	(925)

(d) Change in accounting estimate

(i) Trademarks

In prior years, trademarks were amortised on a straight-line basis over the estimated useful lives of 10 years.

On 1st January 2005, management applied HKAS 38, Intangible assets, to reassess the useful lives of trademarks. Based on this assessment, trademarks were regarded as having indefinite useful lives because the trademarked products were expected to generate net cash inflows to the Group indefinitely. As a result, the trademarks are not amortised effective from 1st January 2005. Since then, trademarks are stated in the balance sheet at cost (i.e. the carrying value at 31st December 2004) less impairment losses and are tested annually for impairment (see Note 1K).

This above change in accounting estimate had an effect of decreasing both the amortisation charge and loss for the year by $3,896,000 and increasing the trademarks by the same amount. The change is expected to decrease amortisation charge by $3,896,000 in each subsequent year.

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. Profit from operations

in Hong Kong dollar thousands

	2005	Restated 2004
The profit from operations is arrived at after charging/(crediting):		
(a) Staff costs		
Retirement costs		
– Defined contribution retirement plans	**8,933**	8,396
– Defined benefit retirement plan (Notes 29(a)(ii) and (iii))	**6,390**	5,556
	15,323	13,952
Equity-settled share-based payment expenses	**495**	308
Salaries, wages and other benefits	**128,539**	122,149
	144,357	136,409
(b) Other items		
Amortisation		
– Land lease premium for property held for own use	**2,506**	743
– Bottles and crates		
• Other tangible assets (Note 20)	**4,681**	–
• Inventories	**6,785**	11,125
– Trademarks	**–**	4,031
– Goodwill	**–**	274
Depreciation		
– Investment properties	**2,156**	1,272
– Property, plant and equipment	**73,084**	78,615
Cost of inventories	**434,407**	405,129
Operating lease charges: minimum lease payments		
– Land and buildings	**9,965**	9,578
– Plant and machinery	**14,153**	13,936
Rental receivable from investment properties less direct outgoings of $2,143,000 (2004: $1,306,000)	**(2,504)**	(3,379)
Net foreign exchange gain	**(486)**	(92)
Auditors' remuneration	**2,642**	2,111

5. Finance costs

in Hong Kong dollar thousands

	2005	2004
Interest on bank loans	**6,016**	2,683
Bank charges	**147**	149
	6,163	2,832

6. Other revenue and other net income/(expenses)

in Hong Kong dollar thousands

	2005	2004
Other revenue		
Interest income	**10,418**	4,930
Rental income	**4,647**	4,685
	15,065	9,615
Other net income/(expenses)		
Loss on disposal of property, plant and equipment	**(216)**	(4,040)
Other income	**647**	776
	431	(3,264)

7. Impairment losses

in Hong Kong dollar thousands

	2005	2004
Impairment losses for:		
– Property, plant and equipment (Notes (a) and 15)	**57,298**	5,183
– Other receivables (Note (b))	**6,483**	–
– Trade receivables	**3,094**	2,554
– Other tangible assets (Note 20)	**2,994**	–
	69,869	7,737

Notes:

(a) In March 1990, a subsidiary, Guangzhou San Miguel Brewery Company Limited ("GSMB") entered into a factory lease agreement ("the Agreement") with Guangzhou Brewery ("GB") whereby GSMB agreed to lease the production plant, machinery and equipment from GB for production purposes for thirty years.

GSMB has been facing intense competition in the PRC. During the year, management performed a review of GSMB's operations. Based on their review, management plan to cease the production activities of GSMB in the first half of 2006 and terminate the Agreement early. Going forward, GSMB will outsource the production activities and focus its resources on distribution and selling of beer. On 28th December 2005, a non-binding memorandum of understanding ("MOU") was signed between GSMB and GB in this respect. According to the MOU, GSMB will sell certain of its property, plant and equipment to GB upon the termination of the Agreement. As a result, the Group reassessed the recoverable amounts of the related property, plant and equipment. The carrying amount of such property, plant and equipment was written down, by $56,812,000, to the net selling price preliminarily agreed with GB under the MOU.

Further details on the additional costs for the termination of the Agreement and cessation of the production activities are set out in Note 37.

During the year, management also performed a review of the recoverable amount of other property, plant and equipment of GSMB. Based on their review, the carrying value of certain properties was written down by $486,000 (2004: $5,183,000). The recoverable amount of properties was based on the estimated net selling price determined by reference to recent market prices.

(b) Pursuant to the Agreement, a deposit for the original factory lease and related interest receivable will be forfeited on early termination. As a result, the carrying amount of such deposit and related interest receivable was written down to $nil at the year end.

8. Income tax in the consolidated income statement

in Hong Kong dollar thousands

(a) Taxation in the consolidated income statement represents:

	2005	2004
Current tax – Hong Kong Profits Tax		
Provision for the year	**121**	–
Current tax – Overseas		
Refund in respect of previous years (Note (i))	**–**	(6,101)
Deferred tax		
Origination and reversal of temporary differences (Note 30(b))	**6,858**	9,133
	6,979	3,032

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% of the estimated assessable profits of one of the Hong Kong subsidiaries for the year. No provision for Hong Kong Profits Tax has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purposes.

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

Note (i) During 2004, 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.

