



SAN MIGUEL BREWERY
HONG KONG LTD.

香港生力啤酒廠有限公司

Annual Report
2001
年報



our cover

The Pearl River Delta is one of the most dynamic and concentrated areas of economic activity in China. Its continued economic development should provide positive impetus for economic recovery in Hong Kong. **San Miguel Brewery Hong Kong Limited** is determined to maintain its leadership in the premium market segment in the Pearl River Delta and market leadership in Hong Kong, and to increase the advantage over competitors.

封面內容

珠江三角洲為中國經濟活動最活躍，而且最集中之地區之一，其持續經濟發展將有助帶動香港經濟復甦。**香港生力啤酒廠有限公司**致力保持在珠江三角洲高檔市場以及香港整體市場之領導地位，進一步壓倒競爭對手。



CONTENTS

	PAGE
CORPORATE INFORMATION	2
THE YEAR'S HIGHLIGHTS	3
CHAIRMAN'S STATEMENT	5
REPORT OF THE DIRECTORS	11
DIRECTORS AND MANAGEMENT EXECUTIVES	20
NOTICE OF ANNUAL GENERAL MEETING	23
STATISTICAL ANALYSIS OF OPERATIONS	24
FINANCIAL STATEMENTS SECTION	27
REPORT OF THE AUDITORS	52
FIVE YEAR SUMMARY	53

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, G.B.S., J.P.
alternate to David K.P. Li
David K.P. Li, G.B.S., J.P.*
Thomas R. Mainwaring
Estelito P. Mendoza
Wai Sun Ng*
Luis E. Poblete, Jr.*
Ian F. Wade*

* *Independent Non-Executive Directors*

AUDIT COMMITTEE

David K.P. Li, G.B.S., 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
BNP Paribas
Hang Seng Bank Limited
Standard Chartered Bank
The Bank of East Asia, Limited
The Hongkong and Shanghai
Banking Corporation Limited
UBS AG

THE YEAR'S HIGHLIGHTS

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

	2001	Restated 2000
Gross turnover	1,376,423	1,433,150
Profit attributable to shareholders	88,734	87,657
Earnings per share	0.24	0.23
Taxes paid, including beer tax	170,830	160,745
Taxes paid per share	0.46	0.43
Cash dividends attributable to the year	160,636	52,300
Cash dividends per share	0.43	0.14
Fixed assets	2,156,190	2,214,254
Net worth	2,161,839	2,233,837
Payroll	126,053	127,094
Number of shares issued	373,570,560	373,570,560
Number of shareholders	2,757	2,781
Number of personnel	1,268	1,276

Our Products

我們的產品



CHAIRMAN'S STATEMENT



Mr. Francisco C. Eizmendi, Jr.
Chairman

To Our Shareholders,

The Group has recorded a modest increase in profit after absorbing incremental beer duty of nearly \$20 million as a result of the increase in the rate of beer duty imposed by Government in early March 2001.

Nevertheless, it is pleasing to report that success was achieved in the long term objective of increasing value for our shareholders.

The Company's 2001 closing share price was \$2.225 compared with \$1.41 for 2000, an increase of 57.8%. The increase, in part, reflects the Group's ability to maintain profitability in difficult circumstances.

Shareholders also received cash dividends of 43 cents per share during the year, including the special dividend of 27 cents per share in May 2001.

FINANCIAL RESULTS

Profit attributable to shareholders was \$88.734 million, marginally ahead of the previous year's result of \$87.657 million. Earnings per share were 23.75 cents compared with 23.46 cents in 2000.

Sales volume in Hong Kong, including exports, was 8.6% ahead of the previous year. However volume in South China declined by 11% as a result of reduced sales of low margin products.

Consolidated sales turnover of \$1,376.423 million was 4% less than the previous year.

Profit from operations of \$101.787 million was slightly higher than the prior year as the improved result from Hong Kong operations was offset by lower results in South China.

The achievement of these operating results required considerable discipline, given the negative effects of reduced sales volume in South China and the higher rate of beer duty in Hong Kong. The latter reduced the Group's profit by \$19.665 million as the additional beer duty was not passed on to consumers. The operating profit result was achieved by tight control of promotional expenditure, down \$20.980 million, and overhead costs.

Administrative and selling overhead costs were held to the same level as the previous year.

Finance costs, principally from debt related to San Miguel Shunde Brewery Company Limited, were \$16.895 million lower because of substantially lower interest rates prevailing during the year and lower total debt.

CHAIRMAN'S STATEMENT

Similarly, other net income was \$16.033 million less than the prior year as interest income declined by \$12.826 million mainly as a result of lower interest rates and also lower cash balances due to the repayment of term debt and the special dividend of \$100.864 million paid to shareholders in May 2001.

Total debt at year end was \$273.007 million, 12.6% of shareholders funds. The Company, San Miguel Brewery Hong Kong Limited remains debt free. The US\$25 million (\$195.005 million) loan from Bank of America to San Miguel Shunde Brewery Company Limited is the Group's only term loan. This loan expires in March 2002.

Cash and investments at year end totalled \$290.028 million, a reduction of \$147.809 million compared with year 2000. This was the result of net cash inflow of \$207.832 million, dividend payments of \$160.636 million and repayment of long term debt of \$195.005 million.

Cash and investments at the end of 2001 were equal to 77.6 cents per share representing 35% of the Company's market capitalisation at that time.

The Group has a strong balance sheet to face the future, particularly the challenge of improved performance in South China.

CHANGE IN BOARD LOT SIZE

The Company increased the board lot size for trading in its shares from 400 shares to 2,000 shares on 3rd October 2001 in order to reduce transaction costs per share for the Company's shareholders and investors.

DIVIDENDS

The Directors have recommended the payment of a fourth and final dividend for the year ended 31st

December 2001 of 4 cents per share. Three interim dividends totalling 12 cents per share were paid in 2001. The final dividend will lift total dividends for 2001 to 16 cents per share, an increase of 2 cents per share (14.3%) over the 14 cents per share paid in 2000.

In addition to the normal dividends paid and declared for the year, the Company paid a special dividend of 27 cents per share on 10th May 2001 from reserves.

BUSINESS REVIEW

The global economy, already in decline during the first six months of the year, suffered a further setback as a result of the tragic events in the United States on 11 September, which badly affected consumer confidence. The economic downturn has had an adverse impact on many open economies in Asia, including Hong Kong, which has been suffering a lingering economic slowdown since the end of 2000.

One major exception to the global economic slump has been Mainland China, where sustained domestic demand has enabled the economy to record an exceptional GDP growth of 7.3% in 2001. China's accession to the World Trade Organisation in December 2001 marks the beginning of a new era of the global economy and brings vast trade opportunities for many, including the people of Hong Kong.

The Pearl River Delta, stretching from Hong Kong and Shenzhen in the southeast, to Dongguan and Guangzhou in the north, and Macau, Zhuhai and Zhongshan in the southwest, is one of the most dynamic and concentrated areas of economic activity in China. Hong Kong's economic future is linked to integration with the Pearl River Delta hinterland, and continued economic development of the Pearl River Delta should provide positive impetus for economic recovery in Hong Kong.

CHAIRMAN'S STATEMENT

HONG KONG OPERATIONS

As a result of the global recession, the year 2001 has been a difficult and challenging one for the beer market in Hong Kong. The Company encountered difficult operating conditions with competitors in the beverage industry resorting to aggressive price reduction initiatives.

The rate of duty on beer was increased on 8th March 2001 from 30% to 40%. In consideration of the difficult market conditions prevailing in Hong Kong, the Company decided not to increase its prices and consequently has absorbed the full impact of the tax increase in the amount of \$19.665 million.

However it is pleasing to report that, despite these impediments, the Company achieved its volume, profit and cash flow targets for the year.

The financial targets were achieved by tightly controlling our overhead costs and by various cost reduction programmes, thus partially offsetting the negative impact of the beer duty increase.

