



SAN MIGUEL BREWERY HONG KONG LIMITED
香港生力啤酒廠有限公司

INTERIM REPORT
中期報告
January to August 2000
二零零零年一月至八月

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
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

HIGHLIGHTS

For the eight months ended 31st August, in dollar thousands except per share data

	Eight months ended 31st August		Change %
	2000	1999	
Gross turnover	902,389	912,542	-1.1%
Profit attributable to shareholders	59,482	45,011	32.1%
Cash dividends	22,414	18,678	20.0%
Earnings per share	\$0.16	\$0.12	33.3%
Dividend per share	\$0.06	\$0.05	20.0%

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THE CHAIRMAN'S STATEMENT

To Our Shareholders,

I am pleased to advise that the financial performance of San Miguel Brewery Hong Kong Limited ("the Company") has continued to improve in line with our forecast in the 1999 Annual Report.

Profit attributable to shareholders for the eight months ended 31st August 2000 was \$59.482 million, an increase of 32.1% over the \$45.011 million reported in 1999. Earnings per share for the period increased from 12 cents in 1999 to 16 cents in 2000.

Consolidated sales turnover of \$902.389 million was marginally lower than the previous year (\$912.542 million). In Hong Kong, a small increase in local sales turnover was offset by a corresponding reduction in export sales. Sales volume of the company's subsidiary, Guangzhou San Miguel Brewery Co. Ltd., increased by 3.5% following a 13.5% increase in sales of San Miguel brands and a 10% decline in other brands. Sales revenue of the Company's subsidiary, San Miguel Shunde Brewery Co. Ltd., suffered a decline of 17%. This was mainly attributable to lower sales of Valor branded products which were the target of intense competitive pressure by other brewers who launched competing brands in 2000. The fall in Valor sales volumes offset increased sales in other brands.

The increase in gross profit of \$6.832 million to \$419.555 million was lower than anticipated as a result of reduced sales of Valor together with downward pressure on prices in Hong Kong flowing from heavy beer price discounting at retail level which continued into 2000 following the launch of AdMart in 1999. In September and October 2000 retail prices are stabilising at higher levels and this is being reflected in higher margins.

Distribution costs increased \$5.777 million, however \$5.350 million of this increase is the result of a reclassification of administration and selling costs. In October 1999 the distribution staff at Guangzhou San Miguel Brewery Co. Ltd. were transferred to an independent delivery company which holds a contract for delivery of the products of Guangzhou San Miguel Brewery Co. Ltd.. Since October 1999 the contracted delivery costs have been classified as

distributions costs, whereas formerly, the associated staff costs were classified as selling expenses.

Administration and selling costs reflect the continuing drive for cost containment and declined by \$17.232 million, an effective reduction of \$11.882 million when allowance is made for the transfer of selling costs to distribution.

The increase in finance costs of \$2.456 million was caused by a higher interest rate applying to the US\$50 million bank loan to San Miguel Shunde Brewery Co. Ltd.

Other net income increased \$5.102 million following higher interest income on higher average cash balances.

The Company had cash reserves of \$414.299 million at the end of August 2000, an increase of \$90.954 million since the end of 1999. These were equivalent to \$1.11 per share or 85% of the Company's market capitalisation on 31st August 2000.

Total debt was \$468.214 million, equal to 21% of shareholders funds. The parent company, San Miguel Brewery Hong Kong Limited is currently debt free.

Dividends

A first interim dividend of \$0.03 per share was paid in July 2000. The Directors have declared a second interim dividend for the eight months ended 31st August 2000 of \$0.03 per share payable on 17th November 2000 to shareholders of record on 7th November 2000.

Business Review

The first eight months of 2000 continued to be a difficult and challenging period for businesses operating in Hong Kong and South China.

For most of the period the beer market in Hong Kong experienced negative growth while growth remained low in Southern China.

Economic indicators suggest recent rapid improvements in the economy in Hong Kong, however the improvements appear to be selective, as large sections of the population, particularly lower income groups, do not appear to have

benefitted from the rebound. Accordingly, the recovery, so far, has not had a measurable impact on beer sales.

Despite the unfavorable business conditions, the Company's interim results are a considerable improvement on the previous year as a result of the increase in gross profit, the continuing program of cost reduction and higher interest income.