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

	2005	Restated 2004
(Loss)/profit before taxation	**(59,058)**	15,536
Notional tax on (loss)/profit before taxation calculated at the rates applicable to the tax jurisdictions concerned	**(18,155)**	2,802
Tax effect of non-deductible expenses	**4,711**	1,426
Tax effect of non-taxable revenue	**(1,354)**	(632)
Tax effect of tax losses and deductible temporary differences not recognised for deferred tax purposes	**21,777**	5,537
Tax refund in respect of previous years	**–**	(6,101)
Actual tax expense	**6,979**	3,032

9. Directors' remuneration

in Hong Kong dollar thousands

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

	Directors' fees	Salaries, allowance and benefits in kind	Discretionary bonus	Share-based payment	Retirement scheme contributions	2005 Total
Executive Directors:						
Chong Yoon Fatt	1	–	–	–	–	1
Ramon A. de la Llana	24	1,426	63	–	–	1,513
Thomas R. Mainwaring	7	527	–	64	42	640
Non-Executive Directors:						
Ramon S. Ang	33	–	–	–	–	33
Faustino F. Galang	25	–	–	–	–	25
Ferdinand K. Constantino	21	–	–	–	–	21
Benjamin P. Defensor, Jr.	4	–	–	–	–	4
Francisco C. Eizmendi, Jr.	18	–	–	–	–	18
Francis H. Jardeleza	21	–	–	–	–	21
Estelito P. Mendoza	25	–	–	–	–	25
Carmelo L. Santiago	4	–	–	–	–	4
Gabriel L. Villareal	25	–	–	–	–	25
Independent Non-Executive Directors:						
David K.P. Li	25	–	–	–	–	25
Ng Wai Sun	25	–	–	–	–	25
Ian F. Wade	25	–	–	–	–	25
	283	**1,953**	**63**	**64**	**42**	**2,405**

	Directors' fees	Salaries, allowance and benefits in kind	Discretionary bonus	Share-based payment	Retirement scheme contributions	Restated 2004 Total
Executive Directors:						
Ramon A. de la Llana	25	1,706	–	–	–	1,731
Thomas R. Mainwaring	25	1,855	–	–	144	2,024
Non-Executive Directors:						
Ramon S. Ang	25	–	–	–	–	25
Faustino F. Galang	25	–	–	–	–	25
Benjamin P. Defensor, Jr.	25	–	–	–	–	25
Francisco C. Eizmendi, Jr.	40	–	–	–	–	40
Estelito P. Mendoza	25	–	–	–	–	25
Carmelo L. Santiago	25	–	–	–	–	25
Gabriel L. Villareal	25	–	–	–	–	25
Independent Non-Executive Directors:						
David K.P. Li	25	–	–	–	–	25
Ng Wai Sun	25	–	–	–	–	25
Ian F. Wade	25	–	–	–	–	25
	315	**3,561**	**–**	**–**	**144**	**4,020**

The above emoluments include the value of stock options granted to certain directors under the stock option scheme of the Company's ultimate holding company, SMC, as estimated at the date of grant. The details of these benefits in kind are disclosed in Note 32.

10. Individuals with highest emoluments

in Hong Kong dollar thousands

Of the five individuals with the highest emoluments, one is a director (2004: two) whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the other four (2004: three) individuals are as follows:

	2005	Restated 2004
Salaries and other emoluments	**5,115**	3,978
Discretionary bonus	**337**	235
Share-based payment	**197**	113
Retirement scheme contributions	**510**	389
	6,159	4,715

The emoluments of the four (2004: three) individuals with the highest emoluments are within the following bands:

	2005 Number of individuals	2004 Number of individuals
$1,000,001 to $1,500,000	**2**	2
$1,500,001 to $2,000,000	**2**	1

11. (Loss)/profit attributable to equity shareholders of the Company

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a profit of $17,578,000 (2004 (restated): $7,203,000) which has been dealt with in the financial statements of the Company (Note 31(b)).

12. Dividends

in Hong Kong dollar thousands except per share data

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

	2005	2004
Interim dividend declared and paid of $0.01 (2004: $nil) per ordinary share (Note 31)	**3,736**	–
Final dividend proposed after the balance sheet date of $nil (2004: $0.01) per ordinary share	**–**	3,736
	3,736	3,736

No final dividend is proposed for the year ended 31st December 2005. The 2004 final dividend proposed after the balance sheet date had not been recognised as a liability at 31st December 2004.

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

	2005	2004
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.01 (2004: $nil) per ordinary share (Note 31)	**3,736**	–

13. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of $35,641,000 (2004 profit (restated): $11,270,000) and on 373,570,560 ordinary shares (2004: 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.

14. Segment Reporting

in Hong Kong dollar thousands

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

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

	Hong Kong		PRC		Inter-segment elimination		Consolidated	
		Restated		Restated				Restated
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Revenue from external customers	**703,946**	696,997	**564,400**	564,235	**–**	–	**1,268,346**	1,261,232
Inter-segment revenue	**35,091**	29,815	**–**	–	**(35,091)**	(29,815)	**–**	–
Other revenue	**4,647**	4,685	**–**	–	**–**	–	**4,647**	4,685
Total revenue	**743,684**	731,497	**564,400**	564,235	**(35,091)**	(29,815)	**1,272,993**	1,265,917
Segment result	**11,658**	19,566	**(5,101)**	1,609			**6,557**	21,175
Unallocated operating income and expenses							**10,417**	4,930
Finance costs							**(6,163)**	(2,832)
Impairment losses	**(758)**	(762)	**(69,111)**	(6,975)			**(69,869)**	(7,737)
Income tax							**(6,979)**	(3,032)
(Loss)/profit for the year							**(66,037)**	12,504
Depreciation and amortisation for the year	**59,053**	55,936	**30,159**	40,124			**89,212**	96,060
Segment assets	**1,800,196**	1,847,192	**714,314**	823,882	**(4,885)**	(7,717)	**2,509,625**	2,663,357
Unallocated assets							**18,502**	20,568
Total assets							**2,528,127**	2,683,925
Segment liabilities	**56,142**	59,002	**137,212**	143,262	**(4,885)**	(7,717)	**188,469**	194,547
Unallocated liabilities							**262,022**	354,278
Total liabilities							**450,491**	548,825
Capital expenditure incurred during the year	**20,898**	4,536	**17,103**	7,920			**38,001**	12,456
Additional information concerning geographical segments:								
Segment assets by the location of assets	**1,626,716**	1,720,557	**887,794**	950,517				
Capital expenditure incurred during the year by the location of assets	**14,173**	3,044	**23,828**	9,412				