Sales volume increased by 8.6%, principally driven by exports. Once again, total San Miguel branded products recorded gains in market share.

Our highly professional, committed and motivated sales team continues to be one of our competitive advantages. Various key sales initiatives implemented in different distribution channels during the year further strengthened our quality of services to customers and end consumers.

Independent market research has indicated an increasing demand by consumers for a more drinkable, light and refreshing beer. In order to capture this new market segment and to expand overall corporate market share, a new product, San Mig Light, was launched in Hong Kong in April 2001. This was positively received by our

target audience. A multi-million dollar marketing campaign was aired during April and October to promote the refreshing image of San Mig Light. New TV commercials, featuring Sammy, the fun and playful icon for San Mig Light, have received a positive response from our target consumers.

While the winning of awards has not been a specific goal, I am proud to report to our shareholders that the Company won a Quality Award from the Hong Kong Trade and Industry Department at the 2001 Quality Award in November 2001. Following the ISO9002 accreditation in 1998, this accolade represents a timely recognition of the Company's excellent performance at all levels of operations and its significant contribution as one of the best performers in quality management in the Hong Kong industry.

SOUTH CHINA OPERATIONS

The economy of China enjoyed an exceptional performance in year 2001 amid the global downturn. Real GDP growth is estimated to have been 7.3% in 2001. However, China's economic growth was supported by massive state spending and strong domestic demand as the global slowdown in economic growth hit exports. Overall consumer confidence was adversely affected by continued restructuring of the state sector, with millions of workers expected to be laid off from state firms owing to sweeping economic reforms after China's accession to the World Trade Organisation.

During the year the Group restructured its management in order to focus on its goals in the Pearl River Delta region, particularly the positioning of brand San Miguel as the most preferred premium brand. This involved the integration of operations in Hong Kong and South China, the appointment of key managers with regional responsibilities and the continuing development of professional skills in all areas of operation, drawing upon the best practice and the specific knowledge and skills available within the Group.

CHAIRMAN'S STATEMENT

Sales volume in South China fell short of the previous year's sales. San Miguel brand beer volumes were virtually the same as for the year 2000 as lower sales in the intensively competitive Guangzhou city offset growth achieved in other areas.

Lower sales of Guang's Pineapple Beer and Dragon Beer were primarily responsible for the volume decline.

Guang's Pineapple Beer is a low profit margin product following the imposition in 2000 of beer tax by liquid volume rather than alcohol content. As a consequence, promotional support for the product was withdrawn in 2001.

Dragon Beer is produced on a contract basis for the minority shareholder in the San Miguel Shunde Brewery Company Limited and its sales performance is not under the control of the Group.

Despite the unsatisfactory sales results, it is important to note that the sales organisation has been substantially strengthened, particularly the direct sales team, which achieved impressive growth in direct sales volume over the previous year.

The continued development of the sales organisation and improvement in quality of personnel and systems are important in driving improved results in 2002 and beyond.

To explore further opportunities in the South China market and to satisfy varying consumer tastes, San Mig Light was also launched in Guangzhou in May 2001. With effective advertising and promotion support, the sales results were very satisfactory and well ahead of projections set before the launch.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

As a responsible corporate citizen, the Group is committed to the sponsorship of community events

and activities, and continued to make regular donations to charitable institutions and non-profit organisations in 2001.

The Group also meets and often exceeds the environmental protection standards set by the local government.

Following the successful implementation of the Safety and Health programme in 2000, a series of training and communication sessions were organised during 2001 to further encourage and strengthen employees' compliance with general safety and health rules.

HUMAN RESOURCES

The Group has always considered its employees to be its most valuable resource and ensures that all employees receive competent support from their colleagues, with emphasis on a strong team spirit in order to achieve targeted results. In this regard, we have recorded significant achievements in improving our processes and systems in order to enhance our competitive edge in the beer industry and to ensure increased long-term value for our shareholders.

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

YEAR 2002 DIRECTION AND CHALLENGES

I am happy to report that the Group has achieved the milestones set for 2001 in the objectives set out in last year's Annual Report, particularly, in exploring and developing new market segments, and in the expanded coverage of markets in the Pearl River Delta region. The development of a skilled and competent sales team in South China by leveraging on the synergy of integration of our Hong Kong and South China operations is continuing. San Miguel is the most preferred premium

CHAIRMAN'S STATEMENT

brand in the Pearl River Delta. The Group is well positioned to capitalise on the opportunities that will arise as a result of China's continued growth and its entry into the World Trade Organisation.

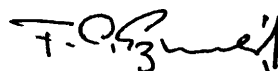
The objectives for 2002 include:

- Realising the benefits from the organisational restructure and integration of Hong Kong and South China operations implemented in 2001.
- Further developing and strengthening sales execution capability and the associated supporting functions of logistics, information technology, finance and administration.
- Maintaining leadership in the premium market segment in the Pearl River Delta and market leadership in Hong Kong, particularly with San Miguel Pale Pilsen and San Mig Light beer brands and increasing the advantage over competitors.
- Laying the foundation for future volume growth while achieving the financial targets for long term increase in shareholder value.

DIRECTORS

With the exception of Mr. Wai Sun Ng, the directors of the Company were directors for the whole year of 2001. We take this occasion to welcome Mr. Wai Sun Ng, who was appointed to the Board effective 1st April 2001.

Last but not the least, let me express my warmest appreciation to my fellow directors for their wise counsel and guidance. I also take the opportunity to acknowledge the tireless efforts and wholehearted dedication of our employees in meeting our goals during this demanding year, and to all customers and to our shareholders for your continued support of the Group.



Francisco C. Eizmendi, Jr.

Chairman

7th March 2002

Our Consumers
我們的顧客



REPORT OF THE DIRECTORS

To be presented at the Thirty-Ninth Annual General Meeting of shareholders to be held at the Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12th April 2002 at 2:00 p.m.

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES

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

The analysis of geographical locations of the operations of the Group during the financial year are set out in Note 13 on the financial statements.

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2001 the percentages of the Group's gross turnover and purchases attributable to major customers and suppliers were as follows:

Gross turnover attributable to:

Largest customer	6.8%
Five largest customers	29.3%

Purchases attributable to:

Largest supplier	5.6%
Five largest suppliers	22.3%

As at 31st December 2001, 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 any interest in the above major customers or suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31st December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 51 of this Annual Report.

REPORT OF THE DIRECTORS

DIVIDENDS

A special dividend of twenty seven cents per share was declared on 30th March 2001 and paid on 10th May 2001.

The first, second and third dividends, each of four cents per share, were paid on 19th July 2001, 27th September 2001 and 28th December 2001 to shareholders of record on 3rd July 2001, 17th September 2001 and 12th December 2001 respectively. The directors recommend the payment of a final dividend of four cents per share on 16th April 2002 to shareholders of record on 26th March 2002.

CHANGE OF INTERIM REPORTING PERIOD

The interim reporting period of the Group was changed to the six months ending 30th June from the previous interim reporting period of eight months to 31st August.

CHANGE OF BOARD LOT SIZE

The board lot size for trading in the Company's shares was increased from 400 shares to 2,000 shares with effect from 3rd October 2001.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 24 on the financial statements.

CHARITABLE AND OTHER DONATIONS

The Group made donations for charitable and other purposes totalling \$126,000 (2000: \$237,565) during the financial year.

FIXED ASSETS

The Group spent \$25 million (2000: \$15 million) on fixed assets during the year. Particulars of the movements of fixed assets during the year are set out in Note 14 on the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 15 on the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

Working capital at the end of the year was \$293 million compared with \$524 million in 2000.

Cash and bank deposits at year end were \$241 million (2000: \$419 million) and are sufficient to fund working capital requirements and capital expenditure in 2002.

REPORT OF THE DIRECTORS

BANK LOANS AND OTHER BORROWINGS

The Group has short term credit facilities of \$331 million (2000: \$356 million) of which \$78 million (2000: \$78 million) had been utilised as at 31st December 2001.

