



SAN MIGUEL BREWERY
HONG KONG LTD.

香港生力啤酒廠有限公司



Annual Report

2002

年報



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

CORPORATE INFORMATION

DIRECTORS

Francisco C. Eizmendi, Jr. *Chairman*
Freddy W.M. Kwan *Managing Director*
Ramon S. Ang
Benjamin P. Defensor, Jr.
Faustino F. Galang
Adrian M.K. Li
Alternate to David K.P. Li
David K.P. Li, GBS, JP*
Thomas R. Mainwaring
Estelito P. Mendoza
Wai Sun Ng*
Carmelo L. Santiago
Gabriel L. Villareal
Ian F. Wade*

* *Independent Non-Executive Directors*

AUDIT COMMITTEE

David K.P. Li, GBS, JP
Wai Sun Ng
Ian F. Wade

COMPANY SECRETARY

Thomas R. Mainwaring

AUDITORS

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

SOLICITORS

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

REGISTERED OFFICE

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

SHARE REGISTRARS

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

PRINCIPAL BANKERS

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

THE YEAR'S HIGHLIGHTS

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

	2002	2001
Gross turnover	1,326,642	1,376,423
Profit attributable to shareholders	39,726	88,734
Earnings per share – Basic	0.11	0.24
Taxes paid, including beer tax	164,268	170,830
Taxes paid per share	0.44	0.46
Cash dividends attributable to the year	37,356	160,636
Cash dividends per share	0.10	0.43
Fixed assets	2,083,863	2,156,190
Net worth	2,145,103	2,161,839
Payroll	131,168	126,053
Number of shares issued	373,570,560	373,570,560
Number of shareholders	2,721	2,757
Number of personnel	1,214	1,268

Our Products

我們的產品



CHAIRMAN'S STATEMENT



Francisco C. Eizmendi, Jr.

Chairman

To Our Shareholders,

The Group's financial result for the year was disappointing following a difficult year for operations in Hong Kong and Mainland China.

The Company's 2002 closing share price was \$1.98 compared with \$2.225 for 2001.

Shareholders received normal cash dividends of 12 cents per share during the year. This was a reduction of 4 cents per share compared with 2001 (excluding the 27 cents special dividend in 2001) as the Group took action to conserve cash resources.

FINANCIAL RESULTS

Profit attributable to shareholders was \$39.726 million, substantially below last year's result of

\$88.734 million. Earnings per share were 10.63 cents compared with 23.75 cents in 2001.

Sales volume in the Hong Kong market was 1% ahead of the previous year, however exports fell 8.4%.

Sales volume in South China declined by 11.4% as the Company's subsidiary Guangzhou San Miguel Brewery Company Limited suffered fierce competition in Guangzhou City.

Consolidated sales turnover of \$1,326.642 million was 3.6% less than the previous year.

Profit from operations of \$38.942 million was well below the previous year's result of \$101.787 million. The main factor in the decline was lower gross profit as a result of reduced volume in South China together with higher discount levels in both Hong Kong and South China. In addition, administrative and selling costs were up \$15.973 million in 2002, following increased advertising and promotional expenditure in South China as a result of increased competition.

Other operating expenses increased by \$3.995 million after additional bad debt provisions of \$4.376 million in South China.

Profit attributable to shareholders benefitted from lower finance costs, which fell by \$16.368 million as a result of lower average external debt for the year and substantially lower interest rates. However, interest income from cash balances was also reduced by \$7.557 million, the main factor in the reduction of \$5.477 million in other net income.

CHAIRMAN'S STATEMENT

Total debt at year end was \$272.998 million, 12.73% of shareholders funds. The US\$25 million (\$195 million) loan from Bank of America to San Miguel Shunde Brewery Company Limited was paid out in February 2002 and replaced by a loan of \$195 million from The Hongkong & Shanghai Banking Corporation to the Company. This loan is for three years, expiring in February 2005.

Cash and investments at year end totalled \$314.813 million, an increase of \$24.785 million compared with the year 2001 after payments of \$44.828 million in dividends.

Cash and investments at the end of 2002 were equal to 84.3 cents per share representing 42.6% of the Company's market capitalisation at that time.

The Company, on 27th January 2003, announced the acquisition of the 15% equity in San Miguel Shunde Brewery Company Limited held by Guangdong Province Shunde County Brewery for US\$700,000 (\$5.46 million) as well as the purchase of the Dragon beer brand from Guangdong Province Shunde County Brewery and its associated companies for US\$5 million (\$39 million).

DIVIDENDS

The Directors have recommended the payment of a fourth and final dividend for the year ended 31st December 2002 of 2 cents per share. Three interim dividends totalling 8 cents per share were paid in 2002. The final dividend will lift total dividends for 2002 to 10 cents per share, a decrease of 6 cents per share (37.5%) below the 16 cents per share (excluding the 27 cents special dividend in 2001) paid in 2001.

BUSINESS REVIEW

The world economy entered its third year of low growth in 2002. Equity markets in most regions of the world recorded their largest declines for many years, reflecting lower economic growth and investor confidence as well as the impact of terrorist activities and the threat of war in Iraq.

China, however, was out of step with the rest of the world as its economy is estimated to have grown 8% in 2002. The impressive performance of the Chinese economy has had an ameliorating impact on related Asian economies, including Hong Kong.

As Hong Kong adjusts to the new economic realities, its future success will be built upon closer integration with the Pearl River Delta Region and the continued freeing up of trade and tourism in the area.

The Group is fortunate to have its brewing operations located in the Pearl River Delta Region.

HONG KONG OPERATIONS

The Company achieved its operating profit target for Hong Kong for 2002, despite falling short of its sales volume objective.

Sales volume in the Hong Kong market was 1% higher than for 2001, however, exports were 8.4% below the previous year as a result of reduced sales of non-alcoholic beverages to Korea.

This result is considered to be satisfactory in light of the depressed state of the Hong Kong economy. Consumer confidence is low, the Government is wrestling with a burgeoning deficit, unemployment has risen and consumer spending has contracted.

CHAIRMAN'S STATEMENT

The impact of the sluggish economy has been reflected in the beer industry by the continued growth in the low priced segment of the market. Economy beers, as they are known, now represent more than 28% of the beer market in Hong Kong, encouraged by a beer tax which favours most imported beers and financially penalises beer produced locally by the Company. The growth in the low priced segment of the market has been most noticeable in beers sourced from Mainland China.

San Miguel Pale Pilsen remains, by far, the number one brand in Hong Kong. Our professional and highly motivated sales team is a key factor in this achievement and a resource which is considered to be a competitive advantage.

SOUTH CHINA OPERATIONS

Financial results in South China were disappointing as Guangzhou San Miguel Brewery Company Limited reported its first ever loss.

Our sales volume declined in Guangzhou City by comparison with 2001. Sales volumes in other cities and regions were, in total, virtually the same as for 2001.

Major competitors, including regional, national and international brand owners, spent heavily promoting their brands in Guangzhou City. The impact on brand San Miguel was twofold, a loss of market share and increased promotional expenditure, resulting in a large reduction in profitability.

The sales decline in Guangzhou City was entirely in the wholesale distribution channel. Positive growth was achieved in direct sales, a result which underlines

the importance of the Group's programme to develop the best sales team possible with the support of high quality information and technical back-up.

Sales of Dragon beer in Shunde fell 9.5%, a performance over which the Group had no control, as Dragon beer in 2002 was produced under a contract manufacturing arrangement and sold and distributed by other parties.

On 27th January 2003, the Company's subsidiary, San Miguel Shunde Holdings Limited, acquired the 15% equity in San Miguel Shunde Brewery Company Limited held by Guangdong Province Shunde County Brewery.

San Miguel Shunde Holdings Limited now holds 100% of the equity capital of San Miguel Shunde Brewery Company Limited.

San Miguel Shunde Holdings Limited is, in turn, now owned 92.2% by the Company.

The Company also acquired the Dragon beer brand from Guangdong Province Shunde County Brewery and its associated companies.