15. Fixed assets

in Hong Kong dollar thousands

(a) The Group

	Property, plant and equipment							
	(Restated) Land and buildings held for own use	Machinery, equipment, furniture and fixtures	Motor vehicles	Construction in progress	(Restated) Sub-total	(Restated) Investment properties	(Restated) Interests in leasehold land held for own use under operating leases	Total fixed assets
Cost:								
At 1st January 2004	902,385	1,524,257	31,637	1,343	2,459,622	98,153	111,246	2,669,021
Exchange adjustments	531	954	39	1	1,525	–	66	1,591
Additions	673	9,207	1,367	1,156	12,403	–	–	12,403
Disposals	(3,809)	(23,843)	(3,874)	(21)	(31,547)	–	–	(31,547)
Transfer from construction in progress	9	1,627	–	(1,636)	–	–	–	–
At 31st December 2004	899,789	1,512,202	29,169	843	2,442,003	98,153	111,312	2,651,468
Accumulated amortisation, depreciation and impairment losses:								
At 1st January 2004	130,457	481,707	25,650	–	637,814	8,624	5,937	652,375
Exchange adjustments	94	314	34	–	442	–	11	453
Charge for the year	16,840	60,183	1,592	–	78,615	1,272	743	80,630
Impairment losses (Note 7)	4,582	601	–	–	5,183	–	–	5,183
Written back on disposals	(658)	(22,142)	(3,508)	–	(26,308)	–	–	(26,308)
At 31st December 2004	151,315	520,663	23,768	–	695,746	9,896	6,691	712,333
Net book value at 31st December 2004	**748,474**	**991,539**	**5,401**	**843**	**1,746,257**	**88,257**	**104,621**	**1,939,135**
Cost:								
At 1st January 2005	899,789	1,512,202	29,169	843	2,442,003	98,153	111,312	2,651,468
Exchange adjustments	7,082	12,881	486	11	20,460	–	900	21,360
Additions	1,587	16,371	290	1,492	19,740	336	–	20,076
Disposals	(14)	(5,506)	(727)	–	(6,247)	–	–	(6,247)
Transfer from construction in progress	–	1,093	–	(1,093)	–	–	–	–
At 31st December 2005	908,444	1,537,041	29,218	1,253	2,475,956	98,489	112,212	2,686,657
Accumulated amortisation, depreciation and impairment losses:								
At 1st January 2005	151,315	520,663	23,768	–	695,746	9,896	6,691	712,333
Exchange adjustments	1,521	4,619	415	–	6,555	–	162	6,717
Charge for the year	19,153	52,622	1,309	–	73,084	2,156	2,506	77,746
Impairment losses (Note 7)	7,825	49,161	–	312	57,298	–	–	57,298
Written back on disposals	–	(5,011)	(590)	–	(5,601)	–	–	(5,601)
At 31st December 2005	179,814	622,054	24,902	312	827,082	12,052	9,359	848,493
Net book value at 31st December 2005	**728,630**	**914,987**	**4,316**	**941**	**1,648,874**	**86,437**	**102,853**	**1,838,164**

15. Fixed assets *(Continued)*

in Hong Kong dollar thousands

(b) The Company

	Property, plant and equipment						
	(Restated) Land and buildings held for own use	Machinery, equipment, furniture and fixtures	Motor vehicles	Construction in progress	(Restated) Sub-total	(Restated) Interests in leasehold land held for own use under operating leases	Total fixed assets
Cost:							
At 1st January 2004	492,086	962,353	8,413	869	1,463,721	74,134	1,537,855
Additions	290	1,508	771	299	2,868	–	2,868
Disposals	–	(15,602)	(1,459)	–	(17,061)	–	(17,061)
Transfer from construction in progress	–	939	–	(939)	–	–	–
At 31st December 2004	492,376	949,198	7,725	229	1,449,528	74,134	1,523,662
Accumulated amortisation and depreciation:							
At 1st January 2004	66,739	295,107	5,565	–	367,411	–	367,411
Charge for the year	9,200	37,505	1,265	–	47,970	–	47,970
Written back on disposals	–	(15,556)	(1,334)	–	(16,890)	–	(16,890)
At 31st December 2004	75,939	317,056	5,496	–	398,491	–	398,491
Net book value at 31st December 2004	**416,437**	**632,142**	**2,229**	**229**	**1,051,037**	**74,134**	**1,125,171**
Cost:							
At 1st January 2005	492,376	949,198	7,725	229	1,449,528	74,134	1,523,662
Additions	681	12,623	–	5	13,309	–	13,309
Disposals	–	(1,113)	(565)	–	(1,678)	–	(1,678)
Transfer from construction in progress	–	214	–	(214)	–	–	–
At 31st December 2005	493,057	960,922	7,160	20	1,461,159	74,134	1,535,293
Accumulated amortisation and depreciation:							
At 1st January 2005	75,939	317,056	5,496	–	398,491	–	398,491
Charge for the year	10,086	33,173	939	–	44,198	1,744	45,942
Written back on disposals	–	(1,107)	(446)	–	(1,553)	–	(1,553)
At 31st December 2005	86,025	349,122	5,989	–	441,136	1,744	442,880
Net book value at 31st December 2005	**407,032**	**611,800**	**1,171**	**20**	**1,020,023**	**72,390**	**1,092,413**

15. Fixed assets *(Continued)*

in Hong Kong dollar thousands

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

	The Group		The Company	
	2005	2004	**2005**	2004
Medium term leases				
– in Hong Kong	**664,511**	679,556	**479,422**	490,571
– outside Hong Kong	**253,409**	261,796	**–**	–
	917,920	941,352	**479,422**	490,571
Representing:				
– Land and buildings held for own use	**728,630**	748,474	**407,032**	416,437
– Investment properties	**86,437**	88,257	**–**	–
– Interests in leasehold land held for own use under operating leases	**102,853**	104,621	**72,390**	74,134
	917,920	941,352	**479,422**	490,571

(d) Fixed assets leased out under operating leases

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

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

	2005	2004
Within 1 year	**3,544**	4,005
After 1 year but within 5 years	**3,194**	1,395
	6,738	5,400

(e) The fair value of the investment properties at 31st December 2005 is $42,586,000 (2004: $33,255,000), which is estimated by direct comparison approach with reference to comparable sales transactions as available in the relevant market. The valuation was carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

16. Intangible assets

in Hong Kong dollar thousands

(a)

	The Group		The Company	
	2005	2004	**2005**	2004
Trademarks	**33,456**	33,435	**33,456**	33,435
Club debentures	**6,069**	6,046	**5,031**	5,031
	39,525	39,481	**38,487**	38,466

(b) The movements of trademarks during the year are as follows:

	The Group and the Company	
	2005	2004
Cost:		
At 1st January	**39,093**	39,040
Additions	**21**	53
At 31st December	**39,114**	39,093
Accumulated amortisation:		
At 1st January	**5,658**	1,627
Charge for the year	**–**	4,031
At 31st December	**5,658**	5,658
Net book value at 31st December	**33,456**	33,435

As explained in Note 2(d), with effect from 1st January 2005 the Group no longer amortises trademarks.

