

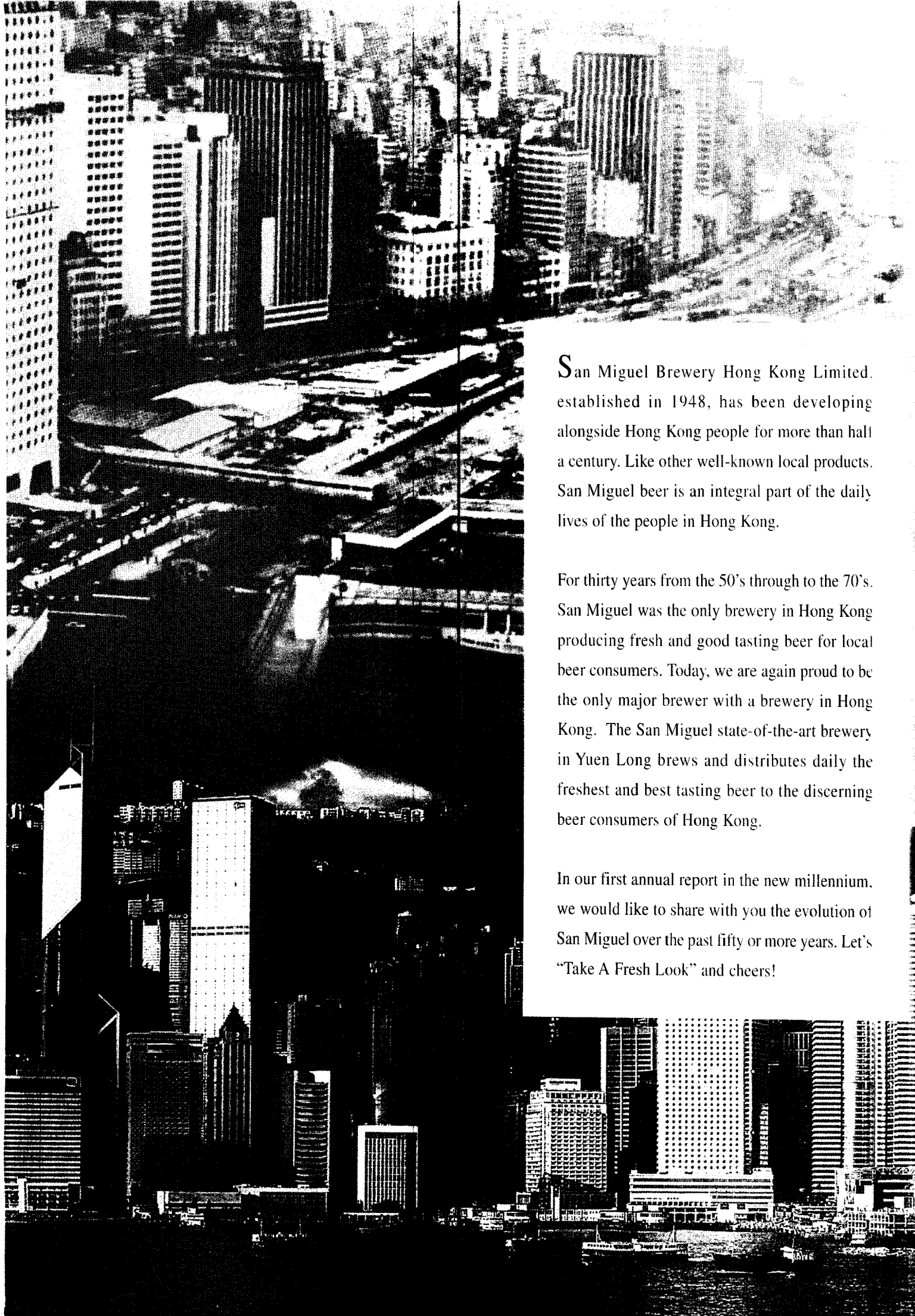


SAN MIGUEL BREWERY
HONG KONG LTD.

香港生力啤酒廠有限公司



ANNUAL REPORT 1999
一九九九年年報



San Miguel Brewery Hong Kong Limited, established in 1948, has been developing alongside Hong Kong people for more than half a century. Like other well-known local products, San Miguel beer is an integral part of the daily lives of the people in Hong Kong.

For thirty years from the 50's through to the 70's, San Miguel was the only brewery in Hong Kong producing fresh and good tasting beer for local beer consumers. Today, we are again proud to be the only major brewer with a brewery in Hong Kong. The San Miguel state-of-the-art brewery in Yuen Long brews and distributes daily the freshest and best tasting beer to the discerning beer consumers of Hong Kong.

In our first annual report in the new millennium, we would like to share with you the evolution of San Miguel over the past fifty or more years. Let's "Take A Fresh Look" and cheers!



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



CORPORATE INFORMATION

DIRECTORS

Francisco C. Eizmendi, Jr. *Chairman*
John L. Dunwell *Managing Director*
Ramon S. Ang
Faustino F. Galang
Freddy W.M. Kwan
Alberto M. de Larrazabal
Arthur K.C. Li *alternate to David K.P. Li*
David K.P. Li, *O.B.E., J.P.**
Estelito P. Mendoza
Luis E. Poblete, Jr.*
Ian F. Wade*

** Independent Non-Executive Directors*

AUDIT COMMITTEE

David K.P. Li, *O.B.E., J.P.*
Luis E. Poblete, Jr.
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

Central Registration Hong Kong Limited
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

ABN-AMRO Bank
Bank of America
Bank of China
Banque Nationale de Paris
Credit Agricole Indosuez
Hang Seng Bank Limited
Standard Chartered Bank
The Bank of East Asia, Limited
The Hongkong and Shanghai
Banking Corporation Limited
The Dai-ichi Kangyo Bank, Limited



THE YEAR'S HIGHLIGHTS

in dollar thousands except per share data and number of shares issued, shareholders and personnel

	1999	1998
Gross turnover *	1,342,902	1,378,562
Profit attributable to shareholders	60,100	17,051
Earnings per share	0.16	0.05
Taxes paid, including beer tax	156,038	170,576
Taxes paid per share	0.42	0.46
Cash dividends	41,093	11,207
Cash dividends per share	0.11	0.03
Fixed assets	2,276,150	2,347,937
Net worth	2,182,640	2,163,024
Payroll	144,121	155,400
Number of shares issued	373,570,560	373,570,560
Number of shareholders	2,851	2,917
Number of personnel	1,345	1,601

* Gross turnover has been redefined for 1999 and the previous four years from 1995 to include discounts which had previously been deducted, that is gross turnover is the gross invoiced value of products sold before any discounts or allowances.



THE CHAIRMAN'S STATEMENT

To Our Shareholders,

I am very pleased to report that 1999 was a year of achievement for San Miguel Brewery Hong Kong Limited. This achievement is reflected in our strong year-end results and the sustained improvement in our Company's financial performance.

Financial Results

Profit attributable to shareholders of \$60.100 million was more than three and a half times the 1998 result of \$17.051 million. Earnings per share also increased at the same rate, from 4.6 cents in 1998 to 16.1 cents in 1999.

Our success this past year largely reflects the significantly improved performance of our Hong Kong operations. San Miguel Shunde Brewery Company Limited's profitability also improved in 1999, thus contributing to our gains. Guangzhou San Miguel Brewery Company Limited, however, experienced a difficult year, with profit dropping owing to lower sales volumes and significant non-recurring costs resulting from a staff redundancy programme and the introduction of B-bottles.

In view of our primary financial objective of increasing shareholder value, it is worth noting that the 1999 closing share price of \$1.29 was 43% higher than the 1998 closing share price of 90 cents. San Miguel Brewery Hong Kong Limited's current market capitalisation however, does not yet reflect the growing strength of its financial performance as the 1999 closing Price Earnings Ratio was 8.0 compared to 19.7 in 1998. Interim dividends paid during the year, together with a proposed final dividend represent an 8.5% yield on the 1999 closing share price.



THE CHAIRMAN'S STATEMENT

(Continued)

Consolidated sales turnover of \$1,342.902 million was marginally lower than the previous year, reflecting the combined results of a 3.9% increase in Hong Kong sales revenue, a 15.3% decline in export revenue and a 9.3% drop in revenue in South China.

Sales revenue was affected by lower volumes in South China compared to 1998 and by a shift in product mix in favour of our mid-priced brand Valor. Growth in this segment resulted in a reduction in the weighting of our premium priced brands.

However, the reduction in consolidated revenue was more than offset by a 5% reduction in variable production costs per hectolitre and savings of 8.4% in overhead costs. Combined with lower advertising and promotion costs, consolidated profit from operations increased 112% to \$83.737 million from \$39.409 million in 1998.

Tighter cost controls undertaken over the past two years have been effective as evidenced by the \$35 million reduction in overhead costs (this includes production overhead costs but excludes advertising and promotion). In addition, the notable efficiency of marketing expenditures, particularly for the Hong Kong market, has further improved the profitability of the Company. For more than two years now, the Company has achieved the highest rating of consumer impact per dollar of expenditure among all beer advertisers in Hong Kong.

Finance costs, which are primarily related to bank loans to the Company's operations at San Miguel Shunde Brewery Company Limited, registered a decline of \$13.662 million from the previous year. This was primarily due to a reduction in interest costs of \$13.613 million for Hong Kong operations as the Company did not have to utilise Hong Kong credit facilities.



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

Other income of \$11.987 million was 68% lower than 1998. This reflected the combined result of two factors, a charge of \$9.879 million for severance pay at Guangzhou San Miguel Brewery Company Limited and a reduction of \$16.383 million in earnings from bank deposits and investments. Interest income from cash deposits declined owing to the Company's decision not to utilise bank credit facilities in Hong Kong, and due to generally lower interest rates in 1999.