These transactions are conditional upon the approval of regulatory authorities in The People's Republic of China.

The acquisitions will allow the Group to proceed with its plans to integrate fully the operations of the breweries in South China and to achieve economies of scale in manufacturing and selling.

CHAIRMAN'S STATEMENT

The acquisition of Dragon beer gives the Group a high volume and profitable brand which it will now be free to develop in Shunde City as well as in other markets in the Pearl River Delta Region.

Regaining our former market position in Guangzhou City is a priority, which will be achieved through a strong sales team and reallocation of resources to build on the equity of the San Miguel brand.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

The Group regards itself as a good corporate citizen and shares its success with the community through a wide range of philanthropic events and activities. The Group made regular donations to charitable institutions and non-profit organisations in 2002 and, in collaboration with five leading corporations in Hong Kong, contributed to the "Bounceback Hong Kong" campaign.

The Group also remains committed to its environmental protection initiatives by meeting and often surpassing the standards stipulated by government.

Following the completion of a Safety Audit in May 2002, the first of its kind in the Hong Kong beverage industry, employees participated in various training and development activities during the year to further increase their awareness of effective safety and health practices in the workplace and to ensure compliance with regulations.

HUMAN RESOURCES

The Group continues to invest in its people, a significant intangible asset and a major force in

supporting its long-term growth. Our focus, as stated in previous reports, is to ensure that all employees continue to receive appropriate training and competent support from their colleagues, with emphasis on a strong team spirit to achieve targeted results. Major initiatives in improving our processes and systems were implemented during the year to enhance our competitive edge in the beer industry and to create long-term value for our shareholders.

During the year, a staff intranet website was launched to promote more effective communication on a Company wide basis.

The Group offers competitive remuneration packages commensurate with market levels in the beverage industry and provides appropriate fringe benefits, including medical and insurance coverage and retirement benefits to all employees.

YEAR 2003 DIRECTION AND CHALLENGES

The Group is faced with demanding challenges in 2003 and beyond.

The Group's leadership in the premium beer segment of the market in South China is being challenged.

The growth of the economy beer segment in the Hong Kong market is a growing threat to the Company's primary position in that market.

Competitors should be in no doubt that the Group will meet these challenges, and maintain market leadership in both Hong Kong and the Pearl River Delta Region.

Despite the unsatisfactory sales results in South China in 2002, the Group has achieved important organisational targets in South China as it strives to

CHAIRMAN'S STATEMENT

build a sophisticated operational structure with the highest levels of technical support as a base for sustained future growth. These include people skills, information systems, distribution systems, and marketing and selling strategy and methodology.

With the acquisition of 100% ownership of San Miguel Shunde Brewery Company Limited and the Dragon beer brand on 27th January 2003, the Group has taken a major step toward the full integration of South China operations and the associated economic benefits which will flow from reorganisation.

The objectives for 2003 include:

- In Hong Kong, building upon the primary market position held by brand San Miguel through channel specific programmes.
- In Hong Kong, making significant inroads in market share in other segments of the beer market.
- Restructuring the selling and distribution systems in South China to ensure more effective distributor management and improved off-take at the retail level.
- Strengthening the marketing strategy for South China's portfolio of brands, focusing San Miguel brands in the premium segment, revitalising the local brands in the mainstream market, and realising the benefits of the Dragon beer acquisition.
- All activities supporting the overriding objective of maintaining and increasing leadership in the premium segment in the Pearl River Delta Region and market leadership in Hong Kong,

and ensuring that San Miguel is the preeminent beer brand in the region.

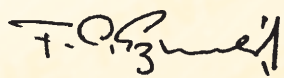
DIRECTORS

Mr. Luis E. Poblete, Jr. resigned as director and member of the Audit Committee on 13th June 2002 and we thank him for his past contribution.

Professor Arthur K.C. Li resigned as Alternate Director to Dr. David K.P. Li on 1st August 2002. We take this opportunity to acknowledge, with appreciation, Professor Li's service to the Company and also to welcome his replacement, Mr. Adrian M.K. Li, who was appointed Alternate Director to Dr. Li on 1st August 2002.

Three directors were appointed to the Board on 27th February 2003, Messrs. Benjamin P. Defensor, Jr., Carmelo L. Santiago and Gabriel L. Villareal. These appointments restore the Board to full strength of twelve directors.

In closing, we acknowledge our gratitude to our employees for their efforts and dedication throughout a difficult year, to our directors for their wise counsel and to our loyal customers and shareholders, all of whom are important participants in our past and future success.



Francisco C. Eizmendi, Jr.

Chairman

27th February 2003

Our Consumers
我們的顧客



REPORT OF THE DIRECTORS

To be presented at the Fortieth Annual General Meeting of shareholders to be held at the Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 10th April 2003 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 2002.

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 2002 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	7.7%
Five largest customers	31.7%
Purchases attributable to:	
Largest supplier	5.6%
Five largest suppliers	21.2%

As at 31st December 2002, 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 2002 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

The first and second dividends, each of three cents per share, were paid on 19th July 2002 and 27th September 2002 to shareholders of record on 3rd July 2002 and 17th September 2002 respectively. The third dividend of two cents per share was paid on 30th December 2002 to shareholders of record on 18th December 2002. The directors recommend the payment of a final dividend of two cents per share on 16th April 2003 to shareholders of record on 18th March 2003.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 25 on the financial statements.

CHARITABLE AND OTHER DONATIONS

The Group made donations for charitable and other purposes totalling \$123,000 (2001: \$126,000) during the financial year.

FIXED ASSETS

The Group spent \$9.5 million (2001: \$25 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 \$382 million compared with \$293 million in 2001.

Cash and bank deposits at year end were \$265 million (2001: \$241 million) and are sufficient to fund working capital requirements and capital expenditure in 2003.

BANK LOANS

The Group has short term credit facilities of \$237 million (2001: \$331 million) of which \$78 million (2001: \$78 million) had been utilised as at 31st December 2002.

Long term loans at the year end amounted to \$195 million (2001: \$195 million).

Total borrowings at the year end for the Company were \$195 million (2001: \$nil) and for the Group \$273 million (2001: \$273 million).

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

REPORT OF THE DIRECTORS

DIRECTORS

With the exception of Messrs. Benjamin P. Defensor, Jr., Adrian M. K. Li, Carmelo L. Santiago and Gabriel L. Villareal, the directors of the Company, whose names appear on page 2 of the Annual Report, were directors for the whole of the year.

Messrs. Luis E. Poblete, Jr. and Arthur K.C. Li resigned from the office of director and alternate director to Dr. David K.P. Li respectively during the year.

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

Messrs. Benjamin P. Defensor, Jr., Carmelo L. Santiago and Gabriel L. Villareal, appointed to the board since the last Annual General Meeting, retire from the office of Director in accordance with Article 96 of the Company's Articles of Association, and offer themselves 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 2002, 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

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):		
Faustino F. Galang		5,270

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS (Continued)

As at 31st December 2002, the directors and their associates had the following beneficial interests in share options of the Company's associated corporation as recorded in the register required under Section 29 of the SDI Ordinance:

Name	Date granted	Exercise period up to	Exercise price (pesos)	Share Options in San Miguel Corporation		
				Balance as at 1st January 2002	Exercised during the year	Balance as at 31st December 2002
Class A (par value of 5 pesos each):						
Francisco C. Eizmendi, Jr.	24/02/94	24/02/02	37.04	293,410	293,410	–
	27/03/95	27/03/03	44.13	284,430	–	284,430
	10/04/96	10/04/04	35.18	32,805	–	32,805
	01/04/97	01/04/05	40.57	213,805	–	213,805
	26/03/98	26/03/06	34.71	294,531	–	294,531
Faustino F. Galang	27/03/95	27/03/03	44.13	68,015	68,015	–
	01/04/97	01/04/05	40.57	51,860	–	51,860
	26/03/98	26/03/06	34.71	49,703	–	49,703
Freddy W. M. Kwan	01/04/97	01/04/05	44.63	19,028	–	19,028
	26/03/98	26/03/06	38.18	53,722	–	53,722
Thomas R. Mainwaring	26/03/99	26/03/06	42.00	4,277	–	4,277
	26/03/00	26/03/06	42.00	4,277	–	4,277
	26/03/01	26/03/06	42.00	4,277	–	4,277
Class B (par value of 5 pesos each):						
Francisco C. Eizmendi, Jr.	01/04/97	01/04/05	70.25	91,631	–	91,631
	26/03/98	26/03/06	49.83	126,227	–	126,227
Faustino F. Galang	01/04/97	01/04/05	70.25	22,226	–	22,226
	26/03/98	26/03/06	49.84	21,302	–	21,302
Freddy W. M. Kwan	01/04/97	01/04/05	77.27	8,155	–	8,155
	26/03/98	26/03/06	54.82	23,024	–	23,024
Thomas R. Mainwaring	26/03/99	26/03/06	60.30	1,833	–	1,833
	26/03/00	26/03/06	60.30	1,833	–	1,833
	26/03/01	26/03/06	60.30	1,833	–	1,833

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

The only share options exercised by directors during the year were those disclosed above.

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 other than those disclosed above.

REPORT OF THE DIRECTORS

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2002 according to the register required under Section 16(1) of the SDI Ordinance, the Company was notified that the following shareholders had an interest of 10% or more of its issued share capital:

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	62,363,821	16.69%

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. General Managers' Commission has not been paid by the Company or charged by Neptunia Corporation Limited since the 1995 financial year.

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	
2002	2001	2002	2001
31,611	34,870	1.46	1.55

- (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	
2002	2001	2002	2001
28,407	34,574	1.31	1.55

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

Aggregate Amount		% of net tangible assets	
2002	2001	2002	2001
699	7,538	0.03	0.34

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

Aggregate Amount		% of net tangible assets	
2002	2001	2002	2001
3,551	2,831	0.16	0.13

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

Aggregate Amount		% of net tangible assets	
2002	2001	2002	2001
35,547	46,596	1.64	2.09

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 2001.
- (b) On 18th March 2002, the Company issued a corporate guarantee of US\$12,000,000 to a bank in respect of a loan facility granted to San Miguel Shunde Brewery Company Limited (“SMSB”), a non-wholly owned subsidiary of the Company.
- (c) On 17th April 2001, Best Investments International Inc. (“BIII”), a wholly owned subsidiary of the Company, advanced to SMSB 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 April 2002, the loan was renewed for a further year.
- (d) On 27th February 2002, BIII advanced a loan of US\$25,000,000 to SMSB for one year. The loan is unsecured and renewable subject to agreement between the parties. Interest is calculated at the three month Hong Kong Interbank Offer Rate for each three month period. SMSB used the proceeds of the loan to repay the remaining US\$25,000,000 of the term loan borrowed from Bank of America, National Association Guangzhou Branch.

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.

REPORT OF THE DIRECTORS

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

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 \$20,000. Contributions to the MPF scheme vest in employee members immediately.

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. Contributions to the Central Pension Scheme vest in employee members immediately. The only obligation for the subsidiaries with respect to the Central Pension Scheme is the associated required contribution under the Central Pension Scheme.

A formal actuarial assessment of the San Miguel Brewery Hong Kong Limited Retirement Fund was carried out for 31st December 1999 and the results were as follows:

- (A) The actuary of the Fund is Mr. A. Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age 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, i.e. the obligation under this Fund was 114% covered by the Fund's assets, at 31st December 1999.

The unaudited market value of Fund investments as of 31st December 2002 was \$71,798,000.

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

REPORT OF THE DIRECTORS

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

During the year ended 31st December 2002, 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 2002 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

27th February 2003

DIRECTORS AND MANAGEMENT EXECUTIVES

DIRECTORS

Francisco C. Eizmendi, Jr.

Chairman

Freddy W.M. Kwan

Managing Director

Ramon S. Ang

Benjamin P. Defensor, Jr.

Faustino F. Galang

Adrian M.K. Li

Alternate to David K.P. Li

David K.P. Li, *GBS, JP*

Independent Non-Executive Director

Thomas R. Mainwaring

Estelito P. Mendoza

Wai Sun Ng

Independent Non-Executive Director

Carmelo L. Santiago

Gabriel L. Villareal

Ian F. Wade

Independent Non-Executive Director

The details of the Directors are as follows:

Mr. Francisco C. EIZMENDI, Jr., *BScE, PhD (Hon)*, aged 66, appointed Director on 20th September 1984, is Chairman of the Company. Mr. Eizmendi is Consultant to the Office of the Chairman, San Miguel Corporation, in addition to holding directorships in a number of 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, *BCom (Hons)*, aged 54, was appointed Managing Director on 8th November 2000. Mr. Kwan has been a Director of the Company since 8th April 1997, and is also a Director of various subsidiaries of the Company. Mr. Kwan has more than 30 years experience, including 6 years with the

Group, 14 years with Coca-Cola Export Corporation and 6 years with Kraft Foods International, Inc. Mr. Kwan has 18 years of senior managerial experience in China.

Mr. Ramon S. ANG, *BSME*, aged 48, was appointed on 27th November 1998. Mr. Ang is Vice Chairman, President and Chief Operating Officer of San Miguel Corporation.

Mr. Benjamin P. DEFENSOR, Jr., *MPBM, MMC (UP)*, aged 56, was appointed on 27th February 2003, is the former Chief of Staff of the Armed Forces of the Philippines ("AFP"). Mr. Defensor is also Co-Chairman of RP-US Mutual Defense Board and Chairman of the Board of various associations associated with the AFP, such as AFP Retirement, Separation and Benefit System, AFP Savings and Loan Association, Inc., AFP Mutual Benefit Association, Inc. and AFP Government Insurance Corporation.

Mr. Faustino F. GALANG, *BSc (Com), BA (SoSc), MBE*, aged 56, appointed on 22nd March 1991, is President of San Miguel Beer Division. He is also a Director of Neptunia Corporation Limited, a controlling shareholder of the Company.

Mr. Adrian M.K. LI, *Hon BA (Cantab), Hon MA (Cantab), MBA, LPC*, aged 29, appointed Alternate Director to Dr. David K.P. Li on 1st August 2002, is the General Manager and Head of Corporate Banking Division of The Bank of East Asia, Limited. He is a member of the Ninth Guangzhou Committee of the Chinese People's Political Consultative Conference, P.R.C. and a member of the All China Youth Federation. Mr. Li is also Director of various companies in Hong Kong. He holds memberships with various banking and advisory committees in Hong Kong, such as the Export Credit Insurance Corporation, Vocational Training Council, and the Small & Medium Enterprises Committee. He is the eldest son of Dr. David K.P. Li.

DIRECTORS AND MANAGEMENT EXECUTIVES

Dr. The Hon. David K.P. Li, *GBS, OBE, MA, Hon LLD (Cantab), Hon DSocSc, FCA, FCPA, FHKSA, FCIB, FHKIB, FBCS, FCI Arb, JP*, aged 63, 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, *BCom, MBA (Columbia)*, aged 58, Director, Company Secretary and Chief Financial Officer, 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 8 years with the Company and 29 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, *AA, LLB (UP), LLM (Harvard)*, aged 72, 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. Atty. 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 59, appointed on 1st April 2001, is an Independent Non-Executive Director and a member of the Audit Committee of the Company. Mr. Ng is Chairman of Jibsen Capital (Holdings) Limited.

Mr. Carmelo L. SANTIAGO, aged 59, appointed on 27th February 2003, is also a Director of La Tondëña Distillers, Inc., a subsidiary of San Miguel Corporation. Mr. Santiago is Chairman & President of Melo's Chain of Restaurants and Pacific Basin Trading USA.