The amortisation charge for trademarks for the year ended 31st December 2004 was included in "Other operating expenses" in the consolidated income statement.

Consideration of impairment testing for trademarks is set out under Note 17.

17. Goodwill

in Hong Kong dollar thousands

	The Group	
	2005	2004
Cost:		
At 1st January	**5,478**	5,478
Opening balance adjustment to eliminate accumulated amortisation	**(434)**	–
At 31st December	**5,044**	5,478
Accumulated amortisation:		
At 1st January	**434**	160
Charge for the year	**–**	274
Eliminate against cost at 1st January 2005	**(434)**	–
At 31st December	**–**	434
Net book value at 31st December	**5,044**	5,044

In 2004, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over 20 years. The amortisation of positive goodwill for the year ended 31st December 2004 was included in "Other operating expenses" in the consolidated income statement.

As explained further in Note 2(a)(v), with effect from 1st January 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1st January 2005 has been eliminated against the cost of goodwill as at that date.

Impairment test for cash-generating units containing goodwill and trademarks

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

The recoverable amount of SMGB operations has been determined based on a value in use calculation. That calculation uses cash flow projections based on the five-year long range plan approved by management, and a discount rate of 7.3% (2004: 7.5%). Cash flows beyond that five-year period have been extrapolated using a nil per cent growth rate. Management believes that any reasonably possible change in the key assumptions on which SMGB's recoverable amount is based would not cause SMGB's carrying amount to exceed its recoverable amount.

Key assumptions used for value in use calculation:

	2005	2004
– Growth rate	**19%**	33%
– Gross contribution rate	**40%**	36%
– Discount rate	**7.3%**	7.5%

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

18. Interests in subsidiaries

in Hong Kong dollar thousands except share capital/registered capital of subsidiaries

	The Company	
	2005	2004
Unlisted shares/capital contribution, at cost	**603,249**	603,249
Amounts due from subsidiaries	**778,856**	779,830
	1,382,105	1,383,079
Less: impairment losses	**(166,978)**	(166,978)
	1,215,127	1,216,101

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

18. Interests in subsidiaries *(Continued)*

in Hong Kong dollar thousands except share capital/registered capital of subsidiaries

The following list contains the particulars of all the subsidiaries of the Company. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under Note 1C and have been consolidated into the group financial statements.

Name of 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 Subsidiary	Principal activity
Best Investments International Inc.	British Virgin Islands	US$50,000 Preference: US$60,000,000	100% 100%	– –	Investment
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 B: $1,000	92.989% 100%	– –	Investment holding
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) San Miguel (Guangdong) Brewery Company Limited is a wholly-foreign owned enterprise and is to be operated up to 4th August 2042.

19. Other financial assets

in Hong Kong dollar thousands

	The Group 2005	The Group 2004
Loans and receivables		
– Dated debt securities (unlisted) – In PRC (2004: Held to maturity securities)	–	13,797
– Deposits and related interest receivable for the land and factory used by a PRC subsidiary	–	8,490
	–	22,287

20. Other tangible assets

in Hong Kong dollar thousands

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

	The Group 2005
Cost:	
Transfer from inventories on 1st July	**56,712**
Exchange adjustments	**552**
Additions	**20,898**
Disposals	**(5,506)**
At 31st December	**72,656**
Accumulated amortisation:	
Transfer from inventories on 1st July	**24,456**
Exchange adjustments	**317**
Charge for the year	**4,681**
Impairment loss (Note 7)	**2,994**
Written back on disposals	**(1,331)**
At 31st December	**31,117**
Net book value at 31st December	**41,539**

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

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

21. Inventories

in Hong Kong dollar thousands

	The Group		The Company	
	2005	2004	**2005**	2004
Products in hand and in process	**27,861**	29,763	**13,428**	12,325
Materials and supplies	**22,839**	63,645	**9,298**	20,167
	50,700	93,408	**22,726**	32,492

The amount of inventories held by the Group carried at net realisable value is $nil (2004: $18,902,000).

22. Trade and other receivables

in Hong Kong dollar thousands unless stated otherwise

	The Group 2005	The Group 2004	The Company 2005	The Company 2004
Trade receivables	**84,119**	64,652	**73,301**	54,765
Other debtors, deposits and prepayments	**28,124**	33,652	**13,062**	13,475
Dated debt securities (unlisted)	**14,500**	–	**–**	–
	126,743	98,304	**86,363**	68,240

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

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

From invoice date	The Group 2005	The Group 2004	The Company 2005	The Company 2004
Less than 30 days	**35,503**	25,800	**25,760**	21,495
31 to 60 days	**24,942**	21,572	**23,952**	19,851
61 to 90 days	**11,527**	7,716	**11,451**	7,060
over 90 days	**12,147**	9,564	**12,138**	6,359
	84,119	64,652	**73,301**	54,765

The Group's credit policy is set out in Note 33(a).

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

	The Group 2005 '000	The Group 2004 '000	The Company 2005 '000	The Company 2004 '000
United States Dollars	**USD 1,016**	USD 869	**USD 1,016**	USD 869

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

in Hong Kong dollar thousands unless stated otherwise

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

	The Group 2005	The Group 2004	The Company 2005	The Company 2004
Amounts due from holding companies and fellow subsidiaries	**9,282**	5,771	**9,200**	5,573
Amounts due to holding companies and fellow subsidiaries	**(2,286)**	(10,591)	**(1,109)**	(6,474)

For the remaining balances, they do not have fixed repayment terms.