At the end of 1999, total debt was equivalent to 22% of shareholders funds. The parent company, San Miguel Brewery Hong Kong Limited, is currently debt free. The only significant loan within the Group is a US\$50 million (HK\$388.718 million) syndicated bank loan advanced to San Miguel Shunde Brewery Company Limited. The loan expires in two years.

The Group remains strongly cash positive with cash reserves of \$323.345 million at the end of 1999, an increase of \$120.542 million since the end of 1998. Cash reserves were equivalent to 87 cents per share, or 67% of market capitalisation at the end of 1999. From both a financial and an operational standpoint,



THE CHAIRMAN'S STATEMENT

(Continued)

we expect San Miguel Brewery Hong Kong Limited to maintain its strong performance and continue to grow, albeit at a modest pace, in the coming year.

Dividends

The Directors have recommended the payment of a fourth and final dividend for the year ended 31st December 1999 of 3 cents per share. Three interim dividends totalling 8 cents per share were paid during 1999. A final dividend of 3 cents per share will lift total dividends for 1999 to 11 cents per share, an increase of 8 cents per share (267%) over the 3 cents per share paid in 1998. The Company has resumed the practice of paying four dividends per year and expects to maintain this policy in 2000.

Business Review

The year 1999 was a challenging one for Hong Kong and South China. It was a year characterised by difficulties in these economies, although there were signs of modest recovery in the latter half of 1999. The beer markets in Hong Kong and South China remained highly competitive, with zero growth in Hong Kong and slower growth in South China.

Nevertheless, against this backdrop of slower growth and weak demand, the Company achieved volume, profit and cash flow targets set at the start of the year, reflecting the efforts and hard work of our employees in striving for successful enhancement of shareholder value.

Hong Kong Operations

The year's results were particularly gratifying for our business in the Hong Kong market where domestic sales volume was 4% higher than that of the previous



THE CHAIRMAN'S STATEMENT

(Continued)

year. This outstanding sales performance was achieved amidst weak retail consumption in a deflationary economy and heightened competition in a stagnant beer market. This year was a turning point for the Company as sales volume in Hong Kong grew for the first time since 1988, reversing a 10-year decline. Our flagship product San Miguel Pale Pilsen and other allied brands made modest gains in market share.

Sales initiatives implemented during the past two years to improve customer service have produced a strong and committed sales team with enhanced competency. In a recent customer satisfaction measurement survey, trade customers identified our sales team as one of the core strengths of our business.

The "Take a Fresh Look" marketing campaign, initiated at the end of 1997, further built upon its previous success to promote brand San Miguel Pale Pilsen. Major marketing activities in 1999 included the re-launch of San Miguel Dark Beer, sponsorship of the "San Miguel Dayo Wong Stand Up Comedy Show 99" and the latest series of "Take a Fresh Look" TV commercial featuring celebrities Tony Leung and Suqi. Our innovative TV commercial series clinched the special award for the "Most Outstanding TV Campaign" in the HKMA/TVB Award for Marketing Excellence 1999 organised by the Hong Kong Management Association and Television Broadcasts Limited. Independent market research indicates that our products and brands are increasingly well received by consumers across all age groups.

Following the closure of a competitor's brewery in May 1999, San Miguel is the only major brewer having a local brewery in Hong Kong able to produce and deliver the freshest and best tasting beer of consistently high quality required by discerning beer drinkers.

The price war in retail chains in 1999 initiated by the emergence of a newly established direct-delivery distributor with e-commerce sales and service elements intensified the price competition between various distribution channels. In response to this situation, we will continue to build on the good value for money that our beers offer by focusing on our superior fresh product quality and excellent customer services.

Regarding the issue of the proposed relaxation of control over parallel imports, the Company firmly supports the principle of "free trade" as advocated by the HKSAR Government. However, we believe that excessive and uncontrolled parallel imports devalue the legitimate owner's investment in trademarks and ultimately harm consumers in terms of both product value and guarantee of quality. To protect the interests of its customers and consumers, the Company will continue to take all necessary measures against parallel importers of San Miguel beers.

South China Operations

In 1999, the economy of Mainland China was relatively weak compared with previous years. GDP growth was estimated at 7.1%, the lowest figure since 1990. Unemployment rate was high as workers in distressed state companies were laid off pursuant to the current economic reforms. Consumer spending was soft, resulting in a deflationary pressure on beer and other consumer markets.

We continue to face particularly intense competition from local and foreign brands. While competition in the beer industry intensified, low-priced popular and mid-priced beer segments expanded, gaining ground at the expense of the premium beer segment.



THE CHAIRMAN'S STATEMENT

(Continued)

Domestic brewers have also made gains in the market. In addition to their original offerings of low-priced beer, a number of domestic brewers have successfully launched premium products. These premium products compete with San Miguel Pale Pilsen in high-volume restaurants using much higher trade margins. A number of foreign joint venture brewers, who formerly offered only premium beers, have launched low-priced brands in order to gain a wider consumer base and increased capacity utilisation of the breweries.

To satisfy the varying taste of consumers, the Company continues to develop products suited to different segments of the market and has been equally aggressive in pushing our medium and low-priced brands.

The implementation of the B-bottle regulations, an industry safety measure, resulted in one-off expenses and funding pressure for all brewers in China as new bottles were mandatorily required to replace the old. Moreover, the enforcement of B-bottle regulations has not been consistent for all brewers and has disadvantaged some companies, San Miguel among them, who have fully complied with regulations.

Amidst the difficult competitive environment as well as the pricing pressures and increased promotional spending on the part of competition, sales of the premium brand San Miguel Pale Pilsen in the South China market declined. The successful launch of San Miguel Pale Pilsen steinie bottles in selected cities, however, partially offset the decline. Beer in the steinie format is showing promising growth. In addition, continued growth of our mid-priced brand Valor significantly cushioned our total volume loss.

Guangzhou San Miguel Brewery Company Limited successfully implemented an efficiency programme in the effort to increase productivity and





THE CHAIRMAN'S STATEMENT

(Continued)

competitiveness. With the cooperation of the local shareholders and in consultation with government authorities, the Guangzhou San Miguel Brewery Company Limited retired 166 employees in 1999. The cost of this retirement programme in 1999 was nearly \$10 million. A further reduction of 100 employees is scheduled in the year 2000.

Sales volume of San Miguel Shunde Brewery Company Limited rose 16.6%. While sales of San Miguel brand in northern provinces fell sharply, sales of Valor, introduced in 1998, increased dramatically, offsetting volume declines in the San Miguel brand.

Dragon Beer, supplied under contract to the local shareholders, continues to be an important contributor to the profitability of San Miguel Shunde Brewery Company Limited at the operating level.

The economic slowdown and greater competition among brewers made the collection of accounts receivable particularly difficult. Efforts to ensure the prompt collection of accounts receivable from wholesalers and distributors in South China, however, have been largely successful.

Community Relations and Social Responsibility

As part of our continuing commitment to the localities in which we operate, the Company regularly sponsors community events and supports a number of charities and non-profit organisations.

San Miguel Brewery Hong Kong Limited recognises its responsibility in protecting the environment. Thus the Company meets and often exceeds the environmental protection standards set by the local government.

In 1999, we implemented "Five Star International Safety Standard", further refining our occupational health and safety management. We firmly believe that clean, safe, environmentally compliant facilities contribute favourably to our business results.

In respect of the issue of alcohol abuse, the Company believes that beer is a low-alcohol beverage to be consumed in moderation. We actively encourage a responsible drinking culture and urge consumers to avoid drink-driving.

Acknowledging consumer concerns about genetically modified foods, it is our policy to exclude genetically modified raw materials from our brewing process. Our suppliers are required to provide certification that their products are not genetically modified.

People

The Company continues to regard employees as its most valuable resource and believes that all employees should have competent support from their colleagues. This is particularly critical with regard to ensuring effective support at all times for our key sales groups. Training programmes are designed to support these ideals, as well as to develop the capabilities of staff to meet the future needs of the business.

The Company seeks to keep abreast of market trends in its remuneration policy, including competitive salary rates, fringe benefits, medical and insurance package coverage and retirement benefits.

Strongly promoted teamwork is one of our core values, and this has undoubtedly contributed to the improved Company performance. The resulting spirit of interdependence enables our employees to respect and to use each other's skills, and thus work together to



THE CHAIRMAN'S STATEMENT

(Continued)

achieve corporate objectives and targets. Managers regularly ensure that corporate directions and performance are communicated to all employees through various formal and informal channels, so that our people have an opportunity to understand clearly the Company's goals and achievements.

Year 2000 Direction

In the last two years, we said that we would stabilise market share and contain costs in the face of regional economic difficulties. We have since achieved these goals and are ready to move on to the next stage of profit recovery and sales-driven growth. Our objectives are to:

- continue to deliver profitable volume and cash flow to create long-term value for our shareholders;
- build upon our current success in Hong Kong through the continued development of a sales-driven culture supported by quality products, creative marketing and skilled support staff;
- complete the successful roll out of San Miguel Pale Pilsen steinie bottles in South China to strengthen the position of San Miguel as the leading premium brand;
- continue to strengthen Valor's presence in Guangzhou and Dongguan market;
- continue to develop a skilled sales force in South China and improve the wholesaler-distributor network;
- anticipate competition's strategies to be able to defend our business and exploit their vulnerabilities.