As reported earlier, growth in gross income was restricted by the downturn in Valor brand sales volume in Southern China together with limitations on pricing.

Hong Kong Operations

Domestic sales volume was marginally higher than the previous year despite a 6.7% fall in total beer industry volume. This sales performance was achieved in the face of weak retail consumption, a deflationary economy and heightened competition.

The Company's flagship product, San Miguel Pale Pilsen and other allied brands made further gains in market share at the expense of some of our key competitors.

Fixed overhead costs were reduced by 9.3%. Since 1997 fixed overhead costs have been reduced by 27%.

The momentum of our successful "Take a Fresh Look" marketing campaign has been maintained throughout year 2000. San Miguel gained another two awards in the "6th Annual Most Popular TV Commercial Awards" jointly organized by Asia Television Limited and the Hong Kong Advertisers Association. The latest series of "Take a Fresh Look" TV commercials based on the hottest topic in town — "IT fever" was launched in June, and has received very positive feedback from both the trade and end consumers. Independent market research shows that our advertising and promotion expenditures have been spent efficiently and effectively, and our products and brands are increasingly well received by consumers. This positive response is particularly evident amongst younger beer drinkers, an area of historic weakness for the Company.

South China Operations

In South China, we continue to face strong competition from both local and foreign brands.

Competition in the low-priced popular and mid-priced beer segments has intensified. Sales of Valor lagged behind last year and were affected by a directly competitive brand launched by the leading local brewery in Guangdong Province to target Valor. Shortages of the 'industry green bottle', in which Valor was packaged, also impacted on sales.

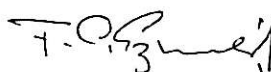
The sales position of Valor is currently being addressed with the execution of a sales and marketing plan directed at regaining and defending its position. In August, Valor was relaunched in a proprietary bottle, overcoming the bottle shortage situation.

However, on a positive note, sales volume of San Miguel brands for the eight months ended 31st August 2000 increased by 13.5% over the volume for the corresponding period last year. This promising growth of our high margin premium brand, mainly in the Pearl River Delta region, is in line with the strategic objective of strengthening the position of San Miguel as the leading premium brand in South China.

In conclusion, it is pleasing to report that the Company is meeting the objectives set out for 2000 in last year's Annual Report, in particular, the delivery of profitable volume and increased cash flow to create long term value for our shareholders. The year 2000, so far, builds upon the successes of 1998 and 1999 and has consolidated the creation of a sales driven culture supported by quality products, creative marketing and skilled support staff.

For the remainder of 2000 we expect that the Company will maintain its performance and meet the financial targets set for the year.

Finally, I acknowledge, with appreciation, the contributions by all employees and my fellow directors to the achievements this year, as well as the continuing support from our shareholders.



Mr. Francisco C. Eizmendi, Jr., Chairman
20th October 2000

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 2000. The directors have declared a dividend of \$0.03 per share for the eight months ended 31st August 2000 payable on Friday, 17th November 2000 to shareholders of record on Tuesday, 7th November 2000.

Closure of Transfer Books and Register of Members

The Transfer Books and Register of Members of the Company will be closed from Tuesday, 7th November 2000 to Wednesday, 8th November 2000, both days inclusive. To qualify for the 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 Monday, 6th November 2000.

Interim Results

The interim results for the eight months ended 31st August 2000 have not been audited by the Company's Auditors, but have been reviewed by the Audit Committee on 11th October 2000.

Director's Interests

As at 31st August 2000, 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

Number of shares in San Miguel Corporation

Name	Personal Interests		Other Interests	Total
	Personal Interests	Other Interests		

Class A (par value of 5 pesos each):

Francisco C. Eizmendi, Jr.	278,257	—	278,257
Estelito P. Mendoza	19,038	3,998	23,036
Faustino F. Galang	145,817	—	145,817

Class B (par value of 5 pesos each):

Faustino F. Galang	768	—	768
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As at 31st August 2000, 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"):

Name	Share Options in San Miguel Corporation			
	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
	61,832	27/03/95	27/03/03	48.55
Faustino F. Galang	47,145	01/04/97	01/04/05	44.63
	45,184	26/03/98	26/03/06	38.18
	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
<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 August 2000 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	73,838,558	19.77%

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.