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

	The Group 2005 '000	The Group 2004 '000	The Company 2005 '000	The Company 2004 '000
Amounts due from holding companies and fellow subsidiaries — United States Dollars	**USD 1,197**	USD 742	**USD 1,186**	USD 716
Amounts due to holding companies and fellow subsidiaries — United States Dollars	**USD (129)**	USD (726)	**USD (109)**	USD (618)

24. Cash and cash equivalents

in Hong Kong dollar thousands unless stated otherwise

	The Group		The Company	
	2005	2004	**2005**	2004
Deposits with banks	**317,133**	386,284	**–**	–
Cash at bank and in hand	**66,198**	68,533	**19,415**	22,502
	383,331	454,817	**19,415**	22,502

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

	The Group		The Company	
	2005 '000	2004 '000	**2005 '000**	2004 '000
United States Dollars	**USD 10,579**	USD 8,803	**USD 266**	USD 273

25. Bank loans (unsecured)

in Hong Kong dollar thousands unless stated otherwise

At 31st December 2005, the bank loans (unsecured) were repayable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
Within 1 year or on demand	**50,408**	50,552	**–**	–
More than 2 years but less than 5 years	**95,000**	195,000	**95,000**	195,000
	145,408	245,552	**95,000**	195,000

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

	The Group		The Company	
	2005 '000	2004 '000	**2005 '000**	2004 '000
United States Dollars	**USD 6,500**	USD 6,500	**USD –**	USD –

26. Amounts due to subsidiaries

Amounts due to subsidiaries are unsecured and interest-free. Included in the balance is an amount of $1,975,000 (2004: $1,766,000) which is trade related and is repayable under normal trade terms. For the remaining balances, they do not have fixed repayment terms.

27. Trade and other payables

in Hong Kong dollar thousands unless stated otherwise

	The Group		The Company	
	2005	2004	**2005**	2004
Trade payables	**40,382**	44,712	**24,501**	15,967
Other creditors and accrued charges	**85,741**	75,422	**28,875**	27,638
	126,123	120,134	**53,376**	43,605

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

27. Trade and other payables *(Continued)*

in Hong Kong dollar thousands unless stated otherwise

The ageing of trade payables is as follows:

	The Group		The Company	
From invoice date	**2005**	2004	**2005**	2004
Less than 30 days	**36,678**	41,172	**22,573**	13,599
31 to 60 days	**1,409**	1,709	**909**	1,103
61 to 90 days	**371**	285	**132**	190
over 90 days	**1,924**	1,546	**887**	1,075
	40,382	44,712	**24,501**	15,967

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

	The Group		The Company	
	2005 '000	2004 '000	**2005 '000**	2004 '000
United States Dollars	**USD 558**	USD 272	**USD 558**	USD 272
Euro	**EUR 92**	EUR 45	**EUR 92**	EUR 45
Australian Dollars	**AUD 16**	AUD 15	**AUD 16**	AUD 15

28. 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 $4.16 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 disclosed in Note 7, this factory lease is expected to be terminated within the next twelve months, therefore the accumulated provision is included in current liabilities at 31st December 2005.

	The Group	
	2005	2004
Balance at 1st January	**47,968**	43,829
Provision made during the year	**4,158**	4,066
Exchange adjustments	**1,082**	73
Balance at 31st December (Note 34)	**53,208**	47,968
Representing:		
Current liabilities	**53,208**	–
Non-current liabilities	**–**	47,968
	53,208	47,968

29. Employee retirement benefits

in Hong Kong dollar thousands

(a) Defined benefit retirement plan

The Group operates a defined benefit retirement plan which covers 26% of the Group's employees. The plan is administered by an independent trustee, with the assets held separately from those of the Group. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the plan are made in accordance with the recommendations of an independent actuary who values the retirement plan at regular intervals. The latest actuarial valuation in this respect was carried out at 31st December 2005.

For the purposes of preparing these financial statements, an independent actuarial valuation was also carried out for 31st December 2005 following the methodology set out in HKAS 19, Employee benefits.

29. Employee retirement benefits *(Continued)*

in Hong Kong dollar thousands

(a) Defined benefit retirement plan *(Continued)*

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

	The Group and the Company 2005	2004
Present value of funded obligations	**96,361**	111,997
Fair value of plan assets	**(81,434)**	(92,736)
Net unrecognised actuarial losses	**(18,864)**	(21,149)
Retirement benefit asset	**(3,937)**	(1,888)

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) Movements in the net asset recognised in the balance sheet are as follows:

	The Group and the Company 2005	2004
At 1st January	**(1,888)**	2,211
Contributions paid to the plan	**(8,439)**	(9,655)
Expense recognised in the income statement (Note 4(a))	**6,390**	5,556
At 31st December	**(3,937)**	(1,888)

(iii) Expense recognised in the consolidated income statement is as follows:

	2005	2004
Current service cost	**7,687**	6,802
Interest cost	**4,034**	4,767
Actuarial expected return on plan assets	**(6,096)**	(6,013)
Net actuarial losses recognised	**765**	–
	6,390	5,556
The expense is recognised in the following line items in the consolidated income statement:		
Cost of sales	**2,109**	1,829
Selling and distribution expenses	**2,364**	1,924
Administrative expenses	**1,917**	1,803
	6,390	5,556
Actual return on plan assets – (loss)/gain	**(2,510)**	1,060

(iv) The principal actuarial assumptions used as at 31st December 2005 are as follows:

	The Group and the Company 2005	2004
Discount rate	**4.50%**	3.75%
Expected rate of return on plan assets	**6.50%**	6.50%
Future salary increases	**3.00%**	3.00%

29. Employee retirement benefits *(Continued)*

in Hong Kong dollar thousands

(b) Defined contribution retirement plans

(i) Staff employed by the Group in Hong Kong not joining the above defined benefit retirement plan are required to join the Group's mandatory provident fund plan under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The mandatory provident fund plan is a defined contribution retirement plan administered by an independent corporate trustee. Under the plan, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

(ii) Employees in the subsidiaries in the PRC are members of the central pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of employees' remuneration to the central pension scheme to fund the benefits. The only obligation for the Group with respect to the central pension scheme is the associated required contribution under the central pension scheme.