Directors and Senior Managers

During the year, Mr. Virgilio L. Peña resigned from the Board of Directors. We thank him for his many contributions to the Company during his term as a director. We also take this occasion to welcome Mr. Alberto M. de Larrazabal as our new director.

Mr. William H. Ottiger left the Company in July 1999 to pursue advanced business studies in the United Kingdom. We are grateful for his major contributions as General Manager — Marketing, and General Manager of Beer World Hong Kong Limited, particularly in developing and executing the successful "Take a Fresh Look" marketing campaign.

Subsequent to the departure of Mr. Ottiger, the San Miguel Greater China head office marketing group directed by Mr. Wilfredo E. Arcilla, Vice-President — Marketing, San Miguel Corporation Beer Division, has provided marketing support and services to the Group. Through his recent functional responsibilities for San Miguel's China and Hong Kong marketing operations, Mr. Arcilla brings significant local experience to our business.

I would like to take this opportunity to express my gratitude to my fellow directors for their wise counsel and guidance. A final word of thanks goes to our employees for their hard work and dedication to our goals and to you, our shareholders, for your continued support and the confidence you have so generously placed in us.

Mr. Francisco C. Eizmendi, Jr., Chairman
11th February 2000



REPORT OF THE DIRECTORS

To be presented at the Thirty-Seventh Annual General Meeting of shareholders to be held at the Holiday Inn Golden Mile Hong Kong, 50 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 31st March 2000 at 2:00 p.m.

The directors have pleasure in submitting their report and the audited statement of accounts for the financial year ended 31st December 1999.

Principal Activities

The principal activities of the Company and its subsidiaries continue to be the manufacture and distribution of bottled, canned and draught beers.

As the Group's turnover and profits are almost entirely attributable to these activities, no analysis by activity is provided.

An analysis of the geographical locations of trading operations of the Group during the financial year is given below:

	Gross Turnover	Profit Before Taxation
Hong Kong	58 %	104 %
The People's Republic of China	42 %	-4 %

Major Customers and Suppliers

For the financial year ended 31st December 1999 the percentages of the Group's turnover and purchases attributable to major customers and suppliers were as follows:

Gross turnover attributable to:	
Largest customer	8.1 %
Five largest customers	33.1 %
Purchases attributable to:	
Largest supplier	6.3 %
Five largest suppliers	18.7 %

As at 31st December 1999, none of the directors, their associates, or any shareholder (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the above major customers or suppliers.

Accounts

The profit and cash flows of the Group for the year ended 31st December 1999 and the state of affairs of the Company and the Group at that date are set out in the Accounts Section on pages 23 to 45 of this Annual Report.

Dividends

The first dividend of two cents per share, was paid on 19th July 1999 to shareholders of record on 7th July 1999. The second and third dividends, each of three cents, were paid on 29th October 1999 and 30th December 1999 to shareholders of record on 19th October 1999 and 22nd December 1999 respectively. The directors recommend the payment of a final dividend of three cents per share on Friday, 14th April 2000 to shareholders of record on Friday, 24th March 2000.

Reserves

Movements in the reserves of the Group and the Company during the financial year are set out in Note 20 to the accounts.

Charitable and Other Donations

The Group made donations for charitable and other purposes totalling \$241,745 (1998: \$296,396) during the financial year.

Fixed Assets

The Group spent \$17 million (1998: \$24 million) on fixed assets during the year. Particulars of the movements of fixed assets during the financial year are set out in Note 11 to the accounts.



REPORT OF THE DIRECTORS

(Continued)

Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 12 to the accounts.

Liquidity and Financial Resources

Working capital at the end of the year was \$425 million compared with \$325 million in 1998.

Cash and bank deposits at year end were \$323 million (1998: \$203 million) and are sufficient to fund working capital requirements and capital expenditure in 2000.

Bank Loans, Overdrafts and Other Borrowings

The Group has short term credit facilities of \$703 million (1998: \$572 million) of which \$93 million (1998: \$104 million) had been utilised as at 31st December 1999.

Long term loans at year end amounted to \$389 million (1998: \$388 million).

Total borrowings at year end for the Company were \$4 million (1998: \$9 million) and for the Group \$482 million (1998: \$492 million).

Particulars of bank loans, overdrafts and advances of the Company and the Group are set out in Note 16 to the accounts.

Directors

With the exception of Mr. Alberto M. de Larrazabal, the directors of the Company, whose names appear on page 16 of the Annual Report, were directors for the whole of the year.

Mr. Virgilio L. Peña resigned from the office of director during the year.

Messrs. Francisco C. Eizmendi, Jr., John L. Dunwell, Faustino F. Galang retire by rotation in accordance with Article 105 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. Alberto M. de Larrazabal, appointed to the board since the last Annual General Meeting, retires from the office of Director in accordance with Article 96 of the Company's Articles of Association, and offers himself for re-election at the forthcoming Annual General Meeting.

None of the directors proposed for re-election has a service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than normal statutory compensation.

Directors' Interests

As at 31st December 1999, 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"):

Name	Number of ordinary shares of \$0.50 each in the Company		
	Personal Interests	Corporate Interests	Total
Francisco C. Eizmendi, Jr.	2,816	—	2,816
David K.P. Li	300,000	—	300,000



REPORT OF THE DIRECTORS

(Continued)

Number of shares in San Miguel Corporation

Name	Personal Interests	Other Interests	Total
<i>Class A (par value of 5 pesos each):</i>			
Francisco C.			
Eizmendi, Jr.	278,257	—	278,257
Estelito P. Mendoza	19,038	3,998	23,036
Faustino F. Galang	146,585	—	146,585
<i>Class B (par value of 5 pesos each):</i>			
Faustino F. Galang	4,791	—	4,791

As at 31st December 1999, the directors and their associates had the following beneficial interests in share options 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”):—

Share Options in San Miguel Corporation

Name	Number of Options	Date Granted	Exercisable Period Up To	Exercise Price (pesos)
<i>Class A (par value of 5 pesos each):</i>				
Francisco C.				
Eizmendi, Jr.	266,736	24/02/94	24/02/02	40.74
	258,573	27/03/95	27/03/03	48.55
	29,823	10/04/96	10/04/04	38.69
	194,368	01/04/97	01/04/05	44.63
	267,756	26/03/98	26/03/06	38.18
John L. Dunwell	29,049	26/03/98	26/03/06	42.00
Faustino F. Galang	61,832	27/03/95	27/03/03	48.55
	47,145	01/04/97	01/04/05	44.63
	45,184	26/03/98	26/03/06	38.18
Freddy W.M. Kwan	19,028	01/04/97	01/04/05	44.63
	53,722	26/03/98	26/03/06	38.18
Alberto M. de				
Larrazabal	21,731	27/03/95	27/03/03	48.55
	34,068	10/04/96	10/04/04	38.69
	20,370	01/04/97	01/04/05	44.63
	31,385	26/03/98	26/03/06	38.18

Share Options in San Miguel Corporation

Name	Number of Options	Date Granted	Exercisable Period Up To	Exercise Price (pesos)
<i>Class B (par value of 5 pesos each):</i>				
Francisco C.				
Eizmendi, Jr.	83,301	01/04/97	01/04/05	77.27
	114,752	26/03/98	26/03/06	54.82
John L. Dunwell	12,449	26/03/98	26/03/06	60.30
Faustino F. Galang	20,206	01/04/97	01/04/05	77.27
	19,365	26/03/98	26/03/06	54.82
Freddy W.M. Kwan	8,155	01/04/97	01/04/05	77.27
	23,024	26/03/98	26/03/06	54.82
Alberto M. de				
Larrazabal	8,721	01/04/97	01/04/05	77.27
	13,451	26/03/98	26/03/06	54.82

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 31st December 1999 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:—

Name	Number of shares of \$0.50 each	
	Ordinary Shares held	Percentage of total issued shares
Neptunia Corporation		
Limited	245,720,800	65.78%
HKSCC Nominees		
Limited	72,505,491	19.41%



REPORT OF THE DIRECTORS

(Continued)

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 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.

Directors' Interests in Contracts

Pursuant to an Agreement dated 12th June 1963, Neptunia Corporation Limited provides technical and advisory services to the Company and may be paid a General Managers' Commission. Messrs. Francisco C. Eizmendi, Jr., Ramon S. Ang, Faustino F. Galang, Estelito P. Mendoza are interested parties to this contract to the extent that they either have equity interests in or are directors of San Miguel Corporation, the ultimate holding company of Neptunia Corporation Limited.

Save as disclosed above, during the financial year and at the end of the year, no director of the Company has had a material interest in any significant contract to which the Company or any related company (the holding company, subsidiaries or fellow subsidiaries) was also a party.

Code of Best Practice

Throughout 1999 the Company has complied with paragraphs 1 to 13 of the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

Retirement and Pension Plans, Personnel and Payroll

The Company and its subsidiaries in Hong Kong have sponsored a non-contributory defined benefit scheme (The San Miguel Brewery Hong Kong Limited Retirement Fund), covering local permanent employees, which was registered in September 1995 under the Occupational Retirement Schemes Ordinance. The retirement scheme is formally established under trust and the assets are separately held in an independently administered fund. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit scheme are made in accordance with the recommendations of independent actuaries who value the retirement scheme at regular intervals, usually triennially, and are charged to the Consolidated Statement of Profit and Loss.

Employees in the subsidiaries in the People's Republic of China are members of the Central Pension Scheme operated by the Chinese Government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Company with respect to the Central Pension Scheme is the associated required contribution under the Central Pension Scheme.