Attorney Gabriel L. VILLAREAL, *LLB (UP), BA (UP)*, aged 49, appointed on 27th February 2003, is the Managing Partner of Villareal Law Offices.

Mr. Ian F. WADE, aged 62, 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 Group, 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 is a board member of the Connecticut-based U.S. internet travel company Priceline. Mr. Wade has over 40 years of experience in the retail industry, and is a founding member and Honorary Advisor of the Hong Kong Retail Management Association. He is a member of the Committee on Logistics Service Development, 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, and is the Honorary President of the Hong Kong Amateur Athletics Association.

Note: Mr. Luis E. Poblete, Jr. resigned as Director and member of the Audit Committee of the Company on 13th June 2002, and Professor Arthur K.C. Li resigned as Alternate Director to Dr. David K.P. Li on 1st August 2002.

DIRECTORS AND MANAGEMENT EXECUTIVES

MANAGEMENT EXECUTIVES

Freddy W.M. Kwan

Managing Director

Thomas R. Mainwaring

Director, Company Secretary & Chief Financial Officer

Herbert W.M. Chu

General Manager – Operations & Exports

Benjamin C. Go Que

Managing Director,

San Miguel Shunde Brewery Company Limited

Kelvin H.Y. Lee

General Manager – Marketing

Roberto D. de Leon

Managing Director,

Guangzhou San Miguel Brewery Company Limited

Peter K.Y. Tam

General Manager – Sales

Terence T.A. Tan

General Manager – Logistics

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 on page 20 for details.

Mr. Thomas R. MAINWARING, Director, Company Secretary and Chief Financial Officer. Please refer to the Directors section on page 21 for details.

Mr. Herbert W.M. CHU, BBA, MBA, aged 49, General Manager – Operations & Exports, joined the Company in 1977. During his 25 years of service with the Company, Mr. Chu has gained extensive experience in logistics, sales and marketing as well as public relations.

Mr. Benjamin C. GO QUE, BScChE, MBA, aged 37, Managing Director of San Miguel Shunde Brewery Company Limited, joined the San Miguel Group in 1988. During his 14 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, BSSc, MBA, aged 37, 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, BSChE, MBA, aged 49, Managing Director of Guangzhou San Miguel Brewery Company Limited, joined the San Miguel Group in 1974. During his 28 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, BBA, MBA, aged 44, 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. Terence T.A. TAN, BBBA, aged 44, General Manager – Logistics, joined the Company in 1998. Mr. Tan has more than 20 years of experience in the logistics industry in Singapore, Hong Kong and Mainland China.

Mr. Ben M.B. WONG, MBA, FHKIoD, FCCA, AHKSA, ASA, aged 40, 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, DBA, LL.M, MSc (Per Mgt), MBA, MSc (Eng), FIPD (UK), 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 FORTIETH ANNUAL GENERAL MEETING of SAN MIGUEL BREWERY HONG KONG LIMITED will be held at the Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 10th April 2003 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 2002.
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, 27th February 2003

Notes:

1. Shareholders are entitled to appoint one or more proxies to attend and vote in their stead at the meeting. A proxy need not be a shareholder of the Company.
2. To be valid, forms of proxy must be deposited at the registered office of the Company at 9/F., Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting.
3. The Transfer Books and Register of Members will be closed from Tuesday, 18th March 2003 to Thursday, 20th March 2003, 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, 17th March 2003.

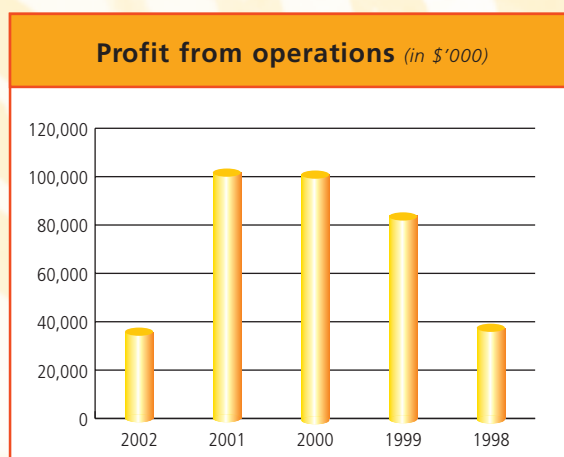
STATISTICAL ANALYSIS OF OPERATIONS

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

TEN YEAR REVIEW

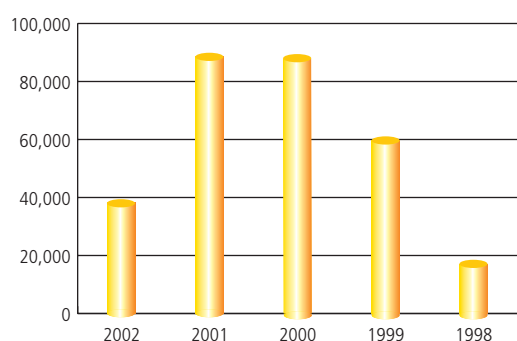
	2002	2001	2000
Gross turnover (1)	1,326,642	1,376,423	1,433,150
Profit from operations	38,942	101,787	100,723
Profit attributable to shareholders before extraordinary items	39,726	88,734	87,657
Extraordinary items (2)	-	-	-
Profit attributable to shareholders	39,726	88,734	87,657
Taxes paid, including beer tax	164,268	170,830	160,745
Cash dividends attributable to the year	37,356	160,636	52,300
Cash dividends per share (3)	0.10	0.43	0.14
Fixed assets and projects under development	2,083,863	2,156,190	2,214,254
Net worth (6)	2,145,103	2,161,839	2,233,837
Payroll (4)	131,168	126,053	127,094
Number of personnel (5)	1,214	1,268	1,276

- (1) Gross turnover for the years 1995 to 2002 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.

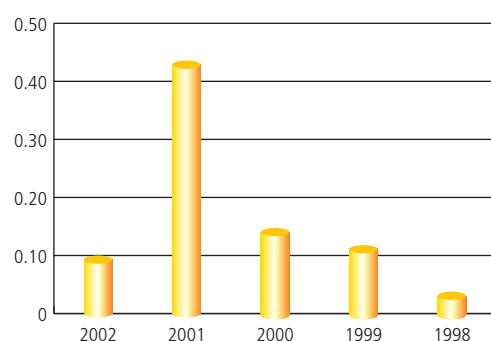


1999	1998	1997	1996	1995	1994	1993
1,342,902	1,378,562	1,317,302	1,410,867	1,302,677	1,223,965	1,186,464
83,737	39,409	10,132	72,784	115,307	108,227	57,724
60,100	17,051	5,492	68,321	165,908	132,886	32,199
-	-	-	115,803	-	2,900,522	-
60,100	17,051	5,492	184,124	165,908	3,033,408	32,199
156,038	170,576	144,620	152,073	132,899	172,287	284,124
41,093	11,207	29,886	59,771	59,771	1,648,803	3,736
0.11	0.03	0.08	0.16	0.16	4.51	0.01
2,276,150	2,347,937	2,396,195	2,462,394	2,062,862	1,092,466	670,586
2,193,847	2,170,495	2,157,247	2,227,953	2,102,156	2,537,363	634,072
144,121	155,400	147,443	133,838	142,404	145,450	129,691
1,345	1,601	1,655	1,527	1,327	1,573	1,576

Profit attributable to shareholders before extraordinary items (in \$'000)



Cash dividends per share (in \$ per share)



Our Marketing Initiatives - San Miguel Pale Pilsen

我們的市務推廣活動 - 生力啤酒



FINANCIAL STATEMENTS SECTION

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS	28
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	29
CONSOLIDATED BALANCE SHEET	30
COMPANY BALANCE SHEET	31
CONSOLIDATED CASH FLOW STATEMENT	32
NOTES TO THE FINANCIAL STATEMENTS	33

