



SAN MIGUEL
BREWERY
HONG KONG LTD.

香港生力啤 酒廠
有限公司

ANNUAL

REPORT

2000 年報

我們的新鮮觀點電視廣告 - 「資訊科技」系列

Our Take A Fresh Look Television Campaign - "IT Fever" Series



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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*
Freddy W.M. Kwan *Managing Director*
Ramon S. Ang
Faustino F. Galang
Arthur K.C. Li *Alternate to David K.P. Li*
David K.P. Li, *O.B.E., J.P.**
Thomas R. Mainwaring
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
UBS AG

The Year's Highlights

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

	2000	1999
Gross turnover	1,355,184	1,342,902
Profit attributable to shareholders	87,657	60,100
Earnings per share	0.23	0.16
Taxes paid, including beer tax	160,745	156,038
Taxes paid per share	0.43	0.42
Cash dividends	52,300	41,093
Cash dividends per share	0.14	0.11
Fixed assets	2,214,254	2,276,150
Net worth	2,218,894	2,182,640
Payroll	127,094	144,121
Number of shares issued	373,570,560	373,570,560
Number of shareholders	2,781	2,851
Number of personnel	1,276	1,345

我們的產品

Our Products



Chairman's Statement



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

To Our Shareholders,

I am very pleased to report that the year 2000 was another year of achievement for San Miguel Brewery Hong Kong Limited ("the Company"). 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 \$87.657 million was 46% above the 1999 result of \$60.100 million. Earnings per share increased at the same rate, from 16.1 cents in 1999 to 23.5 cents in 2000.

Both Hong Kong operations and Guangzhou San Miguel Brewery Company Limited ("Guangzhou Brewery") contributed to the increase in profit with Hong Kong reporting a 30% increase in net profit and Guangzhou Brewery gaining 153%.

San Miguel Shunde Brewery Company Limited ("Shunde Brewery") improved its operating profit by 18%, however this was largely offset by increased finance costs.

The Company's 2000 closing share price was \$1.41 compared with \$1.29 for 1999, an increase of 9%. The 2000 closing share price represents a price earnings ratio of only 6.0 compared with the 1999 closing price earnings ratio of 8.0. We are of the opinion that the Company's share price does not reflect the momentum of gains made over the past three years, as profit attributable to shareholders of \$87.657 million in 2000 is 16 times the profit of \$5.492 million for 1997.

Interim dividends paid during the year, together with the proposed final dividend, represent a yield of 10% on the 2000 closing share price.

Sales volume in Hong Kong increased marginally for the second consecutive year. This is considered to be a good performance in the light of 6.5% decline in total market volume. The result was a solid gain in market share.

Guangzhou Brewery increased sales volume by more than 5%, including a 22% gain in sales of San Miguel brand products, an excellent performance that contributed significantly to profitability. Sales of



Chairman's Statement

Shunde Brewery were 5.6% lower as a result of a substantial decline in sales of Valor. The brand suffered from bottle shortages as well as heavy competition in Guangzhou City from directly competing brands launched during the year by other major brewers.

Consolidated sales turnover of \$1,355.184 million was 1% higher than the previous year as increased revenue in Hong Kong and South China was offset by a decline in export revenue.

Higher volumes of brand San Miguel in South China contributed to the growth in sales revenue.

Our efforts to contain fixed overhead costs have resulted in a reduction of approximately \$45 million over the past three years from 1998 to 2000.

Profit from operations increased 24% from \$83.737 million in 1999 to \$104.249 million in 2000.

The increase in finance costs was the result of higher interest charges on the US\$50 million Shunde Brewery term loan.

Other net income increased from \$11.987 million in 1999 to \$29.681 million in 2000. The increase of \$17.694 million includes — a reduction of severance pay of \$8.058 million from \$10.822 million in 1999 to \$2.764 million in 2000 and an increase of \$9.636 million in rental, investment and other income.

Total debt at year end stood at 20% of shareholders funds. The parent company, San Miguel Brewery Hong Kong Limited, remains debt free. The US\$50 million (HK\$390.256 million) loan from Bank of America to Shunde Brewery is the Group's only term loan. This loan expires in March 2002.

Cash and investments at year end totalled \$437.837 million, an increase of \$104.019 million over 1999. Group operations continue to be strongly cash positive, generating a total of \$159.726 million for the year before dividend payouts during the year of \$48.564 million and repayment of debt of \$11.314 million.

Cash and investments at the end of 2000 were equal to \$1.17 per share or 83% of the Company's market capitalisation.

Chairman's Statement

The Group is in a strong financial position and anticipates another year of growth in 2001, assisted by significantly improved profitability in its South China operations.

DIVIDENDS

The Directors have recommended the payment of a fourth and final dividend for the year ended 31st December 2000 of 4 cents per share. Three interim dividends totalling 10 cents per share were paid in 2000. The final dividend will lift total dividends for 2000 to 14 cents per share, an increase of 3 cents per share (27.3%) over the 11 cents per share paid in 1999.

BUSINESS REVIEW

Despite signs of modest recovery of the general economy, the year 2000 was a very challenging and difficult one. The beer markets in Hong Kong and South China continued to be highly competitive. Growth of the South China beer market was below expectation and the Hong Kong beer market suffered a decline in total industry volume by 6.5%.

By pursuing our commitment to the achievement of our goals and to the delivery of the results promised to shareholders, we are happy to report that the Company achieved its targeted volume, profit and cash flow as a result of our continuing efforts in building a sales-driven

culture supported by quality products, creative marketing and skilled support staff.

HONG KONG OPERATIONS

The year's results were particularly encouraging for our business in the Hong Kong market where local sales volume was 1.4% higher than that of the previous year. This sales performance was achieved against the backdrop of a lackluster retail environment, a deflationary economy and intense competition in a declining beer market. Despite the negative market sentiment, our flagship product San Miguel Pale Pilsen and other allied brands continued to report gains in market share.

Major sales initiatives implemented during the year to strengthen our quality of service to customers have resulted in a highly committed and motivated sales team, which is respected by the Trade as a major competitive advantage of the Company.

Two new TV commercials, "Reform" and "Silicon Valley", featuring Tony Leung and Angel Eleven, were launched in June and were positively received by consumers.

Independent market research indicates that brand San Miguel is beginning to enjoy a contemporary and trendy image, which appeals to

Chairman's Statement

consumers of all age groups, especially to those who are young and young at heart.

The Trade Marks Bill, including Clause 19 with regard to International Exhaustion of Trademark Right, was passed by the Legislative Council in May 2000. To be enforced in 2001, the Bill incorporates a formal liberalisation of parallel imports in Hong Kong. In this connection, the Company has continued its efforts in submissions to relevant Government authorities for more comprehensive labelling requirements for beer products in order to protect the interests of its trade customers and consumers against excessive and uncontrolled parallel imports.

SOUTH CHINA OPERATIONS

The economy of Mainland China experienced a moderate rebound in year 2000. Real GDP growth is estimated to have reached 8.1% in 2000 against 7.1% in 1999. However, underpinning the rebound in this growth rate were the strong export performance and sustained government spending on public projects. Private sector investment and retail sales have remained restrained. In particular, overall consumer confidence has continued to be affected by the restructuring

of the state sector, which involves the redundancy of tens of millions of state workers.

