

## 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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting periods of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in next year are discussed in note 36.

### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that means the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(n) or (o) depending on the nature of the liability.

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

### (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 1(k)).

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) Property, plant and equipment

Property, plant and equipment are held for own use and stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)), with the exception of construction in progress which is stated at cost less any impairment losses (see note 1(k)).

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 profit or loss on the date of retirement or disposal.

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

Land and buildings 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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 1 Significant accounting policies (continued)

#### (e) Property, plant and equipment (continued)

No provision for depreciation is made on construction in progress until such time when the assets are completed and ready for use.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### (f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(g)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)). 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 1(t)(iii).

#### (g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

##### (i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases.

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. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

##### (ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

#### (h) Intangible assets (other than goodwill)

Intangible assets are trademarks and club debentures acquired by the Group and stated in the balance sheet at cost less impairment losses (see note 1(k)).

These intangible assets are not amortised as their useful lives are assessed to be indefinite, and are tested annually for impairment (see note 1(k)).

The conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset.

#### (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 1(k)). 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.

Both the useful lives of bottles and crates and their residual values are reviewed annually.

#### (j) Other investments

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 1(k)).

#### (k) Impairment of assets

##### (i) Impairment of dated debt securities and receivables

Dated debt securities and 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, the impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted where the effect of discounting is material.

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 profit or loss. 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;
- Investment in subsidiaries;
- Goodwill;
- Intangible assets; and
- Other tangible assets.

## 1 Significant accounting policies (continued)

### (k) Impairment of assets (continued)

#### (ii) Impairment of other assets (continued)

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 profit or loss 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.

#### – 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 profit or loss in the year in which the reversals are recognised.

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories 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 1(k)), 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 1(k)).

### (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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, 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) 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 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 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.

Actuarial gains and losses in respect of the defined benefit retirement plan are recognised in full in the period in which they occur, outside profit or loss, in equity.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 1 Significant accounting policies (continued)

#### (q) Employee benefits (continued)

##### (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 profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding 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.

##### (iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

#### (r) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it 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, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
  - in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
  - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 1 Significant accounting policies (continued)

#### (t) 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 profit or loss as follows:

##### (i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

##### (ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

##### (iii) Rental income from operating leases

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

#### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

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 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 1 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) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

#### (w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

#### (x) 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 for the purposes of these financial statements.

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 property, plant and equipment. 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 period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

### 2 Change in accounting policy

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The following sets out information on the significant change in accounting policy 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 37).

#### Defined benefit retirement plan – Actuarial gains and losses

In prior years, cumulative unrecognised actuarial gains and losses to the extent of the amount in excess of 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets, were recognised in profit or loss over the expected average remaining working lives of employees participating in the plan. Otherwise, the actuarial gain or loss was not recognised.

With effect from 1 January 2006, the Group has adopted the Amendment to HKAS 19, Employee benefits – Actuarial gains and losses, group plans and disclosures. Amendment to HKAS 19 provides an option to recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity. The Group has elected to take the option to recognise all actuarial gains and losses in equity.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 2 Change in accounting policy (continued)

#### Defined benefit retirement plan – Actuarial gains and losses (continued)

The change in accounting policy has been applied retrospectively with comparatives restated. The adjustments for each financial statement line item affected for the years ended 31 December 2005 and 2006 are set out below:

	2006 \$'000	2005 \$'000
<b>Consolidated income statement for the year ended 31 December</b>		
<i>(Increase/(decrease) in net loss)</i>		
Cost of sales	(237)	(252)
Selling and distribution expenses	(267)	(283)
Administrative expenses	(217)	(230)
Income tax expense	127	134
Loss for the year	(594)	(631)
Loss per share (basic)	–	(\$0.01)
<b>Other significant disclosure item</b>		
<i>(Increase/(decrease) in expenses)</i>		
Staff costs	(721)	(765)
<b>Consolidated statement of recognised income and expense for the year ended 31 December</b>		
<i>(Increase/(decrease) in total recognised income and expense)</i>		
Defined benefit retirement plan actuarial gains and losses recognised directly in equity	(5,293)	1,520
Income tax recognised directly in equity	926	(266)
Loss for the year	594	631
Total recognised income and expense for the year	(3,773)	1,885

#### Balance sheets at 31 December

	The Group and the Company	
	2006 \$'000	2005 \$'000
<i>(Increase/(decrease) in net assets)</i>		
Retirement benefit liabilities	(23,436)	(18,864)
Deferred tax liabilities	4,100	3,301
Net assets	(19,336)	(15,563)
Reserves and total equity	(19,336)	(15,563)

### 3 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.

Turnover represents the invoiced value of products sold, net of discounts, returns, beer duty and consumption tax.

### 4 Other revenue and other net (expenses)/income

	2006 \$'000	2005 \$'000
<b>Other revenue</b>		
Interest income	12,403	10,418
Rental income	5,052	4,647
	17,455	15,065
<b>Other net (expenses)/income</b>		
Net loss on disposal of property, plant and equipment	(2,044)	(216)
Others	1,129	647
	(915)	431

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 5 Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

	2006 \$'000	2005 (restated) \$'000
(a) Finance costs		
Interest on bank loans	7,851	6,016
Bank charges	254	147
	<b>8,105</b>	<b>6,163</b>
(b) Staff costs		
Retirement costs		
– Defined contribution retirement plans	9,647	8,933
– Defined benefit retirement plan (2005: restated) (note 27(a)(v))	5,440	5,625
	<b>15,087</b>	<b>14,558</b>
Equity-settled share-based payment expenses	400	495
Salaries, wages and other benefits	118,836	128,539
Severance payments (note 6)	49,623	–
	<b>183,946</b>	<b>143,592</b>
(c) Other items		
Amortisation		
– Land lease premium	2,517	2,506
– Bottles and crates		
– Other tangible assets	8,617	4,681
– Inventories	–	6,785
Depreciation		
– Property, plant and equipment	70,472	73,084
– Investment properties	2,641	2,156
Cost of inventories	437,874	434,407
Operating lease charges: minimum lease payments		
– Land and buildings	8,670	9,965
– Plant and machinery	12,272	14,153
Rental receivable from investment properties less direct outgoings of \$2,621,000 (2005: \$2,143,000)	(2,431)	(2,504)
Net foreign exchange gain	(834)	(486)
Auditors' remuneration	2,592	2,642
Impairment losses (note)		
– Property, plant and equipment	–	57,298
– Investment properties	12,000	–
– Other tangible assets	–	2,994
– Trade and other receivables	11,086	3,736
– Forfeited rental deposit and related interest receivable	–	5,841

Note: Impairment losses are recognised in the following line items in the consolidated income statement:

	2006				
	Cost of sales	Administrative expenses	Other operating expenses	Restructuring costs	Total
Impairment losses of					
– Investment properties	–	12,000	–	–	12,000
– Trade and other receivables	–	–	11,086	–	11,086
	<b>–</b>	<b>12,000</b>	<b>11,086</b>	<b>–</b>	<b>23,086</b>
	2005				
	Cost of sales	Administrative expenses	Other operating expenses	Restructuring costs	Total
Impairment losses of					
– Property, plant and equipment	–	486	–	56,812	57,298
– Other tangible assets	2,994	–	–	–	2,994
– Trade and other receivables	–	–	3,094	642	3,736
– Forfeited rental deposit and related interest receivable	–	–	–	5,841	5,841
	<b>2,994</b>	<b>486</b>	<b>3,094</b>	<b>63,295</b>	<b>69,869</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 6 Restructuring costs

Guangzhou San Miguel Brewery Company Limited ("GSMB"), a subsidiary of the Company, entered into a factory lease agreement (the "Lease Agreement") with Guangzhou Brewery ("GB"), a substantial shareholder holding 30% interests of GSMB, upon the establishment of GSMB whereby GSMB agreed to lease the factory buildings, brewery equipment and related facilities from GB for production purposes. The Lease Agreement expires on 29 November 2020.

As mentioned in the 2005 audited financial statements of the Group, management performed a review of GSMB's operations in 2005 given that GSMB has been facing intense competition in the PRC. Based on their review, management planned to cease the production activities of GSMB in 2006 and terminate the Lease Agreement. On 28 December 2005, a non-binding memorandum of understanding ("MOU") was signed between GSMB and GB in this respect.

Further to the signing of the above non-binding MOU, on 29 September 2006, GSMB and GB entered into a Termination Agreement (the "Termination Agreement") in respect of the termination of the Lease Agreement and the sale of certain production assets owned by GSMB (the "Production Assets") to GB. The handover of the leased assets and Production Assets from GSMB to GB took place on 31 October 2006. After cessation of the manufacturing operations, GSMB continues the sale and distribution of beer and sources beer products from its fellow subsidiary, San Miguel (Guangdong) Brewery Company Limited ("SMGB") and other external manufacturers under toll-processing arrangements.

During the year ended 31 December 2005, impairment losses on the Production Assets and rental deposit for the Lease Agreement totalling \$63,295,000 were recognised in the financial statements. An additional one-off charge amounting to \$93,159,000 was incurred during the year ended 31 December 2006 which comprised the following:

	2006 \$'000	2005 \$'000
Severance payments (note 5(b))	49,623	—
Penalty for early termination of the Lease Agreement	6,176	—
Compensation for repairs and maintenance for the leased assets paid to GB	9,150	—
Additional rental charges paid to GB	10,083	—
Loss on sale of the Production Assets	16,764	—
Impairment loss on the Production Assets	—	56,812
Impairment loss on forfeited rental deposit and related interest receivable	—	5,841
Others	1,363	642
	<b>93,159</b>	<b>63,295</b>

The signing of the Termination Agreement with GB constitutes a connected transaction under the Listing Rules.

### 7 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2006 \$'000	2005 (restated) \$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	194	121
Over-provision in respect of prior years	(55)	—
	<b>139</b>	<b>121</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences (2005: restated)	10,169	6,992
Tax effect of recognising tax losses and deductible temporary differences not previously recognised for deferred tax purposes (note)	(16,857)	—
	<b>(6,688)</b>	<b>6,992</b>
Income tax (credit)/charge	<b>(6,549)</b>	<b>7,113</b>

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 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 for the foreign 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.

**Note:** This balance arose from the recognition of tax losses and deductible temporary differences of San Miguel (Guangdong) Brewery Company Limited ("SMGB") brought forward from previous years. SMGB has started making profits since 2005 and a portion of the tax losses have been utilised by SMGB during both the current and prior years. In addition, according to the five year long range plan approved by management, SMGB will continue making profits. These evidence that it is probable that sufficient taxable profits will be available to utilise the tax losses and deductible temporary differences and thus the tax benefits have been recognised accordingly.

During the year ended 31 December 2005, all the tax losses and deductible temporary differences of SMGB were not recognised for deferred tax purposes.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 7 Income tax in the consolidated income statement (continued)

(b) Reconciliation between tax (credit)/charge and accounting loss at applicable tax rates:

	2006 \$'000	2005 (restated) \$'000
Loss before taxation	(112,871)	(58,293)
Notional tax on loss before taxation calculated at the rates applicable to the tax jurisdictions concerned	(25,230)	(18,021)
Tax effect of non-deductible expenses	8,073	4,711
Tax effect of non-taxable revenue	(2,044)	(1,354)
Tax effect of tax losses and deductible temporary differences not recognised for deferred tax purposes	29,564	21,777
Tax effect of recognising tax losses and deductible temporary differences not previously recognised for deferred tax purposes	(16,857)	–
Over-provision in respect of prior years	(55)	–
Actual tax (credit)/charge	(6,549)	7,113

## 8 Directors' remuneration

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

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note)	2006 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Executive directors</b>							
Chong Yoon Fatt	–	1,839	346	94	2,279	–	2,279
<b>Non-executive directors</b>							
Ramon S. Ang	–	–	–	–	–	–	–
Faustino F. Galang	–	–	–	–	–	–	–
Minerva Lourdes B. Bibonia	–	–	–	–	–	–	–
Ma. Belen C. Buensuceso	–	–	–	–	–	–	–
Ferdinand K. Constantino	–	–	–	–	–	–	–
Roberto N. Huang	–	–	–	–	–	–	–
<b>Independent non-executive directors</b>							
David K. P. Li	–	–	–	–	–	–	–
Ng Wai Sun	–	–	–	–	–	–	–
Ian F. Wade	–	–	–	–	–	–	–
	<u>–</u>	<u>1,839</u>	<u>346</u>	<u>94</u>	<u>2,279</u>	<u>–</u>	<u>2,279</u>

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note)	2005 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Executive directors</b>							
Chong Yoon Fatt	1	–	–	–	1	–	1
Ramon A. de la Llana	24	1,426	63	–	1,513	–	1,513
Thomas R. Mainwaring	7	527	–	42	576	64	640
<b>Non-executive directors</b>							
Ramon S. Ang	33	–	–	–	33	–	33
Faustino F. Galang	25	–	–	–	25	–	25
Ferdinand K. Constantino	21	–	–	–	21	–	21
Benjamin P. Defensor, Jr	4	–	–	–	4	–	4
Francisco C. Eizmendi, Jr	18	–	–	–	18	–	18
Francis H. Jardeleza	21	–	–	–	21	–	21
Estelito P. Mendoza	25	–	–	–	25	–	25
Carmelo L. Santiago	4	–	–	–	4	–	4
Gabriel L. Villareal	25	–	–	–	25	–	25
<b>Independent non-executive directors</b>							
David K. P. Li	25	–	–	–	25	–	25
Ng Wai Sun	25	–	–	–	25	–	25
Ian F. Wade	25	–	–	–	25	–	25
	<u>283</u>	<u>1,953</u>	<u>63</u>	<u>42</u>	<u>2,341</u>	<u>64</u>	<u>2,405</u>