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

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

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

	Note	2002	2001
Gross turnover	2	1,326,642	1,376,423
Discounts		(277,269)	(252,127)
Cost of sales		(386,767)	(405,681)
Beer duty and taxes		(176,011)	(184,594)
Gross profit		486,595	534,021
Distribution costs		(46,023)	(50,572)
Administrative and selling expenses		(382,053)	(366,080)
Other operating expenses		(19,577)	(15,582)
Profit from operations	3	38,942	101,787
Finance costs	4	(7,059)	(23,427)
Other net income	5	11,697	17,174
Profit from ordinary activities before taxation		43,580	95,534
Taxation	6(a)	(2,431)	(5,131)
Profit from ordinary activities after taxation		41,149	90,403
Minority interests		(1,423)	(1,669)
Profit attributable to shareholders	9, 25	39,726	88,734
Dividends attributable to the year	10		
Special dividend declared during the year		–	(100,864)
First interim dividend declared during the year		(11,207)	(14,943)
Second interim dividend declared during the year		(11,207)	(14,943)
Third interim dividend declared during the year		(7,471)	(14,943)
Final dividend proposed after the balance sheet date		(7,471)	(14,943)
		(37,356)	(160,636)
Earnings per share – Basic	11	\$0.11	\$0.24

The Notes on pages 33 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31st December, in dollar thousands

	Note	2002	2001
Shareholders' equity at 1st January			
As previously report		2,161,839	2,233,837
Prior period adjustment arising from change in accounting policy for employee benefits	12(a)	(11,615)	–
As restated		2,150,224	2,233,837
Exchange difference arising on translation of the financial statements of foreign entities	25	(19)	(96)
Net losses not recognised in the Consolidated Statement of Profit and Loss		(19)	(96)
Net profit for the year	25	39,726	88,734
Dividends approved during the year	10	(44,828)	(160,636)
Shareholders' equity at 31st December		2,145,103	2,161,839

The Notes on pages 33 to 51 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 31st December, in dollar thousands

	Note	2002	2001
Non-current assets			
Fixed assets	14	2,083,863	2,156,190
Held to maturity securities – unlisted		29,844	48,584
Other assets	16	7,539	7,540
		<u>2,121,246</u>	<u>2,212,314</u>
Current assets			
Inventories	17	87,263	95,503
Trade and other receivables	18	190,091	174,767
Amounts due from holding company and fellow subsidiaries		26,011	13,729
Held to maturity securities – unlisted		20,120	–
Cash and cash equivalents	19	264,849	241,444
		<u>588,334</u>	<u>525,443</u>
Current liabilities			
Banks loans (unsecured)	20	(77,998)	(78,002)
Trade and other payables	18	(110,295)	(139,516)
Taxation	6(b)	–	(278)
Amounts due to holding company and fellow subsidiaries		(17,922)	(14,866)
		<u>(206,215)</u>	<u>(232,662)</u>
Net current assets		<u>382,119</u>	<u>292,781</u>
Total assets less current liabilities		<u>2,503,365</u>	<u>2,505,095</u>
Non-current liabilities			
Bank loans (unsecured)	20	(195,000)	(195,005)
Leased factory maintenance provision	21	(39,948)	(35,874)
Retirement benefit liability	22	(12,157)	–
Deferred taxation	23(a)	(3,393)	(6,026)
		<u>(250,498)</u>	<u>(236,905)</u>
Minority interests		(107,764)	(106,351)
NET ASSETS		<u>2,145,103</u>	<u>2,161,839</u>
CAPITAL AND RESERVES			
Share capital	24	186,785	186,785
Reserves	25	1,958,318	1,975,054
		<u>2,145,103</u>	<u>2,161,839</u>

Approved and authorised for issue by the Board of Directors on 27th February 2003.

Directors:

FRANCISCO C. EIZMENDI, JR.

FREDDY W.M. KWAN

The Notes on pages 33 to 51 form part of these financial statements.

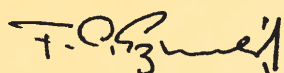
COMPANY BALANCE SHEET

as at 31st December, in dollar thousands

	Note	2002	2001
Non-current assets			
Fixed assets	14	1,214,961	1,257,314
Interests in subsidiaries	15	844,557	640,910
		2,059,518	1,898,224
Current assets			
Inventories	17	33,203	39,293
Trade and other receivables	18	132,834	100,461
Amounts due from holding company and fellow subsidiaries		10,347	9,617
Cash and cash equivalents	19	19,314	22,265
		195,698	171,636
Current liabilities			
Trade and other payables	18	(48,254)	(62,575)
Amounts due to holding company and fellow subsidiaries		(7,656)	(5,985)
		(55,910)	(68,560)
Net current assets		139,788	103,076
Total assets less current liabilities		2,199,306	2,001,300
Non-current liabilities			
Bank loans (unsecured)	20	(195,000)	–
Retirement benefit liability	22	(12,157)	–
		(207,157)	–
NET ASSETS		1,992,149	2,001,300
CAPITAL AND RESERVES			
Share capital	24	186,785	186,785
Reserves	25	1,805,364	1,814,515
		1,992,149	2,001,300

Approved and authorised for issue by the Board of Directors on 27th February 2003.

Directors:



FRANCISCO C. EIZMENDI, JR.



FREDDY W.M. KWAN

The Notes on pages 33 to 51 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the years ended 31st December, in dollar thousands

Note	2002	2001
Operating activities		
Profit from ordinary activities before taxation	43,580	95,534
Adjustments for:		
Depreciation of fixed assets	80,913	79,132
Interest expense	6,924	23,340
Interest income	(5,250)	(12,807)
Loss on disposal of fixed assets	425	200
Foreign exchange loss/(gain)	24	(51)
Operating profit before changes in working capital	126,616	185,348
Increase in products in hand and in process	(611)	(7,497)
Decrease in materials and supplies	8,851	5,238
(Increase)/decrease in trade and other receivables	(15,277)	168
(Increase)/decrease in net amounts due from holding company and fellow subsidiaries	(9,226)	50,703
(Decrease)/increase in trade and other payables	(28,273)	3,727
Increase in retirement benefit liability	542	–
Increase in leased factory maintenance provision	4,078	4,078
Cash generated from operations	86,700	241,765
Tax paid		
Hong Kong profits tax refunded	–	972
Overseas tax paid	(5,342)	(1,985)
Net cash from operating activities	81,358	240,752
Investing activities		
Payment for purchase of fixed assets	(9,529)	(25,161)
Proceeds from sales of fixed assets	449	3,539
Purchase of held to maturity securities	(2)	(28,272)
Proceeds on disposal of held to maturity securities	7	–
Interest received	3,814	12,198
Net cash used in investing activities	(5,261)	(37,696)
Financing activities		
Proceeds from new bank loan	272,998	–
Repayment of bank loans	(272,982)	(195,005)
Interest paid	(7,872)	(23,998)
Dividends paid	(44,828)	(160,636)
Dividends paid to minority shareholders	–	(773)
Net cash used in financing activities	(52,684)	(380,412)
Net increase/(decrease) in cash and cash equivalents	23,413	(177,356)
Cash and cash equivalents at beginning of year	241,444	418,836
Effect of foreign exchange rates changes	(8)	(36)
Cash and cash equivalents at end of year	264,849	241,444

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The Notes on pages 33 to 51 form part of these financial statements.

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, less any impairment losses (see Note 1(H)), 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 the 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 in the balance sheets 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;
- Investments in subsidiaries; and
- Positive goodwill

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).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

J. PRODUCTS, MATERIALS AND SUPPLIES

Both materials and supplies and products in hand and in progress are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

K. DEFERRED TAXATION

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

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

L. TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the Consolidated Statement of Profit and Loss.

1. Significant Accounting Policies (Continued)

L. TRANSLATION OF FOREIGN CURRENCIES (CONTINUED)

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise 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 the Consolidated Statement of Profit and Loss in equal instalments over the accounting periods covered by the lease term.

N. BORROWING COSTS

Borrowing costs are expensed in the Consolidated Statement of Profit and Loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

O. EMPLOYEE BENEFITS

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the Consolidated Statement of Profit and Loss as incurred, except to the extent that they are included in the inventories not yet recognised as an expense.