The South China market, flooded by numerous local and foreign brands, has become increasingly more competitive. Brand loyalty is weak, which makes trade and outlet promotion an important element to push beer sales. While competition in the beer industry intensified, the high-end popular ("HEP") beer segments have expanded and become a big and attractive segment for all players in the market. Moreover, local premium brands have re-defined their pricing structure, in an attempt to gain ground at the expense of the foreign premium beer brands including San Miguel.

In spite of the difficult competitive environment, the pressure on prices and increased promotional spending on the part of competitors, it is pleasing to note that sales volume of our premium brand San Miguel Pale Pilsen in the South China market increased by 18% over last year. The successful full-scale launch of the San Miguel Pale Pilsen Steinie big bottle at the beginning of 2000, together with a TV commercial featuring Tony Leung and Angel Eleven, significantly increased the sales performance of Guangzhou Brewery.

Chairman's Statement

Sales of brand Valor were adversely affected by the shortage of the "industry green bottle" in early 2000. This situation was overcome by re-launching Valor beer in a proprietary bottle in late 2000. It is expected that the Valor brand will regain its momentum and win an important share in the high growth HEP beer segment.

For Guang's Pineapple Beer, full beer duty levied on the product by the Government had a negative impact on product margin and hence adversely affected sales volume. Year 2000 volume was 11% lower than that of year 1999.

In Shunde, Dragon Beer supplied under contract to the local shareholders, has continued to perform well and to be an important contributor to the profitability of Shunde Brewery at the operating level.

In order to satisfy the varying taste and package preferences of consumers, the Company continues to explore and develop product and packaging variants that suit different segments of the South China market.

Collection of accounts receivable is always an important but very difficult task in Mainland China. Our efforts to ensure the prompt collection of accounts receivable from wholesalers and distributors in South China, however, have been very successful in 2000.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

In line with our philosophy of responsible corporate citizenship, the Company remains committed in its support for community activities, and made regular donations to charitable institutions and non-profit organisations in 2000.

The Company also embarked on a number of studies and programmes designed to satisfy and exceed the environmental protection standards set by local governments.

A comprehensive Safety and Health System was implemented. This initiative was supplemented by training and communication sessions in order to promote and enhance awareness of safety and health amongst employees.

Chairman's Statement

PEOPLE

The Company considers its employees to be its most valuable resource and believes that all employees should have competent support from their colleagues, with particular emphasis on the provision of effective functional support to the sales team in the achievement of common goals. We believe that our well-established teamwork spirit as well as the renowned "Take a Fresh Look" culture of the Company are essential for our success.

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

YEAR 2001 DIRECTION AND CHALLENGES

We are proud to say that the Company is meeting the objectives set out 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. Leveraging on the synergy from further co-operation and integration of our

Hong Kong and South China operations, we are confident that we will continue to make San Miguel the most preferred premium brand in the Pearl River Delta region and create increased long term value for our shareholders.

Our 2001 direction and challenges include:

- securing our sales in the declining Hong Kong beer market and growing with the new generation;
- exploring and developing new market segments and channels with different products and packaging variants;
- planning geographical expansion to cover areas of the Pearl River Delta region where the Company is relatively weak;
- fully integrating San Miguel as a mega-brand to lock in consumers of the Hong Kong and South China markets;
- continuing the revitalisation of Valor brand in the South China HEP beer market;

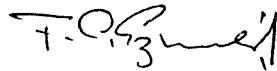
Chairman's Statement

- further developing a skilled and competent sales team in South China and improving the wholesaler-distributor network;
- anticipating competitors' strategies, defending our business and exploiting their vulnerabilities.

Last but not least, I would like to take this opportunity to express my warmest appreciation to my fellow directors for their wise counsel and guidance. Our thanks also go to our employees for their efforts and dedication in meeting our goals, and to all customers and to shareholders for your continued support of the Company.

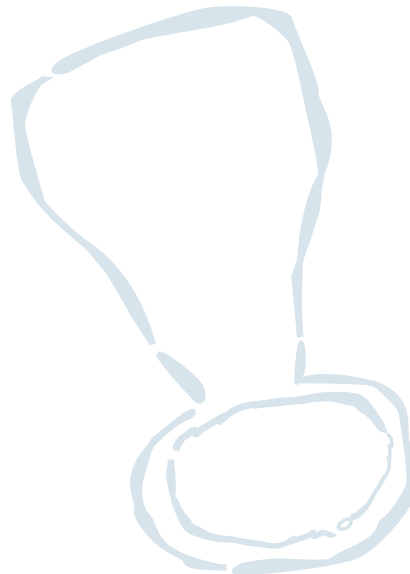
DIRECTORS

During the year 2000, Mr. John L. Dunwell and Mr. Alberto M. de Larrazabal retired from the Board of Directors. Mr. Dunwell will remain as a Consultant of the Company until March 2001. We thank them for their many valuable contributions to the Company during their terms as directors. Mr. Freddy W. M. Kwan has been appointed Managing Director effective 8th November 2000. We also take this occasion to welcome to the Board, Mr. Thomas R. Mainwaring, the Chief Finance Officer and Company Secretary of the Company.



Francisco C. Eizmendi, Jr.
Chairman

9th February 2001



我們的顧客

Our Consumers

王者之王競飲大賽
King of the King Beer Drinking Contest

 San Miguel Beer Drinking Contest

Report of the Directors

To be presented at the Thirty-Eighth Annual General Meeting of shareholders to be held at the Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 30th March 2001 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 2000.

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	57%	93%
The People's Republic of China	43%	7%

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31st December 2000 the percentages of the Group's turnover and purchases attributable to major customers and suppliers were as follows:

Gross turnover attributable to:

Largest customer	6.9%
Five largest customers	30.6%

Purchases attributable to:

Largest supplier	6.1%
Five largest suppliers	22.9%

As at 31st December 2000, 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 2000 and the state of affairs of the Company and the Group at that date are set out in the Accounts Section on pages 30 to 51 of this Annual Report.

Report of the Directors

DIVIDENDS

The first and second dividends, each of three cents per share, were paid on 19th July 2000 and 17th November 2000 to shareholders of record on 3rd July 2000 and 7th November 2000 respectively. The third dividend of four cents was paid on 8th December 2000 to shareholders of record on 29th November 2000. The directors recommend the payment of a final dividend of four cents per share on Thursday 12th April 2001 to shareholders of record on 26th March 2001.

RESERVES

Movements in the reserves of the Group and the Company during the financial year are set out in Note 21 to the accounts.

CHARITABLE AND OTHER DONATIONS

The Group made donations for charitable and other purposes totalling \$237,565 (1999: \$241,745) during the financial year.

FIXED ASSETS

The Group spent \$15 million (1999: \$17 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.

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 \$506 million compared with \$418 million in 1999.

Cash and bank deposits at year end were \$419 million (1999: \$323 million) and are sufficient to fund working capital requirements and capital expenditure in 2001.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Group has short term credit facilities of \$356 million (1999: \$703 million) of which \$78 million (1999: \$93 million) had been utilised as at 31st December 2000.

Long term loans at the year end amounted to \$390 million (1999: \$389 million).

Total borrowings at the year end for the Company were \$nil (1999: \$4 million) and for the Group \$468 million (1999: \$482 million).

