

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2006

COMMITMENT TO CORPORATE GOVERNANCE

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

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006 (the "year under review"), save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviation therefrom, for the year under review.

THE BOARD

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

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

The board held more than four meetings during the year under review. The chief finance officer and company secretary attended all the scheduled board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance, and kept detailed minutes of each meeting, which are available for all directors. At the meeting, the directors discussed and formulated overall strategies for the Company, monitor financial performance and discussed the annual and interim results, as well as other significant matters. Daily operational matters are delegated to management.

At least 14 days of notice of all board meetings was given to all directors, and all directors were given the opportunity to include matters for discussion in the agenda. An agenda and accompanying board papers are sent in full to all directors at least 3 days before every board meeting.

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

Note	Scheduled board meetings	Audit committee meetings	Remuneration committee meetings	Nomination meetings
Independent non-executive directors				
Dr. The Hon. Sir David K.P. Li/ Alternate, Mr. Adrian M.K. Li	4/(5)	2/(2)	2/(2)	1/(1)
Mr. Ng Wai Sun	5/(5)	2/(2)	2/(2)	1/(1)
Mr. Ian F. Wade	4/(5)	2/(2)	2/(2)	1/(1)
Executive director				
Mr. Chong Yoon Fatt – managing director	5/(5)	n/a	n/a	1/(1)
Non-executive directors				
Mr. Ramon S. Ang, chairman	3/(5)	n/a	n/a	0/(1)
Mr. Faustino F. Galang, deputy chairman	5/(5)	n/a	2/(2)	1/(1)
Ms. Minerva Lourdes B. Bibonia (i)	3/(4)	n/a	n/a	n/a
Ms. Ma. Belen C. Buensuceso (i)	4/(4)	n/a	n/a	n/a
Mr. Ferdinand K. Constantino	5/(5)	n/a	2/(2)	1/(1)
Mr. Roberto N. Huang (i)	4/(4)	n/a	n/a	n/a
Mr. Francis H. Jardeleza (ii)	n/a	n/a	n/a	n/a
Mr. Estelito P. Mendoza (ii)	n/a	n/a	n/a	n/a

Notes:

- (i) Appointed as non-executive director on 24 February 2006.
- (ii) Resigned as non-executive director on 24 February 2006.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The chairman of the board is Mr. Ramon S. Ang, and the chief executive officer (or managing director, in the case of the Company) is Mr. Chong Yoon Fatt. The chairman's and the managing director's roles are clearly defined to ensure their independence, accountability and responsibility.

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

The managing director, supported by other board members and the senior management, is responsible for managing the day-to-day business of the Company. He is also accountable to the board for the implementation of the Company's overall strategies, and coordination of overall business operations.

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DIRECTORS AND DIRECTORS' INDEPENDENCE

The board currently consists of seven non-executive directors and one executive director. Three of the non-executive directors are independent. Further details of the composition of the board can be found on previous page.

All of the non-executive directors are not appointed for a specific term, but are subject to retirement and rotation and re-election at the Company's Annual General Meetings. Under the Company's Article of Association, one-third of the directors, including the non-executive directors, are subject to retirement, rotation and re-election at each annual general meeting.

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Each independent non-executive director gives the Company an annual confirmation of his independence. The Company considers such directors to be independent under the guidelines set out in rule 3.13 of the Listing Rules.

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgement of the board and management with an appropriate consideration to materiality. As at 31 December 2006, the directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on page 65.

INTERNAL CONTROL

The board has overall responsibility for maintaining sound and effective internal control systems to safeguard the Company's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems.

During the year under review, with the assistance of an external advisor, the Company had conducted a high-level risk assessment and found that the Company has established high level controls of the strategic management, core business and resource management processes and risk management function that addressed those identified risk parameters. Based on the results, the external advisor noted no material or significant control design gaps. The external advisor had also conducted a COSO entity-level control gap analysis to ascertain if the Company has established entity-level controls that are consistent with the key concepts of the control framework recommended by the Committee of Sponsoring Organizations – Treadway Commission ("COSO") – "Integrated Control Framework".

In addition, the Systems and Business Control team of San Miguel Beer Division from San Miguel Corporation has also performed an audit on the effectiveness of the Company and its subsidiaries' high-level and entity-level controls in September and November 2006. Their findings and recommendations for control improvement were presented to the board, audit committee and executive management.