Purchase, Sale and 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 has 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 eight months ended 31st August, in dollar thousands except per share data

	Note	Eight months ended 31st August		Year ended 31st December
		2000	1999	1999
Gross turnover	2	902,389	912,542	1,342,902
Discounts		(93,734)	(95,614)	(143,397)
Cost of sales		(276,006)	(279,987)	(415,931)
Beer duty and taxes		(113,094)	(124,218)	(175,490)
Gross profit		419,555	412,723	608,084
Distribution costs		(34,061)	(28,284)	(43,669)
Administrative and selling expenses		(296,193)	(313,425)	(452,871)
Other operating expenses		(12,074)	(11,495)	(27,807)
Profit from operations	3	77,227	59,519	83,737
Finance cost		(25,746)	(23,290)	(32,254)
Other net income		12,115	7,013	11,987
Profit before taxation	2	63,596	43,242	63,470
Taxation	4a	(4,631)	(358)	(6,744)
Profit after taxation		58,965	42,884	56,726
Minority interests		517	2,127	3,374
Profit attributable to shareholders	5, 11	59,482	45,011	60,100
Retained profit brought forward		1,878,525	1,859,518	1,859,518
Dividends				
First interim dividend of \$0.03 per share (1999: \$0.02 per share)		(11,207)	(7,471)	(7,471)
Second interim dividend of \$0.03 per share (1999: \$0.03 per share)		(11,207)	(11,207)	(11,207)
Third interim dividend to be declared (1999: \$0.03 per share)		—	—	(11,207)
Final dividend to be declared (1999: \$0.03 per share)		—	—	(11,208)
		(22,414)	(18,678)	(41,093)
Retained profit carried forward	11	1,915,593	1,885,851	1,878,525
Earnings per share	6	\$0.16	\$0.12	\$0.16

The Notes on pages 11 to 15 form part of this interim report.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES - UNAUDITED

For eight months ended 31st August, in dollar thousands

		Eight months ended 31st August		Year ended 31st December
	<i>Note</i>	2000	1999	1999
Exchange difference arising on translation of accounts of foreign entities		<u>834</u>	<u>499</u>	<u>609</u>
Gains not recognised in the Consolidated Statement of Profit and Loss		834	499	609
Net profit for the period/year	<i>11</i>	<u>59,482</u>	<u>45,011</u>	<u>60,100</u>
Total recognised gains and losses		<u>60,316</u>	<u>45,510</u>	<u>60,709</u>

The Notes on pages 11 to 15 form part of this interim report.

CONSOLIDATED BALANCE SHEET — UNAUDITED

As at 31st August, in dollar thousands

	<i>Note</i>	As at 31st August 2000	As at 31st December 1999
Non-current assets			
Fixed assets	7	2,238,551	2,276,150
Other assets		2,054	6,186
		2,240,605	2,282,336
Current assets			
Inventories	8	92,077	111,834
Accounts receivable	9	203,559	200,018
Amounts due from holding company and fellow subsidiaries		48,992	52,081
Held to maturity securities — unlisted		10,512	10,473
Other unlisted investments		—	—
Cash and cash equivalents	10	414,299	323,345
		769,439	697,751
Current liabilities			
Banks loans and advances		(78,036)	(93,490)
Creditors	9	(167,666)	(163,346)
Taxation	4b	(3,620)	(4,616)
Dividend payable		(11,207)	(11,207)
		(260,529)	(272,659)
Net current assets		508,910	425,092
Total assets less current liabilities		2,749,515	2,707,428
Non-current liabilities			
Interest-bearing liabilities		(390,178)	(388,718)
Leased factory maintenance provision		(33,158)	(30,322)
		(423,336)	(419,040)
Minority interest		(105,637)	(105,748)
NET ASSETS		2,220,542	2,182,640
CAPITAL AND RESERVES			
Share capital		186,785	186,785
Reserves	11	2,033,757	1,995,855
		2,220,542	2,182,640

The Notes on pages 11 to 15 form part of this interim report.