Note: These represent the estimated value of stock options granted to certain directors under the stock option scheme of the Company's ultimate holding company, San Miguel Corporation. The value of these stock options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(q)(iii).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one is a director (2005: one) whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other four (2005: four) individuals are as follows:

	2006 \$'000	2005 \$'000
Salaries and other emoluments	5,546	5,115
Discretionary bonuses	244	337
Share-based payments	287	197
Retirement scheme contributions	664	510
	<b>6,741</b>	<b>6,159</b>

The emoluments of the four (2005: four) individuals with the highest emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
\$1,000,001 to \$1,500,000	2	2
\$1,500,001 to \$2,000,000	1	2
\$2,000,001 to \$2,500,000	1	—

### 10 Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes a loss of \$55,666,000 (2005 (restated): profit of \$18,209,000) which has been dealt with in the financial statements of the Company (note 29(b)).

### 11 Dividends

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

	2006 \$'000	2005 \$'000
Interim dividend declared and paid of \$Nil (2005: \$0.01) per ordinary share (note 29)	—	3,736

No final dividend is proposed for the years ended 31 December 2006 and 2005.

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

	2006 \$'000	2005 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$Nil (2005: \$0.01) per ordinary share (note 29)	—	3,736

### 12 Loss per share

#### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of \$70,144,000 (2005 (restated): \$35,010,000) and on 373,570,560 ordinary shares (2005: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the year.

#### (b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary shares for both years.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 13 Segment reporting

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	
	2006	2005 (restated)	2006	2005	2006	2005	2006	2005 (restated)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	408,664	434,495	418,153	372,414	–	–	826,817	806,909
Inter-segment revenue	36,825	35,091	–	–	(36,825)	(35,091)	–	–
Other revenue from external customers	5,052	4,647	–	–	–	–	5,052	4,647
Total revenue	450,541	474,233	418,153	372,414	(36,825)	(35,091)	831,869	811,556
Segment result (2005: restated)	(32,379)	11,531	8,369	(10,783)			(24,010)	748
Unallocated operating income and expenses							12,403	10,417
Finance costs							(8,105)	(6,163)
Restructuring costs	–	–	(93,159)	(63,295)			(93,159)	(63,295)
Income tax credit/(charge) (2005: restated)							6,549	(7,113)
Loss for the year (2005: restated)							(106,322)	(65,406)
Depreciation and amortisation for the year	57,800	59,053	26,447	30,159			84,247	89,212
Impairment losses of								
– property, plant and equipment	–	–	–	57,298			–	57,298
– investment properties	12,000	–	–	–			12,000	–
– other tangible assets	–	–	–	2,994			–	2,994
– trade and other receivables	11,920	759	(834)	2,977			11,086	3,736
– forfeited rental deposit and related interest receivable	–	–	–	5,841			–	5,841
Segment assets (2005: restated)	1,557,038	1,609,143	509,571	518,099	(9,390)	(4,885)	2,057,219	2,122,357
Unallocated assets							417,223	401,833
Total assets							2,474,442	2,524,190
Segment liabilities (2005: restated)	83,238	71,069	141,991	137,212	(9,390)	(4,885)	215,839	203,396
Unallocated liabilities							284,506	258,721
Total liabilities							500,345	462,117
Capital expenditure incurred during the year	23,570	20,898	53,517	17,103			77,087	38,001
<b>Additional information concerning geographical segments:</b>								
Segment assets by the location of assets	1,380,015	1,439,095	686,594	688,147	(9,390)	(4,885)	2,057,219	2,122,357
Capital expenditure incurred during the year by the location of assets	1,922	14,173	75,165	23,828			77,087	38,001



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 14 Fixed assets

#### (a) The Group

	Property, plant and equipment					Interests in leasehold land held for own use under operating leases	Total fixed assets
	Land and buildings held for own use \$'000	Machinery, equipment, furniture and fixtures \$'000	Motor vehicles \$'000	Construction in progress \$'000	Sub-total \$'000	Investment properties \$'000	\$'000
<b>Cost:</b>							
At 1 January 2005	899,789	1,512,202	29,169	843	2,442,003	98,153	2,651,468
Exchange adjustments	7,082	12,881	486	11	20,460	–	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 31 December 2005	908,444	1,537,041	29,218	1,253	2,475,956	98,489	2,686,657
<b>Accumulated amortisation, depreciation and impairment losses:</b>							
At 1 January 2005	151,315	520,663	23,768	–	695,746	9,896	712,333
Exchange adjustments	1,521	4,619	415	–	6,555	–	6,717
Charge for the year	19,153	52,622	1,309	–	73,084	2,156	77,746
Impairment losses	7,825	49,161	–	312	57,298	–	57,298
Written back on disposals	–	(5,011)	(590)	–	(5,601)	–	(5,601)
At 31 December 2005	179,814	622,054	24,902	312	827,082	12,052	848,493
<b>Net book value:</b>							
At 31 December 2005	<b>728,630</b>	<b>914,987</b>	<b>4,316</b>	<b>941</b>	<b>1,648,874</b>	<b>86,437</b>	<b>1,838,164</b>
<b>Cost:</b>							
At 1 January 2006	908,444	1,537,041	29,218	1,253	2,475,956	98,489	2,686,657
Exchange adjustments	11,344	20,603	783	44	32,774	–	34,214
Additions	851	43,838	711	9,724	55,124	–	55,124
Disposals	(29,107)	(198,187)	(8,143)	–	(235,437)	–	(235,437)
Transfer from construction in progress	270	1,581	–	(1,851)	–	–	–
Transfer from land and buildings held for own use	(20,457)	–	–	–	(20,457)	20,457	–
At 31 December 2006	871,345	1,404,876	22,569	9,170	2,307,960	118,946	2,540,558
<b>Accumulated amortisation, depreciation and impairment losses:</b>							
At 1 January 2006	179,814	622,054	24,902	312	827,082	12,052	848,493
Exchange adjustments	3,097	10,073	680	11	13,861	–	14,166
Charge for the year	18,587	50,884	1,001	–	70,472	2,641	75,630
Impairment losses	–	–	–	–	–	12,000	12,000
Written back on disposals	(22,395)	(148,892)	(7,498)	(323)	(179,108)	–	(179,108)
Transfer from land and buildings held for own use	(2,503)	–	–	–	(2,503)	2,503	–
At 31 December 2006	176,600	534,119	19,085	–	729,804	29,196	771,181
<b>Net book value:</b>							
At 31 December 2006	<b>694,745</b>	<b>870,757</b>	<b>3,484</b>	<b>9,170</b>	<b>1,578,156</b>	<b>89,750</b>	<b>1,769,377</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 14 Fixed assets (continued)