Long term loans at the year end amounted to \$195 million (2000: \$390 million).

Total borrowings at the year end for the Company were \$nil (2000: \$nil) and for the Group \$273 million (2000: \$468 million).

Particulars of bank loans and other borrowings of the Company and the Group are set out in Note 20 on the financial statements.

DIRECTORS

With the exception of Mr. Wai Sun Ng, the directors of the Company, whose names appear on page 20 of the Annual Report, were directors for the whole of the year.

Messrs. Freddy W.M. Kwan, Dr. David K.P. Li and Ian F. Wade 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. Wai Sun Ng, 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 2001, 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
Francisco C. Eizmendi, Jr.		2,816
David K.P. Li		300,000

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS (Continued)

Name	Number of shares in San Miguel Corporation Personal Interests
Class A (par value of 5 pesos each):	
Francisco C. Eizmendi, Jr.	298,768
Ramon S. Ang	6,050
Faustino F. Galang	161,242
Estelito P. Mendoza	31,972
Class B (par value of 5 pesos each):	
Francisco C. Eizmendi, Jr.	7,613
Faustino F. Galang	5,270

As at 31st December 2001, the directors and their associates had the following beneficial interests in share options of the Company's associated corporation as recorded in the register required under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

Name	Share Options in San Miguel Corporation			
	Number of Options	Date Granted	Exercisable Period Up To	Exercise Price (pesos)
Class A (par value of 5 pesos each):				
Francisco C. Eizmendi, Jr.	293,410	24/02/94	24/02/02	37.04
	284,430	27/03/95	27/03/03	44.13
	32,805	10/04/96	10/04/04	35.18
	213,805	01/04/97	01/04/05	40.57
	294,531	26/03/98	26/03/06	34.71
Faustino F. Galang	68,015	27/03/95	27/03/03	44.13
	51,860	01/04/97	01/04/05	40.57
	49,703	26/03/98	26/03/06	34.71
Freddy W.M. Kwan	19,028	01/04/97	01/04/05	44.63
	53,722	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
	4,277	26/03/01	26/03/06	42.00
Class B (par value of 5 pesos each):				
Francisco C. Eizmendi, Jr.	91,631	01/04/97	01/04/05	70.25
	126,227	26/03/98	26/03/06	49.84
Faustino F. Galang	22,226	01/04/97	01/04/05	70.25
	21,302	26/03/98	26/03/06	49.84
Freddy W.M. Kwan	8,155	01/04/97	01/04/05	77.27
	23,024	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
	1,833	26/03/01	26/03/06	60.30

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS *(Continued)*

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

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.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2001 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	71,168,074	19.05%

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 and 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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

- (a) During the year, the Company and its subsidiaries entered into the following transactions with San Miguel Corporation (“SMC”), the ultimate holding company of the Company, and SMC’s subsidiaries which constituted connected transactions as defined in the Listing Rules:

(in dollars thousand except percentage)

- (1) Purchase of cans by the Company from San Miguel Yamamura Ball Corporation

Aggregate Amount		% of net tangible assets*	
2001	2000	2001	2000
34,870	39,856	1.56	1.82

- (2) Purchase of bottles by the Company and its subsidiaries, Guangzhou San Miguel Brewery Company Limited (“GSMB”) and San Miguel Shunde Brewery Company Limited (“SMSB”) from Zhaoqing San Miguel Glass Co., Ltd. and San Miguel Yamamura Haiphong Glass Co., Ltd.

Aggregate Amount		% of net tangible assets*	
2001	2000	2001	2000
34,574	35,442	1.55	1.62

- (3) Purchase of crates by GSMB from San Miguel Shunde Packaging Co., Ltd.

Aggregate Amount		% of net tangible assets*	
2001	2000	2001	2000
7,538	3,501	0.34	0.16

- (4) Purchase of packaged beer by the Company from SMC

Aggregate Amount		% of net tangible assets*	
2001	2000	2001	2000
2,831	2,380	0.13	0.11

- (5) Sales of packaged beer by the Company and its subsidiaries, GSMB and SMSB, to San Miguel Brewing International Limited, San Miguel Bada (Boading) Brewery Co., Ltd. and San Miguel (China) Investment Company Limited

Aggregate Amount		% of net tangible assets*	
2001	2000	2001	2000
46,596	18,158	2.09	0.83

* Net tangible assets have been adjusted for the change in accounting policy for dividend recognition as set out in Note 12 on the financial statements.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

The Company has been granted conditional waivers by The Stock Exchange of Hong Kong Limited from strict compliance with the Listing Rules in respect of the connected transactions abovementioned.

The directors, including the independent non-executive directors, of the Company have reviewed the abovementioned connected transactions and confirmed that:

- the connected transactions were:
 - (i) entered into in the ordinary and usual course of business;
 - (ii) conducted on normal commercial terms; which were no less favourable than those available to or from independent third parties; and
 - (iii) fair and reasonable so far as the shareholders are concerned.
- the connected transactions have been conducted such that the aggregate amount for each type of the abovementioned transactions has not exceeded 3% of the net tangible asset value of the Group as at 31st December 2000.

- (b) The Company issued corporate guarantees to banks in respect of loan facilities granted to San Miguel Shunde Brewery Company Limited ("SMSB"), a non-wholly owned subsidiary of the Company, which are as follows:

Date of agreement	Guaranteed amount
26th January 1996	US\$12,000,000
8th November 2000	US\$50,000,000

- (c) On 17th April 2001, Best Investments International Inc., a wholly owned subsidiary of the Company, advanced San Miguel Shunde Brewery Company Limited ("SMSB"), a non-wholly owned subsidiary of the Company, US\$25,000,000 for one year. The loan is unsecured and renewable subject to agreement between the parties. Interest is calculated at the three month London Interbank Offer Rate for each three month period. On 17th May 2001, SMSB used the proceeds of the loan to repay US\$25,000,000 of the US\$50,000,000 term loan borrowed from Bank of America, National Association Guangzhou Branch.

DISCLOSURE UNDER PRACTICE NOTICE 19 TO THE LISTING RULES

On 8th November 2000, the Company's subsidiary, San Miguel Shunde Brewery Company Limited ("SMSB") obtained a term loan facility of US\$50,000,000 from Bank of America, National Association Guangzhou Branch expiring on 7th March 2002. The loan was used to repay the syndicated loan established on 7th March 1997 of the same amount.

On 17th May 2001, SMSB made an early repayment of US\$25 million or 50% of the loan to the lender as reported above.

REPORT OF THE DIRECTORS

DISCLOSURE UNDER PRACTICE NOTICE 19 TO THE LISTING RULES *(Continued)*

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 over 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 over the 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.

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 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 (“MPF”) service provider for employees of the Company who do not wish to remain in or join the Company Fund. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000.

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 subsidiaries with respect to the Central Pension Scheme is the associated required contribution under the Central Pension Scheme.

REPORT OF THE DIRECTORS

RETIREMENT AND PENSION PLANS, PERSONNEL AND PAYROLL *(Continued)*

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.
- (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 2001 was \$89,351,000.

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 year ended 31st December 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed shares.

FIVE YEAR SUMMARY

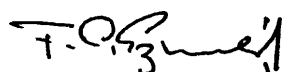
A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 53 of this Annual Report.

CODE OF BEST PRACTICE

Throughout 2001 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.

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

7th March 2002

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, *G.B.S., J.P.*

Alternate to David K.P. Li

David K.P. Li, *G.B.S., J.P.*

Independent Non-Executive Director

Thomas R. Mainwaring

Estelito P. Mendoza

Wai Sun Ng

Independent Non-Executive Director

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 65, 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 53, was appointed Managing Director on 8th November 2000. He has been a director of the Company since 8th April 1997, and is also a director of various subsidiaries of the Company. Mr. Kwan has more than 30 years experience, including 5 years with the Group, 14 years with Coca-Cola Export Corporation and 6 years with Kraft Foods International, Inc. Mr. Kwan has 17 years of senior managerial experience in China.

