



**SAN MIGUEL BREWERY
HONG KONG LTD.**

香港生力啤酒廠有限公司

**INTERIM REPORT
January to June 2002**

**中期報告
二零零二年一月至六月**

CORPORATE INFORMATION

DIRECTORS

Francisco C. Eizmendi, Jr. *Chairman*
Freddy W.M. Kwan *Managing Director*
Ramon S. Ang
Faustino F. Galang
Arthur K.C. Li, G.B.S., J.P.
alternate to David K.P. Li
David K.P. Li, G.B.S., J.P.*
Thomas R. Mainwaring
Estelito P. Mendoza
Wai Sun Ng*
Ian F. Wade*

** Independent Non-Executive Directors*

AUDIT COMMITTEE

David K.P. Li, G.B.S., J.P.
Wai Sun Ng
Ian F. Wade

COMPANY SECRETARY

Thomas R. Mainwaring

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
Hong Kong

SOLICITORS

Johnson Stokes & Master
18th Floor
Prince's Building
Hong Kong

REGISTERED OFFICE

9th Floor
Citimark Building
28 Yuen Shun Circuit
Siu Lek Yuen
Shatin New Territories
Hong Kong

SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

ABN-AMRO Bank
Bank of America
Bank of China (Hong Kong) Limited
BNP Paribas
Hang Seng Bank Limited
Standard Chartered Bank
The Bank of East Asia, Limited
The Hongkong and Shanghai
Banking Corporation Limited
UBS AG

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In this report, all monetary values are expressed in Hong Kong Dollars unless stated otherwise.

CHAIRMAN'S STATEMENT

To Our Shareholders,

Financial Results

The Company's financial performance for the first six months has been disappointing, mainly as a result of the very aggressive competitive environment in southern China and the increased cost of supporting sales programmes.

Profit attributable to shareholders for the six months ended 30th June 2002 was \$13.134 million, a decline of 62% from the \$35.037 million reported for the same period last year. Earnings per share for the period also fell 62% from 9.4 cents to 3.5 cents.

Lower sales revenue in South China and increased selling and administration expenses largely account for the poor performance, resulting in lower profit from operations of \$10.729 million compared with \$37.164 million in 2001. While financing costs were substantially reduced, the savings were offset by a fall in other net income.

Gross turnover in South China declined by \$21.358 million (7.6%) from the same period last year.

The Company's selling and administration expenses increased by \$15.511 million for the period, primarily as a result of a \$12.427 million increase in advertising and promotion costs, most of which was incurred in South China supporting our brands in an intensely competitive market.

Financing costs declined from \$15.052 million in 2001 to \$3.953 million this year as a result of the reduction of external debt by \$195.318 million in March 2001 and the continuing decline in interest rates.

Other net income dropped by \$12.697 million mainly due to reduced interest income resulting from lower cash balances and interest rates.

Total debt at the end of the period was \$273.042 million compared with \$273.007 million on 31st December 2001.

On 7th March 2002 the outstanding balance of term debt of US\$25 million (HK\$195 million) with Bank of America was refinanced under favourable terms by a three year loan from The Hongkong and Shanghai Banking Corporation Limited.

Cash and investments were \$297.185 million at the end of June 2002 compared with \$290.028 million at the end of December 2001.

Dividends

A first interim dividend of 3 cents per share was declared by Directors on 13th June 2002 for payment on 19th July 2002.

The Directors on 23rd August 2002 declared a second interim dividend of 3 cents per share for the six months ended 30th June 2002 payable on 27th September 2002 to shareholders of record on 17th September 2002.

Business Review

Hong Kong Operations

The economy of Hong Kong has been in recession for several years. Consumer confidence is low in the current climate of uncertainty, exacerbated by corporate layoffs and paycuts.

Retail sales are, accordingly, depressed and the closure of many restaurants due to financial difficulties has reduced the size of the restaurant sector of the market, an important sector for our beer sales.