### (b) The Company

	Property, plant and equipment					Interests in leasehold land held for own use under operating leases	Total fixed assets
	Land and buildings held for own use \$'000	Machinery, equipment, furniture and fixtures \$'000	Motor vehicles \$'000	Construction in progress \$'000	Sub-total \$'000	\$'000	\$'000
<b>Cost:</b>							
At 1 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 31 December 2005	493,057	960,922	7,160	20	1,461,159	74,134	1,535,293
<b>Accumulated amortisation and depreciation:</b>							
At 1 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 31 December 2005	86,025	349,122	5,989	–	441,136	1,744	442,880
<b>Net book value:</b>							
At 31 December 2005	<b>407,032</b>	<b>611,800</b>	<b>1,171</b>	<b>20</b>	<b>1,020,023</b>	<b>72,390</b>	<b>1,092,413</b>
<b>Cost:</b>							
At 1 January 2006	493,057	960,922	7,160	20	1,461,159	74,134	1,535,293
Additions	473	1,202	–	35	1,710	–	1,710
Disposals	–	(1,406)	(1,156)	–	(2,562)	–	(2,562)
Transfer from construction in progress	–	40	–	(40)	–	–	–
At 31 December 2006	493,530	960,758	6,004	15	1,460,307	74,134	1,534,441
<b>Accumulated amortisation and depreciation:</b>							
At 1 January 2006	86,025	349,122	5,989	–	441,136	1,744	442,880
Charge for the year	10,152	32,645	605	–	43,402	1,745	45,147
Written back on disposals	–	(1,401)	(1,156)	–	(2,557)	–	(2,557)
At 31 December 2006	96,177	380,366	5,438	–	481,981	3,489	485,470
<b>Net book value:</b>							
At 31 December 2006	<b>397,353</b>	<b>580,392</b>	<b>566</b>	<b>15</b>	<b>978,326</b>	<b>70,645</b>	<b>1,048,971</b>

### (c) Impairment losses

During the year, the management performed a review of the recoverable amount of investment properties. Based on their review, the carrying value of investment properties was written down by \$12,000,000. The recoverable amount of investment properties was determined with reference to the valuation performed by an independent firm of surveyors. Further details on the valuation performed by the independent firm of surveyors are set out in note 14(g).

During the year ended 31 December 2005, impairment losses totalling \$57,298,000 were recognised, of which \$56,812,000 was related to the production assets owned by GSMB sold to GB under GSMB's restructuring mentioned in note 6. The remaining impairment loss of \$486,000 represented the write down of certain properties owned by GSMB to the recoverable amount. The recoverable amount of such properties was based on the estimated net selling price determined by reference to market prices.

### (d) Disposals of fixed assets

During the year, the Group disposed of certain property, plant and equipment with an aggregate net book value of \$56,329,000 (2005: \$646,000), of which an amount of \$53,547,000 (2005: \$Nil) was related to the production assets owned by GSMB sold to GB under the restructuring mentioned in note 6. The Group recognised a loss of \$16,764,000 (2005: \$Nil) from this transaction (note 6).

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

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Medium term leases				
– in Hong Kong	636,616	664,511	467,998	479,422
– outside Hong Kong	249,350	253,409	–	–
	<b>885,966</b>	<b>917,920</b>	<b>467,998</b>	<b>479,422</b>
Representing:				
Land and buildings held for own use	694,745	728,630	397,353	407,032
Investment properties	89,750	86,437	–	–
Interests in leasehold land held for own use under operating leases	101,471	102,853	70,645	72,390
	<b>885,966</b>	<b>917,920</b>	<b>467,998</b>	<b>479,422</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 14 Fixed assets (continued)

#### (f) 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:

	2006 \$'000	2005 \$'000
Within 1 year	4,841	3,544
After 1 year but within 5 years	5,360	3,194
	<b>10,201</b>	<b>6,738</b>

(g) The fair value of the investment properties at 31 December 2006 is \$90,240,000 (2005: \$66,370,000), which are valued on an open market basis assuming sale with existing tenancies by using the investment method and otherwise with vacant possession by using the sales comparison approach. The valuation was carried out by an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, who have among their staff Members of the Hong Kong Institute of Surveyors with rich experience in the location and category of property being valued.

(h) During the year certain land and building held for own use by the Group was leased out to third parties for rental income. In accordance with HKAS 16 and 40, the related portion of property was transferred from land and buildings to investment properties at the carrying amount on the date of transfer.

### 15 Intangible assets

	The Group			The Company		
	Trademarks \$'000	Club debentures \$'000	Total \$'000	Trademarks \$'000	Club debentures \$'000	Total \$'000
<b>Cost:</b>						
At 1 January 2005	39,093	6,046	45,139	39,093	5,031	44,124
Exchange adjustments	—	23	23	—	—	—
Additions	21	—	21	21	—	21
At 31 December 2005	39,114	6,069	45,183	39,114	5,031	44,145
<b>Accumulated amortisation:</b>						
At 1 January and 31 December 2005	5,658	—	5,658	5,658	—	5,658
<b>Net book value:</b>						
At 31 December 2005	<b>33,456</b>	<b>6,069</b>	<b>39,525</b>	<b>33,456</b>	<b>5,031</b>	<b>38,487</b>
<b>Cost:</b>						
At 1 January 2006	39,114	6,069	45,183	39,114	5,031	44,145
Exchange adjustments	—	37	37	—	—	—
Additions	2	—	2	2	—	2
At 31 December 2006	39,116	6,106	45,222	39,116	5,031	44,147
<b>Accumulated amortisation:</b>						
At 1 January and 31 December 2006	5,658	—	5,658	5,658	—	5,658
<b>Net book value:</b>						
At 31 December 2006	<b>33,458</b>	<b>6,106</b>	<b>39,564</b>	<b>33,458</b>	<b>5,031</b>	<b>38,489</b>

Trademarks were regarded as having indefinite useful lives because the trademarked products were expected to generate net cash inflows to the Group indefinitely.

Consideration of impairment testing for trademarks is set out under note 16.

### 16 Goodwill

	The Group	
	2006 \$'000	2005 \$'000
<b>Cost and carrying amount:</b>		
At 1 January and 31 December	<b>5,044</b>	<b>5,044</b>



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 16 Goodwill (continued)

### 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 7.1% (2005: 7.3%). 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 the recoverable amount is based would not cause carrying amount to exceed its recoverable amount.

Key assumptions used for value-in-use calculation:

	2006	2005
Growth rate	19%	19%
Gross contribution rate	40%	40%
Discount rate	7.1%	7.3%

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.