Mr. Ramon S. ANG, *B.S.M.E.*, aged 47, 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 55, 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, *G.B.S., M.A., M.D., B.Chir. (Cantab), D.Sc. (Hon.), D.Litt. (Hon.), Hon. Doc. (Soka), 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 56, 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, Henderson Cyber Limited and The Wharf (Holdings) Ltd. and non-executive chairman of the Board of Corus and Regal Hotels.

DIRECTORS AND MANAGEMENT EXECUTIVES

Dr. The Hon. David K.P. Li, *G.B.S., 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 62, 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 57, Chief Financial 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 7 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 71, 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. Wai Sun NG, aged 58, appointed on 1st April 2001, is an Independent Non-Executive Director. Mr. Ng is Chairman of Jibsen Capital (Holdings) Limited.

Mr. Luis E. POBLETE, Jr., *B.S.M.E.*, aged 40, 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.

Mr. Ian F. WADE, aged 61, 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. Prior to joining the Hutchison Group, Mr. Wade was a member of the ASDA Board of Directors in the United Kingdom. Mr. Wade has over 40 years of experience in the retail industry, and was the inaugural Chairman of the Hong Kong Retail Management Association. He is a member of the Hong Kong Logistics Development Council, and the Sponsorship and Fund Raising Sub-Committee of the Hong Kong Tourism Board. He also sits on the Board of the Community Chest of Hong Kong and the Hong Kong Red Cross.

DIRECTORS AND MANAGEMENT EXECUTIVES

MANAGEMENT EXECUTIVES

Freddy W.M. Kwan

Managing Director

Thomas R. Mainwaring

Chief Financial 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. Please refer to the Directors section for details.

Mr. Thomas R. MAINWARING, Chief Financial Officer and Company Secretary. Please refer to the Directors section for details.

Mr. Herbert W.M. CHU, *B.B.A., M.B.A.*, aged 48, General Manager – Production & Logistics, joined the Company in 1977. During his 24 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 36, Managing Director of San Miguel Shunde Brewery Co., Ltd., joined the San Miguel Group in 1988. During his 13 years of service, Mr. Go Que has gained extensive experience in brewing and operations and held various senior positions within the Group.

Mr. Kelvin H.Y. LEE, *B.S.Sc., M.B.A.*, aged 36, General Manager – Marketing, joined San Miguel Brewing International Limited in 1993. 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 48, Managing Director of Guangzhou San Miguel Brewery Co. Ltd., joined the San Miguel Group in 1974. During his 27 years of service, Mr. de Leon has gained extensive experience in brewing and operations and held various senior positions within the Group.

Mr. Peter K.Y. TAM, *B.B.A., M.B.A.*, aged 43, General Manager – Sales, joined the Company in 1993. Mr. Tam has more than 15 years of experience in the selling and marketing of consumer products in Hong Kong and Mainland China.

Mr. Ben M.B. WONG, *M.B.A., F.C.C.A., A.H.K.S.A., A.S.A.*, aged 39, General Manager – Corporate Development, joined the Company in 1997. Mr. Wong has more than 15 years of business experience in various industries in senior managerial and financial positions in Hong Kong and Mainland China.

Dr. Felix W.K. YIP, *D.B.A., LL.M., M.Sc. (Per. Mgt.), M.B.A., M.Sc. (Eng.), F.I.P.D. (U.K.)*, aged 43, General Manager – Human Resources & Administration, joined the Company in 1994. Dr. Yip has more than 15 years of experience in human resources management in Hong Kong and Mainland China.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the THIRTY-NINTH ANNUAL GENERAL MEETING of SAN MIGUEL BREWERY HONG KONG LIMITED will be held at the Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12th April 2002 at 2:00 p.m. for the purpose of transacting the following ordinary business:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31st December 2001.
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, 7th March 2002

Notes:

1. Shareholders are entitled to appoint one or more proxies to attend and vote in their stead at the meeting. A proxy needs 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 Tuesday, 26th March 2002 to Thursday, 28th March 2002, 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 Monday, 25th March 2002.

STATISTICAL ANALYSIS OF OPERATIONS

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

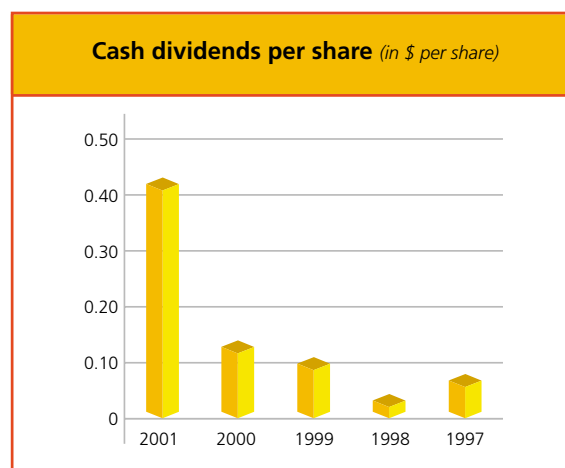
TEN YEAR REVIEW

	2001	2000	1999
Gross turnover (1)	1,376,423	1,433,150	1,342,902
Profit from operations	101,787	100,723	83,737
Profit attributable to shareholders before extraordinary items	88,734	87,657	60,100
Extraordinary items (2)	–	–	–
Profit attributable to shareholders	88,734	87,657	60,100
Taxes paid, including beer tax	170,830	160,745	156,038
Cash dividends attributable to the year	160,636	52,300	41,093
Cash dividends per share (3)	0.43	0.14	0.11
Fixed assets and projects under development	2,156,190	2,214,254	2,276,150
Net worth (6)	2,161,839	2,233,837	2,193,847
Payroll (4)	126,053	127,094	144,121
Number of personnel (5)	1,268	1,276	1,345

- (1) Gross turnover for the years 1995 to 2001 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.
- (6) Adjusted for change in accounting policy of dividend recognition.



1998	1997	1996	1995	1994	1993	1992
1,378,562	1,317,302	1,410,867	1,302,677	1,223,965	1,186,464	1,279,076
39,409	10,132	72,784	115,307	108,227	57,724	81,864
17,051	5,492	68,321	165,908	132,886	32,199	52,524
–	–	115,803	–	2,900,522	–	–
17,051	5,492	184,124	165,908	3,033,408	32,199	52,524
170,576	144,620	152,073	132,899	172,287	284,124	296,164
11,207	29,886	59,771	59,771	1,648,803	3,736	63,507
0.03	0.08	0.16	0.16	4.51	0.01	0.17
2,347,937	2,396,195	2,462,394	2,062,862	1,092,466	670,586	674,700
2,170,495	2,157,247	2,227,953	2,102,156	2,537,363	634,072	625,589
155,400	147,443	133,838	142,404	145,450	129,691	115,924
1,601	1,655	1,527	1,327	1,573	1,576	1,750



Our Marketing Initiatives - San Miguel Pale Pilsen

我們的市務推廣活動— 生力啤酒



FINANCIAL STATEMENTS SECTION

	PAGE
CONSOLIDATED STATEMENT OF PROFIT AND LOSS	28
CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES	29
CONSOLIDATED BALANCE SHEET	30
COMPANY BALANCE SHEET	31
CONSOLIDATED CASH FLOW STATEMENT	32
NOTES TO THE FINANCIAL STATEMENTS	34