A formal actuarial assessment of the Hong Kong staff retirement fund was carried out for 31st August 1999 and the results were as follows:

- (A) The actuary of the fund is Mr. A. Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the aggregate cost valuation



REPORT OF THE DIRECTORS

(Continued)

method was used. Other major assumptions used in the valuation were: Investment return 9% per annum; Salary escalation 7% per annum; Mortality Rates 1991 Hong Kong Life Tables; Normal retirement age 60; Early retirement rates allowed between ages 55 to 60.

- (B) The market value of the fund assets was \$89,039,000 as at 31st August 1999.
- (C) The minimum level of funding as recommended by the fund actuary was 9.3% of salary.
- (D) The solvency basis funding surplus was \$1,512,000 as at 31st August 1999.

The unaudited market value of fund investments as of 31st December 1999 was \$106,185,000.

Particulars of the number of personnel and payroll expenses of the Group are set out on page 3 of this Annual Report.

Year 2000 Compliance of Computing Systems

The Company has defined a Year 2000 compliant system to be one that should perform, function and manage data involving dates, without being abnormally affected by dates spanning the period to, during and after the Year 2000. It has also carefully evaluated the risks and uncertainties associated with non compliance.

The Company considers its operations including those of its subsidiaries to be 100% compliant.

As at the end of January 2000, the Company has not experienced any circumstance of interference or disruption associated with computer software or hardware systems in any of its facilities or in any of its dealings with suppliers and customers.

Nevertheless, the Company continues to maintain a state of alert to deal with any related problems which might still arise. The 28th and 29th of February 2000, for example, are high risk days for non compliant systems.

The total cost of achieving Year 2000 compliance has been approximately \$3 million, most of which has been capital expenditure and will be amortised over several years.

Purchase, Sale or Redemption of the Company's Listed Shares

During the financial year ended 31st December 1999, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed shares.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 47 of this Annual Report.

Auditors

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

FRANCISCO C. EIZMENDI, JR., *Chairman*
11th February 2000



DIRECTORS AND MANAGEMENT EXECUTIVES

Directors

Francisco C. Eizmendi, Jr. *Chairman*

John L. Dunwell *Managing Director*

Ramon S. Ang

Faustino F. Galang

Freddy W. M. Kwan

Alberto M. de Larrazabal

Arthur K. C. Li *Alternate to David K. P. Li*

David K. P. Li, *O.B.E., J.P. Independent Non-Executive Director*

Estelito P. Mendoza

Luis E. Poblete, Jr. *Independent Non-Executive Director*

Ian F. Wade *Independent Non-Executive Director*

The details of the Directors are as follows:

Mr. Francisco C. EIZMENDI, Jr., *B.S. ChE., Ph.D. (Hon.)*, aged 63, appointed director on 20th September 1984, is Chairman of the Company. Mr. Eizmendi is also President and Chief Operating Officer of San Miguel Corporation in addition to holding directorships in a number of its affiliated companies in the Philippines and abroad. Other interests include active memberships with the Management Association of the Philippines, the Harvard Business School Association of the Philippines and the International Management Institute, Philippine Chapter.

Mr. John L. DUNWELL, *B.Sc., Dip.(Biochem Eng.), F.Inst.B.*, aged 60, was appointed Managing Director on 20th October 1997. He is also a director of various subsidiaries of the Company. Prior to joining the Company, Mr. Dunwell was Vice-President, Affiliates/Licensees, Asia-Pacific of San Miguel Brewing International Limited. Mr. Dunwell has had over 40 years broad experience in the brewing industry in the United Kingdom, Europe and the Americas, including senior appointments with Allied Domecq plc. and John Labatt Ltd.

Mr. Ramon S. ANG, *B.S.M.E.*, aged 45, was appointed on 27th November 1998. Mr. Ang is Vice Chairman and Director of San Miguel Corporation as well as Special Assistant to the Chairman and Chief Executive Officer of San Miguel Corporation.

Mr. Faustino F. GALANG, *B.Sc. (Com.), B.A. (So. Sc.), M.B.E.*, aged 53, appointed on 22nd March 1991, is President of San Miguel Beer Division and a director of San Miguel Corporation. He is also a director of Neptunia Corporation Limited, a substantial shareholder of the Company.

Mr. Freddy W. M. KWAN, *B.Com. (Hons.)*, aged 51, appointed on 8th April 1997, is also a director of various subsidiaries of the Company. Mr. Kwan is the Executive Vice-President, Greater China Operations of San Miguel Brewing International Limited.

Mr. Alberto M. de LARRAZABAL, *B.S.I.M.E.*, aged 44, appointed on 3rd December 1999, is Senior Vice-President and Chief Finance Officer of San Miguel Corporation. He also holds various directorship positions in a number of San Miguel affiliated companies in the Philippines and abroad.

Prof. Arthur K. C. LI, *M.A., M.D., B.Chir. (Cantab), D.Sc. (Hon.), D.Litt. (Hon.), F.R.C.S. (Ed.), F.R.A.C.S., F.A.C.S., Hon. F.P.C.S., Hon. F.R.C.S. (Glasg), Hon. F.R.S.M., Hon. F.R.C.S. (I)*, aged 54, appointed Alternate Director to Dr. David K. P. Li on 22nd November 1991, is the Vice Chancellor at the Chinese University of Hong Kong. He is also a director of the Shatin International Medical Centre Union Hospital, non-executive director of The Bank of East Asia, Limited, China Telecom (Hong Kong) Ltd. and Glaxo-Wellcome plc. and non-executive chairman of the Board of Regal Hotel Group plc.



DIRECTORS AND MANAGEMENT EXECUTIVES

(Continued)

Dr. The Hon. David K. P. LI, *O.B.E., M.A., Hon. L.L.D. (Cantab), F.C.A., F.H.K.S.A., F.C.I.B., F.B.C.S., F.C.I. Arb., J.P.*, aged 60, appointed on 22nd March 1991, is an Independent Non-Executive Director of the Company. Dr. Li is also the Chairman and Chief Executive of The Bank of East Asia, Limited and an elected member of the Legislative Council. Other directorships include China Overseas Land & Investment Limited, Dow Jones & Company, Inc., The Hong Kong & China Gas Co. Limited and a number of other publicly listed and private companies in Hong Kong. Dr. Li holds memberships with various banking and advisory committees in Hong Kong. He served as a Hong Kong Affairs Advisor to The People's Republic of China and was a Member of the Preparatory Committee for The Hong Kong Special Administrative Region.

Estelito P. MENDOZA, *A.A., L.L.B. (U.P.), L.L.M. (Harvard)*, aged 69, appointed on 27th November 1998, is also a member of the Board of Directors of San Miguel Corporation. He had held various positions in the Government of the Philippines including Solicitor General and Minister of Justice. Mr. Mendoza has also been a Professorial Lecturer of the College of Law, University of the Philippines and taught public and private law. He is presently engaged in the private practice of law.

Luis E. POBLETE, Jr., *B.S.M.E.*, aged 38, appointed on 27th November 1998, is an Independent Non-Executive Director of the Company. Mr. Poblete is Vice-President of Poblete Realty Development Corporation and Mega Expo Trading Corporation in the Philippines. Other activities have included representing the Philippines in various international and foreign affairs.

Mr. Ian F. WADE, aged 59, appointed on 25th March 1994, is an Independent Non-Executive Director of the Company. Mr. Wade is the Group Managing Director of A.S. Watson Co. Ltd., a wholly owned subsidiary of Hutchison Whampoa Ltd. He is the inaugural Chairman of the Retail Management Association of Hong Kong. Prior to joining Hutchison, Mr. Wade was a member of the ASDA Board of Directors in the United Kingdom.

Management Executives

John L. Dunwell	Managing Director
Thomas R. Mainwaring	Chief Finance Officer & Company Secretary
Herbert W. M. Chu	General Manager - Production & Logistics
Peter K. Y. Tam	General Manager - Sales
Ben M. B. Wong	General Manager - Corporate Development
Felix W. K. Yip	General Manager - Human Resources & Administration

The details of the management executives are as follows:

Mr. John L. DUNWELL, Managing Director, joined the Company on 20th October 1997. Please refer to the Directors section for details.

Mr. Thomas R. MAINWARING, *B.Comm., M.B.A. (Columbia)*, aged 55, Chief Finance Officer and Company Secretary, joined the Company on 1st January 1995. He is also a director of various subsidiaries of the Company. Mr. Mainwaring has more than 30 years experience, including 5 years with the Company and 25 years with a number of major Australian companies in senior managerial, financial and company secretarial positions.



DIRECTORS AND MANAGEMENT EXECUTIVES

(Continued)

Mr. Herbert W. M. CHU, *B.B.A., M.B.A.*, aged 46, was appointed General Manager - Production & Logistics on 1st February 1999. He joined the Company in 1977. Prior to his present appointment, he held the position of General Manager - Logistics. During his more than 20 years of service with the Company, Mr. Chu has gained extensive experience in marketing, sales and public relations as well as logistics.

Mr. Peter K. Y. TAM, *B.B.A., M.B.A.*, aged 41, was appointed General Manager - Sales on 9th January 1997. He joined the Company in 1993 as Group Brand Manager and held the position of Marketing Manager before his promotion. He has also taken up the Trade Marketing function subsequent to the departure of Mr. William H. Ottiger in July 1999. Mr. Tam has more than 10 years experience in the marketing and selling of consumer products in Hong Kong.

Mr. Ben M. B. WONG, *M.B.A., F.C.C.A., A.H.K.S.A., A.S.A.*, aged 37, was appointed General Manager - Corporate Development on 1st November 1999. He joined the Company in 1997 as the Corporate Planning Manager and held the position of General Manager - Corporate Communications & Planning prior to his present appointment. Mr. Wong has more than 10 years of business experience in various industries in senior managerial and financial positions.