## 17 Interests in subsidiaries

	The Company	
	2006 \$'000	2005 \$'000
Unlisted shares/capital contributions at cost	603,249	603,249
Amounts due from subsidiaries	781,890	778,856
	1,385,139	1,382,105
Less: Impairment losses	(209,978)	(166,978)
	1,175,161	1,215,127

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

The following list contains the particulars of all the subsidiaries of the Company. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/operation	Issued and paid-up share capital/registered capital	Proportion of ownership interest held by		Principal activity
			Company	Subsidiary	
Best Investments International Inc.	British Virgin Islands	US\$50,000	100%	–	Investment
		Preference: US\$60,000,000	100%	–	
Guangzhou San Miguel Brewery Company Limited (note (i))	PRC	Registered capital: US\$36,507,000	–	70%	Manufacture and sale of beer
Hongkong Brewery Limited	Hong Kong	\$100	100%	–	Dormant
Ravelin Limited	Hong Kong	\$10,000,000	100%	–	Property holding
San Miguel (Guangdong) Limited	Hong Kong	A: US\$9,000,000 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:

- 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 29 November 2020.
- San Miguel (Guangdong) Brewery Company Limited is a wholly-foreign owned enterprise with an operating period of 50 years expiring on 4 August 2042.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 18 Other tangible assets

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

	The Group	
	2006 \$'000	2005 \$'000
<b>Cost:</b>		
At 1 January	72,656	–
Transfer from inventories on 1 July	–	56,712
Exchange adjustments	2,563	552
Additions	21,961	20,898
Disposals	(15,064)	(5,506)
At 31 December	82,116	72,656
<b>Accumulated amortisation and impairment losses:</b>		
At 1 January	31,117	–
Transfer from inventories on 1 July	–	24,456
Exchange adjustments	1,097	317
Charge for the year	8,617	4,681
Impairment losses	–	2,994
Written back on disposals	(7,715)	(1,331)
At 31 December	33,116	31,117
<b>Net book value:</b>		
At 31 December	49,000	41,539

Effective from 1 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 1 July 2005 onwards.

Before 1 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.

### 19 Inventories

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Products in hand and in process	28,612	27,861	12,869	13,428
Materials and supplies	22,052	22,839	11,176	9,298
	50,664	50,700	24,045	22,726

### 20 Trade and other receivables

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade receivables	89,316	84,119	69,092	73,301
Other debtors, deposits and prepayments	26,734	28,124	17,412	13,062
Dated debt securities (unlisted)	–	14,500	–	–
	116,050	126,743	86,504	86,363

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

During the year, the Group recognised impairment losses on trade and other receivables amounting to \$11,086,000 (2005: \$3,736,000) in the consolidated income statement, of which \$11,500,000 (2005: \$Nil) is attributable to disputes with trade debtors on certain trading terms. The disputes caused the Group to reduce the carrying amount of the related trade receivables to an estimated recoverable amount.

The ageing of trade receivables (net of impairment losses for bad and doubtful debts) as at the balance sheet date is as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>From invoice date</b>				
Less than 30 days	44,522	35,503	27,823	25,760
31 to 60 days	30,556	24,942	28,908	23,952
61 to 90 days	4,960	11,527	4,606	11,451
Over 90 days	9,278	12,147	7,755	12,138
	89,316	84,119	69,092	73,301

The Group's credit policy is set out in note 30(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		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	USD1,642	USD1,016	USD1,642	USD1,016

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

**21 Amounts due from/(to) holding companies and fellow subsidiaries**

Amounts due from/(to) holding companies and fellow subsidiaries 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		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts due from holding companies and fellow subsidiaries	<u>8,339</u>	<u>9,282</u>	<u>8,241</u>	<u>9,200</u>
Amounts due to holding companies and fellow subsidiaries	<u>(4,465)</u>	<u>(2,286)</u>	<u>(2,398)</u>	<u>(1,109)</u>

The remaining balances 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		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
<b>Amounts due from holding companies and fellow subsidiaries</b>				
United States Dollars	<u>USD 3,633</u>	<u>USD 1,197</u>	<u>USD 2,208</u>	<u>USD 1,186</u>
<b>Amounts due to holding companies and fellow subsidiaries</b>				
United States Dollars	<u>USD (682)</u>	<u>USD (129)</u>	<u>USD (284)</u>	<u>USD (109)</u>

**22 Cash and cash equivalents**

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
Deposits with banks	<u>338,311</u>	<u>317,133</u>	<u>-</u>	<u>-</u>
Cash at bank and in hand	<u>78,024</u>	<u>66,198</u>	<u>15,725</u>	<u>19,415</u>
	<u>416,335</u>	<u>383,331</u>	<u>15,725</u>	<u>19,415</u>

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	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	<u>USD 13,018</u>	<u>USD 10,579</u>	<u>USD 1,181</u>	<u>USD 266</u>

**23 Bank loans (unsecured)**

At 31 December 2006, the bank loans were repayable as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Within 1 year or on demand	<u>80,374</u>	<u>50,408</u>	<u>-</u>	<u>-</u>
After 1 year but within 2 years	<u>95,000</u>	<u>-</u>	<u>95,000</u>	<u>-</u>
More than 2 years but less than 5 years	<u>-</u>	<u>95,000</u>	<u>-</u>	<u>95,000</u>
	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>
	<u>175,374</u>	<u>145,408</u>	<u>95,000</u>	<u>95,000</u>

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	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	<u>USD 6,500</u>	<u>USD 6,500</u>	<u>USD -</u>	<u>USD -</u>



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 24 Trade and other payables

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade payables	51,236	40,382	29,227	24,501
Other creditors and accrued charges	143,544	85,741	25,835	28,875
	<b>194,780</b>	<b>126,123</b>	<b>55,062</b>	<b>53,376</b>

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

The ageing of trade payables as of the balance sheet date is as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>From invoice date</b>				
Less than 30 days	47,637	36,678	28,517	22,573
31 to 60 days	2,443	1,409	580	909
61 to 90 days	534	371	57	132
Over 90 days	622	1,924	73	887
	<b>51,236</b>	<b>40,382</b>	<b>29,227</b>	<b>24,501</b>

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	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	USD 731	USD 558	USD 731	USD 558
Euro	EUR 125	EUR 92	EUR 125	EUR 92
Australian Dollars	AUD 17	AUD 16	AUD 17	AUD 16

### 25 Amounts due to subsidiaries

Amounts due to subsidiaries are unsecured and interest-free. The balances included in current liabilities are trade related and are repayable under normal trade terms. The balances included in non-current liabilities do not have fixed repayment terms but are not repayable within one year.