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.

(iii) The Group's net obligation in respect of the defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Consolidated Statement of Profit and Loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Consolidated Statement of Profit and Loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Significant Accounting Policies (Continued)

O. EMPLOYEE BENEFITS (CONTINUED)

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the Consolidated Statement of Profit and Loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

P. RELATED PARTIES

For the purposes of these consolidated 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 AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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 system, 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 fixed assets. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Profit from operations

in dollar thousands

	Group	
	2002	2001
The profit from operations is stated after charging the following items:		
(a) Staff costs		
Retirement costs		
– Defined contribution plans	8,344	7,673
– Defined benefit plan (Note 22(b) and (c))	6,489	4,753
	14,833	12,426
Salaries, wages and other benefits	131,168	126,053
	146,001	138,479
(b) Other items		
Depreciation		
– Assets held for use under operating leases	1,211	960
– Other assets	79,702	78,172
Inventory costs	379,422	396,242
Operating lease charges		
– Plant and machinery	14,860	14,861
– Land and buildings	10,098	13,046
Auditors' remuneration	2,521	1,909

4. Finance costs

in dollar thousands

	Group	
	2002	2001
Interest on bank loans	(6,924)	(23,340)
Bank charges	(135)	(87)
	(7,059)	(23,427)

5. Other net income

in dollar thousands

	Group	
	2002	2001
Interest income	5,250	12,807
Rental income	5,077	4,111
Net loss on disposal of fixed assets	(425)	(200)
Other income	1,795	456
	11,697	17,174

6. Taxation

in dollar thousands

(a) Taxation in the Consolidated Statement of Profit and Loss represents:

	Group	
	2002	2001
Overseas taxation	5,064	2,210
Deferred taxation (Note 23(a))	(2,633)	2,921
	2,431	5,131

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Taxation (Continued)

in dollar thousands

(b) Taxation in the Consolidated Balance Sheet represents:

	Group	
	2002	2001
Balance of provision for overseas profits tax	–	278

7. Directors' remuneration

in dollar thousands

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

	Group	
	2002	2001
Fees	502	518
Salaries and allowances	5,397	5,323
Discretionary bonus	673	606
Retirement fund contributions	331	324
	6,903	6,771

Included in the directors' remuneration were fees of \$402,000 (2001: \$418,000) paid to independent non-executive directors during the year. Directors' remuneration included a sum of \$nil (2001: \$3,861,000) which was borne by the Company's holding company.

The directors' remuneration is within the following bands:

	Number of directors	
	2002	2001
\$Nil to \$1,000,000	8	8
\$2,000,001 to \$2,500,000	1	1
\$3,500,001 to \$4,000,000	–	1
\$4,000,001 to \$4,500,000	1	–

8. Individuals with highest emoluments

in dollar thousands

Of the five individuals with the highest emoluments, two are directors (2001: two) whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other three (2001: three) individuals are as follows:

	Group	
	2002	2001
Salaries and allowances	3,928	3,831
Discretionary bonus	670	1,096
Retirement fund contributions	344	333
	4,942	5,260

The above emoluments are within the following band:

	Number of individuals	
	2002	2001
\$1,500,001 to \$2,000,000	3	3

9. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$47,292,000 (2001: \$86,262,000) which has been dealt with in the financial statements of the Company (Note 25).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Dividends

in dollar thousands

(a) Dividends attributable to the year

	Group	
	2002	2001
Special dividend declared and paid of \$nil per share (2001: \$0.27 per share)	–	100,864
First interim dividend declared and paid of \$0.03 per share (2001: \$0.04 per share)	11,207	14,943
Second interim dividend declared and paid of \$0.03 per share (2001: \$0.04 per share)	11,207	14,943
Third interim dividend declared and paid of \$0.02 per share (2001: \$0.04 per share)	7,471	14,943
Total dividends declared and paid during the year (Note 25)	29,885	145,693
Final dividend proposed after the balance sheet date of \$0.02 per share (2001: \$0.04 per share)	7,471	14,943
	37,356	160,636

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	
	2002	2001
Final dividend in respect of the previous year, approved and paid during the year, of \$0.04 per share (2001: \$0.04 per share) (Note 25)	14,943	14,943

11. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$39,726,000 (2001: \$88,734,000) and on 373,570,560 ordinary shares (2001: 373,570,560 ordinary shares), being the number of ordinary 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. Changes in accounting policies

(a) Employee benefits

In prior years, the regular cost of providing retirement benefits under the Group's defined benefit retirement plan was charged to the Consolidated Statement of Profit and Loss over the expected service lives of the members of the plan on the basis of level percentages of pensionable pay as recommended by the actuary. With effect from 1st January 2002, in order to comply with Statement of Standard Accounting Practice ("SSAP") 34 issued by the HKSA, the Group adopted a new policy for defined benefit retirement plan as set out in Note 1 (O).

As a result of the adoption of the new accounting policy, the Group's profit for the year has been decreased by \$542,000 and the net assets as at the year end have been decreased by \$12,157,000. The effect of adopting the new accounting policy has been adjusted to the opening balance of retained profits for the year by \$11,615,000 (Note 22(b) and 25). No restatement of other comparative information has been made.

(b) Translation of financial statements of foreign enterprises

In prior years, the results of foreign enterprises were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st January 2002, in order to comply with SSAP 11 (revised) issued by the HKSA, the Group translates the results of foreign enterprises at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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	
	2002	2001	2002	2001	2002	2001	2002	2001
Revenue from external customers	787,002	777,266	539,640	599,157	-	-	1,326,642	1,376,423
Other revenue	4,956	4,111	121	-	-	-	5,077	4,111
Total revenue	791,958	781,377	539,761	599,157	-	-	1,331,719	1,380,534
Segment result	53,668	70,362	(8,279)	35,792			45,389	106,154
Unallocated operating income and expenses							5,250	12,807
Finance costs							(7,059)	(23,427)
Taxation							(2,431)	(5,131)
Minority interests							(1,423)	(1,669)
Profit attributable to shareholders							39,726	88,734
Depreciation for the year	49,016	48,861	31,897	30,271			80,913	79,132

	Hong Kong		PRC		Inter-segment elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
Segment assets	1,759,124	1,763,459	902,303	926,459	(3,080)	(1,968)	2,658,347	2,687,950
Unallocated assets							51,233	49,807
Total assets							2,709,580	2,737,757
Segment liabilities	71,042	71,487	111,972	119,400	(3,080)	(1,968)	179,934	188,919
Unallocated liabilities							276,779	280,648
Total liabilities							456,713	469,567
Capital expenditure incurred during the year	4,684	11,780	4,845	13,381			9,529	25,161

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 2002	2,662,804	246,308	864,390	1,510,143	38,180	3,783
Exchange adjustments	(89)	(4)	(30)	(53)	(2)	–
Additions	9,529	–	538	2,661	1,209	5,121
Disposals	(10,510)	–	–	(3,858)	(6,652)	–
Transfer from construction in progress	–	–	479	6,239	195	(6,913)
At 31st December 2002	<u>2,661,734</u>	<u>246,304</u>	<u>865,377</u>	<u>1,515,132</u>	<u>32,930</u>	<u>1,991</u>
Accumulated depreciation						
At 1st January 2002	506,614	4,475	102,709	370,421	29,009	–
Exchange adjustments	(20)	–	(4)	(14)	(2)	–
Charge for the year	80,913	745	18,385	59,020	2,763	–
Written back on disposals	(9,636)	–	–	(3,466)	(6,170)	–
At 31st December 2002	<u>577,871</u>	<u>5,220</u>	<u>121,090</u>	<u>425,961</u>	<u>25,600</u>	<u>–</u>
Net book value at 31st December 2002	<u>2,083,863</u>	<u>241,084</u>	<u>744,287</u>	<u>1,089,171</u>	<u>7,330</u>	<u>1,991</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>
(b) Company						
Cost						
At 1st January 2002	1,536,631	107,292	458,772	958,874	11,267	426
Additions	4,413	–	78	1,352	1,210	1,773
Disposals	(5,161)	–	–	(2,329)	(2,832)	–
Transfer from construction in progress	–	–	78	933	–	(1,011)
At 31st December 2002	<u>1,535,883</u>	<u>107,292</u>	<u>458,928</u>	<u>958,830</u>	<u>9,645</u>	<u>1,188</u>
Accumulated depreciation						
At 1st January 2002	279,317	–	48,363	223,897	7,057	–
Charge for the year	46,749	–	9,184	36,264	1,301	–
Written back on disposals	(5,144)	–	–	(2,317)	(2,827)	–
At 31st December 2002	<u>320,922</u>	<u>–</u>	<u>57,547</u>	<u>257,844</u>	<u>5,531</u>	<u>–</u>
Net book value at 31st December 2002	<u>1,214,961</u>	<u>107,292</u>	<u>401,381</u>	<u>700,986</u>	<u>4,114</u>	<u>1,188</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>