Dr. Felix W. K. YIP, *D.B.A., M.Sc. (Per. Mgt.), M.B.A., M.Sc. (Eng.), F.I.P.D. (U.K.)*, aged 41, General Manager - Human Resources & Administration, joined the Company on 9th May 1994, following employment with various companies in Hong Kong in personnel management.

Note:

Marketing Services are now directed by Mr. Wilfredo E. Arcilla, Vice-President - Marketing, San Miguel Corporation Beer Division, prior to which he was Vice-President - Marketing, Greater China Operations. Mr. Arcilla joined the San Miguel Group in November 1995, and prior to that worked in international consumer goods companies.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the THIRTY-SEVENTH ANNUAL GENERAL MEETING of SAN MIGUEL BREWERY HONG KONG LIMITED will be held at the Holiday Inn Golden Mile Hong Kong, 50 Nathan Road, Tsimshatsui, Hong Kong on Friday, 31st March 2000 at 2:00 p.m. for the purpose of transacting the following ordinary business:

1. To receive and consider the audited Statement of Accounts and the Reports of the Directors and Auditors for the year ended 31st December 1999.
2. To declare a final dividend.
3. To re-elect directors and approve directors' fees.
4. To appoint auditors and authorise the directors to fix their remuneration.

By Order of the Board
Thomas R. Mainwaring
Secretary

Hong Kong, 11th February 2000

Notes:

1. Shareholders are entitled to appoint one or more proxies to attend and vote in their stead at the meeting. A proxy need not be a shareholder of the Company.
2. To be valid, forms of proxy must be deposited at the registered office of the Company at 9/F., Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting.
3. The Transfer Books and Register of Members will be closed from Monday, 27th March 2000 to Friday, 31st March 2000, both days inclusive, during which period no transfer of shares will be effected.
4. To qualify for the proposed final dividend, shareholders should ensure that transfers are lodged at the Company's share registrars, Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 24th March 2000.



STATISTICAL ANALYSIS OF OPERATIONS

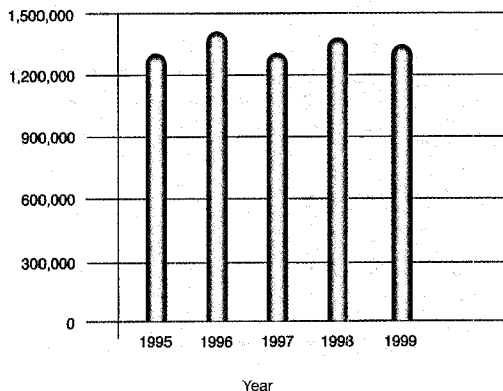
in dollar thousands except per share data and number of personnel

Ten Year Review

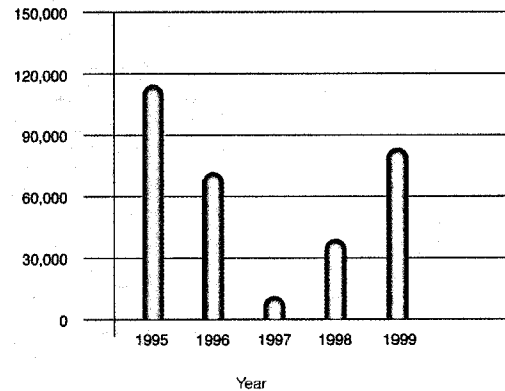
	1999	1998	1997
Gross turnover (1)	1,342,902	1,378,562	1,317,302
Profit from operations	83,737	39,409	10,132
Profit attributable to shareholders before extraordinary items	60,100	17,051	5,492
Extraordinary items (2)	—	—	—
Profit attributable to shareholders	60,100	17,051	5,492
Taxes paid, including beer tax	156,038	170,576	144,620
Cash dividends	41,093	11,207	29,886
Cash dividends per share (3)	0.11	0.03	0.08
Fixed assets and projects under development	2,276,150	2,347,937	2,396,195
Net worth	2,182,640	2,163,024	2,157,247
Payroll (4)	144,121	155,400	147,443
Number of personnel (5)	1,345	1,601	1,655

- (1) Gross turnover has been redefined for 1999 and the previous four years from 1995 to include discounts which had previously been deducted, that is gross turnover is the gross invoiced value of products sold before any discounts or allowances.
- (2) The extraordinary items in 1994 and 1996 were the total profit made on the sale of the Sham Tseng Brewery.
- (3) Adjusted for changes of issued share capital.
- (4) Payroll has been corrected for inconsistent reporting from 1996 to 1998.
- (5) Number of personnel represents actual headcount as of the last working day of the year.

GROSS TURNOVER (in \$'000)

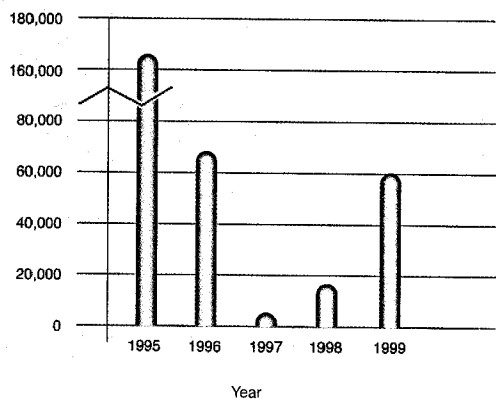


PROFIT FROM OPERATIONS (in \$'000)

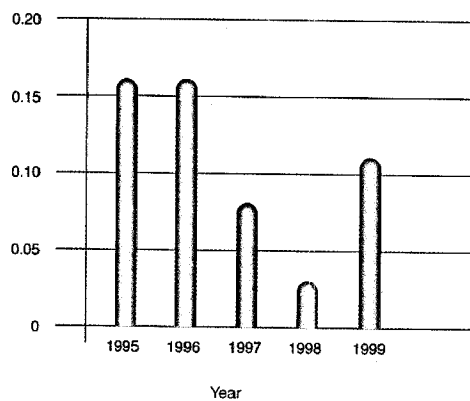


1996	1995	1994	1993	1992	1991	1990
1,410,867	1,302,677	1,223,965	1,186,464	1,279,076	1,208,509	940,096
72,784	115,307	108,227	57,724	81,864	110,935	118,027
68,321	165,908	132,886	32,199	52,524	90,954	109,620
115,803	—	2,900,522	—	—	—	45,529
184,124	165,908	3,033,408	32,199	52,524	90,954	155,149
152,073	132,899	172,287	284,124	296,164	281,793	246,095
59,771	59,771	1,648,803	3,736	63,507	74,714	87,789
0.16	0.16	4.51	0.01	0.17	0.20	0.24
2,462,394	2,062,862	1,092,466	670,586	674,700	656,612	542,861
2,213,010	2,087,213	1,973,271	630,336	610,646	622,589	606,969
133,838	142,404	145,450	129,691	115,924	106,900	94,681
1,527	1,327	1,573	1,576	1,750	1,814	788

to shareholders
ary items (in \$'000)



share (in \$ per share)





ACCOUNTS SECTION

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

for the years ended 31st December, in dollar thousands except per share data

	Note	1999	Restated 1998
Gross turnover	2	1,342,902	1,378,562
Discounts		(143,397)	(139,130)
Cost of sales		(415,931)	(469,456)
Beer duty and taxes		(175,490)	(182,143)
Gross profit		608,084	587,833
Distribution costs		(43,669)	(42,954)
Administrative and selling expenses		(452,871)	(483,531)
Other operating expenses		(27,807)	(21,939)
Profit from operations	3	83,737	39,409
Finance cost	4	(32,254)	(45,916)
Other net income	5	11,987	37,144
Profit before taxation		63,470	30,637
Taxation	6	(6,744)	(11,002)
Profit after taxation		56,726	19,635
Minority interests		3,374	(2,584)
Profit attributable to shareholders	9, 20	60,100	17,051
Retained profit brought forward		1,859,518	1,853,796
Elimination of goodwill	20	—	(122)
Dividends			
Interim dividend of \$0.02 per share paid on 19th July 1999 and \$0.03 per share each on 29th October and 30th December 1999 (1998: \$0.01 per share)			
		(29,886)	(3,736)
Proposed final dividend of \$0.03 per share (1998: \$0.02 per share)			
		(11,207)	(7,471)
		(41,093)	(11,207)
Retained profit carried forward	20	1,878,525	1,859,518
Earnings per share	10	\$0.16	\$0.05

The Notes on pages 29 to 45 form part of these accounts



CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the years ended 31st December, in dollar thousands

	<i>Note</i>	1999	Restated 1998
Exchange difference arising on translation of accounts of foreign entities		<u>609</u>	<u>55</u>
Gains not recognised in the Consolidated Statement of Profit and Loss		609	55
Net profit for the year	20	<u>60,100</u>	<u>17,051</u>
Total recognised gains and losses		60,709	17,106
Movement of goodwill taken directly to reserves		<u>—</u>	<u>(122)</u>
		<u>60,709</u>	<u>16,984</u>

The Notes on pages 29 to 45 form part of these accounts



CONSOLIDATED BALANCE SHEET

as at 31st December, in dollar thousands

	Note	1999	Restated 1998
Non-current assets			
Fixed assets	11	2,276,150	2,347,937
Other assets	13	<u>6,186</u>	<u>12,435</u>
		2,282,336	2,360,372
Current assets			
Inventories	14	111,834	96,248
Accounts receivable		200,018	206,400
Amounts due from holding company and fellow subsidiaries		52,081	63,564
Held to maturity securities — unlisted		10,473	10,310
Other unlisted investments		—	22,284
Cash and cash equivalents	15	<u>323,345</u>	<u>202,803</u>
		697,751	601,609
Current liabilities			
Banks loans and advances	16	(93,490)	(104,212)
Creditors		(163,346)	(157,833)
Taxation	6b	(4,616)	(6,631)
Dividend payable		<u>(11,207)</u>	<u>(7,471)</u>
		(272,659)	(276,147)
Net current assets		<u>425,092</u>	<u>325,462</u>
Total assets less current liabilities		2,707,428	2,685,834
Non-current liabilities			
Interest-bearing liabilities	17	(388,718)	(387,652)
Leased factory maintenance provision	18	<u>(30,322)</u>	<u>(26,320)</u>
		(419,040)	(413,972)
Minority interest		<u>(105,748)</u>	<u>(108,838)</u>
NET ASSETS		<u>2,182,640</u>	<u>2,163,024</u>
CAPITAL AND RESERVES			
Share capital	19	186,785	186,785
Reserves	20	<u>1,995,855</u>	<u>1,976,239</u>
		2,182,640	2,163,024

Approved by the Board of Directors on 11th February 2000.