### 26 Leased factory maintenance provision

Pursuant to the factory lease agreement of Guangzhou San Miguel Brewery Company Limited ("GSMB") which expires on 29 November 2020, GSMB is required to pay to the lessor an annual fee of RMB4.3 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 GSMB on the purchase or construction of any separate and identifiable equipment or building during the term of the lease.

As disclosed in note 6, GSMB and the lessor entered into an agreement on 29 September 2006 to early terminate the lease, accordingly the provision became payable to the lessor during the year and was transferred to "Trade and other payables".

	The Group	
	2006 \$'000	2005 \$'000
Balance at 1 January	53,208	47,968
Exchange adjustments	1,877	1,082
Provision made during the year	3,587	4,158
Transfer to "Trade and other payables" during the year	(58,672)	—
Balance at 31 December	<b>—</b>	<b>53,208</b>

### 27 Employee retirement benefits

#### (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 31 December 2006 by qualified staff of Watson Wyatt Hong Kong Limited, who are members of the Society of Actuaries of Canada, using the attained age method.

For the purposes of preparing these financial statements, an independent actuarial valuation was also carried out for 31 December 2006 by the above independent actuary following the methodology set out in HKAS 19, Employee benefits.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

**27 Employee retirement benefits (continued)****(a) Defined benefit retirement plan (continued)**

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

	The Group and the Company	
	2006	2005 (restated)
	\$'000	\$'000
Present value of funded obligations	103,566	96,361
Fair value of plan assets	(88,696)	(81,434)
Retirement benefit liabilities	14,870	14,927

A portion of the above liabilities is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay \$12,535,000 in contributions to the defined benefit retirement plan in 2007.

(ii) Plan assets consist of the following:

	The Group and the Company	
	2006	2005
	\$'000	\$'000
Equity securities	52,863	48,860
Capital guarantee instruments	33,616	28,502
Cash	2,217	4,072
	88,696	81,434

(iii) Movements in the present value of the defined benefit obligations:

	The Group and the Company	
	2006	2005
	\$'000	\$'000
At 1 January	96,361	111,997
Benefits paid by the plan	(10,007)	(17,231)
Current service cost	6,768	7,687
Interest cost	4,209	4,034
Actuarial losses/(gains)	6,449	(10,126)
Transferred to other schemes	(214)	—
At 31 December	103,566	96,361

(iv) Movements in plan assets:

	The Group and the Company	
	2006	2005
	\$'000	\$'000
At 1 January	81,434	92,736
Contributions paid to the plan	10,790	8,439
Benefits paid by the plan	(10,007)	(17,231)
Actuarial expected return on plan assets	5,537	6,096
Actuarial gains/(losses)	1,156	(8,606)
Transferred to other schemes	(214)	—
At 31 December	88,696	81,434

(v) Expense recognised in consolidated profit or loss is as follows:

	2006	2005 (restated)
	\$'000	\$'000
Current service cost	6,768	7,687
Interest cost	4,209	4,034
Expected return on plan assets	(5,537)	(6,096)
Expense charged to consolidated profit or loss (note 5(b))	5,440	5,625

The expense is recognised in the following line items in the consolidated income statement:

– Cost of sales	1,741	1,857
– Selling and distribution expenses	2,067	2,081
– Administrative expenses	1,632	1,687
	5,440	5,625
Actual return on plan assets – gain/(loss)	6,693	(2,510)

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 27 Employee retirement benefits (continued)

#### (a) Defined benefit retirement plan (continued)

(vi) The cumulative amount of actuarial gains and losses recognised directly in equity:

	2006 \$'000	2005 (restated) \$'000
At 1 January	(20,614)	(22,134)
Amount recognised during the year	(5,293)	1,520
At 31 December	(25,907)	(20,614)

(vii) The principal actuarial assumptions used are as follows:

	The Group and the Company	
	2006	2005
Discount rate	3.75%	4.50%
Expected rate of return on plan assets	6.50%	6.50%
Future salary increases	3.00%	3.00%

The expected rate of return on plan assets is based on the portfolio as a whole and exclusively on historical returns, without adjustments.

#### Historical information

	The Group and the Company				
	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Present value of the defined benefit obligations	103,566	96,361	111,997	95,630	107,183
Fair value of plan assets	(88,696)	(81,434)	(92,736)	(92,772)	(71,798)
Deficit	14,870	14,927	19,261	2,858	35,385
Experience adjustments on:					
Plan liabilities	(900)	(2,679)	442	(2,918)	(311)
Plan assets	(1,156)	8,606	4,953	(3,800)	10,606

#### (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 of 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. Contributions to the plan vest immediately.

### 28 Income tax in the balance sheet

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

	2006 \$'000	2005 \$'000
Provision for Hong Kong Profits Tax for the year	(194)	(121)
Provisional Hong Kong Profits Tax paid	90	919
Current tax (payable)/recoverable	(104)	798

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 28 Income tax in the balance sheet (continued)

#### (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 \$'000	Impairment losses of receivables and inventories \$'000	Retirement benefit liabilities \$'000	Tax losses \$'000	Others \$'000	Total \$'000
At 1 January 2005						
– as previously reported	206,938	(5,905)	(946)	(85,220)	(6,603)	108,264
– prior period adjustment in respect of defined benefit retirement plan	–	–	(3,873)	172	–	(3,701)
– as restated	206,938	(5,905)	(4,819)	(85,048)	(6,603)	104,563
Exchange adjustments (Credited)/charged to consolidated profit or loss (restated)	1,562	(111)	–	–	(148)	1,303
Charged to equity	(12,632)	4,236	784	8,525	6,079	6,992
	–	–	266	–	–	266
<b>At 31 December 2005 (as restated)</b>	<b>195,868</b>	<b>(1,780)</b>	<b>(3,769)</b>	<b>(76,523)</b>	<b>(672)</b>	<b>113,124</b>
At 1 January 2006						
– as previously reported	195,868	(1,780)	(162)	(76,829)	(672)	116,425
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	(3,607)	306	–	(3,301)
– as restated	195,868	(1,780)	(3,769)	(76,523)	(672)	113,124
Exchange adjustments (Credited)/charged to consolidated profit or loss	2,195	(26)	–	–	(24)	2,145
Credited to equity	(2,793)	708	1,613	(3,754)	(2,462)	(6,688)
	–	–	(926)	–	–	(926)
<b>At 31 December 2006</b>	<b>195,270</b>	<b>(1,098)</b>	<b>(3,082)</b>	<b>(80,277)</b>	<b>(3,158)</b>	<b>107,655</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 28 Income tax in the balance sheet (continued)

#### (b) Net deferred tax liabilities recognised (continued)

##### (i) The Group (continued)

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

	2006 \$'000	2005 \$'000
Tax losses	138,218	132,341
Deductible temporary differences	50,333	33,537
	<b>188,551</b>	<b>165,878</b>

Deferred tax assets have not been recognised in respect of the above items as it is not probable that future taxable profits against which the above items can be utilised will be available in the relevant tax jurisdictions and entities.