A number of mainland beer brands have gained a foothold in the economy beer segment, aided by the Government's inequitable beer tax system which favours imports.

Economy brands now account for approximately 25% of the beer market, reflecting the consumer trend to “trade down” in times of uncertainty as well as the impact of the beer tax.

Under these circumstances, there has been intense pricing competition and consequent pressure on profit margins.

Despite these difficulties, it is encouraging to report that the Company’s sales volume in the local market was marginally ahead of last year while exports recorded a healthy increase.

The Company maintained its market share in Hong Kong.

The targeted operating profit was exceeded, although the target was less than the previous year because of a higher rate of beer tax, and higher advertising and promotional expenditure. The cost of the higher beer tax has been absorbed by the Company without price increases to consumers.

South China Operations

Despite good growth in the economy in China in the first six months of 2002, there are increasing concerns of an economic slowdown.

Competition in the beer market is becoming more intense as both local and foreign producers continue to aggressively build their brands with heavy promotional support, including heavy price concessions to the trade.

The Company has suffered a loss of market share for brand San Miguel in Guangzhou City despite the brand performing well in most regional markets in South China.

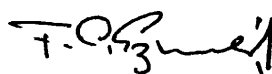
San Mig Light has been well received by our target audience and is experiencing strong sustained growth, well above targets.

Unfortunately sales of San Miguel Pale Pilsen have fallen significantly, reflecting a partial shift of San Miguel drinkers to the lighter product. While this is disappointing, the introduction of San Mig Light last year is considered to have been timely, as sales performance may well have been worse.

The Company is in the process of a major restructuring of its sales force and support systems in South China, a process which will require time to complete. The intensity of competition in China demands that the Company directly control its sales in more key markets through a sophisticated sales team and distribute only through professional intermediaries.

The Company expects to report a better performance for the second half of the year, although the full year result will be less than last year’s result. The challenges posed by competition in South China are being addressed and will be resolved in due time. Every avenue for improved profitability is being pursued.

Finally, I would like to thank the Board of Directors and all employees for their valuable contributions, and the continuing support from our shareholders.



Mr. Francisco C. Eizmendi, Jr., *Chairman*

23rd August 2002

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

INTERIM DIVIDENDS

A dividend of three cents per share was declared for the first interim of the year 2002. The Directors have declared a second interim dividend of three cents per share for the six months ended 30th June 2002 payable on Friday, 27th September 2002 to shareholders of record on Tuesday, 17th September 2002.

CLOSURE OF TRANSFER BOOKS AND REGISTER OF MEMBERS

The Transfer Books and Register of Members of the Company will be closed from Tuesday, 17th September 2002 to Wednesday, 18th September 2002, both days inclusive. To qualify for the dividend, shareholders should ensure that transfers are lodged at the Company's share registrars, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Monday, 16th September 2002.

INTERIM RESULTS

The interim results for the six months ended 30th June 2002 have not been audited by the Company's Auditors, but were reviewed by the Audit Committee on 19th August 2002.

DIRECTORS' INTERESTS

As at 30th June 2002, the Directors and their associates had the following beneficial interests in the issued share capital of the Company and its associated corporations as recorded in the register required under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

| <i>Number of ordinary shares of \$0.50 each in the Company</i> | | <i>Personal Interests</i> |
|--|---------|-------------------------------|
| <i>Name</i> | | |
| Francisco C. Eizmendi, Jr. | 2,816 | |
| David K.P. Li | 300,000 | |

Number of shares in San Miguel Corporation

| <i>Name</i> | <i>Personal Interests</i> |
|---|-------------------------------|
| <i>Class A (par value of 5 pesos each):</i> | |
| Francisco C. Eizmendi, Jr. | 298,768 |
| Ramon S. Ang | 6,050 |
| Faustino F. Galang | 161,242 |
| Estelito P. Mendoza | 31,972 |
| <i>Class B (par value of 5 pesos each):</i> | |
| Faustino F. Galang | 5,270 |