Directors:

FRANCISCO C. EIZMENDI, JR.

JOHN L. DUNWELL

The Notes on pages 29 to 45 form part of these accounts



COMPANY BALANCE SHEET

as at 31st December, in dollar thousands

	Note	1999	Restated 1998
Non-current assets			
Fixed assets	11	1,338,325	1,382,153
Interest in subsidiary	12	<u>755,688</u>	<u>640,529</u>
		2,094,013	2,022,682
Current assets			
Inventories	14	42,949	34,720
Accounts receivable		51,262	63,119
Amounts due from holding company and fellow subsidiaries		69,232	66,682
Cash and cash equivalents	15	<u>12,966</u>	<u>14,918</u>
		176,409	179,439
Current liabilities			
Banks loans and advances	16	(4,479)	(8,888)
Creditors		(63,310)	(40,575)
Dividend payable		<u>(11,207)</u>	<u>(7,471)</u>
		(78,996)	(56,934)
Net current assets		<u>97,413</u>	<u>122,505</u>
Total assets less current liabilities		2,191,426	2,145,187
NET ASSETS		<u>2,191,426</u>	<u>2,145,187</u>
CAPITAL AND RESERVES			
Share capital	19	186,785	186,785
Reserves	20	<u>2,004,641</u>	<u>1,958,402</u>
		2,191,426	<u>2,145,187</u>

Approved by the Board of Directors on 11th February 2000.

Directors:

FRANCISCO C. EIZMENDI, JR.

JOHN L. DUNWELL

The Notes on pages 29 to 45 form part of these accounts



CONSOLIDATED CASH FLOW STATEMENT

for the years ended 31st December, in dollar thousands

	Note	1999	1998
Net cash inflow from operating activities	(a)	184,900	94,114
Returns on investments and servicing of finance			
Interest received		17,811	35,208
Interest paid		(31,401)	(46,602)
Dividends paid		(37,357)	(3,736)
Dividends paid to minority shareholders		—	(3,207)
Net cash outflow from returns on investment and servicing of finance		(50,947)	(18,337)
Taxation			
Hong Kong profits tax paid		—	—
Overseas tax paid		(8,776)	(10,860)
Tax paid		(8,776)	(10,860)
Investing activities			
Purchase of fixed assets		(17,037)	(24,020)
Proceeds on disposal of fixed assets		3,568	979
Purchase of held to maturity securities		(136)	(1)
Proceeds on disposal of other unlisted investments		19,865	2,154
Payment to acquire additional interest in subsidiary		—	(122)
Net cash inflow/(outflow) from investing activities		6,260	(21,010)
Net cash inflow before financing		131,437	43,907
Financing			
Proceeds from new bank loan	(b)	54,460	44,952
Repayment of bank loans	(b)	(61,033)	(113,658)
Net cash outflow from financing		(6,573)	(68,706)
Increase/(decrease) in cash and cash equivalents		124,864	(24,799)
Cash and cash equivalents at beginning of year	(c)	193,915	218,704
Effect of foreign exchange rate changes		87	10
Cash and cash equivalents at end of year	(c)	318,866	193,915



CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

for the years ended 31st December, in dollar thousands

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	1999	1998
Profit before taxation	63,470	30,637
Interest income	(20,040)	(34,504)
Realised/unrealised loss on unlisted investment	2,419	500
Interest expenses	32,105	44,906
Depreciation and amortisation of fixed assets	86,892	93,088
Amortisation of pre-operating expenses	6,282	6,515
Loss on disposal of fixed assets	464	2,552
Increase in leased factory maintenance provision	4,002	4,052
Increase in products in hand and in process	(6,284)	(502)
Increase in materials and supplies	(9,302)	(21,434)
Decrease/(increase) in accounts receivable	8,619	(50,635)
Decrease in amounts due from holding company and fellow subsidiaries	11,483	4,974
Increase in creditors	4,799	13,997
Exchange difference	(9)	(32)
Net cash inflow from operating activities	<u>184,900</u>	<u>94,114</u>

(b) Analysis of changes in financing during the year

	Bank loans and advances repayable after three months	
	1999	1998
Balance at 1st January	482,976	551,546
Proceeds from new bank loan	54,460	44,952
Repayment of bank loans	(61,033)	(113,658)
Exchange difference	1,326	136
Balance at 31st December	<u>477,729</u>	<u>482,976</u>

(c) Analysis of the balances of cash and cash equivalents

	1999	1998
Cash and cash equivalents	323,345	202,803
Bank advances repayable within three months	(4,479)	(8,888)
	<u>318,866</u>	<u>193,915</u>



NOTES TO THE ACCOUNTS

1 Significant Accounting Policies

A. Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

B. Basis of preparation of the accounts

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

C. Basis of consolidation

- (i) The consolidated accounts include the audited accounts of the Company and all its subsidiary companies made up to 31st December each year. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit and Loss from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill/capital reserve arising on consolidation represents the excess/shortfall of the cost of investment in subsidiaries over the appropriate share of the fair value of the net assets acquired, and is eliminated directly against reserves.
- (iii) On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement in Group reserves is included in the calculation of the profit or loss on disposal.

D. Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which are other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as expenses in the Consolidated Statement of Profit and Loss.

E. Held to maturity securities / Other investments

The Group's and the Company's policies for investments in securities other than investments in subsidiaries are as following:

- (i) Dated debt securities that the group and/or the company have the ability and intention to hold to maturity are classified as held to maturity securities. Held to maturity security are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the Consolidated Statement of Profit and Loss, such provisions being determined for each investment individually.



NOTES TO THE ACCOUNTS *(Continued)*

I Significant Accounting Policies *(Continued)*

E. Held to maturity securities / Other investments *(Continued)*

- (ii) All other investments (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the Consolidated Statement of Profit and Loss as they arise.
- (iii) Provisions against the carrying value of held to maturity securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the Consolidated Statement of Profit and Loss as they arise.

F. Fixed assets

Fixed assets are stated at cost less amortisation and depreciation with the exception of construction in progress which is stated at cost.

The carrying value of fixed assets (depreciated cost) is reviewed periodically to assess whether the recoverable value has declined below the carrying value. If such a decline has occurred, the carrying value is reduced to the recoverable value and the associated reduction is recognised as an expense in the Consolidated Statement of Profit and Loss. In assessing the recoverable value, future cash flows which are expected to be generated by assets are discounted to their present values.

G. Amortisation and depreciation

Amortisation and depreciation are provided on fixed assets in use on the straight line basis at rates sufficient to write off the cost of the assets over their useful lives according to the following schedule:

<i>Asset category</i>	<i>Useful life</i>
Buildings (pre-1982)	20 years
Buildings (1982 and after)	25 to 50 years
Machinery, equipment, furniture and fixtures	4 to 50 years
Motor vehicles	4 to 7 years

Leasehold land is depreciated over the remaining lease periods to the extent that such depreciation is material.

1 Significant Accounting Policies (Continued)

H. Pre-operating expenses

Pre-operating expenses, comprising legal and professional fees and incidental costs incurred in setting up subsidiary companies are written off to the Consolidated Statement of Profit and Loss on a straight line basis over 5 years from commencement of operation.

I. Revenue recognition

- (i) Revenue arising from sales of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.
- (ii) Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.
- (iii) Dividend income from unlisted investments is recognised when the shareholders' right to receive payment has been established.

J. Products, materials and supplies

Both materials and supplies and products in hand and in progress are valued at the lower of cost and net realisable value. Cost is calculated using the 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

K. Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.



NOTES TO THE ACCOUNTS *(Continued)*

1 Significant Accounting Policies *(Continued)*

L. Translation of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. On consolidation, accounts of overseas subsidiary companies have been translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date.

Differences on exchange are dealt with in the Consolidated Statement of Profit and Loss with the exception of those arising on the translation of the accounts of overseas subsidiary companies which are dealt with in the exchange fluctuation reserve.

M. Operating leases

Rentals payable under operating leases are accounted for in the Consolidated Statement of Profit and Loss on a straight line basis over the periods of the respective leases.

N. Borrowing costs

Borrowing costs are expensed in the Consolidated Statement of Profit and Loss account in the period in which they are incurred.

O. Retirement costs

The Group operates a defined benefit retirement scheme for Hong Kong based staff and the regular cost of providing retirement benefits is charged to the Consolidated Statement of Profit and Loss over the expected service lives of the members of the scheme on the basis of level percentages of pensionable pay. Variations from regular cost arising from periodic actuarial valuations are allocated to the Consolidated Statement of Profit and Loss account over the expected remaining service lives of the members.

P. Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

Q. Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.



NOTES TO THE ACCOUNTS *(Continued)*

2 *Gross turnover*

The principal activities of the Company and its subsidiaries are manufacture and distribution of bottled, canned and draught beers.

Turnover represents the gross invoiced value of products sold.

3 *Profit from operations*

in dollar thousands

	Group	
	1999	1998
The operating profit is stated after charging the following items:		
Depreciation and amortisation of fixed assets	86,892	93,088
Amortisation of pre-operating expenses	6,282	6,515
Inventory costs	343,717	391,174
Payroll cost	144,121	155,400
Operating lease charges:		
— Plant and machinery	15,242	15,202
— Land and buildings	17,585	18,818
Retirement costs	14,404	14,296
Auditors' remuneration	2,279	2,401
Non recurring and prior year costs <i>(Note a)</i>	—	8,055
	_____	_____
and after crediting:		
Amortisation of beer kegs <i>(Note b)</i>	—	(7,813)
	_____	_____

(a) In 1998 the Group absorbed non recurring costs, including localisation of staff remuneration packages, as well as costs relating to prior years in excess of related provisions. These costs reduced profit attributable to shareholders by \$8,055,347.

(b) During 1998, the Group and the Company reclassified beer kegs from materials and supplies to fixed assets and reassessed their economic lives. The effect of this reassessment was a reversal of depreciation of \$7,812,672 for the Group and \$4,598,652 for the Company for the year ended 31st December 1998.



NOTES TO THE ACCOUNTS *(Continued)*

4 *Finance cost*

in dollar thousands

	Group	
	1999	1998
Interest expense	(32,105)	(44,906)
Bank charges	(149)	(1,010)
	<u>(32,254)</u>	<u>(45,916)</u>

5 *Other net income*

in dollar thousands

	Group	
	1999	1998
Interest income	20,040	34,504
Rental income	8,318	7,725
Severance payment	(10,822)	—
Other expenses	(2,666)	(2,033)
Realised/unrealised loss on unlisted investments	(2,419)	(500)
Loss on disposal of fixed assets	(464)	(2,552)
	<u>11,987</u>	<u>37,144</u>

6 *Taxation*

in dollar thousands

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

	Group	
	1999	1998
Hong Kong taxation		
— under provision in respect of prior years	2,902	—
Overseas taxation	3,842	11,002
	<u>6,744</u>	<u>11,002</u>

Hong Kong taxation is calculated at the appropriate tax rates on the estimated assessable Hong Kong profits in respect of prior years.

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

NOTES TO THE ACCOUNTS *(Continued)*

6 *Taxation* (Continued) *in dollar thousands*

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

	Group		Company	
	1999	1998	1999	1998
Provision for overseas profits tax for the year	1,714	6,631	—	—
Balance of Hong Kong provisions relating to prior years	2,902	—	—	—
	4,616	6,631	—	—

Amount of taxation payable expected to be settled after more than 1 year is \$nil.

7 *Directors' emoluments* *in dollar thousands*

	Group	
	1999	1998
Fees	530	329
Salaries, bonuses and allowances	3,079	3,038
Retirement fund contributions	122	286
Termination payments	111	1,975
	3,842	5,628

Included in the directors' emoluments were fees of \$480,000 (1998: \$279,000) paid to non-executive directors during the year.

The directors' emoluments are analysed as follows:

	Number of directors	
	1999	1998
\$Nil to \$1,000,000	9	9
\$3,000,001 to \$3,500,000	1	1



NOTES TO THE ACCOUNTS *(Continued)*

8 *Individuals with highest emoluments*

in dollar thousands

The highest individual emolument is included with other directors' emoluments in Note 7.

The aggregate of emoluments in respect of the remaining four highest paid individuals is as follows:

	Group	
	1999	1998
Salaries, bonuses and allowances	8,162	8,765
Retirement fund contributions	302	315
	8,464	9,080

The above emoluments are analysed as follows:

	Number of individuals	
	1999	1998
\$1,500,001 to \$2,000,000	2	1
\$2,000,001 to \$2,500,000	1	2
\$2,500,001 to \$3,000,000	1	1

9 *Profit attributable to shareholders*

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of \$87,332,000 (1998: \$34,918,000).

10 *Earnings per share*

The calculation of earnings per share is based on profit attributable to shareholders of \$60,100,000 (1998: \$17,051,000) and on 373,570,560 ordinary shares (1998: 373,570,560 shares), being the weighted average number of shares in issue during the year.

The amount of diluted earnings per share is not presented as the amount is the same as the basic earnings per share as presented in the accounts.

NOTES TO THE ACCOUNTS *(Continued)*

11 *Fixed assets*

in dollar thousands

(a) Group	Total	Land	Buildings	Machinery, equipment, furniture & fixtures	Motor vehicles	Construction in progress
Cost						
At 1st January 1999	2,649,104	246,058	841,418	1,453,419	41,552	66,657
Exchange adjustments	2,430	104	788	1,317	71	150
Additions	17,037	—	415	10,168	986	5,468
Disposals	(23,249)	—	—	(16,430)	(3,973)	(2,846)
Transfer from construction in progress	—	—	279	13,066	1,844	(15,189)
At 31st December 1999	2,645,322	246,162	842,900	1,461,540	40,480	54,240
Aggregate amortisation and depreciation						
At 1st January 1999	301,167	2,223	47,117	223,362	28,465	—
Exchange adjustments	330	6	50	232	42	—
Charge for the year	86,892	742	17,207	64,857	4,086	—
Written back on disposals	(19,217)	—	—	(15,748)	(3,469)	—
At 31st December 1999	369,172	2,971	64,374	272,703	29,124	—
Net book value at						
31st December 1999	2,276,150	243,191	778,526	1,188,837	11,356	54,240
Net book value at						
31st December 1998	2,347,937	243,835	794,301	1,230,057	13,087	66,657
(b) Company						
Cost						
At 1st January 1999	1,551,542	107,292	458,772	968,638	16,173	667
Additions	5,946	—	—	4,502	931	513
Disposals	(19,131)	—	—	(15,719)	(3,412)	—
Transfer from construction in progress	—	—	—	1,171	—	(1,171)
At 31st December 1999	1,538,357	107,292	458,772	958,592	13,692	9
Aggregate amortisation and depreciation						
At 1st January 1999	169,389	—	20,837	135,813	12,739	—
Charge for the year	48,909	—	9,175	38,405	1,329	—
Written back on disposals	(18,266)	—	—	(15,238)	(3,028)	—
At 31st December 1999	200,032	—	30,012	158,980	11,040	—
Net book value at						
31st December 1999	1,338,325	107,292	428,760	799,612	2,652	9
Net book value at						
31st December 1998	1,382,153	107,292	437,935	832,825	3,434	667



NOTES TO THE ACCOUNTS *(Continued)*

11 *Fixed assets* (Continued)

in dollar thousands

(c) The analysis of net book value of land is as follow:

	Group		Company	
	1999	1998	1999	1998
Medium term leasehold land				
— in Hong Kong	209,014	209,014	107,292	107,292
— outside Hong Kong	34,177	34,821	—	—
	243,191	243,835	107,292	107,292

(d) The gross amounts of fixed assets of the Group and the Company held for use on short term operating leases were \$203,704,000 (1998: \$203,445,000) and the related accumulated depreciation charges were \$10,513,000 (1998: \$8,477,000).

12 *Interests in subsidiaries*

in dollar thousands except share capital of subsidiaries

	Company	
	1999	1998
Unlisted shares, at cost	603,249	603,249
Amounts due from subsidiaries	329,748	333,432
Amounts due to subsidiaries	(177,309)	(296,152)
	755,688	640,529



NOTES TO THE ACCOUNTS *(Continued)*

12 *Interests in subsidiaries* (Continued)

in dollar thousands except share capital of subsidiaries

The following list is the subsidiaries of the Group:

Company	Place of incorporation/ operation	Issued and fully paid up share capital (All being ordinary except otherwise stated)	Percentage of shares held by		Principal activities
			Company	Subsidiaries	
Beer World Hong Kong Limited	Hong Kong	\$1,000	100%	—	Beer Trading
Best Investments International Inc.	British Virgin Islands	US\$50,000 Preferences: US\$60,000,000	100%	—	Investment
Guangzhou San Miguel Brewery Company Limited	The People's Republic of China	US\$25,495,000	—	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%	—	Investment Holding
San Miguel Shunde Brewery Company Limited	The People's Republic of China	US\$27,933,000	—	85%	Manufacture and sale of beer
San Miguel Shunde Holdings Limited	Hong Kong	\$2,000,000	92%	—	Investment Holding

Guangzhou San Miguel Brewery Company Limited is a company formed between the Company's subsidiary, San Miguel (Guangdong) Limited, and Guangzhou Brewery. According to the shareholders' agreement, the company has an operating period of 30 years expiring on 28th November 2020.

San Miguel Shunde Brewery Company Limited is a company formed between the Company's subsidiary, San Miguel Shunde Holdings Limited, and Guangdong Province Shunde County Brewery. According to the shareholders' agreement, the company has an operating period of 50 years expiring on 4th August 2042.



NOTES TO THE ACCOUNTS *(Continued)*

13 *Other assets*

in dollar thousands

Other assets represent pre-operating expenses.

Movement in other assets comprise:

	Group	
	1999	1998
Balance at 1st January	12,435	18,945
Amortisation for the year	(6,282)	(6,515)
Exchange difference	33	5
Balance at 31st December	<u>6,186</u>	<u>12,435</u>

14 *Inventories*

in dollar thousands

	Group		Company	
	1999	1998	1999	1998
Products in hand and in process	26,523	20,239	19,906	8,771
Materials and supplies	85,311	76,009	23,043	25,949
	<u>111,834</u>	<u>96,248</u>	<u>42,949</u>	<u>34,720</u>

The amount of inventories carried at net realisable value is \$nil (1998: \$nil).