The board has conducted a review of the Company's internal control systems for the year ended 31 December 2006, including financial, operational and compliance control and risk management functions and assessed the effectiveness of internal control by considering reviews performed by the audit committee, executive management, external advisor and internal auditors.

SUPPORT FOR DIRECTORS

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

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

THE BOARD COMMITTEES**AUDIT COMMITTEE**

For the year under review, the audit committee is composed of three independent non-executive directors: Mr. Ng Wai Sun, Mr. Ian F. Wade and Dr. The Hon. Sir David K.P. Li, who acts as chairman of the committee. The audit committee met twice in 2006 with full minutes kept by the company secretary. Individual attendance of each committee member at these meetings is shown in the table presented above.

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

In 2006, the audit committee discharged its responsibilities by:

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

The audit committee is authorized by the board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The audit committee is provided with sufficient resources by the Company to discharge its duties. The audit committee's specific terms of reference are available on request to any shareholders of the Company and are posted on the Company's websites, info.sanmiguel.com.hk and www.sanmiguel.com.hk.

During the year under review, the total fee in respect of audit and non-audit services (mainly tax review and corporate governance review) provided to the Company and its subsidiaries by external auditors amounted to HK\$2.6 million (2005: HK\$2.6 million) and HK\$0.4 million (2005: HK\$0.4 million) respectively.

REMUNERATION COMMITTEE

The remuneration committee was duly constituted on 9 December 2005 and is composed of three independent non-executive directors, namely: Dr. The Hon. Sir David K. P. Li, Mr. Ng Wai Sun and Mr. Ian F. Wade, and two non-executive directors, namely: Mr. Ferdinand K. Constantino and Mr. Faustino F. Galang. The remuneration committee is chaired by an independent non-executive director, Mr. Ng Wai Sun. The remuneration committee met twice in 2006 with full minutes kept by the company secretary. Individual attendance of each committee member at these meetings is shown in the table presented above.

The primary role of the remuneration committee under its terms of reference is to support and advise the board in fulfilling the board's responsibility to the shareholders of the Company to:

- (a) establish coherent remuneration policies and practices that will be observed and enable the Company to attract and retain top calibre executives and directors;
- (b) fairly and responsibly reward executives based on their performance and the performance of the Company, and the general pay environment; and
- (c) comply with the Code Provisions on remuneration of directors, mainly by:
 - determining executive and director remuneration policy;
 - determining the remuneration of executive directors upon consultation with the chairman or managing director regarding their proposals for such remuneration;
 - reviewing and approving the remuneration of the executives who directly report to the managing director, and as appropriate, other senior management; and
 - reviewing and approving all equity based plans.

The remuneration committee has the right to seek any information it considers necessary to fulfil its duties, which includes the right to obtain appropriate external advice at the Company's expense. The remuneration committee is provided with sufficient resources by the Company to discharge its duties. The remuneration committee's specific terms of reference are available on request to any shareholders of the Company and are posted on the Company's websites, info.sanmiguel.com.hk and www.sanmiguel.com.hk.

For the year under review, the committee discussed the remuneration related matters in the scheduled meetings, and set the policy on the remuneration of its members and key senior executives in accordance with the Company's Articles of Association. All members attended those scheduled meetings. As recommended, no director fee would be paid for the year 2006.

The committee also determined the policy for the reimbursement of expenses which were properly incurred by the directors in the performance of their duties in accordance with the Company's Articles of Association. Details of the remuneration of directors and senior management for the year ended 31 December 2006 are set out in notes 8, 9 and 32(c) to the financial statements.

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NOMINATION OF DIRECTORS

The Company has not established a nomination committee. Directors of the Company are responsible for making recommendations to the board for consideration and approval on nominations, appointment of directors and board succession, with a view to appoint to the board individuals with the relevant experience and capabilities to maintain and improve the competitiveness of the Company. The board formulates the policy, reviews the size, structure and composition of the board, and assesses the independence of its independent non-executive directors in accordance with the criteria prescribed under the Listing Rules and the Code.

CODE OF CONDUCT ON DIRECTORS' SECURITIES TRANSACTIONS

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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