Particulars of bank loans, overdrafts and advances of the Company and the Group are set out in Note 17 to the accounts.

Report of the Directors

DIRECTORS

With the exception of Mr. Thomas R. Mainwaring, the directors of the Company, whose names appear on page 21 of the Annual Report, were directors for the whole of the year.

Messrs. John L. Dunwell and Alberto M. de Larrazabal resigned from the office of director during the year.

Messrs. Ramon S. Ang, Estelito P. Mendoza & Luis E. Poblete, Jr. 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. Thomas R. Mainwaring, 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 2000, the directors and their associates had the following beneficial interests in the issued share capital of the Company and its associated corporation 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

Name	Number of shares in San Miguel Corporation		
	Personal Interests	Other Interests	Total
<i>Class A (par value of 5 pesos each):</i>			
Francisco C. Eizmendi, Jr.	278,257	—	278,257
Faustino F. Galang	145,817	—	145,817
Estelito P. Mendoza	19,038	3,998	23,036
<i>Class B (par value of 5 pesos each):</i>			
Faustino F. Galang	768	—	768

Report of the Directors

As at 31st December 2000, the directors and their associates had the following beneficial interests in share options of the Company and its associated corporation 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
Freddy W.M. Kwan	19,028	01/04/97	01/04/05	44.63
	53,722	26/03/98	26/03/06	38.18
Faustino F. Galang	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
Thomas R. Mainwaring	4,277	26/03/99	26/03/06	42.00
	4,277	26/03/00	26/03/06	42.00
<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
Freddy W.M. Kwan	8,155	01/04/97	01/04/05	77.27
	23,024	26/03/98	26/03/06	54.82
Faustino F. Galang	20,206	01/04/97	01/04/05	77.27
	19,365	26/03/98	26/03/06	54.82
Thomas R. Mainwaring	1,833	26/03/99	26/03/06	60.30
	1,833	26/03/00	26/03/06	60.30

No share options had been exercised by the directors during the year.

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.

Report of the Directors

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 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		Percentage of total issued shares
	Ordinary shares held		
Neptunia Corporation Limited	245,720,800	65.78%	
HKSCC Nominees Limited	72,859,136	19.5%	

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

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.

TRANSACTIONS WITH CONTROLLING SHAREHOLDER OR ITS SUBSIDIARIES

Details of transactions with controlling shareholder or its subsidiaries during the year are set out in Note 24 to the accounts.

Report of the Directors

DISCLOSURE UNDER PRACTICE NOTICE 19 TO THE LISTING RULES

On 8 November 2000, the Company's subsidiary, San Miguel Shunde Brewery Company Limited ("SMSB") obtained a term loan facility of US\$50,000,000 expiring on 7th March 2002. The loan was arranged to repay the syndicated loan drawn in 1997 with the same amount.

According to the terms of the loan agreement, both San Miguel Corporation ("SMC") and San Miguel Brewing International Limited ("SMBIL"), as the controlling shareholders of the Company, are required to comply with the following specific performance obligations:

- a) SMC is required to own beneficially, directly or through wholly owned subsidiaries, 64% or more of the issued share capital of SMBIL;
- b) SMC is required to exercise full control of the Company;
- c) SMC is required to own beneficially an attributable interest of at least 64% in the issued share capital of the Company;

- d) SMBIL is required to exercise full control of SMSB;
- e) SMBIL is required to own beneficially an attributable interest of at least 50% in the registered capital of SMSB.

Breach of such obligations will cause a default in respect of the loan which is significant to the operations of the Company.

CODE OF BEST PRACTICE

Throughout 2000 the Company has complied with paragraphs 1 to 14 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 ("the Fund"), covering local permanent employees, which was registered in September 1995 under the Occupational Retirement Schemes Ordinance. The Fund is formally established under trust and the assets are separately held in an



Report of the Directors

independently administered fund. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the Fund 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.

The Fund was granted exemption from Mandatory Provident Fund regulations by the Mandatory Provident Fund Scheme Authority on 24th July 2000, following modifications to the Fund benefits which comply with Mandatory Provident Fund regulations.

Pursuant to Government legislation, Dresdner RCM was selected by the Company as an alternative Mandatory Provident Fund service provider for employees of the Company who do not wish to remain in or join the Company Fund.

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 San Miguel Brewery Hong Kong Limited Retirement Fund was carried out for 31st December 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 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 \$106,544,000 as at 31st December 1999.
- (C) The minimum level of funding as recommended by the Fund actuary was 7.3% of salary.

Report of the Directors

(D) The solvency basis funding surplus was \$13,160,000 at 31st December 1999.

The unaudited market value of Fund investments as of 31st December 2000 was \$106,148,000.

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

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

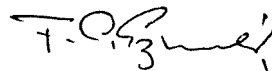
During the financial year ended 31st December 2000, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed shares.

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 53 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

9th February 2001



Directors and Management Executives

DIRECTORS

Francisco C. Eizmendi, Jr.

Chairman

Freddy W.M. Kwan

Managing Director

Ramon S. Ang

Faustino F. Galang

Arthur K.C. Li

Alternate to David K. P. Li

David K.P. Li, *O.B.E., J.P.*

Independent Non-Executive Director

Thomas R. Mainwaring

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 64, 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. Freddy W.M. KWAN, *B.Com. (Hons.)*, aged 52, was appointed Managing Director on 8th November 2000. Mr. Kwan has been a director of the Company since 8th April 1997, and is also a director of various subsidiaries of the Company.

Mr. Ramon S. ANG, *B.S.M.E.*, aged 46, 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 54, 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.

Prof. Arthur K.C. LI, *GBS, M.A., M.D., B.Chir. (Cantab), D.Sc. (Hon.), D.Litt. (Hon.), F.R.C.S. (Eng & Edin), F.R.A.C.S., F.A.C.S. (Hon.), Hon. F.R.C.S. (Glasg & I), Hon. F.R.S.M., Hon. F.P.C.S., J.P.*, aged 55, 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 Mobile (Hong Kong) Limited, Glaxo-Wellcome plc. and Henderson Cyber Limited and non-

Directors and

Management Executives

executive chairman of the Board of Regal Hotel Group plc.

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 61, appointed on 22nd March 1991, is an Independent Non-Executive Director and a member of the Audit Committee 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 and overseas. 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.

Mr. Thomas R. MAINWARING, *B.Com, M.B.A. (Columbia)*, aged 56, Chief Finance Officer and Company Secretary, joined the Company on 1st January 1995 and was appointed director on 8th November 2000. He is also a director of various subsidiaries of the Company. Mr. Mainwaring has

more than 30 years experience, including 6 years with the Company and 28 years in senior managerial and financial positions with a number of Australian companies including BHP, Carlton and United Breweries and Cascade Group.

Attorney Estelito P. MENDOZA, *A.A., L.L.B. (U.P.), L.L.M. (Harvard)*, aged 70, 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.

Mr. Luis E. POBLETE, Jr., *B.S.M.E.*, aged 39, appointed on 27th November 1998, is an Independent Non-Executive Director and a member of the Audit Committee of the Company. Mr. Poblete is President of Poblete Realty Development Corporation, Vice President of Mega Expo Trading Corporation, Director of PNOC — EXPLORATION and Director of PNOC — FILOIL in the Philippines. Other activities have included representing the Philippines in various international and foreign affairs.