30. Income tax in the balance sheets

in Hong Kong dollar thousands

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

	2005	2004
Provision for Hong Kong Profits Tax for the year	**(121)**	–
Provisional Hong Kong Profits Tax paid	**919**	66
	798	66

(b) Net deferred tax liabilities recognised:

(i) The Group

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

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Impairment losses of receivables and inventories	Retirement benefit asset	Tax losses	Others	Total
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 (Note 8(a))	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**
At 1st January 2005	206,938	(5,905)	(946)	(85,220)	(6,603)	108,264
Exchange adjustments	1,562	(111)	–	–	(148)	1,303
Charged/(credited) to consolidated income statement (Note 8(a))	(12,632)	4,236	784	8,391	6,079	6,858
At 31st December 2005	**195,868**	**(1,780)**	**(162)**	**(76,829)**	**(672)**	**116,425**

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

in Hong Kong dollar thousands

(b) Net deferred tax liabilities recognised: *(Continued)*

(i) The Group *(Continued)*

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

	2005	2004
Tax losses	**132,341**	147,727
Deductible temporary differences	**33,537**	–
	165,878	147,727

The tax losses expire in five years.

Deferred tax assets have not been recognised in respect of the deductible temporary differences because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

(ii) The Company

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

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Impairment losses of receivables	Retirement benefit asset	Tax losses	Total
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**
At 1st January 2005	137,780	(1,012)	(946)	(85,193)	50,629
(Credited)/charged to income statement	(4,183)	(14)	784	8,364	4,951
At 31st December 2005	**133,597**	**(1,026)**	**(162)**	**(76,829)**	**55,580**

31. Reserves

in Hong Kong dollar thousands except per share data

(a) The Group

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Capital reserve	Exchange fluctuation reserve	Capital contribution reserve	Retained profits	Total	Minority interests	Total equity
At 1st January 2004 – as previously reported	186,785	65,739	112,970	(5,737)	–	1,664,302	2,024,059	97,154	2,121,213
– prior period adjustment in respect of share-based payment	–	–	–	–	122	(122)	–	–	–
– as restated	186,785	65,739	112,970	(5,737)	122	1,664,180	2,024,059	97,154	2,121,213
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	912	–	–	912	163	1,075
Equity-settled share-based transactions	–	–	–	–	308	–	308	–	308
Profit for the year (restated)	–	–	–	–	–	11,270	11,270	1,234	12,504
At 31st December 2004 (as restated)	**186,785**	**65,739**	**112,970**	**(4,825)**	**430**	**1,675,450**	**2,036,549**	**98,551**	**2,135,100**
At 1st January 2005 – as previously reported	186,785	65,739	112,970	(4,825)	–	1,675,880	2,036,549	98,551	2,135,100
– prior period adjustment in respect of share-based payment (Note 2(b)(i))	–	–	–	–	430	(430)	–	–	–
– as restated	186,785	65,739	112,970	(4,825)	430	1,675,450	2,036,549	98,551	2,135,100
Dividends approved in respect of the previous financial year (Note 12(b))	–	–	–	–	–	(3,736)	(3,736)	–	(3,736)
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	14,266	–	–	14,266	2,209	16,475
Equity-settled share-based transactions	–	–	–	–	495	–	495	–	495
Inter-company charge levied by SMC for the stock options	–	–	–	–	(925)	–	(925)	–	(925)
Loss for the year	–	–	–	–	–	(35,641)	(35,641)	(30,396)	(66,037)
Dividend declared in respect of the current year (Note 12(a))	–	–	–	–	–	(3,736)	(3,736)	–	(3,736)
At 31st December 2005	**186,785**	**65,739**	**112,970**	**9,441**	**–**	**1,632,337**	**2,007,272**	**70,364**	**2,077,636**

31. Reserves *(Continued)*

in Hong Kong dollar thousands except per share data

(b) The Company

	Share capital	Share premium	Capital contribution reserve	Retained profits	Total
At 1st January 2004					
– as previously reported	186,785	65,739	–	1,643,583	1,896,107
– prior period adjustment in respect of share-based payment	–	–	122	(122)	–
– as restated	186,785	65,739	122	1,643,461	1,896,107
Equity-settled share-based transactions	–	–	308	–	308
Profit for the year (restated)	–	–	–	7,203	7,203
At 31st December 2004 (as restated)	**186,785**	**65,739**	**430**	**1,650,664**	**1,903,618**
At 1st January 2005					
– as previously reported	186,785	65,739	–	1,651,094	1,903,618
– prior period adjustment in respect of share-based payment (Note 2(b)(ii))	–	–	430	(430)	–
– as restated	186,785	65,739	430	1,650,664	1,903,618
Dividends approved in respect of the previous financial year (Note 12(b))	–	–	–	(3,736)	(3,736)
Equity-settled share-based transactions	–	–	495	–	495
Inter-company charge levied by SMC for the stock options	–	–	(925)	–	(925)
Profit for the year	–	–	–	17,578	17,578
Dividend declared in respect of the current year (Note 12(a))	–	–	–	(3,736)	(3,736)
At 31st December 2005	**186,785**	**65,739**	**–**	**1,660,770**	**1,913,294**

(c) Share capital

	The Company 2005	2004
Authorised:		
400,000,000 ordinary shares of $0.50 each	**200,000**	200,000
Issued and fully paid:		
373,570,560 ordinary shares of $0.50 each	**186,785**	186,785

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

31. Reserves *(Continued)*

in Hong Kong dollar thousands except per share data

(d) Nature and purpose of reserves

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

(ii) Capital reserve
The capital reserve represents the reserve arising from the capitalisation of retained profits of a PRC subsidiary.