As at 30th June 2002, the Directors and their associates had the following beneficial interests in share options of the Company's associated corporation as recorded in the register required under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

| <i>Share Options in San Miguel Corporation</i> | | | | |
|--|------------------------------|-------------------------|-------------------------------------|-----------------------------------|
| <i>Name</i> | <i>Number of Options</i> | <i>Date Granted</i> | <i>Exercisable Period Up To</i> | <i>Exercise Price (pesos)</i> |
| <i>Class A (par value of 5 pesos each):</i> | | | | |
| Francisco C. Eizmendi, Jr. | 284,430 | 27/03/95 | 27/03/03 | 44.13 |
| | 32,805 | 10/04/96 | 10/04/04 | 35.18 |
| | 213,805 | 01/04/97 | 01/04/05 | 40.57 |
| | 294,531 | 26/03/98 | 26/03/06 | 34.71 |
| Freddy W.M. Kwan | 19,028 | 01/04/97 | 01/04/05 | 44.63 |
| | 53,722 | 26/03/98 | 26/03/06 | 38.18 |
| Faustino F. Galang | 68,015 | 27/03/95 | 27/03/03 | 44.13 |
| | 51,860 | 01/04/97 | 01/04/05 | 40.57 |
| | 49,703 | 26/03/98 | 26/03/06 | 34.71 |
| Thomas R. Mainwaring | 4,277 | 26/03/99 | 26/03/06 | 42.00 |
| | 4,277 | 26/03/00 | 26/03/06 | 42.00 |
| | 4,277 | 26/03/01 | 26/03/06 | 42.00 |
| <i>Class B (par value of 5 pesos each):</i> | | | | |
| Francisco C. Eizmendi, Jr. | 91,631 | 01/04/97 | 01/04/05 | 70.25 |
| | 126,227 | 26/03/98 | 26/03/06 | 49.83 |
| Freddy W.M. Kwan | 8,155 | 01/04/97 | 01/04/05 | 77.27 |
| | 23,024 | 26/03/98 | 26/03/06 | 54.82 |
| Faustino F. Galang | 22,226 | 01/04/97 | 01/04/05 | 70.25 |
| | 21,302 | 26/03/98 | 26/03/06 | 49.84 |
| Thomas R. Mainwaring | 1,833 | 26/03/99 | 26/03/06 | 60.30 |
| | 1,833 | 26/03/00 | 26/03/06 | 60.30 |
| | 1,833 | 26/03/01 | 26/03/06 | 60.30 |

No consideration has been received by San Miguel Corporation for the options granted.

Save as disclosed herein, none of the Directors or their associates had any interests in the issued share capital or in share options of the Company or any of its associated corporations.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June 2002 according to the register required under Section 16(1) of the SDI Ordinance, the Company was notified that the following shareholders had an interest of 10% or more of its issued share capital:

| <i>Name</i> | <i>Number of shares of \$0.50 each</i> | |
|------------------------------|--|--|
| | <i>Ordinary shares held</i> | <i>Percentage of total issued shares</i> |
| Neptunia Corporation Limited | 245,720,800 | 65.78% |
| HKSCC Nominees Limited | 71,014,864 | 19.15% |

Note:

San Miguel Corporation ("SMC"), San Miguel International Limited ("SMIL"), San Miguel Holdings Limited ("SMHL") and San Miguel Brewing International Limited ("SMBIL") are all deemed to hold the above disclosed interest of Neptunia Corporation Limited in the Company because SMC has a controlling interest in SMIL, SMIL has a controlling interest in SMHL, SMHL has a controlling interest in SMBIL and SMBIL has a controlling interest in Neptunia Corporation Limited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed shares.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors are aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