The tax losses can be carried forward up to five years from the year in which the loss originated, and will expire in the following years:

	2006 \$'000	2005 \$'000
2006	–	46,618
2007	12,628	12,197
2008	16,731	35,151
2009	–	7,560
2010	31,903	30,815
2011	76,956	–
	<b>138,218</b>	<b>132,341</b>

##### (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 \$'000	Impairment losses of receivables \$'000	Retirement benefit liabilities \$'000	Tax losses \$'000	Total \$'000
At 1 January 2005					
– as previously reported	137,780	(1,012)	(946)	(85,193)	50,629
– prior period adjustment in respect of defined benefit retirement plan	–	–	(3,873)	172	(3,701)
– as restated	137,780	(1,012)	(4,819)	(85,021)	46,928
(Credited)/charged to profit or loss (restated)	(4,183)	(14)	784	8,498	5,085
Charged to equity	–	–	266	–	266
<b>At 31 December 2005 (as restated)</b>	<b>133,597</b>	<b>(1,026)</b>	<b>(3,769)</b>	<b>(76,523)</b>	<b>52,279</b>
At 1 January 2006					
– as previously reported	133,597	(1,026)	(162)	(76,829)	55,580
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	(3,607)	306	(3,301)
– as restated	133,597	(1,026)	(3,769)	(76,523)	52,279
(Credited)/charged to profit or loss	(3,970)	30	1,613	3,666	1,339
Credited to equity	–	–	(926)	–	(926)
<b>At 31 December 2006</b>	<b>129,627</b>	<b>(996)</b>	<b>(3,082)</b>	<b>(72,857)</b>	<b>52,692</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 29 Capital and reserves

### (a) The Group

	Attributable to equity shareholders of the Company						Minority interests \$'000	Total equity \$'000
	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Exchange fluctuation reserve \$'000	Capital contribution reserve \$'000	Retained profits \$'000		
At 1 January 2005								
– as previously reported	186,785	65,739	112,970	(4,825)	430	1,675,450	2,036,549	2,135,100
– prior period adjustment in respect of defined benefit retirement plan	–	–	–	–	–	(17,448)	(17,448)	(17,448)
– as restated	186,785	65,739	112,970	(4,825)	430	1,658,002	2,019,101	2,117,652
Dividends approved in respect of the previous financial year (note 11(b))	–	–	–	–	–	(3,736)	(3,736)	(3,736)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	14,266	–	–	14,266	16,475
Equity-settled share-based transactions	–	–	–	–	495	–	495	495
Inter-company charge levied by the ultimate holding company for the stock options	–	–	–	–	(925)	–	(925)	(925)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	1,520	1,520	1,520
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	(266)	(266)	(266)
Loss for the year (restated)	–	–	–	–	–	(35,010)	(35,010)	(65,406)
Dividend declared in respect of the current year (note 11(a))	–	–	–	–	–	(3,736)	(3,736)	(3,736)
<b>At 31 December 2005 (as restated)</b>	<b>186,785</b>	<b>65,739</b>	<b>112,970</b>	<b>9,441</b>	<b>–</b>	<b>1,616,774</b>	<b>1,991,709</b>	<b>2,062,073</b>
At 1 January 2006								
– as previously reported	186,785	65,739	112,970	9,441	–	1,632,337	2,007,272	2,077,636
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	–	–	–	(15,563)	(15,563)	(15,563)
– as restated	186,785	65,739	112,970	9,441	–	1,616,774	1,991,709	2,062,073
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	20,684	–	–	20,684	22,713
Equity-settled share-based transactions	–	–	–	–	400	–	400	400
Inter-company charge levied by the ultimate holding company for the stock options	–	–	–	–	(400)	–	(400)	(400)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	(5,293)	(5,293)	(5,293)
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	–	–	926	926	926
Loss for the year	–	–	–	–	–	(70,144)	(70,144)	(106,322)
<b>At 31 December 2006</b>	<b>186,785</b>	<b>65,739</b>	<b>112,970</b>	<b>30,125</b>	<b>–</b>	<b>1,542,263</b>	<b>1,937,882</b>	<b>1,974,097</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 29 Capital and reserves (continued)

#### (b) The Company

	Share capital \$'000	Share premium \$'000	Capital contribution reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 2005					
– as previously reported	186,785	65,739	430	1,650,664	1,903,618
– prior period adjustment in respect of defined benefit retirement plan	–	–	–	(17,448)	(17,448)
– as restated	186,785	65,739	430	1,633,216	1,886,170
Dividends approved in respect of the previous financial year (note 11(b))	–	–	–	(3,736)	(3,736)
Equity-settled share-based transactions	–	–	495	–	495
Inter-company charge levied by the ultimate holding company for the stock options	–	–	(925)	–	(925)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	1,520	1,520
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	(266)	(266)
Profit for the year (restated) (note 10)	–	–	–	18,209	18,209
Dividend declared in respect of the current year (note 11(a))	–	–	–	(3,736)	(3,736)
<b>At 31 December 2005 (as restated)</b>	<b>186,785</b>	<b>65,739</b>	<b>–</b>	<b>1,645,207</b>	<b>1,897,731</b>
At 1 January 2006					
– as previously reported	186,785	65,739	–	1,660,770	1,913,294
– prior period adjustment in respect of defined benefit retirement plan (note 2)	–	–	–	(15,563)	(15,563)
– as restated	186,785	65,739	–	1,645,207	1,897,731
Equity-settled share-based transactions	–	–	400	–	400
Inter-company charge levied by the ultimate holding company for the stock options	–	–	(400)	–	(400)
Actuarial gains and losses of defined benefit retirement plan	–	–	–	(5,293)	(5,293)
Deferred tax of actuarial gains and losses of defined benefit retirement plan	–	–	–	926	926
Loss for the year (note 10)	–	–	–	(55,666)	(55,666)
<b>At 31 December 2006</b>	<b>186,785</b>	<b>65,739</b>	<b>–</b>	<b>1,585,174</b>	<b>1,837,698</b>

#### (c) Share capital

	The Company	
	2006 \$'000	2005 \$'000
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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 29 Capital and reserves (continued)

### (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 foreign subsidiaries. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

#### (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 1(q)(iii).

### (e) Distributable reserves

The distributable reserves of the Company as at 31 December 2006 were \$1,585,174,000 (2005 (restated): \$1,645,207,000).

## 30 Financial instruments

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.

At the balance sheet date, the Group has certain concentration of credit risk as 54% (2005: 52%) of the total trade and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is presented by the carrying amount of each financial asset in the balance sheet.