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

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

(e) Distributability of reserves

The distributable reserves of the Company as at 31st December 2005 were $1,660,770,000 (2004 (restated): $1,650,664,000).

32. Equity compensation benefits

Pursuant to a stock option plan adopted by the Company's ultimate holding company, SMC, stock options were granted to certain directors and employees of the Company at a consideration of Pesos 100 per offer. The options are exercisable at the fair market value determined at the date of grant, with adjustments depending on the average share prices of the prior three months. Options granted are subject to a vesting scale in tranches of 33% each per annum starting from the first anniversary of the date of grant. The options are exercisable for a period not to exceed 8 years from the date of grant. Each option gives the holder the right to subscribe for one common stock in SMC.

This note includes stock options granted to the directors and employees in respect of their services to the Group only.

(a) The number and weighted average exercise prices of stock options are as follows:

	2005		2004	
	Weighted average exercise price Pesos	**Number of options '000**	Weighted average exercise price Pesos	Number of options '000
Outstanding at the beginning of the year	**59.31**	**364**	57.09	176
Exercised during the year	**60.33**	**(10)**	–	–
Granted during the year	**74.80**	**6**	65.46	188
Forfeited during the year	**59.53**	**(138)**	–	–
Outstanding at the end of the year	**59.59**	**222**	59.31	364
Exercisable at the end of the year	**59.47**	**119**	57.68	181

The weighted average share price at the date of exercise for stock options exercised during the year was Pesos 69 (2004: Not applicable).

32. Equity compensation benefits *(Continued)*

(b) Particulars of stock options outstanding at the end of the year:

	2005		2004	
	Exercise price Pesos	Number of options '000	Exercise price Pesos	Number of options '000
Class A (par value of 5 Pesos each)				
– 26th June 2003	**54.50**	**76**	54.50	122
– 1st October 2004	**57.50**	**75**	57.50	131
– 10th November 2005	**65.00**	**4**	–	–
Class B (par value of 5 Pesos each)				
– 1st April 1997	**49.83**	**–**	49.83	3
– 26th June 2003	**62.50**	**33**	62.50	52
– 1st October 2004	**70.50**	**32**	70.50	56
– 10th November 2005	**89.50**	**2**	–	–
		222		364

All of the options are subject to a vesting scale in tranches of 33% each per annum starting from the first anniversary of the date of grant. The options are exercisable for a period not to exceed 8 years from the date of grant.

(c) Fair value of stock options and assumptions

The fair value of services received in return for stock options granted are measured by reference to the fair value of stock options granted. The estimate of the fair value of the services received is measured based on Black-Scholes Option Pricing Model.

Fair value of stock options and the related assumptions are as follows:

	Grant date		
	26th June 2003	1st October 2004	10th November 2005
(i) Class A			
Fair value at measurement date (Pesos)	30.67	32.87	37.35
Share price (Pesos)	54.50	57.50	65.00
Exercise price (Pesos)	54.50	57.50	65.00
Expected volatility	60%	60%	60%
Expected option life	4.71 years	4.59 years	5.02 years
Expected dividends	0.55%	0.52%	0.54%
Risk-free interest rate	9.00%	11.00%	10.00%
(ii) Class B			
Fair value at measurement date (Pesos)	37.52	43.36	52.82
Share price (Pesos)	62.50	70.50	89.50
Exercise price (Pesos)	62.50	70.50	89.50
Expected volatility	70%	70%	70%
Expected option life	4.54 years	4.61 years	5.16 years
Expected dividends	0.48%	0.43%	0.39%
Risk-free interest rate	9.00%	11.00%	10.00%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Stock options were granted under a service condition. This condition has not been taken into account in the grate date fair value measurement of the services received. There were no market conditions associated with the stock option granted.

33. Financial instruments

in Hong Kong dollar thousands

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

(a) Credit risk

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

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

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

The Group does not have a significant concentration of credit risk.

The maximum exposure to credit risk is presented by the carrying amount of each financial asset in the balance sheet. The Group has not provided any financial guarantee which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority.

(c) Interest rate risk

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

	2005			2004			
	Effective interest rate %	**Total**	**One year or less**	Effective interest rate %	Total	One year or less	1-2 years
The Group							
Repricing dates for assets/(liabilities) which reprice before maturity							
Cash at bank and in hand (Note 24)	**1.24%**	**66,198**	**66,198**	0.48%	68,533	68,533	–
Deposit of factory and the related interest receivable	**–**	**–**	**–**	0.72%	5,672	5,672	–
Bank loans (unsecured) (Note 25)	**4.68%**	**(145,408)**	**(145,408)**	1.14%	(245,552)	(245,552)	–
		(79,210)	**(79,210)**		(171,347)	(171,347)	–
Maturity dates for assets/(liabilities) which do not reprice before maturity							
Deposits with banks (Note 24)	**3.19%**	**317,133**	**317,133**	1.34%	386,284	386,284	–
Dated debt securities (Notes 22 and 19)	**3.14%**	**14,500**	**14,500**	3.14%	13,797	–	13,797
		331,633	**331,633**		400,081	386,284	13,797
The Company							
Repricing dates for assets/(liabilities) which reprice before maturity							
Cash at bank and in hand (Note 24)	**2.32%**	**19,415**	**19,415**	0.04%	22,502	22,502	–
Bank loans (unsecured) (Note 25)	**4.59%**	**(95,000)**	**(95,000)**	0.80%	(195,000)	(195,000)	–
		(75,585)	**(75,585)**		(172,498)	(172,498)	–

33. Financial instruments *(Continued)*

in Hong Kong dollar thousands

(d) Foreign currency risk

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

(e) Sensitivity analysis

In managing interest rate and foreign currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

(f) Fair value

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31st December 2005 and 2004 except the following:

		2005		2004	
	Note	**Carrying amount**	**Fair value**	Carrying amount	Fair value
The Group					
Amounts due from holding companies and fellow subsidiaries					
– trade related	(i)	**9,282**	**9,282**	5,771	5,771
– others	(ii)	**29,064**	**–**	23,724	–
Amounts due to holding companies and fellow subsidiaries					
– trade related	(i)	**(2,286)**	**(2,286)**	(10,591)	(10,591)
– others	(ii)	**(7,041)**	**–**	(16,316)	–
The Company					
Amounts due from holding companies and fellow subsidiaries					
– trade related	(i)	**9,200**	**9,200**	5,573	5,573
– others	(ii)	**10,915**	**–**	3,736	–
Amounts due to holding companies and fellow subsidiaries					
– trade related	(i)	**(1,109)**	**(1,109)**	(6,474)	(6,474)
– others	(ii)	**(502)**	**–**	(8,543)	–
Amounts due from subsidiaries	(ii)	**778,856**	**–**	779,830	–
Amounts due to subsidiaries					
– trade related	(i)	**(1,975)**	**(1,975)**	(1,766)	(1,766)
– others	(ii)	**(377,747)**	**–**	(304,534)	–

Notes:

(i) The fair values of trade related balances of amounts due from/(to) group companies are considered to be the same as the carrying amounts because of the immediate or short term maturity of these financial instruments.

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

34. Commitments

in Hong Kong dollar thousands

(a) Capital commitments outstanding at 31st December 2005 not provided for in the financial statements were as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
Contracted for	**327**	1,120	**327**	1,120
Authorised but not contracted for	**519**	3,516	**519**	215
	846	4,636	**846**	1,335

(b) At 31st December 2005, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
Land and buildings				
Within 1 year	**2,410**	8,590	**456**	864
After 1 year but within 5 years	**272**	23,534	**19**	–
After 5 years	**633**	64,280	**–**	–
	3,315	96,404	**475**	864
Plant and machinery				
Within 1 year	**58,781**	13,670	**–**	–
After 1 year but within 5 years	**–**	54,679	**–**	–
After 5 years	**–**	263,395	**–**	–
	58,781	331,744	**–**	–
	62,096	428,148	**475**	864

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

The Group also leases plant, machinery and equipment under an operating lease in one of the PRC factories which run for thirty years. As mentioned in Note 7, the Group has a plan to early terminate this lease in the first half of 2006 and the amounts of future lease payments shown above represents the amount to be paid to the lessor up to the expected termination date. Included in the balance is an amount of $53,208,000 (2004: $47,968,000) which has been accrued and disclosed as "Leased factory maintenance provision" in the consolidated balance sheet and Note 28.

35. Material related party transactions

in Hong Kong dollar thousands

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

(a) Transactions with group companies

		Transactions		Balances at year end	
	Note	**2005**	2004	**2005**	2004
Purchases from	(i)				
– ultimate holding company		**2,382**	2,471	**459**	492
– fellow subsidiaries		**33,589**	54,262	**1,827**	10,099
Sales to:	(i)				
– immediate holding company		**39,846**	28,705	**9,282**	5,696
– fellow subsidiaries		**644**	846	**–**	75
Commission fee to immediate holding company	(ii)	**1,037**	–	**–**	–

(i) Sales to and purchases from group companies were carried out on normal commercial terms. The terms of the outstanding balances are set out in Note 23.

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

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follow :

	2005	2004
Short-term employee benefits	**8,922**	9,907
Post-employment benefits	**558**	637
Equity compensation benefits	**261**	155
	9,741	10,699

36. Contingent liabilities

in Hong Kong dollar thousands

As at 31st December 2005, there were contingent liabilities in respect of a guarantee given to a bank by the Company to secure banking facilities made available to a subsidiary.

	The Company	
	2005	2004
Guarantee to a bank	**50,408**	50,552

37. Non-adjusting post balance sheet events

Subsequent to the balance sheet date, management has substantially finalised the terms in respect of the early termination of the factory lease agreement ("the Agreement") of GSMB as disclosed in Note 7(a). GSMB expects to have an additional one-off charge of approximately RMB60.0 million (equivalent to HK$57.7 million) associated with the termination of the Agreement and cessation of production activities of GSMB, including severance payments, penalty and other additional charges payable to GB.

38. Comparative figures

(a) Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in Note 2.

(b) Classifications of certain expenses have been changed to conform with the current year's presentation as follows:

(i) Selling expenses totalling $182,133,000 which were included in "Administrative and selling expenses (renamed as Administrative expenses in the 2005 financial statements)" in the 2004 financial statements have been reclassified under "Selling and distribution expenses".

(ii) Impairment loss of $7,737,000 which was included in "Other operating expenses" in the 2004 financial statements has been reclassified under "Impairment losses".

(c) Classifications of certain balance sheet items have been changed to conform with the current year's presentation as follows:

(i) Land and buildings with aggregate carrying value of $88,257,000, which were included in "Fixed assets (renamed as Property, plant and equipment in the 2005 financial statements)" in the 2004 financial statements, have been separately shown as "Investment properties" on the face of the consolidated balance sheet.

(ii) Security deposits and the related interest receivable with carrying value of $8,490,000, which were included in "Other assets" in the 2004 financial statements, have been reclassified to "Other financial assets".

(iii) Club debentures with aggregate carrying value of $6,046,000 for the Group and $5,031,000 for the Company, which were included in "Trade and other receivables" in the 2004 financial statements, have been reclassified to "Intangible assets".

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

39. Parent and ultimate holding company

At 31st December 2005, the directors consider the immediate parent and ultimate controlling party of the Group to be Neptunia Corporation Limited and San Miguel Corporation respectively. Neptunia Corporation Limited is incorporated in Hong Kong while San Miguel Corporation is incorporated in the Republic of the Philippines.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31st December 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31st December 2005 and which have not been adopted in these financial statements.

Of these developments, the following relate to the matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1st January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	1st January 2006
– HKAS 27, Consolidated and separate financial statements	1st January 2006
– HKFRS 3, Business combinations	1st January 2006
– HKFRS 7, Financial instruments: disclosures	1st January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1st January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1st December 2005 and would be first applicable to the Group's financial statements for the period beginning 1st January 2006.

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