In accordance with the Code of Best Practice, the Board of Directors established an Audit Committee on 1st January 1999 to review and supervise the Company's financial reporting and internal control systems. The Audit Committee now consists of three of the Company's independent non-executive directors.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS – UNAUDITED

for the six months ended 30th June, in dollar thousands except per share data

| | Note | Six months ended 30th June | | Year ended 31st December |
|---|-------|-------------------------------|-----------|-----------------------------|
| | | 2002 | 2001 | 2001 |
| Gross turnover | 2 | 640,749 | 653,476 | 1,376,423 |
| Discounts | | (126,386) | (128,863) | (252,127) |
| Cost of sales | | (193,857) | (194,139) | (405,681) |
| Beer duty and taxes | | (87,919) | (88,012) | (184,594) |
| Gross profit | | 232,587 | 242,462 | 534,021 |
| Distribution costs | | (23,015) | (21,910) | (50,572) |
| Selling and administrative expenses | | (192,719) | (177,208) | (366,080) |
| Other operating expenses | | (6,124) | (6,180) | (15,582) |
| Profit from operations | 3 | 10,729 | 37,164 | 101,787 |
| Financing costs | | (3,953) | (15,052) | (23,427) |
| Other net income | | 1,536 | 14,233 | 17,174 |
| Profit before taxation | | 8,312 | 36,345 | 95,534 |
| Taxation | 4a | 1,443 | (2,196) | (5,131) |
| Profit after taxation | | 9,755 | 34,149 | 90,403 |
| Minority interests | | 3,379 | 888 | (1,669) |
| Profit attributable to shareholders | 5, 12 | 13,134 | 35,037 | 88,734 |
| Dividends attributable to the interim period/year | 6 | | | |
| Special dividend declared during the interim period | | – | (100,864) | (100,864) |
| First interim dividend declared during the interim period | | (11,207) | (14,943) | (14,943) |
| Second interim dividend declared after the interim period end | | (11,207) | (14,943) | (14,943) |
| Third interim dividend declared after the interim period end | | – | – | (14,943) |
| Final dividend proposed after the year end | | – | – | (14,943) |
| | | (22,414) | (130,750) | (160,636) |
| Earnings per share | 7 | \$0.04 | \$0.09 | \$0.24 |

The Notes on pages 11 to 16 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

for six months ended 30th June, in dollar thousands

| | | Six months ended 30th June | | Year ended 31st December |
|---|------|-------------------------------|---------------|-----------------------------|
| | Note | 2002 | 2001 | 2001 |
| Exchange difference arising on translation of accounts of foreign entities | 12 | <u>94</u> | <u>(116)</u> | <u>(96)</u> |
| Gains/(losses) not recognised in the Consolidated Statement of Profit and Loss | | 94 | (116) | (96) |
| Net profit for the period/year | 12 | <u>13,134</u> | <u>35,037</u> | <u>88,734</u> |
| Total recognised gains and losses | | <u>13,228</u> | <u>34,921</u> | <u>88,638</u> |

The Notes on pages 11 to 16 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET – UNAUDITED

as at 30th June, in dollar thousands

| | Note | As at 30th June 2002 | As at 31st December 2001 |
|---|------|-------------------------|-----------------------------|
| Non-current assets | | | |
| Fixed assets | 8 | 2,121,096 | 2,156,190 |
| Held to maturity securities – unlisted | | 49,303 | 48,584 |
| Other assets | | 7,543 | 7,540 |
| | | 2,177,942 | 2,212,314 |
| Current assets | | | |
| Inventories | 9 | 91,039 | 95,503 |
| Trade and other receivables | 10 | 199,404 | 174,767 |
| Amounts due from holding company and fellow subsidiaries | | 18,603 | 13,729 |
| Cash and cash equivalents | 11 | 247,882 | 241,444 |
| | | 556,928 | 525,443 |
| Current liabilities | | | |
| Banks loans and advances (unsecured) | | (78,042) | (78,002) |
| Trade and other payables | 10 | (142,103) | (142,057) |
| Taxation | 4b | – | (278) |
| Amounts due to holding company and fellow subsidiaries | | (11,316) | (12,325) |
| Dividend payable | | (11,207) | – |
| | | (242,668) | (232,662) |
| Net current assets | | 314,260 | 292,781 |
| Total assets less current liabilities | | 2,492,202 | 2,505,095 |
| Non-current liabilities | | | |
| Interest-bearing liabilities (unsecured) | | (195,000) | (195,005) |
| Leased factory maintenance provision | | (37,930) | (35,874) |
| Deferred taxation | | (7,334) | (6,026) |
| | | (240,264) | (236,905) |
| Minority interests | | (103,021) | (106,351) |
| NET ASSETS | | 2,148,917 | 2,161,839 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 186,785 | 186,785 |
| Reserves | 12 | 1,962,132 | 1,975,054 |
| | | 2,148,917 | 2,161,839 |