Directors and Management Executives

Mr. Ian F. WADE, aged 60, appointed on 25th March 1994, is an Independent Non-Executive Director and a member of the Audit Committee 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

Freddy W.M. Kwan

Managing Director

Thomas R. Mainwaring

Chief Finance Officer & Company Secretary

Herbert W.M. Chu

General Manager — Production & Logistics

Benjamin C. Go Que

Managing Director,

San Miguel Shunde Brewery Co., Ltd.

Kelvin H.Y. Lee

General Manager — Marketing

Roberto D. de Leon

Managing Director,

Guangzhou San Miguel Brewery Co. Ltd.

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. Freddy W.M. KWAN, Managing Director, appointed on 8th November 2000. Please refer to the Directors section for details.

Mr. Thomas R. MAINWARING, Chief Finance Officer and Company Secretary, appointed on 1st January 1995. Please refer to the Directors section for details.

Mr. Herbert W.M. CHU, *B.B.A., M.B.A.*, aged 47, joined the Company in 1977, was appointed General Manager — Production & Logistics on 1st February 1999, and held the position of General Manager — Logistics prior to his present appointment. 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. Benjamin C. GO QUE, *B.Sc. ChE., M.B.A.*, aged 35, was appointed Managing Director of San Miguel Shunde Brewery Co., Ltd. on 1st January 2001, vice Mr. Roberto D. de Leon. Mr. Go Que joined the San Miguel Group in 1988, and held various senior positions within the Group. During his more than 12 years of service, he has gained extensive experience in brewing and operations.



Directors and Management Executives

Mr. Kelvin H.Y. LEE, *B.S.Sc., M.B.A.*, aged 35, was appointed General Manager — Marketing on 1st January 2001. He joined San Miguel Brewing International Limited in 1993 as Manager, Marketing Research & Planning, and held the position of Group Brand Manager, Greater China Operations prior to his present appointment. Mr. Lee has more than 10 years of experience in the marketing of consumer products in Hong Kong and Mainland China.

Mr. Roberto D. de LEON, *Dip. Brewmaster, B.S. ChE., M.B.A.*, aged 47, was appointed Managing Director of Guangzhou San Miguel Brewery Co. Ltd. on 1st January 2001, vice Mr. Khen W. Leong. He joined the San Miguel Group in 1974, and held various senior positions within the Group. Mr. de Leon was Managing Director of San Miguel Shunde Brewery Co., Ltd. prior to his current appointment.

Mr. Peter K.Y. TAM, *B.B.A., M.B.A.*, aged 42, 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 prior to his present appointment. Mr. Tam has more than 10 years of 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 38, was appointed General Manager — Corporate Development on 1st November 1999. He joined the Company as 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 42, General Manager — Human Resources & Administration, joined the Company on 9th May 1994, following employment with various companies in Hong Kong in personnel management.

Note: Mr. John L. Dunwell retired as Managing Director of San Miguel Brewery Hong Kong Limited on 8th November 2000 and Mr. Khen W. Leong retired as Managing Director of Guangzhou San Miguel Brewery Co. Ltd. on 14th January 2001.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the THIRTY-EIGHTH ANNUAL GENERAL MEETING of SAN MIGUEL BREWERY HONG KONG LIMITED will be held at the Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Hong Kong on Friday, 30th March 2001 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 2000.
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, 9th February 2001

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, 26th March 2001 to Friday, 30th March 2001, 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, 23rd March 2001.*



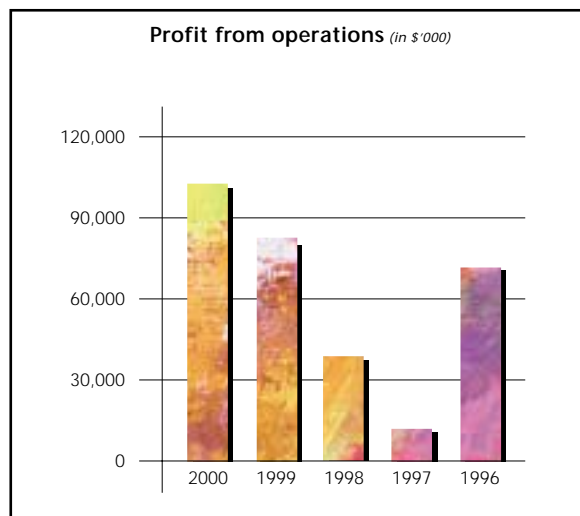
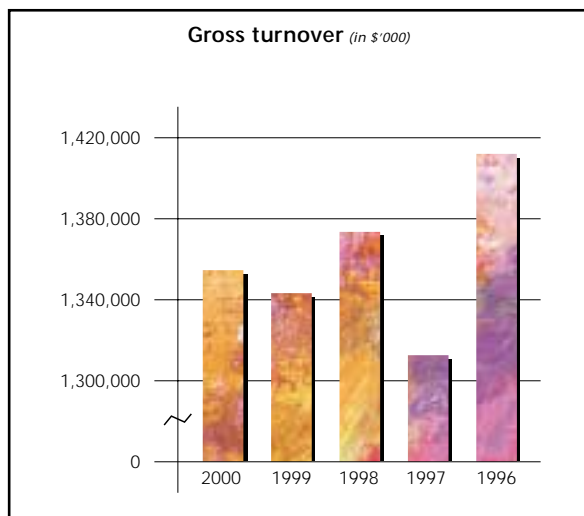
Statistical Analysis of Operations

Years ended 31st December, in dollar thousands except per share data and number of personnel

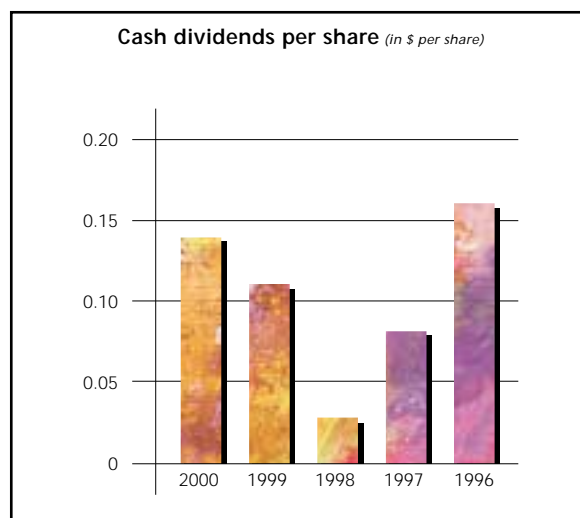
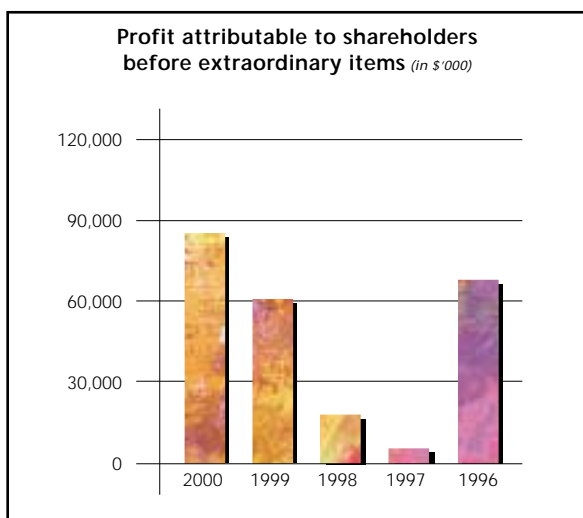
TEN YEAR REVIEW