CONSOLIDATED CASH FLOW STATEMENT - UNAUDITED

For eight months ended 31st August, in dollar thousands

	<i>Note</i>	Eight months ended 31st August 2000	Year ended 31st December 1999
Net cash inflow from operating activities	<i>(a)</i>	<u>154,721</u>	<u>184,900</u>
Returns on investments and servicing of finance			
Interest received		15,876	17,811
Interest paid		(20,545)	(31,401)
Dividends paid		<u>(22,414)</u>	<u>(37,357)</u>
Net cash outflow from returns on investment and servicing of finance		<u>(27,083)</u>	<u>(50,947)</u>
Taxation			
Overseas tax paid		<u>(6,606)</u>	<u>(8,776)</u>
Tax paid		<u>(6,606)</u>	<u>(8,776)</u>
Investing activities			
Purchase of fixed assets		(14,674)	(17,037)
Proceeds on disposal of fixed assets		241	3,568
Purchase of held to maturity securities		—	(136)
Proceeds on disposal of other unlisted investments		<u>2</u>	<u>19,865</u>
Net cash (outflow)/inflow from investing activities		<u>(14,431)</u>	<u>6,260</u>
Net cash inflow before financing		<u>106,601</u>	<u>131,437</u>
Financing			
Proceeds from new bank loan		8,483	54,460
Repayment of bank loans		<u>(19,794)</u>	<u>(61,033)</u>
Net cash outflow from financing		<u>(11,311)</u>	<u>(6,573)</u>
Increase in cash and cash equivalents		95,290	124,864
Cash and cash equivalents at beginning of period/year	<i>(b)</i>	318,866	193,915
Effect of foreign exchange rate changes		<u>142</u>	<u>87</u>
Cash and cash equivalents at end of period/year	<i>(b)</i>	<u>414,298</u>	<u>318,866</u>

The Notes on pages 11 to 15 form part of this interim report.

CONSOLIDATED CASH FLOW STATEMENT - UNAUDITED *(Continued)*

For eight months ended 31st August, in dollar thousands

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

	Eight months ended 31st August 2000	Year ended 31st December 1999
<i>Note</i>		
Profit before taxation	63,596	63,470
Interest income	(16,097)	20,040
Realised/unrealised loss on unlisted investment	—	2,419
Interest expenses	26,221	32,105
Depreciation and amortisation of fixed assets	55,020	86,892
Amortisation of pre-operating expenses	4,156	6,282
(Profit)/loss on disposal of fixed assets	(4)	464
Increase in leased factory maintenance provision	2,836	4,002
Decrease/(increase) in products in hand and in process	5,818	(6,284)
Decrease/(increase) in materials and supplies	13,939	(9,302)
(Increase)/decrease in accounts receivable	(2,338)	8,619
Decrease in amounts due from holding company and fellow subsidiaries	3,089	11,483
(Decrease)/increase in creditors	(1,371)	4,799
Exchange difference	(144)	(9)
	154,721	184,900
Net cash inflow from operating activities		

(b) Reconciliation of the balances of cash and cash equivalents

	Eight months ended 31st August 2000	Year ended 31st December 1999
Cash and cash equivalents	414,298	323,345
Bank advances repayable within three months	—	(4,479)
	414,298	318,866

The Notes on pages 11 to 15 form part of this interim report.

NOTES TO THE ACCOUNTS

1. Basis of preparation

This interim financial report is unaudited and has been prepared in accordance with the requirements of the Main Board of 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 HKSA except that comparative figures for the consolidated cash flow statement have not been prepared as the company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 1999 included in the interim financial report does not constitute the company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 1999 are available from the company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 11 February 2000.

The same accounting policies adopted in the 1999 annual accounts 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 1999 annual accounts.

2. Segmental information

In dollar thousands

The principal activities of the Company and its subsidiaries continue to be the manufacture and distribution of bottled, canned and draughts 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 interim period is given below:

	Group Gross turnover			Group Profit/(loss) before taxation		
	Eight months ended	Year ended		Eight months ended	Year ended	
	31st August	31st December		31st August	31st December	
	2000	1999	1999	2000	1999	1999
Hong Kong	514,851	513,894	778,629	63,326	49,894	66,130
The People's Republic of China	387,538	398,648	564,273	270	(6,652)	(2,660)
	902,389	912,542	1,342,902	63,596	43,242	63,470