The Notes on pages 11 to 16 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

for six months ended 30th June, in dollar thousands

| | Note | Six months ended 30th June | | Year ended 31st December |
|--|------|-------------------------------|-----------|-----------------------------|
| | | 2002 | 2001 | 2001 |
| Operating activities | | | | |
| Profit before taxation | | 8,312 | 36,345 | 95,534 |
| Adjustments for: | | | | |
| Depreciation of fixed assets | | 40,389 | 39,500 | 79,132 |
| Interest expense | | 3,890 | 14,864 | 23,340 |
| Interest income | | (2,552) | (9,691) | (12,807) |
| Loss/(profit) on disposal of fixed assets | | 286 | (453) | 200 |
| Exchange difference | | (130) | (20) | (37) |
| Operating profit before changes in working capital | | 50,195 | 80,545 | 185,362 |
| Increase in products in hand and in process | | (1,186) | (11,201) | (7,497) |
| Decrease in materials and supplies | | 5,650 | 5,629 | 5,238 |
| (Increase)/decrease in trade and other receivables | | (16,919) | (16,467) | 168 |
| (Increase)/decrease in amounts due from holding company and fellow subsidiaries | | (5,883) | 50,338 | 48,162 |
| Increase in trade and other payables | | 954 | 23,800 | 6,268 |
| Increase in leased factory maintenance provision | | 2,057 | 2,021 | 4,064 |
| Cash generated from operations | | 34,868 | 134,665 | 241,765 |
| Tax paid | | | | |
| Hong Kong profits tax refunded | | – | 972 | 972 |
| Overseas tax paid | | (5,344) | (883) | (1,985) |
| Net cash from operating activities | | 29,524 | 134,754 | 240,752 |
| Investing activities | | | | |
| Purchase of fixed assets | | (5,263) | (11,839) | (25,161) |
| Proceeds on disposal of fixed assets | | 25 | 4,253 | 3,539 |
| Purchase of held to maturity securities | | (2) | (18,846) | (28,272) |
| Decrease/(increase) in bank deposits maturing in more than three months | | 12,280 | – | (26,616) |
| Proceeds on disposal of held to maturity securities | | 2 | – | – |
| Interest received | | 1,952 | 9,744 | 12,198 |
| Net cash used in investing activities | | 8,994 | (16,688) | (64,312) |
| Financing activities | | | | |
| Proceeds from new bank loan | | 195,000 | – | – |
| Repayment of bank loans | | (195,097) | (194,992) | (195,005) |
| Interest paid | | (4,799) | (14,722) | (23,998) |
| Dividends paid | | (14,943) | (115,807) | (160,636) |
| Dividends paid to minority shareholders | | – | (565) | (773) |
| Net cash used in financing activities | | (19,839) | (326,086) | (380,412) |

CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED (CONTINUED)

for six months ended 30th June, in dollar thousands

| | <i>Note</i> | Six months ended 30th June | | Year ended 31st December |
|--|--------------|-------------------------------|-----------|-----------------------------|
| | | 2002 | 2001 | 2001 |
| Net increase/(decrease) in cash and cash equivalents | | 18,679 | (208,020) | (203,972) |
| Effect of foreign exchange rate changes | | 27 | (42) | (36) |
| Cash and cash equivalents at beginning of period/year | | 214,828 | 418,836 | 418,836 |
| Cash and cash equivalents at end of period/year | | 233,534 | 210,774 | 214,828 |
| Analysis of the balances of cash and cash equivalents | | | | |
| Cash at bank and in hand | <i>11(a)</i> | 67,048 | 53,980 | 55,090 |
| Deposits with banks maturing within three months | <i>11(b)</i> | 166,486 | 156,794 | 159,738 |
| Cash and cash equivalents | | 233,534 | 210,774 | 214,828 |

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

This interim financial report is unaudited and has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The financial information relating to the financial year ended 31st December 2001 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2001 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 7th March 2002.

The same accounting policies adopted in the 2001 financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 financial statements.

2. Segment Reporting

in dollar thousands

Segment information is presented in respect of the Group’s geographical segments. Information relating to geographical segments based on the location of assets is chosen because this is more relevant to the Group in making operating and financial decisions.

Segment revenue from external customers is not further analysed by the geographical location of customers as the segment revenue based on location of customers is almost entirely the same as the segment revenue based on location of assets.

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 | | | Consolidated | | |
|---|------------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|
| | Six month ended 30th June | Year ended 31st December | Year ended 31st December | Six month ended 30th June | Year ended 31st December | Year ended 31st December | Six month ended 30th June | Year ended 31st December | Year ended 31st December |
| | 2002 | 2001 | 2001 | 2002 | 2001 | 2001 | 2002 | 2001 | 2001 |
| Revenue from external customers | 381,601 | 372,970 | 777,266 | 259,148 | 280,506 | 599,157 | 640,749 | 653,476 | 1,376,423 |
| Other revenue | 2,482 | 2,077 | 4,111 | - | - | - | 2,482 | 2,077 | 4,111 |
| Total revenue | 384,083 | 375,047 | 781,377 | 259,148 | 280,506 | 599,157 | 643,231 | 655,553 | 1,380,534 |
| Segment result | 16,762 | 27,385 | 70,362 | (7,049) | 14,320 | 35,792 | 9,713 | 41,705 | 106,154 |
| Unallocated operating income and expenses | | | | | | | 2,552 | 9,691 | 12,807 |
| | | | | | | | 12,265 | 51,396 | 118,961 |
| Financing costs | | | | | | | (3,953) | (15,052) | (23,427) |
| Taxation | | | | | | | 1,443 | (2,196) | (5,131) |
| Minority interests | | | | | | | 3,379 | 889 | (1,669) |
| Profit attributable to shareholders | | | | | | | 13,134 | 35,037 | 88,734 |

3. Profit before taxation

in dollar thousands

| | Group | | Group |
|--|-----------------------------------|---------|---------------------------------|
| | Six months ended 30th June | | Year ended 31st December |
| | 2002 | 2001 | 2001 |
| Profit before taxation is stated after charging/ (crediting) the following items: | | | |
| Depreciation of fixed assets | 40,389 | 39,500 | 79,132 |
| Interest expenses | 3,890 | 14,864 | 23,340 |
| Inventory costs | 190,058 | 159,537 | 396,242 |
| Interest income | (2,552) | (9,691) | (12,807) |
| Loss/(profit) on disposal of fixed assets | 286 | (453) | 200 |

4. Taxation

in dollar thousands

(a) Taxation in the Consolidated Statement of Profit and Loss is made up as follows:

| | Group | | Group |
|-------------------|-----------------------------------|-------|---------------------------------|
| | Six months ended 30th June | | Year ended 31st December |
| | 2002 | 2001 | 2001 |
| Overseas taxation | (1,443) | 2,196 | 2,210 |
| Deferred taxation | – | – | 2,921 |
| | (1,443) | 2,196 | 5,131 |

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

Overseas taxation is calculated at the appropriate tax rates on the estimated overseas profits for the period/year.