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	
	2002	2001	2002	2001
Medium term leasehold land				
– in Hong Kong	209,014	209,014	107,292	107,292
– outside Hong Kong	32,070	32,819	–	–
	241,084	241,833	107,292	107,292

(d) The Group leases as lessor certain fixed assets to third parties. The gross amounts of fixed assets of the Group held for use under these short term operating leases were \$117,534,000 (2001: \$95,989,000) and the related accumulated depreciation charges were \$9,418,000 (2001: \$6,712,000).

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	
	2002	2001
Within 1 year	3,944	3,207
After 1 year but within 5 years	2,111	2,819
	6,055	6,026

15. Interests in subsidiaries

in dollar thousands except share capital of subsidiaries

	Company	
	2002	2001
Unlisted shares, at cost	603,249	603,249
Amounts due from subsidiaries	408,323	326,790
Amounts due to subsidiaries	(37)	(122,151)
	1,011,535	807,888
Less: provision	(166,978)	(166,978)
	844,557	640,910

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 shares except otherwise stated)	Proportion of ownership interest held by		Principal activities
			Company	Subsidiaries	
Best Investments International Inc.	British Virgin Islands	US\$50,000	100%	–	Investment
		Preference: US\$60,000,000	100%	–	
Guangzhou San Miguel Brewery Company Limited	The People's Republic of China ("PRC")	Registered capital: 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	Registered capital: 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 ("SMSB") is an equity joint venture formed between the Company's subsidiary, San Miguel Shunde Holdings Limited ("SMSHL"), and Guangdong Province Shunde County Brewery ("Shunde Brewery"). According to the shareholders' agreement, the company has an operating period of 50 years expiring on 4th August 2042. In January 2003, SMSHL acquired the remaining 15% equity interest of SMSB from Shunde Brewery (Note 29(a)).

16. Other assets

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

17. Inventories

in dollar thousands

	Group		Company	
	2002	2001	2002	2001
Products in hand and in process	23,128	22,517	11,219	13,913
Materials and supplies	64,135	72,986	21,984	25,380
	87,263	95,503	33,203	39,293

The amount of inventories held by the Group carried at net realisable value is \$18,196,000 (2001: \$19,578,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

The ageing of trade receivables (net of provision for bad and doubtful debts) is as follows:

	Group		Company	
	2002	2001	2002	2001
Less than 30 days	66,988	73,615	39,990	32,932
31 to 60 days	39,709	34,332	31,142	30,160
61 to 90 days	15,206	14,607	14,998	14,403
over 90 days	34,355	22,216	27,652	7,030
	156,258	144,770	113,782	84,525

The ageing of trade payables is as follows:

	Group		Company	
	2002	2001	2002	2001
Less than 30 days	18,985	44,875	11,871	33,879
31 to 60 days	4,291	9,881	2,715	4,957
61 to 90 days	1,528	3,455	703	575
over 90 days	453	1,778	55	97
	25,257	59,989	15,344	39,508

19. Cash and cash equivalents

in dollar thousands

Cash and cash equivalents comprise:

	Group		Company	
	2002	2001	2002	2001
Deposits with banks	220,622	186,354	–	–
Cash at bank and in hand	44,227	55,090	19,314	22,265
	264,849	241,444	19,314	22,265

20. Bank loans (unsecured)

in dollar thousands

Bank loans are repayable as follows:

	Group		Company	
	2002	2001	2002	2001
Within 1 year or on demand	77,998	78,002	–	–
More than 1 year but less than 2 years	–	–	–	–
More than 2 years but less than 5 years	195,000	195,005	195,000	–
	195,000	195,005	195,000	–
	272,998	273,007	195,000	–

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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	
	2002	2001
Balance at 1st January	35,874	31,810
Provision made during the year	4,078	4,078
Exchange difference	(4)	(14)
Balance at 31st December	39,948	35,874

22. Retirement benefit liability

in dollar thousands

The Group operates a defined benefit retirement plan which covers 27% of the Group's employees. The plan is administered by an independent trustee, with the assets held separately from those of the Group. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the plan are made in accordance with the recommendations of an independent actuary who values the retirement plan at regular intervals, usually triennially. The latest actuarial valuation in this respect was carried out for 31st December 1999.

For the purposes of adopting SSAP 34, an independent actuarial valuation was carried out for both 1st January and 31st December 2002, following the methodology set out in SSAP 34.

(a) The amounts recognised in the balance sheets are as follows:

	Group and Company 2002
Present value of funded obligations	107,183
Fair value of plan assets	(71,798)
Net unrecognised actuarial losses	(23,228)
	12,157

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(b) Movements in the net liability recognised in the balance sheets are as follows:

	Group and Company 2002
At 1st January (Note 12(a))	11,615
Contributions paid to the plan	(5,947)
Expense recognised in the profit and loss account (Note 3(a))	6,489
At 31st December	12,157

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Retirement benefit liability (Continued)

in dollar thousands

(c) Expense recognised in the Consolidated Statement of Profit and Loss is as follows:

	2002
Current service cost	6,614
Interest cost	5,820
Expected return on plan assets	(5,945)
	6,489
The expense is recognised in the following line items in the Consolidated Statement of Profit and Loss:	
Cost of sales	2,208
Distribution costs	2,252
Administrative and selling expenses	2,029
	6,489
Actual return on plan assets	(4,611)

(d) The principal actuarial assumptions used as at 31st December 2002 are as follows:

	Group and Company 2002
Discount rate	5.5%
Expected rate of return on plan assets	8.0%
Long-term salary increases	5.0%

23. Deferred tax

in dollar thousands

(a) Movements in deferred taxation comprise:

	Group	
	2002	2001
Balance at 1st January	6,026	3,105
Transfer (to)/from Consolidated Statement of Profit and Loss (Note 6(a))	(2,633)	2,921
Balance at 31st December	3,393	6,026

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

	2002 Potential liabilities		2001 Potential liabilities	
	Provided	Unprovided	Provided	Unprovided
Depreciation allowances in excess of related depreciation	8,514	187,771	6,026	185,036
Future benefit of tax losses	–	(138,425)	–	(174,426)
Others	(5,121)	(3,893)	–	(1,060)
	3,393	45,453	6,026	9,550

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Deferred tax (Continued)

in dollar thousands

(c) Major components of deferred tax of the Company are set out below:

	2002 Potential liabilities		2001 Potential liabilities	
	Provided	Unprovided	Provided	Unprovided
Depreciation allowances in excess of related depreciation	-	133,390	-	137,000
Future benefit of tax losses	-	(81,493)	-	(92,719)
Others	-	(969)	-	(1,060)
	-	50,928	-	43,221