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

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

	Note	2001	Restated 2000
Gross turnover	2	1,376,423	1,433,150
Discounts		(252,127)	(265,562)
Cost of sales		(405,681)	(427,089)
Beer duty and taxes		(184,594)	(175,057)
Gross profit		534,021	565,442
Distribution costs		(50,572)	(54,858)
Administrative and selling expenses		(366,080)	(389,686)
Other operating expenses		(15,582)	(20,175)
Profit from operations	3	101,787	100,723
Finance costs	4	(23,427)	(40,322)
Other net income	5	17,174	33,207
Profit before taxation		95,534	93,608
Taxation	6(a)	(5,131)	(6,631)
Profit after taxation		90,403	86,977
Minority interests		(1,669)	680
Profit attributable to shareholders	9, 24	88,734	87,657
Dividends attributable to the year	10		
Special dividend declared during the year		(100,864)	–
First interim dividend declared during the year		(14,943)	(11,207)
Second interim dividend declared during the year		(14,943)	(11,207)
Third interim dividend declared during the year		(14,943)	(14,943)
Final dividend proposed after the balance sheet date		(14,943)	(14,943)
		(160,636)	(52,300)
Earnings per share	11	\$0.24	\$0.23

The Notes on pages 34 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the years ended 31st December, in dollar thousands

	Note	2001	2000
Exchange difference arising on translation of financial statements of foreign entities	24	(96)	897
(Losses)/gains not recognised in the Consolidated Statement of Profit and Loss		(96)	897
Net profit for the year	24	88,734	87,657
Total recognised gains and losses		88,638	88,554

The Notes on pages 34 to 51 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 31st December, in dollar thousands

	Note	2001	Restated 2000
Non-current assets			
Fixed assets	14	2,156,190	2,214,254
Held to maturity securities – unlisted		48,584	19,001
Other assets	16	7,540	7,543
		2,212,314	2,240,798
Current assets			
Inventories	17	95,503	93,244
Trade and other receivables	18	174,767	175,647
Tax recoverable	6(b)	–	972
Amounts due from holding company and fellow subsidiaries		13,729	72,616
Cash and cash equivalents	19	241,444	418,836
		525,443	761,315
Current liabilities			
Banks loans and advances (unsecured)	20	(78,002)	(78,051)
Trade and other payables	18	(142,057)	(136,447)
Taxation	6(b)	(278)	(53)
Amounts due to holding company and fellow subsidiaries		(12,325)	(23,050)
		(232,662)	(237,601)
Net current assets		292,781	523,714
Total assets less current liabilities		2,505,095	2,764,512
Non-current liabilities			
Interest-bearing liabilities (unsecured)	20	(195,005)	(390,256)
Leased factory maintenance provision	21	(35,874)	(31,810)
Deferred taxation	22(a)	(6,026)	(3,105)
		(236,905)	(425,171)
Minority interests		(106,351)	(105,504)
NET ASSETS		2,161,839	2,233,837
CAPITAL AND RESERVES			
Share capital	23	186,785	186,785
Reserves	24	1,975,054	2,047,052
		2,161,839	2,233,837

Approved and authorised for issue by the Board of Directors on 7th March 2002.

Directors:

Francisco C. Eizmendi, Jr.

Freddy W.M. Kwan

The Notes on pages 34 to 51 form part of these financial statements.

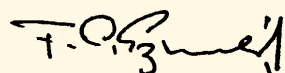
COMPANY BALANCE SHEET

as at 31st December, in dollar thousands

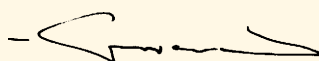
	Note	2001	Restated 2000
Non-current assets			
Fixed assets	14	1,257,314	1,296,256
Interests in subsidiaries	15	640,910	643,389
		1,898,224	1,939,645
Current assets			
Inventories	17	39,293	35,056
Trade and other receivables	18	100,461	79,077
Amounts due from holding company and fellow subsidiaries		9,617	69,051
Cash and cash equivalents	19	22,265	9,579
		171,636	192,763
Current liabilities			
Trade and other payables	18	(65,116)	(55,498)
Amounts due to holding company and fellow subsidiaries		(3,444)	(1,236)
		(68,560)	(56,734)
Net current assets		103,076	136,029
NET ASSETS		2,001,300	2,075,674
CAPITAL AND RESERVES			
Share capital	23	186,785	186,785
Reserves	24	1,814,515	1,888,889
		2,001,300	2,075,674

Approved and authorised for issue by the Board of Directors on 7th March 2002.

Directors:



Francisco C. Eizmendi, Jr.



Freddy W.M. Kwan

The Notes on pages 34 to 51 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the years ended 31st December, in dollar thousands

	Note	2001	2000
Net cash inflow from operating activities	(a)	241,765	204,753
Returns on investments and servicing of finance			
Interest received		12,198	29,433
Interest paid		(23,998)	(42,606)
Dividends paid		(160,636)	(48,564)
Dividends paid to minority shareholders		(773)	–
Net cash outflow from returns on investments and servicing of finance		(173,209)	(61,737)
Taxation			
Hong Kong profits tax refund/(paid)		972	(3,882)
Overseas tax paid		(1,985)	(5,186)
Tax paid		(1,013)	(9,068)
Investing activities			
Purchase of fixed assets		(25,161)	(14,643)
Proceeds on disposal of fixed assets		3,539	341
Purchase of held to maturity securities		(28,272)	(18,857)
Increase in bank deposits maturing in more than three months		(26,616)	–
Proceeds on disposal of held to maturity securities		–	10,373
Net cash outflow from investing activities		(76,510)	(22,786)
Net cash (outflow)/inflow before financing		(8,967)	111,162
Financing			
Proceeds from new bank loan	(b)	–	8,486
Repayment of bank loans	(b)	(195,005)	(19,800)
Net cash outflow from financing		(195,005)	(11,314)
(Decrease)/increase in cash and cash equivalents		(203,972)	99,848
Cash and cash equivalents at beginning of year		418,836	318,866
Effect of foreign exchange rate changes		(36)	122
Cash and cash equivalents at end of year	(c)	214,828	418,836

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

	2001	2000
Profit before taxation	95,534	93,608
Interest income	(12,807)	(25,633)
Interest expenses	23,340	40,176
Depreciation of fixed assets	79,132	78,374
Amortisation	–	6,212
Loss on disposal of fixed assets	200	1,030
(Increase)/decrease in products in hand and in process	(7,497)	11,503
Decrease in materials and supplies	5,238	7,087
Decrease in trade and other receivables	168	13,039
Decrease in net amounts due from holding company and fellow subsidiaries	48,162	2,515
Increase/(decrease) in trade and other payables	6,268	(24,486)
Increase in leased factory maintenance provision	4,064	1,488
Exchange difference	(37)	(160)
Net cash inflow from operating activities	241,765	204,753

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans and advances repayable after three months	
	2001	2000
Balance at 1st January	468,307	477,729
Proceeds from new bank loan	–	8,486
Repayment of bank loans	(195,005)	(19,800)
Exchange difference	(295)	1,892
Balance at 31st December	273,007	468,307

(c) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001	2000
Cash at bank and in hand	55,090	44,873
Deposits with banks maturing within three months	159,738	373,963
Cash and cash equivalents	214,828	418,836

NOTES TO THE FINANCIAL STATEMENTS

1 Significant Accounting Policies

A. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

B. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

C. SUBSIDIARIES

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

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the Consolidated Balance Sheet at fair value with changes in fair value recognised in the Consolidated Statement of Profit and Loss as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment.

In the Company's Balance Sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 1(H)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the Statement of Profit and Loss as they arise.

D. GOODWILL

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

- (i) For acquisitions before 1st January 2001, positive goodwill is eliminated against reserves.
- (ii) For acquisitions on or after 1st January 2001, positive goodwill is amortised to the Consolidated Statement of Profit and Loss on a straight-line basis over its estimated useful life. Positive goodwill is stated in Consolidated Balance Sheet at cost less any accumulated amortisation and any impairment losses (see Note 1(H)).
- (iii) On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the Consolidated Statement of Profit and Loss or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

E. HELD TO MATURITY SECURITIES

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

- (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 FINANCIAL STATEMENTS (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

- (i) Fixed assets are stated at cost less accumulated depreciation (see Note 1(G)) and impairment losses (see Note 1(H)), with the exception of construction in progress which is stated at cost less impairment losses (see Note 1(H)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Profit and Loss on the date of retirement or disposal.