(b) Taxation in the Consolidated Balance Sheet is made up as follows:

| | Group | |
|---|------------------------|----------------------------|
| | As at 30th June | As at 31st December |
| | 2002 | 2001 |
| Balance of provision for overseas profits tax | – | 278 |

5. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$17,388,000 (2001: \$35,263,000) which has been dealt with in the financial statements of the Company.

6. Dividends

in dollar thousands

(a) Dividends attributable to the interim period/year

| | Group | | Group |
|--|-------------------------------|---------|-----------------------------|
| | Six months ended 30th June | 2001 | Year ended 31st December |
| | 2002 | 2001 | 2001 |
| Special dividend declared of nil per share (2001: \$0.27 per share) | – | 100,864 | 100,864 |
| First interim dividend declared of \$0.03 per share (2001: \$0.04 per share) | 11,207 | 14,943 | 14,943 |
| Total dividends declared during the interim period (note 12) | 11,207 | 115,807 | 115,807 |
| Second interim dividend declared after the interim period end of \$0.03 per share (2001: \$0.04 per share) | 11,207 | 14,943 | 14,943 |
| Third interim dividend to be declared (2001: \$0.04 per share) | – | – | 14,943 |
| Final dividend to be proposed after balance sheet date (2001: \$0.04 per share) | – | – | 14,943 |
| | 22,414 | 130,750 | 160,636 |

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

The final dividend proposed and approved after the year end has not been recognised as a liability at the year end date.

(b) Dividends attributable to the previous year, approved and paid during the interim period/year

| | Group | | Group |
|--|-------------------------------|--------|-----------------------------|
| | Six months ended 30th June | 2001 | Year ended 31st December |
| | 2002 | 2001 | 2001 |
| Final dividend in respect of the previous year, approved and paid during the interim period/year, of \$0.04 per share (2001: \$0.04 per share) (note 12) | 14,943 | 14,943 | 14,943 |

7. Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders for the period ended 30th June of \$13,134,000 (2001: \$35,037,000) and on 373,570,560 ordinary shares (2001: 373,570,560 ordinary shares), being the weighted average number of shares in issue during the period.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods.

8. Fixed assets
in dollar thousands

| | Group Plant, property and equipment |
|----------------------|--|
| | Six months ended 30th June |
| | 2002 |
| At 1st January 2002 | 2,156,190 |
| Additions | 5,263 |
| Disposals | (312) |
| Exchange adjustments | 344 |
| Depreciation | (40,389) |
| At 30th June 2002 | 2,121,096 |

9. Inventories
in dollar thousands

| | Group | |
|---------------------------------|----------------------------|------------------------|
| | As at 30th June | As at 31st December |
| | 2002 | 2001 |
| Products in hand and in process | 23,703 | 22,517 |
| Materials and supplies | 67,336 | 72,986 |
| | 91,039 | 95,503 |

10. Trade receivables and payables – ageing analysis
in dollar thousands

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

The ageing of trade receivables is as follows:

| | Group | |
|-------------------|----------------------------|------------------------|
| | As at 30th June | As at 31st December |
| | 2002 | 2001 |
| Less than 30 days | 81,663 | 73,615 |
| 31 to 60 days | 42,718 | 34,332 |
| 61 to 90 days | 12,256 | 14,607 |
| over 90 days | 20,274 | 22,216 |
| | 156,911 | 144,770 |

The ageing of trade payables is as follows:

| | Group | |
|-------------------|----------------------------|------------------------|
| | As at 30th June | As at 31st December |
| | 2002 | 2001 |
| Less than 30 days | 25,981 | 44,875 |
| 31 to 60 days | 8,509 | 9,881 |
| 61 to 90 days | 2,115 | 3,455 |
| over 90 days | 1,770 | 1,778 |
| | 38,375 | 59,989 |