24. Share capital

in dollar thousands

	Company	
	2002	2001
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

25. Reserves

in dollar thousands

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Group					
Balance at 1st January 2001	2,047,052	65,739	57,312	(4,824)	1,928,825
Dividends approved in respect of the previous year (Note 10(b))	(14,943)	-	-	-	(14,943)
Profit for the year	88,734	-	-	-	88,734
Dividends declared in respect of the current year (Note 10(a))	(145,693)	-	-	-	(145,693)
Exchange differences on translation of financial statements of overseas subsidiaries	(96)	-	-	(96)	-
Balance at 31st December 2001	1,975,054	65,739	57,312	(4,920)	1,856,923
Balance at 1st January 2002					
- as previously reported	1,975,054	65,739	57,312	(4,920)	1,856,923
- prior period adjustment in respect of employee benefits (Note 12(a))	(11,615)	-	-	-	(11,615)
- as restated	1,963,439	65,739	57,312	(4,920)	1,845,308
Dividends approved in respect of the previous year (Note 10(b))	(14,943)	-	-	-	(14,943)
Profit for the year	39,726	-	-	-	39,726
Dividend declared in respect of the current year (Note 10(a))	(29,885)	-	-	-	(29,885)
Exchange differences on translation of financial statements of overseas subsidiaries	(19)	-	-	(19)	-
Balance at 31st December 2002	1,958,318	65,739	57,312	(4,939)	1,840,206

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Reserves (Continued) in dollar thousands

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.

There is positive goodwill of \$31,879,000 (2001: \$31,879,000) directly eliminated against revenue reserve in a prior year.

	Total	Share premium	Capital reserve	Exchange fluctuation reserve	Revenue reserve
Company					
Balance at 1st January 2001	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
Dividends 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
Balance at 1st January 2002					
– as previously reported	1,814,515	65,739	–	–	1,748,776
– prior period adjustment in respect of employee benefits (Note 12(a))	(11,615)	–	–	–	(11,615)
– as restated	1,802,900	65,739	–	–	1,737,161
Dividends approved in respect of the previous year (Note 10(b))	(14,943)	–	–	–	(14,943)
Profit for the year (Note 9)	47,292	–	–	–	47,292
Dividend declared in respect of the current year (Note 10(a))	(29,885)	–	–	–	(29,885)
Balance at 31st December 2002	1,805,364	65,739	–	–	1,739,625

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 2002 were \$1,739,625,000 (2001: \$1,748,776,000).

26. Commitments in dollar thousands

(a) Capital commitments outstanding at 31st December 2002 not provided for in the financial statements were as follows:

	Group		Company	
	2002	2001	2002	2001
Contracted for	826	2,482	593	1,340
Authorised by the directors but not contracted for	5,373	4,529	1,621	1,288
	6,199	7,011	2,214	2,628

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Commitments (Continued)

in dollar thousands

- (b) At 31st December 2002, the total future lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2002	2001	2002	2001
Land and buildings				
Within 1 year	9,355	10,274	480	1,645
After 1 year but within 5 years	22,208	23,195	360	–
After 5 years	67,452	72,648	–	–
	99,015	106,117	840	1,645
Plant and machinery				
Within 1 year	14,445	14,830	128	512
After 1 year but within 5 years	57,270	57,403	–	128
After 5 years	299,480	313,816	–	–
	371,195	386,049	128	640
	470,210	492,166	968	2,285

The Group, as lessee, 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.

Included in the amounts of future lease payments in respect of plant and machinery presented above is an amount of \$39,948,000 (2001: \$35,874,000) which has been accrued and disclosed as "leased factory maintenance provision" in the Consolidated Balance Sheet and Note 21.

27. Material related party transactions

The Group purchased and sold materials and products 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 2002, purchases from and sales to these related parties totalled \$64,268,000 (2001: \$80,888,000) and \$35,547,000 (2001: \$46,802,000) respectively. The net amount due from these related parties amounted to \$8,089,000 on 31st December 2002 (2001: due to \$1,137,000).

28. 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 2002, there were contingent liabilities in respect of guarantees given to banks by the Company to secure banking facilities made available to a subsidiary.

	Company	
	2002	2001
Guarantees to banks	77,998	273,007

29. Post balance sheet event

- (a) San Miguel Shunde Holdings Limited ("SMSHL"), a non wholly owned subsidiary of the Company, entered into an equity transfer agreement on 27th January 2003 for the acquisition of 15% equity interest of San Miguel Shunde Brewery Company Limited ("SMSB") from Guangdong Province Shunde County Brewery ("Shunde Brewery") for consideration of US\$700,000 (approximately \$5,460,000). Upon completion of the acquisition, SMSB will become a wholly owned subsidiary of SMSHL. The acquisition will be funded entirely by the Company.

In addition, the Company entered into six trademark assignment agreements on 27th January 2003 to acquire trademarks for an aggregate consideration of US\$5,000,000 (approximately \$39,000,000) from Shunde Brewery and companies associated with Shunde Brewery. The trademark assignments are, effectively, acquisition of the Dragon beer brand by the Company and will give the Company absolute ownership and control of the Dragon beer brand. The trademark assignments are conditional upon the acquisition of Shunde Brewery's 15% equity in SMSB by SMSHL.

The above acquisition of equity and assignment of trademarks are conditional upon the approval of regulatory authorities in the PRC.

- (b) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 10.

30. Comparative figures

The presentation and classification of items in the Consolidated Cash Flow Statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the Consolidated Cash Flow Statement. Comparative figures have been reclassified to conform with the current year's presentation.

31. 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 2002.

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 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



KPMG

Certified Public Accountants

Hong Kong, 27th February 2003

FIVE YEAR SUMMARY

in dollar thousands except per share data

	2002	2001	2000	1999	1998
Results					
Gross turnover	1,326,642	1,376,423	1,433,150	1,342,902	1,378,562
Profit from ordinary activities before taxation	43,580	95,534	93,608	63,470	30,637
Taxation	(2,431)	(5,131)	(6,631)	(6,744)	(11,002)
Minority interests	(1,423)	(1,669)	680	3,374	(2,584)
Profit attributable to shareholders	39,726	88,734	87,657	60,100	17,051
Cash dividends attributable to the year	37,356	160,636	52,300	41,093	11,207
Earnings per share	0.11	0.24	0.23	0.16	0.05
Cash dividends per share	0.10	0.43	0.14	0.11	0.03
Employment of assets					
Fixed assets	2,083,863	2,156,190	2,214,254	2,276,150	2,347,937
Investments	29,844	48,584	19,001	10,473	32,594
Other assets	7,539	7,540	7,543	13,729	12,435
Inventories	87,263	95,503	93,244	111,834	96,248
Other current assets	236,222	188,496	249,235	269,818	269,964
Cash and cash equivalents	264,849	241,444	418,836	323,345	202,803
	2,709,580	2,737,757	3,002,113	3,005,349	2,961,981
Capital employed and liabilities					
Share capital	186,785	186,785	186,785	186,785	186,785
Reserves	1,958,318	1,975,054	2,047,052	2,007,062	1,983,710
Minority interests	107,764	106,351	105,504	105,748	108,838
Non-current liabilities	250,498	236,905	425,171	419,040	413,972
Short term bank loans	77,998	78,002	78,051	93,490	104,212
Other current liabilities	128,217	154,660	159,550	193,224	164,464
	2,709,580	2,737,757	3,002,113	3,005,349	2,961,981

Notes:

- As a result of a change in accounting policy for dividend recognition, figures for the years from 1998 to 2000 have been adjusted for comparison purposes.
- In order to comply with SSAP 34 "Employee benefits", the Group adopted a new accounting policy for defined benefit retirement plans in 2002. Figures for the years from 1998 to 2001 have not been adjusted for comparison purposes as it is not practicable to restate earlier years.
- Pursuant to the revised (December 2001) SSAP 11 "Foreign currency translation", the Group changed its accounting policy for translation of the results of foreign subsidiaries in 2002. Figures for the years from 1998 to 2001 have not been adjusted for comparison purposes as the effect of this change in accounting policy is not material.

Our Marketing Initiatives - San Mig Light

我們的市務推廣活動 - 生力清啤



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EXI