3. Profit from operations

In dollar thousands

	<u>Group</u>		<u>Group</u>
	Eight months ended		Year ended
	31st August		31st December
	2000	1999	1999

The profit from operations is stated after charging/(crediting) the following items:

Depreciation and amortisation of fixed assets	55,020	59,808	86,892
Amortisation of pre-operating expenses	4,156	4,186	6,282
Interest expenses	26,221	23,227	32,105
Inventory costs	227,480	233,952	343,717
(Profit)/loss on disposal of fixed assets	(4)	39	464

4. Taxation

In dollar thousands

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

	<u>Group</u>		<u>Group</u>
	Eight months ended		Year ended
	31st August		31st December
	2000	1999	1999
Hong Kong taxation			
– under provision in respect of prior period/years	—	78	2,902
Overseas taxation	4,631	280	3,842
	<u>4,631</u>	<u>358</u>	<u>6,744</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 period/year.

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

	<u>Group</u>	
	As at	As at
	31st August	31st December
	2000	1999
Provision for overseas profits tax for the period/year	3,620	1,714
Balance of Hong Kong provisions relating to prior years	—	2,902
	<u>3,620</u>	<u>4,616</u>

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

5. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of \$73,645,000 for the eight months ended 31st August (1999: \$61,663,000).

6. Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders for the period ended 31st August of \$59,482,000 (1999: \$45,011,000) and on 373,570,560 ordinary shares (1999: 373,570,560 shares), being the weighted average number of shares in issue during the period/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.

7. Fixed assets

In dollar thousands

	Group Plant, property and equipment
	Eight months ended 31st August 2000
At 1st January 2000	2,276,150
Additions	14,674
Disposals	(237)
Exchange adjustments	2,984
Depreciation	<u>(55,020)</u>
At 31st August 2000	<u>2,238,551</u>

8. Inventories

In dollar thousands

	Group	
	As at 31st August 2000	As at 31st December 1999
Products in hand and in process	20,705	26,523
Materials and supplies	<u>71,372</u>	<u>85,311</u>
	<u>92,077</u>	<u>111,834</u>

9. Debtors and creditors — ageing analysis

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 accounts receivable and follow up collections. General credit terms are payment by the end of the month following the month in which sales took place.

As at 31st August 2000, 76% of debtors were current and 24% were overdue (70% and 30% for 31st December 1999 respectively).

As at 31st August 2000, 83% of creditors were current and 17% were overdue (88% and 12% for 31st December 1999 respectively).

10. Cash and cash equivalents

in dollar thousands

	Group	
	As at 31st August 2000	As at 31st December 1999
Deposits with banks	316,766	273,290
Cash at bank and in hand	97,533	50,055
	<u>414,299</u>	<u>323,345</u>

11. Reserves

In dollar thousands

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
At 1st January 2000	1,995,855	65,739	57,312	(5,721)	1,878,525
Exchange differences	834	—	—	834	—
Profit for the period	59,482	—	—	—	59,482
Dividends	(22,414)	—	—	—	(22,414)
At 31st August 2000	<u>2,033,757</u>	<u>65,739</u>	<u>57,312</u>	<u>(4,887)</u>	<u>1,915,593</u>

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

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.

12. 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 eight months ended 31st August 2000, total purchases from and sales to these related parties were \$57,661,646 (\$62,289,777 for eight months ended 31st August 1999) and \$15,651,845 (\$16,293,912 for eight months ended 31st August 1999) respectively. The net amount due to these related parties amounted to \$16,238,204 (\$9,472,377 as at 31st August 1999) on 31st August 2000.

In 1996, the Company sold machinery and equipment, on commercial terms, for \$130,459,994 to a holding company of San Miguel Brewery Hong Kong Limited. The amount due from this related party at 31st August 2000 was \$65,229,994 (\$65,229,994 as at 31st August 1999) and interest has been charged at a commercial rate.

13. Commitments

In dollar thousands

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

	Group	
	As at 31st August 2000	As at 31st December 1999
Contracted for	305	2,289
Authorised by the directors but not contracted for	22,835	9,744
	<u>23,140</u>	<u>12,033</u>

14. 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 August 2000, 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 31st August 2000	As at 31st December 1999
Guarantees to banks	<u>467,940</u>	<u>466,462</u>



**SAN MIGUEL BREWERY
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