	2000	1999	1998
Gross turnover (1)	1,355,184	1,342,902	1,378,562
Profit from operations	104,249	83,737	39,409
Profit attributable to shareholders before extraordinary items	87,657	60,100	17,051
Extraordinary items (2)	—	—	—
Profit attributable to shareholders	87,657	60,100	17,051
Taxes paid, including beer tax	160,745	156,038	170,576
Cash dividends	52,300	41,093	11,207
Cash dividends per share (3)	0.14	0.11	0.03
Fixed assets and projects under development	2,214,254	2,276,150	2,347,937
Net worth	2,218,894	2,182,640	2,163,024
Payroll (4)	127,094	144,121	155,400
Number of personnel (5)	1,276	1,345	1,601

- (1) Gross turnover for the years 1995 to 2000 includes 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 equal to 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 in prior years for the period 1996 to 1998.
- (5) Number of personnel represents actual headcount as of the last working day of the year.



1997	1996	1995	1994	1993	1992	1991
1,317,302	1,410,867	1,302,677	1,223,965	1,186,464	1,279,076	1,208,509
10,132	72,784	115,307	108,227	57,724	81,864	110,935
5,492	68,321	165,908	132,886	32,199	52,524	90,954
—	115,803	—	2,900,522	—	—	—
5,492	184,124	165,908	3,033,408	32,199	52,524	90,954
144,620	152,073	132,899	172,287	284,124	296,164	281,793
29,886	59,771	59,771	1,648,803	3,736	63,507	74,714
0.08	0.16	0.16	4.51	0.01	0.17	0.20
2,396,195	2,462,394	2,062,862	1,092,466	670,586	674,700	656,612
2,157,247	2,213,010	2,087,213	1,973,271	630,336	610,646	622,589
147,443	133,838	142,404	145,450	129,691	115,924	106,900
1,655	1,527	1,327	1,573	1,576	1,750	1,814



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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

	<i>Note</i>	2000	1999
Gross turnover	2	1,355,184	1,342,902
Discounts		(147,144)	(143,397)
Cost of sales		(406,673)	(415,931)
Beer duty and taxes		(171,716)	(175,490)
Gross profit		<u>629,651</u>	608,084
Distribution costs		(54,858)	(43,669)
Administrative and selling expenses		(450,369)	(452,871)
Other operating expenses		(20,175)	(27,807)
Profit from operations	3	<u>104,249</u>	83,737
Finance cost	4	(40,322)	(32,254)
Other net income	5	29,681	11,987
Profit before taxation	2	<u>93,608</u>	63,470
Taxation	6	(6,631)	(6,744)
Profit after taxation		<u>86,977</u>	56,726
Minority interests		680	3,374
Profit attributable to shareholders	9, 21	<u>87,657</u>	60,100
Retained profit brought forward		<u>1,878,525</u>	1,859,518
Dividends			
Interim dividends of \$0.03 per share each paid on 19th July and 17th November 2000 and \$0.04 per share on 8th December 2000 (1999: \$0.08 per share)		(37,357)	(29,886)
Proposed final dividend of \$0.04 per share (1999: \$0.03 per share)		(14,943)	(11,207)
	21	<u>(52,300)</u>	(41,093)
Retained profit carried forward	21	<u>1,913,882</u>	1,878,525
Earnings per share	10	<u>\$0.23</u>	\$0.16

The Notes on pages 36 to 51 form part of these accounts

Consolidated Statement of Recognised Gains and Losses

for the years ended 31st December, in dollar thousands

	<i>Note</i>	2000	1999
Exchange difference arising on translation of accounts of foreign entities	21	<u>897</u>	<u>609</u>
Gains not recognised in the Consolidated Statement of Profit and Loss		897	609
Net profit for the year	21	<u>87,657</u>	<u>60,100</u>
Total recognised gains and losses		<u>88,554</u>	<u>60,709</u>

The Notes on pages 36 to 51 form part of these accounts

Consolidated Balance Sheet

as at 31st December, in dollar thousands

	Note	2000	1999
Non-current assets			
Fixed assets	11	2,214,254	2,276,150
Held to maturity securities — unlisted		19,001	—
Other assets	13	7,543	13,729
		<u>2,240,798</u>	<u>2,289,879</u>
Current assets			
Inventories	14	93,244	111,834
Trade and other receivables	15	175,647	192,475
Amounts due from holding company and fellow subsidiaries		72,616	77,343
Held to maturity securities — unlisted		—	10,473
Cash and cash equivalents	16	418,836	323,345
		<u>760,343</u>	<u>715,470</u>
Current liabilities			
Banks loans and advances	17	(78,051)	(93,490)
Creditors and other payables	15	(136,447)	(163,346)
Taxation	6b	(2,186)	(4,616)
Amounts due to holding company and fellow subsidiaries		(23,050)	(25,262)
Dividend payable		(14,943)	(11,207)
		<u>(254,677)</u>	<u>(297,921)</u>
Net current assets		<u>505,666</u>	<u>417,549</u>
Total assets less current liabilities		<u>2,746,464</u>	<u>2,707,428</u>
Non-current liabilities			
Interest-bearing liabilities	17, 18	(390,256)	(388,718)
Leased factory maintenance provision	19	(31,810)	(30,322)
		<u>(422,066)</u>	<u>(419,040)</u>
Minority interests		<u>(105,504)</u>	<u>(105,748)</u>
NET ASSETS		<u>2,218,894</u>	<u>2,182,640</u>
CAPITAL AND RESERVES			
Share capital	20	186,785	186,785
Reserves	21	2,032,109	1,995,855
		<u>2,218,894</u>	<u>2,182,640</u>

Approved by the Board of Directors on 9th February 2001.

Directors:

Francisco C. Eizmendi, Jr.

Freddy W.M. Kwan

The Notes on pages 36 to 51 form part of these accounts

Company Balance Sheet

as at 31st December, in dollar thousands

	Note	2000	1999
Non-current assets			
Fixed assets	11	1,296,256	1,338,325
Interests in subsidiaries	12	666,579	755,688
		<u>1,962,835</u>	<u>2,094,013</u>
Current assets			
Inventories	14	35,056	42,949
Trade and other receivables	15	79,077	51,262
Amounts due from holding company and fellow subsidiaries		69,051	75,003
Cash and cash equivalents	16	9,579	12,966
		<u>192,763</u>	<u>182,180</u>
Current liabilities			
Banks loans and advances	17	—	(4,479)
Creditors and other payables	15	(55,498)	(63,310)
Amounts due to holding company and fellow subsidiaries		(1,236)	(5,771)
Dividend payable		(14,943)	(11,207)
		<u>(71,677)</u>	<u>(84,767)</u>
Net current assets		<u>121,086</u>	<u>97,413</u>
NET ASSETS		<u>2,083,921</u>	<u>2,191,426</u>
CAPITAL AND RESERVES			
Share capital	20	186,785	186,785
Reserves	21	1,897,136	2,004,641
		<u>2,083,921</u>	<u>2,191,426</u>

Approved by the Board of Directors on 9th February 2001.