15 *Cash and cash equivalents*

in dollar thousands

	Group		Company	
	1999	1998	1999	1998
Deposits with banks	273,290	160,707	—	8,515
Cash at bank and in hand	50,055	42,096	12,966	6,403
	<u>323,345</u>	<u>202,803</u>	<u>12,966</u>	<u>14,918</u>



NOTES TO THE ACCOUNTS *(Continued)*

16 *Bank loans and advances*

in dollar thousands

	Group		Company	
	1999	1998	1999	1998
Secured	11,267	15,920	—	—
Unsecured	470,941	475,944	4,479	8,888
	482,208	491,864	4,479	8,888
Bank loans and advances are repayable as follows:				
Within one year or on demand	93,490	104,212	4,479	8,888
More than 2 years but less than 5 years <i>(note 17)</i>	388,718	387,652	—	—
	482,208	491,864	4,479	8,888

The banking facilities of a subsidiary are secured by a fixed charge over its buildings.

17 *Interest-bearing liabilities*

in dollar thousands

The unsecured bank loan bears interest at London Interbank Offer Rate plus 1.16% per annum and is repayable on 7th March 2002.

None of the interest-bearing liabilities are expected to be settled within one year.

18 *Leased factory maintenance provision*

Pursuant to a subsidiary's factory lease agreement which expires on 28th February 2021, the subsidiary is required to pay to the lessor an annual fee of approximately \$4.03 million for maintaining the leased factory, for which provision is made each year (adjusted for exchange differences). The fee is payable upon expiration or early termination of the lease agreement and may be settled by any qualifying capital expenditure incurred by the subsidiary on the purchase or construction of any separate and identifiable equipment or building during the term of the lease.

As this factory lease is not expected to be terminated within the next twelve months, the accumulated provision is included in non-current liabilities.

NOTES TO THE ACCOUNTS *(Continued)*

19 Share capital

in dollar thousands

	Company	
	1999	1998
Authorised:		
400,000,000 ordinary shares of \$0.50 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
373,570,560 ordinary shares of \$0.50 each	<u>186,785</u>	<u>186,785</u>

20 Reserves

in dollar thousands

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Group					
Balance at 1st January 1998	1,970,462	65,739	57,312	(6,385)	1,853,796
Profit for the year	17,051	—	—	—	17,051
Dividend	(11,207)	—	—	—	(11,207)
Goodwill written off	(122)	—	—	—	(122)
Exchange gain arising on consolidation	55	—	—	55	—
	<u>1,976,239</u>	<u>65,739</u>	<u>57,312</u>	<u>(6,330)</u>	<u>1,859,518</u>
Balance at 31st December 1998					
Balance at 1st January 1999	1,976,239	65,739	57,312	(6,330)	1,859,518
Profit for the year	60,100	—	—	—	60,100
Dividend	(41,093)	—	—	—	(41,093)
Exchange gain arising on consolidation	609	—	—	609	—
	<u>1,995,855</u>	<u>65,739</u>	<u>57,312</u>	<u>(5,721)</u>	<u>1,878,525</u>
Balance at 31st December 1999					

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

NOTES TO THE ACCOUNTS (Continued)

20 Reserves (Continued)

in dollar thousands

The capital reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries and translation of foreign currencies (note 1).

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Company					
Balance at 1st January 1998	1,934,691	65,739	—	—	1,868,952
Profit for the year	34,918	—	—	—	34,918
Dividend	(11,207)	—	—	—	(11,207)
Balance at					
31st December 1998	1,958,402	65,739	—	—	1,892,663
Balance at 1st January 1999	1,958,402	65,739	—	—	1,892,663
Profit for the year	87,332	—	—	—	87,332
Dividend	(41,093)	—	—	—	(41,093)
Balance at					
31st December 1999	2,004,641	65,739	—	—	1,938,902

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

The distributable reserves of the Company as at 31st December 1999 were \$1,938,902,000 (1998: \$1,892,663,000).

21 Deferred taxation

in dollar thousands

Major components of deferred tax are set out below:

	Group			
	1999		1998	
	Potential liabilities		Potential liabilities	
	Provided	Unprovided	Provided	Unprovided
Depreciation allowances in excess of related depreciation	—	128,338	—	123,318
Future benefit of tax losses	—	(100,035)	—	(105,173)
	—	28,303	—	18,145

No provision has been made for the potential liabilities of deferred tax because they are not expected to crystallise in the foreseeable future.



NOTES TO THE ACCOUNTS *(Continued)*

22 Commitments

in dollar thousands

- (a) The aggregate amount of commitments for capital expenditure, for which no provision has been made in the accounts, totalled approximately:

	Group		Company	
	1999	1998	1999	1998
Contracted for	2,289	6,616	1,530	2,023
Authorised by the directors but not contracted for	9,744	13,761	2,027	50
	<u>12,033</u>	<u>20,377</u>	<u>3,557</u>	<u>2,073</u>

- (b) At 31st December, the Group and the Company had commitments under operating leases to make payments in following years as follows:

	Group		Company	
	1999	1998	1999	1998
Land and buildings				
Leases expiring:				
Within 1 year	4,416	3,266	3,293	1,540
After 1 year but within 5 years	5,647	5,415	4,902	9,394
After 5 years	5,170	7,541	—	—
Plant and machinery				
Leases expiring:				
Within 1 year	31	465	31	465
After 1 year but within 5 years	509	—	509	—
After 5 years	14,266	14,737	—	508
	<u>30,039</u>	<u>31,424</u>	<u>8,735</u>	<u>11,907</u>



NOTES TO THE ACCOUNTS *(Continued)*

23 *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. During 1999, total purchases from and sales to these related parties totalled \$82,542,594 (1998: \$32,280,634) and \$24,700,662 (1998: \$57,236,946) respectively. The net amount due to these related parties amounted to \$13,149,081 (1998: \$1,666,221) on 31st December 1999.

In 1996, the Company sold machinery and equipment, on commercial terms, for \$130,462,994 to a holding company of San Miguel Brewery Hong Kong Limited. The amount due from this related party at 31st December 1999 was \$65,229,994 and interest has been charged at a commercial rate.

24 *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 31st December 1999, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to subsidiary companies.

	Company	
	1999	1998
Guarantees to banks	466,462	465,183

25 *Comparative figures*

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements" and SSAP 24 "Accounting for investment in securities". As a result, investments have been analysed into investments in held to maturity securities, as required by SSAP 24 and additional line items have been included on the face of the Consolidated Statement of Profit and Loss and Consolidated Balance Sheet as required by SSAP 1 (revised), such as finance cost, analysis of expenses, inventories, and cash and cash equivalents. Comparative figures have been reclassified to conform with the current year's presentation.

26 *Ultimate holding company*

San Miguel Corporation, incorporated in the Republic of the Philippines, is regarded by the directors as being the Company's ultimate holding company at 31st December 1999.



REPORT OF THE AUDITORS

To the shareholders of San Miguel Brewery Hong Kong Limited

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 23 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31st December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 11th February 2000



FIVE YEAR SUMMARY

Years ended 31st December, in dollar thousands except per share data

	1999	1998	1997	1996	1995
Results					
Gross turnover *	1,342,902	1,378,562	1,317,302	1,410,867	1,302,677
Profit/(loss) before taxation	63,470	30,637	(7,039)	187,924	200,106
Taxation	6,744	11,002	(9,899)	(4,109)	7,576
Minority interests	(3,374)	2,584	(2,632)	8,622	26,622
Profit attributable to					
shareholders	60,100	17,051	5,492	184,124	165,908
Dividends	41,093	11,207	29,886	59,771	59,771
Transfer (from)/to reserves	—	—	(27,864)	124,353	106,137
Earnings per share	0.16	0.05	0.01	0.49	0.44
Dividends per share	0.11	0.03	0.08	0.16	0.16
Employment of capital					
Fixed assets	2,276,150	2,347,937	2,396,195	2,462,394	538,102
Projects under development	—	—	—	—	1,524,760
Investments	10,473	32,594	35,243	24,255	27,476
Other assets	6,186	12,435	18,945	25,665	5,536
Stocks	111,834	96,248	98,423	121,689	117,501
Accounts receivable	252,099	269,964	225,010	260,387	198,537
Cash and cash equivalents	323,345	202,803	528,704	498,906	1,021,349
	<u>2,980,087</u>	<u>2,961,981</u>	<u>3,302,520</u>	<u>3,393,296</u>	<u>3,433,261</u>
Capital employed					
Share capital	186,785	186,785	186,785	186,785	186,785
Reserves	1,995,855	1,976,239	1,970,462	2,026,225	1,900,428
Minority interests	105,748	108,838	109,438	166,513	163,751
Long term and deferred					
liabilities	419,040	413,972	432,257	105,141	308,487
Short term bank loans and					
advances	93,490	104,212	451,557	735,251	439,353
Creditors	167,962	164,464	152,021	158,438	419,514
Proposed dividends and					
cash bonus	11,207	7,471	—	14,943	14,943
	<u>2,980,087</u>	<u>2,961,981</u>	<u>3,302,520</u>	<u>3,393,296</u>	<u>3,433,261</u>

* Gross turnover has been redefined for 1999 and the previous four years from 1995 to include discounts which had previously been deducted, that is gross turnover is the gross invoiced value of products sold before any discounts or allowances.