### (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. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

### (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.

	2006		2005	
	Effective interest rate %	Total – 1 year or less \$'000	Effective interest rate %	Total – 1 year or less \$'000
<b>The Group</b>				
<i>Repricing dates for assets/(liabilities) which reprice before maturity</i>				
Cash at bank and in hand (note 22)	1.08	78,024	1.24	66,198
Bank loans (unsecured) (note 23)	5.00	(175,374)	4.68	(145,408)
		<u>(97,350)</u>		<u>(79,210)</u>
<i>Maturity dates for assets which do not reprice before maturity</i>				
Deposits with banks (note 22)	3.46	338,311	3.19	317,133
Dated debt securities (note 20)	N/A	–	3.14	14,500
		<u>338,311</u>		<u>331,633</u>
<b>The Company</b>				
<i>Repricing dates for assets/(liabilities) which reprice before maturity</i>				
Cash at bank and in hand (note 22)	2.39	15,725	2.32	19,415
Bank loans (unsecured) (note 23)	4.58	(95,000)	4.59	(95,000)
		<u>(79,275)</u>		<u>(75,585)</u>



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 30 Financial instruments (continued)

#### (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 Hong Kong Dollar ("HKD") is pegged to USD, 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 considers the exposure to currency risk to be low.

#### (e) Fair value

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

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

### 31 Commitments

#### (a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Contracted for	23,443	327	461	327
Authorised but not contracted for	5,078	519	22	519
	<u>28,521</u>	<u>846</u>	<u>483</u>	<u>846</u>

#### (b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Land and buildings</i>				
Within 1 year	1,467	2,410	19	456
After 1 year but within 5 years	1,494	272	–	19
After 5 years	–	633	–	–
	<u>2,961</u>	<u>3,315</u>	<u>19</u>	<u>475</u>
<i>Plant and machinery</i>				
Within 1 year	575	58,781	575	–
After 1 year but within 5 years	2,014	–	2,014	–
	<u>2,589</u>	<u>58,781</u>	<u>2,589</u>	<u>–</u>
	<u>5,550</u>	<u>62,096</u>	<u>2,608</u>	<u>475</u>

The Group, as lessee, leases a number of properties and items of machinery and equipment 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.

One of the subsidiaries, Guangzhou San Miguel Brewery Company Limited also leased plant, machinery and equipment under an operating lease which ran for thirty years. As mentioned in note 6, the lease was early terminated during the year.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 32 Material related party transactions

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

	Note	Transactions		Balances at year end	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Purchases from	(i)				
– ultimate holding company		2,450	2,382	325	459
– fellow subsidiaries		33,992	33,589	4,140	1,827
Sales to	(i)				
– intermediate holding company		23,028	39,846	5,610	9,282
– fellow subsidiaries		345	644	2,729	–
Commission fee to intermediate holding company	(ii)	1,244	1,037	–	–

Notes:

- (i) Sales to and purchases from group companies were carried out at terms mutually agreed by both parties. The terms of the outstanding balances are set out in note 21.
- (ii) Commission is paid to the intermediate 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 intermediate holding company had such sales been made by the Group to the intermediate holding company and then on-sold by the intermediate holding company to the customers.

These transactions also constitute connected transactions under the Listing Rules.

#### (b) Other transactions with group companies

	Amounts		Balances at year end	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Expenses paid on behalf of group companies				
– ultimate holding company	7,203	3,421	6,520	–
– intermediate holding company	17,235	26,150	13,393	27,266
– fellow subsidiaries	120	86	156	1,798
Expenses paid by group companies on the Group's behalf				
– ultimate holding company	–	5,978	–	5,978
– intermediate holding company	–	181	–	181
– fellow subsidiaries	2,215	882	3,097	882

#### (c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2006 \$'000	2005 \$'000
Short-term employee benefits	14,547	8,922
Post-employment benefits	1,488	558
Equity compensation benefits	400	261
	<b>16,435</b>	<b>9,741</b>

Total remuneration is included in "staff costs" (see note 5(b)).

### 33 Contingent liabilities

As at 31 December 2006, there was a contingent liability in respect of a guarantee given to a bank by the Company to secure a banking facility made available to a wholly owned subsidiary which expires on 28 February 2008.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee issued is the facility drawn down by the subsidiary of \$50,531,000 (2005: \$50,408,000).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured and its transaction price was \$Nil (2005: \$Nil).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 34 Comparative figures

- (a) Certain comparative figures have been adjusted as a result of the change in accounting policy as set out in note 2.
- (b) Classification of certain profit or loss items has been changed as follows:
  - (i) Impairment loss of \$69,869,000 which was included in "Impairment losses" in the 2005 financial statements has been reclassified under costs of sales of \$2,994,000, administrative expenses of \$486,000, other operating expenses of \$3,094,000 and restructuring costs of \$63,295,000 to conform with the current year's presentation.
  - (ii) Gross turnover of \$1,268,346,000, discounts of \$304,457,000 and beer duty and taxes of \$156,980,000 were separately shown in the consolidated income statement in the 2005 financial statements. In order to conform with the current year's presentation, the discounts and beer duty and taxes have been reclassified to set-off with the gross turnover.
- (c) In the Company's balance sheet, amounts due to subsidiaries of \$1,975,000 which were trade related and were included in non-current liabilities in the 2005 financial statements, have been reclassified to current liabilities.
- (d) Cash and cash equivalents of \$383,331,000 which were included under segment assets in the segment reporting disclosure note in the 2005 financial statements have been reclassified to unallocated assets.

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

### 35 Immediate and ultimate controlling party

At 31 December 2006, 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.

### 36 Accounting estimates and judgements

Notes 16 and 27 contain information about the assumptions and their risk factors relating to goodwill and trademarks impairment and retirement benefit liabilities respectively. Apart from the above, the Group believes the following critical accounting policies also involve significant estimates and judgements used in the preparation of the financial statements:

#### (a) Impairment of property, plant and equipment, interests in leasehold land held for own use under operating leases and investment properties

If the circumstances indicate that the carrying values of property, plant and equipment, interests in leasehold land held for own use under operating leases and investment properties may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of assets". Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. However, actual sale volume, selling price and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected.

#### (b) Depreciation of property, plant and equipment and investment properties

Property, plant and equipment and investment properties are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

#### (c) Amortisation of other tangible assets

Other tangible assets are amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values. The Group reviews the estimated useful lives and estimated residual values of the assets regularly in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets. The amortisation charge for future periods is adjusted if there are significant changes from previous estimates.

#### (d) Impairment loss for bad and doubtful debts

The Group maintains an impairment loss for bad and doubtful debts for estimated losses resulting from the inability of the debtors to make required payments. The Group bases the estimates of future cash flows on the ageing of the trade receivables balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

#### (e) Write down of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption and management judgement. Based on this review, write down of inventories will be made when the carrying amount of inventories decline below the estimated net realisable value. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

### 37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

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.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007