Directors:

Francisco C. Eizmendi, Jr.

Freddy W.M. Kwan

The Notes on pages 36 to 51 form part of these accounts

Consolidated Cash Flow Statement

for the years ended 31st December, in dollar thousands

	Note	2000	1999
Net cash inflow from operating activities	(a)	<u>204,753</u>	<u>184,900</u>
Returns on investments and servicing of finance			
Interest received		29,433	17,811
Interest paid		(42,606)	(31,401)
Dividends paid		<u>(48,564)</u>	<u>(37,357)</u>
Net cash outflow from returns on investment and servicing of finance		<u>(61,737)</u>	<u>(50,947)</u>
Taxation			
Hong Kong profits tax paid		(3,882)	—
Overseas tax paid		<u>(5,186)</u>	<u>(8,776)</u>
Tax paid		<u>(9,068)</u>	<u>(8,776)</u>
Investing activities			
Purchase of fixed assets		(14,643)	(17,037)
Proceeds on disposal of fixed assets		341	3,568
Purchase of held to maturity securities		(18,857)	(136)
Proceeds on disposal of held to maturity securities/ other unlisted investments		<u>10,373</u>	<u>19,865</u>
Net cash (outflow)/inflow from investing activities		<u>(22,786)</u>	<u>6,260</u>
Net cash inflow before financing		<u>111,162</u>	<u>131,437</u>
Financing			
Proceeds from new bank loan	(b)	8,486	54,460
Repayment of bank loans	(b)	<u>(19,800)</u>	<u>(61,033)</u>
Net cash outflow from financing		<u>(11,314)</u>	<u>(6,573)</u>
Increase in cash and cash equivalents		<u>99,848</u>	<u>124,864</u>
Cash and cash equivalents at beginning of year	(c)	<u>318,866</u>	<u>193,915</u>
Effect of foreign exchange rate changes		<u>122</u>	<u>87</u>
Cash and cash equivalents at end of year	(c)	<u>418,836</u>	<u>318,866</u>

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

	2000	1999
Profit before taxation	93,608	63,470
Interest income	(25,633)	(20,040)
Realised/unrealised loss on unlisted investment	—	2,419
Interest expenses	40,176	32,105
Depreciation and amortisation of fixed assets	78,374	86,892
Amortisation of pre-operating expenses	6,212	6,282
Loss on disposal of fixed assets	1,030	464
Decrease/(increase) in products in hand and in process	11,503	(6,284)
Decrease/(increase) in materials and supplies	7,087	(9,302)
Decrease in trade and other receivables	13,039	8,619
Decrease in net amounts due from holding company and fellow subsidiaries	2,515	11,483
(Decrease)/increase in creditors and other payables	(24,486)	4,799
Increase in leased factory maintenance provision	1,488	4,002
Exchange difference	(160)	(9)
	204,753	184,900

(b) Analysis of changes in financing during the year

	Bank loans and advances repayable after three months	
	2000	1999
Balance at 1st January	477,729	482,976
Proceeds from new bank loan	8,486	54,460
Repayment of bank loans	(19,800)	(61,033)
Exchange difference	1,892	1,326
	468,307	477,729

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

	2000	1999
Cash and cash equivalents	418,836	323,345
Bank advances repayable within three months	—	(4,479)
	418,836	318,866

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. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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 Company's Statement of Profit and Loss.

E. HELD TO MATURITY SECURITIES

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

- (i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held to maturity securities. Held to maturity securities are stated in the Consolidated 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)*

1 Significant Accounting Policies *(Continued)*

E. HELD TO MATURITY SECURITIES *(Continued)*

- (ii) 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.
- (iii) 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:

Asset category	Useful life
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.

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.

Notes to the Accounts *(Continued)*

1 Significant Accounting Policies *(Continued)*

I. REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the Consolidated Statement of Profit and Loss as follows:

- (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 and held to maturity securities is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

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.

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.

Notes to the Accounts *(Continued)*

1 Significant Accounting Policies *(Continued)*

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 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 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.

2 Gross turnover and segmental information

in dollar thousands

The principal activities of the Company and its subsidiaries are 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.

Gross turnover represents the gross invoiced value of products sold.

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

	Group Gross turnover		Group Profit/(loss) before taxation	
	2000	1999	2000	1999
Hong Kong	778,647	778,629	86,588	66,130
The People's Republic of China	576,537	564,273	7,020	(2,660)
	<u>1,355,184</u>	<u>1,342,902</u>	<u>93,608</u>	<u>63,470</u>

Notes to the Accounts *(Continued)*

3 Profit from operations

in dollar thousands

	Group	
	2000	1999
The profit from operations is stated after charging the following items:		
Depreciation and amortisation of fixed assets	78,374	86,892
Amortisation of pre-operating expenses	6,212	6,282
Inventory costs	337,254	343,717
Payroll cost	127,094	144,121
Operating lease charges:		
— Plant and machinery	14,864	15,242
— Land and buildings	15,418	17,585
Retirement costs	11,887	14,404
Auditors' remuneration	2,672	2,279

4 Finance cost

in dollar thousands

	Group	
	2000	1999
Interest expenses	(40,176)	(32,105)
Bank charges	(146)	(149)
	<u>(40,322)</u>	<u>(32,254)</u>

5 Other net income

in dollar thousands

	Group	
	2000	1999
Interest income	25,633	20,040
Rental income	5,775	8,318
Severance payment	(2,764)	(10,822)
Realised/unrealised loss on unlisted investments	—	(2,419)
Loss on disposal of fixed assets	(1,030)	(464)
Other income/(expenses)	2,067	(2,666)
	<u>29,681</u>	<u>11,987</u>

Notes to the Accounts *(Continued)*

6 Taxation

in dollar thousands

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

	Group	
	2000	1999
Hong Kong taxation — under provision in respect of prior years	8	2,902
Overseas taxation	6,623	3,842
	6,631	6,744

No provision has been made for Hong Kong taxation for 2000.

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.

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

	Group	
	2000	1999
Provision for overseas profits tax for the year	3,158	1,714
(Recoverable)/payable Hong Kong tax relating to prior years	(972)	2,902
	2,186	4,616

Amount of taxation payable expected to be settled after more than 1 year is \$nil (1999: \$nil).

7 Directors' emoluments

in dollar thousands

	Group	
	2000	1999
Fees	516	530
Salaries, bonuses and allowances	3,111	3,079
Retirement fund contributions	12	122
Termination payments	—	111
	3,639	3,842

Included in the directors' emoluments were fees of \$466,000 (1999: \$480,000) paid to non-executive directors during the year.

The directors' emoluments are analysed as follows:

	Number of directors	
	2000	1999
\$Nil to \$1,000,000	9	9
\$2,000,001 to \$2,500,000	—	—
\$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	
	2000	1999
Salaries, bonuses and allowances	7,676	8,162
Retirement fund contributions	280	302
	<u>7,956</u>	<u>8,464</u>

Included in the above emoluments for 2000 is a sum of \$362,000 which is also included in directors emoluments (1999: \$nil).