G. DEPRECIATION

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

Asset category	Useful life
Buildings	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. IMPAIRMENT OF ASSETS

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- Fixed assets; and
- Investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 Significant Accounting Policies (Continued)

H. IMPAIRMENT OF ASSETS (Continued)

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the assets's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the Consolidated Statement of Profit and Loss in the year in which the reversals are recognised.

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.
- (ii) Interest income from bank deposits and held to maturity securities is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.
- (iii) Rental income receivable under operating leases is recognised in the Consolidated Statement of Profit and Loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the Consolidated Statement of Profit and Loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

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.

1 Significant Accounting Policies (Continued)

L. TRANSLATION OF FOREIGN CURRENCIES

Monetary assets and liabilities denominated 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, the results and balance sheet items of overseas subsidiary companies are translated into Hong Kong dollars at the 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 results and balance sheet items of overseas subsidiary companies which are dealt with in the exchange fluctuation reserve.

On disposal of an overseas subsidiary company, the cumulative amount of the exchange differences which relate to that overseas subsidiary company is included in the calculation of the profit or loss on disposal.

M. LEASED ASSETS

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) *Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the Consolidated Balance Sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 1(G). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(H). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(I)(iii).

(ii) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to Consolidated Statement of Profit and Loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the Consolidated Statement of Profit and Loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the Consolidated Statement of Profit and Loss in the accounting period in which they are incurred.

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.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the Consolidated Statement of Profit and Loss when incurred.

Staff engaged by the Group outside Hong Kong are covered by local retirement arrangements. The overseas arrangements are defined contribution schemes. Contributions to the schemes are charged to the Consolidated Statement of Profit and Loss at rates specified in the rules of the schemes.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 Significant Accounting Policies (Continued)

P. RELATED PARTIES

For the purposes of these financial statements, 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 other 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 purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

R. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

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

2 Gross turnover

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

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

Gross turnover represents the gross invoiced value of products sold.

3 Profit from operations

in dollar thousands

	Group	Restated 2000
	2001	
The profit from operations is stated after charging the following items:		
Depreciation		
– Assets held for use under operating leases	960	786
– Other assets	78,172	77,588
Amortisation	–	6,212
Inventory costs	396,242	417,330
Payroll costs	126,053	127,094
Operating lease charges		
– Plant and machinery	14,861	14,864
– Land and buildings	13,046	15,418
Retirement costs	12,426	11,887
Auditors' remuneration	1,909	2,672

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Finance costs in dollar thousands

	Group	
	2001	2000
Interest expenses	(23,340)	(40,176)
Bank charges	(87)	(146)
	(23,427)	(40,322)

5 Other net income in dollar thousands

	Group	
	2001	2000
Interest income	12,807	25,633
Rental income	4,111	5,775
Loss on disposal of fixed assets	(200)	(1,030)
Other income	456	2,829
	17,174	33,207

6 Taxation in dollar thousands

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

	Group	
	2001	2000
Hong Kong taxation – under provision in respect of prior years	–	8
Overseas taxation	2,210	3,666
Deferred taxation (Note 22(a))	2,921	2,957
	5,131	6,631

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

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	
	2001	2000
Balance of provision for overseas profits tax	278	53
Hong Kong profits tax recoverable relating to prior years	–	972

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 Directors' emoluments

in dollar thousands

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

	Group	
	2001	2000
Fees	518	516
Salaries and allowances	5,323	2,567
Discretionary bonus	606	544
Retirement fund contributions	324	12
	6,771	3,639

Included in the directors' emoluments were fees of \$418,000 (2000: \$466,000) paid to independent non-executive directors during the year. Directors' emoluments for 2001 included a sum of \$3,861,000 (2000: \$nil), which cost was borne by the Company's holding company.

The directors' emoluments are analysed as follows:

	Number of directors	
	2001	2000
\$Nil to \$1,000,000	8	9
\$2,000,001 to \$2,500,000	1	–
\$3,000,001 to \$3,500,000	–	1
\$3,500,001 to \$4,000,000	1	–
	1	–

8 Individuals with highest emoluments

in dollar thousands

Of the five individuals with the highest emoluments, two are directors (2000: one) whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other three (2000: four) individuals are as follows:

	Group	
	2001	2000
Salaries and allowances	3,831	6,837
Discretionary bonus	1,096	839
Retirement fund contributions	333	280
	5,260	7,956

The above emoluments are analysed as follows:

	Number of individuals	
	2001	2000
\$1,000,001 to \$1,500,000	–	1
\$1,500,001 to \$2,000,000	3	1
\$2,000,001 to \$2,500,000	–	1
\$2,500,001 to \$3,000,000	–	1
	–	4

9 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$86,262,000 (2000: loss of \$55,205,000) which has been dealt with in the financial statements of the Company. The Company's loss for 2000 included a charge of \$152,978,000 which aligned 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Dividends

in dollar thousands

(a) Dividends attributable to the year

	Group	
	2001	2000
Special dividend declared of \$0.27 per share (2000: \$nil per share)	100,864	–
First interim dividend declared of \$0.04 per share (2000: \$0.03 per share)	14,943	11,207
Second interim dividend declared of \$0.04 per share (2000: \$0.03 per share)	14,943	11,207
Third interim dividend declared of \$0.04 per share (2000: \$0.04 per share)	14,943	14,943
Total dividends declared during the year (Note 24)	145,693	37,357
Final dividend proposed after the balance sheet date of \$0.04 per share (2000: \$0.04 per share)	14,943	14,943
	160,636	52,300

- The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	Group	
	2001	2000
Final dividend in respect of the previous year, approved and paid during the year, of \$0.04 per share (2000: \$0.03 per share) (Note 24)	14,943	11,207

11 Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of \$88,734,000 (2000: \$87,657,000) and on 373,570,560 ordinary shares (2000: 373,570,560 shares), being the number of shares in issue throughout the year.

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

12 Change in accounting policies

Dividend recognition

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1st January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) "Events after the balance sheet date" issued by the HKSA, the Group recognises dividends declared or proposed as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries is recognised as income in the Company's Statement of Profit and Loss in the accounting period in which the right to receive the dividend has been established.

As a result of this new accounting policy, the Group's net assets at the year end have been increased by \$14,943,000 (2000: \$14,943,000). There is no impact on the Group's profit attributable to shareholders for the years presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Change in accounting policies (Continued)

Goodwill

In prior years, positive goodwill arising on acquisition of subsidiaries was eliminated directly against reserves. With effect from 1st January 2001, in order to comply with Statement of Standard Accounting Practice ("SSAP") 30 "Business combinations" issued by the HKSA, the Group adopted an accounting policy of recognising positive goodwill on the Consolidated Balance Sheet and amortising it on a straight-line basis to the Consolidated Statement of Profit and Loss over its estimated useful economic life. The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy has been adopted prospectively and no adjustments have been made to the opening balance of retained profits and reserves and comparative information.

13 Segment Reporting

in dollar thousands

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

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

No business segments analysis of the Group is presented as all the Group's turnover and trading result are generated from the manufacture and distribution of bottled, canned, and draught beers.