11. Cash and cash equivalents

in dollar thousands

(a) Cash and cash equivalents comprise:

| | Group | |
|--------------------------|----------------------------|--------------------------------|
| | As at 30th June 2002 | As at 31st December 2001 |
| Deposits with banks | 180,834 | 186,354 |
| Cash at bank and in hand | 67,048 | 55,090 |
| | 247,882 | 241,444 |

(b) At 30th June 2002, the deposits with banks were placed to mature as follows:

| | Group | |
|----------------------------------|----------------------------|--------------------------------|
| | As at 30th June 2002 | As at 31st December 2001 |
| Within 3 months | 166,486 | 159,738 |
| After 3 months but within 1 year | 14,348 | 26,616 |
| | 180,834 | 186,354 |

12. Reserves

in dollar thousands

| | Total | Share premium | Capital reserve | Exchange fluctuation reserve | Revenue reserve |
|---|------------------|------------------|--------------------|------------------------------------|--------------------|
| Balance at 1st January 2001 | 2,047,052 | 65,739 | 57,312 | (4,824) | 1,928,825 |
| Dividends approved in respect of the previous year (<i>note 6(b)</i>) | (14,943) | – | – | – | (14,943) |
| Profit for the period | 35,037 | – | – | – | 35,037 |
| Dividends declared in respect of the current period (<i>note 6(a)</i>) | (115,807) | – | – | – | (115,807) |
| Exchange loss arising on consolidation | (116) | – | – | (116) | – |
| Balance at 30th June 2001 | 1,951,223 | 65,739 | 57,312 | (4,940) | 1,833,112 |
| Balance at 1st January 2002 | 1,975,054 | 65,739 | 57,312 | (4,920) | 1,856,923 |
| Dividends approved in respect of the previous year (<i>note 6(b)</i>) | (14,943) | – | – | – | (14,943) |
| Profit for the period | 13,134 | – | – | – | 13,134 |
| Dividends declared in respect of the current period (<i>note 6(a)</i>) | (11,207) | – | – | – | (11,207) |
| Exchange gain arising on consolidation | 94 | – | – | 94 | – |
| Balance at 30th June 2002 | 1,962,132 | 65,739 | 57,312 | (4,826) | 1,843,907 |

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

The exchange fluctuation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for translation of foreign currencies.

The capital reserve of the Group represents the reserve arising from the capitalisation of retained profits of a PRC subsidiary.

13. Material related party transactions

The Group purchased and sold products and materials from and to companies that either had a controlling interest in the Group or were also subsidiaries of the ultimate holding company. These transactions were carried out under the same terms as the related parties trade with other customers. For six months ended 30th June 2002, total purchases from and sales to these related parties were \$34,530,000 (\$43,265,000 for six months ended 30th June 2001) and \$21,206,000 (\$16,765,000 for six months ended 30th June 2001) respectively. The net amount due to these related parties amounted to \$7,286,000 (\$772,000 as at 30th June 2001) on 30th June 2002.

14. Commitments

in dollar thousands

The aggregate amount of commitments for capital expenditure, for which no provision has been made in the financial statements, totalled approximately:

| | Group | |
|--|-------------------------------------|--------------------------------|
| | As at 30th June 2002 | As at 31st December 2001 |
| Contracted for | 1,115 | 2,482 |
| Authorised by the directors but not contracted for | 22,545 | 4,529 |
| | 23,660 | 7,011 |

15. Contingent liabilities

in dollar thousands

In accordance with a subsidiary company's factory lease agreement, except for certain specified reasons, the subsidiary company is required to pay the lessor a penalty of \$10.58 million (adjusted for exchange differences) if the agreement is terminated before 28th February 2021, the expiry date of the lease.

As at 30th June 2002, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to subsidiary companies.

| | Company | |
|---------------------|-------------------------------------|--------------------------------|
| | As at 30th June 2002 | As at 31st December 2001 |
| Guarantees to banks | 78,042 | 273,007 |



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