The above emoluments are analysed as follows:

	Number of individuals	
	2000	1999
\$1,000,001 to \$1,500,000	1	—
\$1,500,001 to \$2,000,000	1	2
\$2,000,001 to \$2,500,000	1	1
\$2,500,001 to \$3,000,000	<u>1</u>	<u>1</u>

9 Profit attributable to shareholders

The profit attributable to shareholders included a loss of \$55,205,000 (1999 profit of \$87,332,000) which has been dealt with in the accounts of the Company. The Company's loss for 2000 included a charge of \$152,978,000 which aligns the carrying value of the investment in San Miguel Shunde Brewery Company Limited in the Company's balance sheet with the carrying value of the investment in the Consolidated Balance Sheet.

10 Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of \$87,657,000 (1999: \$60,100,000) and on 373,570,560 ordinary shares (1999: 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*

	Total	Land	Buildings	Machinery, equipment, furniture & fixtures	Motor vehicles	Construction in progress
(a) Group						
Cost						
At 1st January 2000	2,645,322	246,162	842,900	1,461,540	40,480	54,240
Exchange adjustments	3,872	165	1,248	2,122	112	225
Additions	14,643	—	531	5,030	1,478	7,604
Disposals	(4,945)	—	—	(3,514)	(1,314)	(117)
Transfer from construction in progress	—	—	7,106	509	—	(7,615)
At 31st December 2000	<u>2,658,892</u>	<u>246,327</u>	<u>851,785</u>	<u>1,465,687</u>	<u>40,756</u>	<u>54,337</u>
Aggregate amortisation and depreciation						
At 1st January 2000	369,172	2,971	64,374	272,703	29,124	—
Exchange adjustments	666	13	105	472	76	—
Charge for the year	78,374	747	20,490	53,422	3,715	—
Written back on disposals	(3,574)	—	—	(2,420)	(1,154)	—
At 31st December 2000	<u>444,638</u>	<u>3,731</u>	<u>84,969</u>	<u>324,177</u>	<u>31,761</u>	<u>—</u>
Net book value at 31st December 2000	<u>2,214,254</u>	<u>242,596</u>	<u>766,816</u>	<u>1,141,510</u>	<u>8,995</u>	<u>54,337</u>
Net book value at 31st December 1999	<u>2,276,150</u>	<u>243,191</u>	<u>778,526</u>	<u>1,188,837</u>	<u>11,356</u>	<u>54,240</u>
(b) Company						
Cost						
At 1st January 2000	1,538,357	107,292	458,772	958,592	13,692	9
Additions	4,721	—	—	2,559	1,543	619
Disposals	(2,164)	—	—	(1,196)	(968)	—
Transfer from construction in progress	—	—	—	487	—	(487)
At 31st December 2000	<u>1,540,914</u>	<u>107,292</u>	<u>458,772</u>	<u>960,442</u>	<u>14,267</u>	<u>141</u>
Aggregate amortisation and depreciation						
At 1st January 2000	200,032	—	30,012	158,980	11,040	—
Charge for the year	46,662	—	9,175	36,244	1,243	—
Written back on disposals	(2,036)	—	—	(1,183)	(853)	—
At 31st December 2000	<u>244,658</u>	<u>—</u>	<u>39,187</u>	<u>194,041</u>	<u>11,430</u>	<u>—</u>
Net book value at 31st December 2000	<u>1,296,256</u>	<u>107,292</u>	<u>419,585</u>	<u>766,401</u>	<u>2,837</u>	<u>141</u>
Net book value at 31st December 1999	<u>1,338,325</u>	<u>107,292</u>	<u>428,760</u>	<u>799,612</u>	<u>2,652</u>	<u>9</u>

Notes to the Accounts *(Continued)*

11 Fixed assets *(Continued)* *in dollar thousands*

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

	Group		Company	
	2000	1999	2000	1999
Medium term leasehold land				
— in Hong Kong	209,014	209,014	107,292	107,292
— outside Hong Kong	33,582	34,177	—	—
	<u>242,596</u>	<u>243,191</u>	<u>107,292</u>	<u>107,292</u>

(d) The gross amounts of fixed assets of the Group and the Company held for use on short term operating leases were \$204,305,000 (1999: \$203,704,000) and the related accumulated depreciation charges were \$12,559,000 (1999: \$10,513,000).

12 Interests in subsidiaries *in dollar thousands except share capital of subsidiaries*

	Company	
	2000	1999
Unlisted shares, at cost	603,249	603,249
Amounts due from subsidiaries	332,422	329,748
Amounts due to subsidiaries	<u>(116,114)</u>	<u>(177,309)</u>
	819,557	755,688
Less: provision <i>(note 9)</i>	<u>(152,978)</u>	<u>—</u>
	<u>666,579</u>	<u>755,688</u>

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 ("PRC")	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% 100%	— —	Investment Holding
San Miguel Shunde Brewery Company Limited	PRC	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 an equity joint venture formed between the Company's subsidiary, San Miguel (Guangdong) Limited, and Guangzhou Brewery. According to the shareholders' agreement, the company has an operating period of 30 years expiring on 28th November 2020.

San Miguel Shunde Brewery Company Limited is an equity joint venture 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 and deposits for the land and leased factory used by a PRC subsidiary.

Movement in other assets comprise:

	Group	
	2000	1999
Pre-operating expenses:		
Balance at 1st January	6,186	12,435
Amortisation for the year	(6,212)	(6,282)
Exchange difference	26	33
	<u>—</u>	<u>6,186</u>
Deposits for the land and leased factory:		
Balance at 1st January and 31st December	7,543	7,543
	<u>7,543</u>	<u>13,729</u>

14 Inventories

in dollar thousands

	Group		Company	
	2000	1999	2000	1999
Products in hand and in process	15,020	26,523	8,857	19,906
Materials and supplies	78,224	85,311	26,199	23,043
	<u>93,244</u>	<u>111,834</u>	<u>35,056</u>	<u>42,949</u>

The amount of inventories held by the Group carried at net realisable value is \$12,944,000 (1999: \$16,901,000).

15 Trade receivables and creditors — ageing analysis

in dollar thousands

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

The ageing of trade receivables is as follows:

	Group		Company	
	2000	1999	2000	1999
Less than 30 days	63,916	58,527	33,730	18,399
31 to 60 days	46,647	43,621	25,735	13,778
61 to 90 days	19,806	14,967	11,553	6,431
over 90 days	18,847	39,245	556	1,673
	<u>149,216</u>	<u>156,360</u>	<u>71,574</u>	<u>40,281</u>

Notes to the Accounts *(Continued)*

15 Trade receivables and creditors — ageing analysis*(Continued)*
in dollar thousands

The ageing of creditors is as follows:

	Group		Company	
	2000	1999	2000	1999
Less than 30 days	23,094	39,722	14,972	25,407
31 to 60 days	9,556	7,377	3,371	416
61 to 90 days	1,564	4,254	—	177
over 90 days	2,037	7,955	12	1,159
	<u>36,251</u>	<u>59,308</u>	<u>18,355</u>	<u>27,159</u>

16 Cash and cash equivalents
in dollar thousands

	Group		Company	
	2000	1999	2000	1999
Deposits with banks	373,963	273,290	—	—
Cash at bank and in hand	44,873	50,055	9,579	12,966
	<u>418,836</u>	<u>323,345</u>	<u>9,579</u>	<u>12,966</u>

17 Bank loans and advances
in dollar thousands

	Group		Company	
	2000	1999	2000	1999
Secured	—	11,267	—	—
Unsecured	468,307	470,941	—	4,479
	<u>468,307</u>	<u>482,208</u>	<u>—</u>	<u>4,479</u>
Bank loans and advances are repayable as follows:				
Within one year or on demand	78,051	93,490	—	4,479
More than 1 year but less than 2 years <i>(note 18)</i>	390,256	—	—	—
More than 2 years but less than 5 years <i>(note 18)</i>	—	388,718	—	—
	<u>390,256</u>	<u>388,718</u>	<u>—</u>	<u>—</u>
	<u>468,307</u>	<u>482,208</u>	<u>—</u>	<u>4,479</u>

Notes to the Accounts *(Continued)*

18 Interest-bearing liabilities

in dollar thousands

The unsecured bank loan bears interest at the 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.