	Hong Kong		PRC		Inter-segment elimination		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
Revenue from external customers	777,266	778,647	599,157	654,503	-	-	1,376,423	1,433,150
Inter-segment revenue	-	6,730	-	-	-	(6,730)	-	-
Other revenue	4,111	5,775	-	-	-	-	4,111	5,775
Total revenue	781,377	791,152	599,157	654,503	-	(6,730)	1,380,534	1,438,925
Segment result	70,362	69,768	35,792	38,529			106,154	108,297
Unallocated operating income and expenses							12,807	25,633
Profit from operations							118,961	133,930
Finance costs							(23,427)	(40,322)
Taxation							(5,131)	(6,631)
Minority interests							(1,669)	680
Profit attributable to shareholders							88,734	87,657
Depreciation and amortisation for the year	48,861	48,795	30,271	35,791			79,132	84,586
	Hong Kong		PRC		Inter-segment elimination		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
Segment assets	1,763,459	2,025,517	926,459	965,777	(1,968)	(10,116)	2,687,950	2,981,178
Unallocated assets							49,807	20,935
Total assets							2,737,757	3,002,113
Segment liabilities	71,487	59,915	119,400	139,513	(1,968)	(10,116)	188,919	189,312
Unallocated liabilities							280,648	473,460
Total liabilities							469,567	662,772
Capital expenditure incurred during the year	11,780	7,155	13,381	7,488			25,161	14,643

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Fixed assets in dollar thousands

	Total	Land	Buildings	Machinery, equipment, furniture & fixtures	Motor vehicles	Construction in progress
(a) Group						
Cost						
At 1st January 2001	2,658,892	246,327	851,785	1,465,687	40,756	54,337
Exchange adjustments	(444)	(19)	(146)	(242)	(12)	(25)
Additions	25,161	–	6,965	7,083	2,972	8,141
Disposals	(20,805)	–	(10)	(14,393)	(6,402)	–
Transfer from construction in progress	–	–	5,796	52,008	866	(58,670)
At 31st December 2001	<u>2,662,804</u>	<u>246,308</u>	<u>864,390</u>	<u>1,510,143</u>	<u>38,180</u>	<u>3,783</u>
Accumulated depreciation						
At 1st January 2001	444,638	3,731	84,969	324,177	31,761	–
Exchange adjustments	(90)	(2)	(17)	(61)	(10)	–
Charge for the year	79,132	746	17,757	57,365	3,264	–
Written back on disposals	(17,066)	–	–	(11,060)	(6,006)	–
At 31st December 2001	<u>506,614</u>	<u>4,475</u>	<u>102,709</u>	<u>370,421</u>	<u>29,009</u>	<u>–</u>
Net book value at 31st December 2001	<u>2,156,190</u>	<u>241,833</u>	<u>761,681</u>	<u>1,139,722</u>	<u>9,171</u>	<u>3,783</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>
(b) Company						
Cost						
At 1st January 2001	1,540,914	107,292	458,772	960,442	14,267	141
Additions	8,072	–	–	4,620	2,972	480
Disposals	(12,355)	–	–	(6,383)	(5,972)	–
Transfer from construction in progress	–	–	–	195	–	(195)
At 31st December 2001	<u>1,536,631</u>	<u>107,292</u>	<u>458,772</u>	<u>958,874</u>	<u>11,267</u>	<u>426</u>
Accumulated depreciation						
At 1st January 2001	244,658	–	39,187	194,041	11,430	–
Charge for the year	46,657	–	9,176	36,216	1,265	–
Written back on disposals	(11,998)	–	–	(6,360)	(5,638)	–
At 31st December 2001	<u>279,317</u>	<u>–</u>	<u>48,363</u>	<u>223,897</u>	<u>7,057</u>	<u>–</u>
Net book value at 31st December 2001	<u>1,257,314</u>	<u>107,292</u>	<u>410,409</u>	<u>734,977</u>	<u>4,210</u>	<u>426</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>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Fixed assets (Continued)

in dollar thousands

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

	Group		Company	
	2001	2000	2001	2000
Medium term leasehold land				
– in Hong Kong	209,014	209,014	107,292	107,292
– outside Hong Kong	32,819	33,582	–	–
	241,833	242,596	107,292	107,292

(d) The gross amounts of fixed assets of the Group held for use on short term operating leases were \$95,989,000 (2000: \$78,453,000) and the related accumulated depreciation charges were \$6,712,000 (2000: \$4,823,000).

The operating leases typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future lease payments receivable under non-cancellable operating leases are as follows:

	Group	
	2001	2000
Within 1 year	3,207	3,423
After 1 year but within 5 years	2,819	1,439
	6,026	4,862

15 Interests in subsidiaries

in dollar thousands except share capital of subsidiaries

	Company	
	2001	Restated 2000
Unlisted shares, at cost	603,249	603,249
Amounts due from subsidiaries	326,790	332,422
Amounts due to subsidiaries	(122,151)	(139,304)
	807,888	796,367
Less: provision	(166,978)	(152,978)
	640,910	643,389

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 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	100%	–	Investment
		Preferences: US\$60,000,000	100%	–	
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.

16 Other assets

Other assets represents deposits for the land and leased factory used by a PRC subsidiary.

17 Inventories

in dollar thousands

	Group		Company	
	2001	2000	2001	2000
Products in hand and in process	22,517	15,020	13,913	8,857
Materials and supplies	72,986	78,224	25,380	26,199
	95,503	93,244	39,293	35,056

The amount of inventories held by the Group carried at net realisable value is \$19,578,000 (2000: \$12,944,000).

18 Trade receivables and payables – ageing analysis

in dollar thousands

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 Trade receivables and payables – ageing analysis (Continued)

in dollar thousands

The ageing of trade receivables is as follows:

	Group		Company	
	2001	2000	2001	2000
Less than 30 days	73,615	63,916	32,932	33,730
31 to 60 days	34,332	46,647	30,160	25,735
61 to 90 days	14,607	19,806	14,403	11,553
over 90 days	22,216	18,847	7,030	556
	144,770	149,216	84,525	71,574

The ageing of trade payables is as follows:

	Group		Company	
	2001	2000	2001	2000
Less than 30 days	44,875	23,094	33,879	14,972
31 to 60 days	9,881	9,556	4,957	3,371
61 to 90 days	3,455	1,564	575	–
over 90 days	1,778	2,037	97	12
	59,989	36,251	39,508	18,355

19 Cash and cash equivalents

in dollar thousands

(a) Cash and cash equivalents comprise:

	Group		Company	
	2001	2000	2001	2000
Deposits with banks	186,354	373,963	–	–
Cash at bank and in hand	55,090	44,873	22,265	9,579
	241,444	418,836	22,265	9,579

(b) At 31st December 2001, the deposits with banks were placed to mature as follows:

	Group		Company	
	2001	2000	2001	2000
Within 3 months	159,738	373,963	–	–
After 3 months but within 1 year	26,616	–	–	–
	186,354	373,963	–	–

20 Bank loans and advances (unsecured)

in dollar thousands

Bank loans and advances are repayable as follows:

	Group		Company	
	2001	2000	2001	2000
Within one year or on demand	78,002	78,051	–	–
More than 1 year but less than 2 years	–	390,256	–	–
More than 2 years but less than 5 years	195,005	–	–	–
	195,005	390,256	–	–
	273,007	468,307	–	–

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 Bank loans and advances (unsecured) (Continued)

in dollar thousands

The unsecured bank loan of \$195,005,000 with an original term of over one year and repayable on 7th March 2002 remains classified as a non-current liability in the balance sheet as an agreement has been reached with a banker to refinance the loan on a long-term basis.

21 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 RMB4.3 million (approximately \$4.08 million) for maintaining the leased factory, for which provision is made each year. The fee is payable upon expiration or early termination of the lease agreement and may be settled by any qualifying capital expenditure incurred by 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	
	2001	2000
Balance at 1st January	31,810	30,322
Provision made during the year	4,078	4,080
Provision utilised	–	(2,718)
Exchange difference	(14)	126
Balance at 31st December	35,874	31,810

22 Deferred tax

in dollar thousands

(a) Movements on deferred taxation comprises:

	Group	
	2001	2000
Balance at 1st January	3,105	148
Transfer from Consolidated Statement of Profit and Loss (Note 6(a))	2,921	2,957
Balance at 31st December	6,026	3,105

(b) Major components of deferred tax of the Group are set out below:

	Group			
	2001 Potential liabilities		2000 Potential liabilities	
	Provided	Unprovided	Provided	Unprovided
Depreciation allowances in excess of related depreciation	6,026	185,036	3,105	181,683
Future benefit of tax losses	–	(174,426)	–	(191,479)
	6,026	10,610	3,105	(9,796)

Deferred tax has been provided to the extent that management anticipate it will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 Share capital in dollar thousands