19 Leased factory maintenance provision

in dollar thousands

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.

	Group	
	2000	1999
Balance at 1st January	30,322	26,320
Provision made during the year	4,080	4,063
Provision utilised	(2,718)	(149)
Exchange difference	126	88
Balance at 31st December	<u>31,810</u>	<u>30,322</u>

20 Share capital

in dollar thousands

	Company	
	2000	1999
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>

Notes to the Accounts *(Continued)*

21 Reserves *in dollar thousands*

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Group					
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	—
Balance at 31st December 1999	<u>1,995,855</u>	<u>65,739</u>	<u>57,312</u>	<u>(5,721)</u>	<u>1,878,525</u>
Balance at 1st January 2000	1,995,855	65,739	57,312	(5,721)	1,878,525
Profit for the year	87,657	—	—	—	87,657
Dividend	(52,300)	—	—	—	(52,300)
Exchange gain arising on consolidation	897	—	—	897	—
Balance at 31st December 2000	<u>2,032,109</u>	<u>65,739</u>	<u>57,312</u>	<u>(4,824)</u>	<u>1,913,882</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/capital reserve arising on acquisition of subsidiaries and translation of foreign currencies (note 1).

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Company					
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	<u>2,004,641</u>	<u>65,739</u>	<u>—</u>	<u>—</u>	<u>1,938,902</u>
Balance at 1st January 2000	2,004,641	65,739	—	—	1,938,902
Loss for the year (<i>note 9</i>)	(55,205)	—	—	—	(55,205)
Dividend	(52,300)	—	—	—	(52,300)
Balance at 31st December 2000	<u>1,897,136</u>	<u>65,739</u>	<u>—</u>	<u>—</u>	<u>1,831,397</u>

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 2000 were \$1,831,397,000 (1999: \$1,938,902,000).

Notes to the Accounts *(Continued)*

22 Deferred taxation

in dollar thousands

Major components of deferred tax are set out below:

	Group			
	2000		1999	
	Potential liabilities Provided	Unprovided	Potential liabilities Provided	Unprovided
Depreciation allowances in excess of related depreciation	—	152,263	—	128,338
Future benefit of tax losses	—	(107,200)	—	(100,035)
	<u>—</u>	<u>45,063</u>	<u>—</u>	<u>28,303</u>

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

23 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	
	2000	1999	2000	1999
Contracted for	808	2,289	808	1,530
Authorised by the directors but not contracted for	6,621	9,744	2,369	2,027
	<u>7,429</u>	<u>12,033</u>	<u>3,177</u>	<u>3,557</u>

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

	Group		Company	
	2000	1999	2000	1999
Land and buildings				
Leases expiring:				
Within 1 year	1,011	4,416	—	3,293
After 1 year but within 5 years	7,562	5,647	9,401	4,902
After 5 years	5,191	5,170	—	—
Plant and machinery				
Leases expiring:				
Within 1 year	—	31	—	31
After 1 year but within 5 years	508	509	508	509
After 5 years	14,326	14,266	—	—
	<u>28,598</u>	<u>30,039</u>	<u>9,909</u>	<u>8,735</u>

Notes to the Accounts *(Continued)*

24 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 2000, total purchases from and sales to these related parties totalled \$90,860,000 (1999: \$82,543,000) and \$18,222,000 (1999: \$24,701,000) respectively. The net amount due to these related parties amounted to \$15,664,000 (1999: \$13,149,000) on 31st December 2000.

In 1996, the Company sold machinery and equipment, on commercial terms, for \$130,463,000 to a holding company of San Miguel Brewery Hong Kong Limited. The amount due from this related party at 31st December 2000 was \$65,230,000 (1999: \$65,230,000) and interest has been charged at a commercial rate.

25 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 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	
	2000	1999
Guarantees to banks	468,306	466,462

26 Comparative figures

The presentation and classification of amounts due from/to holding company and fellow subsidiaries have been changed from the reporting of a net balance to separate disclosure as two distinct line items in the Consolidated Balance Sheet and the Company Balance Sheet. In addition, the deposits for the land and leased factory have been reclassified from trade and other receivables to other non-current assets. Comparative figures have been reclassified to conform with the current year's presentation.

27 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 2000.

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 30 to 51 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.

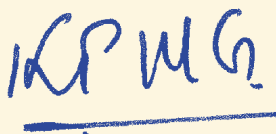
BASIS OF OPINION

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 of the state of affairs of the Company and of the Group as at 31st December 2000 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, 9th February 2001

Five Year Summary

in dollar thousands except per share data

	2000	1999	1998	1997	1996
Results					
Gross turnover	1,355,184	1,342,902	1,378,562	1,317,302	1,410,867
Profit/(loss) before taxation	93,608	63,470	30,637	(7,039)	187,924
Taxation	(6,631)	(6,744)	(11,002)	9,899	4,109
Minority interests	680	3,374	(2,584)	2,632	(8,622)
Profit attributable to shareholders	87,657	60,100	17,051	5,492	184,124
Dividends	52,300	41,093	11,207	29,886	59,771
Transfer (from)/to reserves	—	—	—	(27,864)	124,353
Earnings per share	0.23	0.16	0.05	0.01	0.49
Dividends per share	0.14	0.11	0.03	0.08	0.16
Employment of assets					
Fixed assets	2,214,254	2,276,150	2,347,937	2,396,195	2,462,394
Investments	19,001	10,473	32,594	35,243	24,255
Other assets	7,543	13,729	12,435	18,945	25,665
Inventories	93,244	111,834	96,248	98,423	121,689
Trade and other receivables	248,263	269,818	269,964	225,010	260,387
Cash and cash equivalents	418,836	323,345	202,803	528,704	498,906
	<u>3,001,141</u>	<u>3,005,349</u>	<u>2,961,981</u>	<u>3,302,520</u>	<u>3,393,296</u>
Capital employed and liabilities					
Share capital	186,785	186,785	186,785	186,785	186,785
Reserves	2,032,109	1,995,855	1,976,239	1,970,462	2,026,225
Minority interests	105,504	105,748	108,838	109,438	166,513
Non-current liabilities	422,066	419,040	413,972	432,257	105,141
Short term bank loans and advances	78,051	93,490	104,212	451,557	735,251
Creditors and other payables	161,683	193,224	164,464	152,021	158,438
Proposed dividends	14,943	11,207	7,471	—	14,943
	<u>3,001,141</u>	<u>3,005,349</u>	<u>2,961,981</u>	<u>3,302,520</u>	<u>3,393,296</u>





TAKRA fresh look

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