	Company	
	2001	2000
Authorised: 400,000,000 ordinary shares of \$0.50 each	200,000	200,000
Issued and fully paid: 373,570,560 ordinary shares of \$0.50 each	186,785	186,785

24 Reserves in dollar thousands

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Group					
Balance at 1st January 2000					
– as previously reported	1,995,855	65,739	57,312	(5,721)	1,878,525
– prior year adjustment in respect of: – dividend proposed (Note 12)	11,207	–	–	–	11,207
– as restated	2,007,062	65,739	57,312	(5,721)	1,889,732
Dividends approved in respect of the previous year (Note 10(b))	(11,207)	–	–	–	(11,207)
Profit for the year	87,657	–	–	–	87,657
Dividends declared in respect of the current year (Note 10(a))	(37,357)	–	–	–	(37,357)
Exchange gain arising on consolidation	897	–	–	897	–
Balance at 31st December 2000	2,047,052	65,739	57,312	(4,824)	1,928,825
Balance at 1st January 2001					
– as previously reported	2,032,109	65,739	57,312	(4,824)	1,913,882
– prior year adjustment in respect of: – dividend proposed (Note 12)	14,943	–	–	–	14,943
– as restated	2,047,052	65,739	57,312	(4,824)	1,928,825
Dividends approved in respect of the previous year (Note 10(b))	(14,943)	–	–	–	(14,943)
Profit for the year	88,734	–	–	–	88,734
Dividend declared in respect of the current year (Note 10(a))	(145,693)	–	–	–	(145,693)
Exchange loss arising on consolidation	(96)	–	–	(96)	–
Balance at 31st December 2001	1,975,054	65,739	57,312	(4,920)	1,856,923

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

The exchange fluctuation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for translation of foreign currencies (Note 1(L)).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 Reserves (Continued) in dollar thousands

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Company					
Balance at 1st January 2000					
– as previously reported	2,004,641	65,739	–	–	1,938,902
– prior year adjustment in respect of:					
– dividend proposed (Note 12)	11,207	–	–	–	11,207
– dividend income (Note 12)	(23,190)	–	–	–	(23,190)
– as restated	1,992,658	65,739	–	–	1,926,919
Dividends approved in respect of the previous year (Note 10(b))	(11,207)	–	–	–	(11,207)
Loss for the year (Note 9)	(55,205)	–	–	–	(55,205)
Dividends declared in respect of the current year (Note 10(a))	(37,357)	–	–	–	(37,357)
Balance at 31st December 2000	1,888,889	65,739	–	–	1,823,150
Balance at 1st January 2001					
– as previously reported	1,897,136	65,739	–	–	1,831,397
– prior year adjustment in respect of:					
– dividend proposed (Note 12)	14,943	–	–	–	14,943
– dividend income (Note 12)	(23,190)	–	–	–	(23,190)
– as restated	1,888,889	65,739	–	–	1,823,150
Dividends approved in respect of the previous year (Note 10(b))	(14,943)	–	–	–	(14,943)
Profit for the year (Note 9)	86,262	–	–	–	86,262
Dividend declared in respect of the current year (Note 10(a))	(145,693)	–	–	–	(145,693)
Balance at 31st December 2001	1,814,515	65,739	–	–	1,748,776

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 2001 were \$1,748,776,000 (2000: \$1,823,150,000).

25 Commitments in dollar thousands

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

	Group		Company	
	2001	2000	2001	2000
Contracted for	2,482	808	1,340	808
Authorised by the directors but not contracted for	4,529	6,621	1,288	2,369
	7,011	7,429	2,628	3,177

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 Commitments (Continued)

in dollar thousands

- (b) At 31st December 2001, the total future lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2001	2000	2001	2000
Land and buildings				
Within 1 year	10,274	13,764	1,645	2,220
After 1 year but within 5 years	23,195	22,951	–	1,810
After 5 years	72,648	77,874	–	–
	106,117	114,589	1,645	4,030
Plant and machinery				
Within 1 year	14,830	14,833	512	508
After 1 year but within 5 years	57,403	57,918	128	635
After 5 years	200,464	214,885	–	–
	272,697	287,636	640	1,143
	378,814	402,225	2,285	5,173

The Group leases a number of properties and items of plant and machinery under operating leases. The leases typically run for an initial period of one to two years with an option to renew the lease when all terms are renegotiated, with the exception of assets leased in one of the Group's PRC factories which run for thirty years. None of the leases includes contingent rentals.

26 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 2001, total purchases from and sales to these related parties totalled \$80,888,000 (2000: \$90,860,000) and \$46,802,000 (2000: \$18,222,000) respectively. The net amount due from these related parties amounted to \$1,404,000 (2000: due to amount of \$15,664,000) on 31st December 2001.

27 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 2001, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to subsidiary companies.

	Company	
	2001	2000
Guarantees to banks	273,007	468,306

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 Comparative figures

Certain comparative figures have been adjusted as a result of a change in accounting policy in respect of dividend recognition, details of which are set out in Note 12.

A number of revenue and cost items for 2000 have been restated in order to align accounting definitions for South China operations with those of the Company as follows:

- The value of returnable bottles is now included in both “Gross turnover” and “Cost of sales” whereas previously the net profit or cost of returnable bottles (revenue less cost) was reported under “Other net income”.
- Free of charge beer (a form of discount) is now included in both “Gross turnover” and “Discounts” whereas previously only the actual cost of the beer was reported under “Cost of sales”.
- Promotional discounts to customers are now included in “Discounts” whereas previously they were reported within “Administrative and selling expenses”.

29 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 2001.

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 financial statements on pages 28 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion to you.

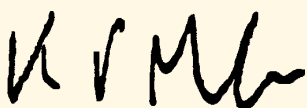
BASIS OF OPINION

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 are considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2001 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

FIVE YEAR SUMMARY

in dollar thousands except per share data

	2001	2000	1999	1998	1997
Results					
Gross turnover	1,376,423	1,433,150	1,342,902	1,378,562	1,317,302
Profit/(loss) before taxation	95,534	93,608	63,470	30,637	(7,039)
Taxation	(5,131)	(6,631)	(6,744)	(11,002)	9,899
Minority interests	(1,669)	680	3,374	(2,584)	2,632
Profit attributable to shareholders	88,734	87,657	60,100	17,051	5,492
Cash dividends attributable to the year	160,636	52,300	41,093	11,207	29,886
Transfer (from)/to reserves	–	–	–	–	(27,864)
Earnings per share	0.24	0.23	0.16	0.05	0.01
Cash dividends per share	0.43	0.14	0.11	0.03	0.08
Employment of assets					
Fixed assets	2,156,190	2,214,254	2,276,150	2,347,937	2,396,195
Investments	48,584	19,001	10,473	32,594	35,243
Other assets	7,540	7,543	13,729	12,435	18,945
Inventories	95,503	93,244	111,834	96,248	98,423
Other current assets	188,496	249,235	269,818	269,964	225,010
Cash, cash equivalents and bank deposits	241,444	418,836	323,345	202,803	528,704
	2,737,757	3,002,113	3,005,349	2,961,981	3,302,520
Capital employed and liabilities					
Share capital	186,785	186,785	186,785	186,785	186,785
Reserves	1,975,054	2,047,052	2,007,062	1,983,710	1,970,462
Minority interests	106,351	105,504	105,748	108,838	109,438
Non-current liabilities	236,905	425,171	419,040	413,972	432,257
Short term bank loans and advances	78,002	78,051	93,490	104,212	451,557
Other current liabilities	154,660	159,550	193,224	164,464	152,021
	2,737,757	3,002,113	3,005,349	2,961,981	3,302,520

Notes:

1. Despite a change in accounting policy for goodwill, figures for the years from 1997 to 2001 have not been adjusted for comparison purposes as the Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy has been adopted prospectively.
2. As a result of a change in accounting policy for dividend recognition, figures for the years from 1997 to 2001 have been adjusted for comparison purposes.



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