

# REPORT OF THE DIRECTORS

*To be presented at the Thirty-Eighth Annual General Meeting of shareholders to be held at the Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 30th March 2001 at 2:00 p.m.*

The directors have pleasure in submitting their report and the audited statement of accounts for the financial year ended 31st December 2000.

## PRINCIPAL ACTIVITIES

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

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

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

	<b>Gross Turnover</b>	<b>Profit Before Taxation</b>
Hong Kong	57%	93%
The People's Republic of China	43%	7%

## MAJOR CUSTOMERS AND SUPPLIERS

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

Gross turnover attributable to:

Largest customer	6.9%
Five largest customers	30.6%

Purchases attributable to:

Largest supplier	6.1%
Five largest suppliers	22.9%

As at 31st December 2000, none of the directors, their associates, or any shareholder (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the above major customers or suppliers.

## **ACCOUNTS**

The profit and cash flows of the Group for the year ended 31st December 2000 and the state of affairs of the Company and the Group at that date are set out in the Accounts Section on pages 30 to 51 of this Annual Report.

## **DIVIDENDS**

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

## **RESERVES**

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

## **CHARITABLE AND OTHER DONATIONS**

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

## **FIXED ASSETS**

The Group spent \$15 million (1999: \$17 million) on fixed assets during the year. Particulars of the movements of fixed assets during the financial year are set out in Note 11 to the accounts.

## **SUBSIDIARIES**

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

## **LIQUIDITY AND FINANCIAL RESOURCES**

Working capital at the end of the year was \$506 million compared with \$418 million in 1999.

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

## **BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

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

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

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

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

## **DIRECTORS**

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

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

Messrs. Ramon S. Ang, Estelito P. Mendoza & Luis E. Poblete, Jr. retire by rotation in accordance with Article 105 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

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

## **DIRECTORS' INTERESTS**

As at 31st December 2000, the directors and their associates had the following beneficial interests in the issued share capital of the Company and its associated corporation as recorded in the register required under Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”):—

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

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

As at 31st December 2000, the directors and their associates had the following beneficial interests in share options of the Company and its associated corporation as recorded in the register required under Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”):—

Name	Share Options in San Miguel Corporation			
	Number of Options	Date Granted	Exercisable Period Up To	Exercise Price (pesos)
<b>Class A (par value of 5 pesos each):</b>				
Francisco C. Eizmendi, Jr.	266,736	24/02/94	24/02/02	40.74
	258,573	27/03/95	27/03/03	48.55
	29,823	10/04/96	10/04/04	38.69
	194,368	01/04/97	01/04/05	44.63
	267,756	26/03/98	26/03/06	38.18
Freddy W.M. Kwan	19,028	01/04/97	01/04/05	44.63
	53,722	26/03/98	26/03/06	38.18
Faustino F. Galang	61,832	27/03/95	27/03/03	48.55
	47,145	01/04/97	01/04/05	44.63
	45,184	26/03/98	26/03/06	38.18
Thomas R. Mainwaring	4,277	26/03/99	26/03/06	42.00
	4,277	26/03/00	26/03/06	42.00
<b>Class B (par value of 5 pesos each):</b>				
Francisco C. Eizmendi, Jr.	83,301	01/04/97	01/04/05	77.27
	114,752	26/03/98	26/03/06	54.82
Freddy W.M. Kwan	8,155	01/04/97	01/04/05	77.27
	23,024	26/03/98	26/03/06	54.82
Faustino F. Galang	20,206	01/04/97	01/04/05	77.27
	19,365	26/03/98	26/03/06	54.82
Thomas R. Mainwaring	1,833	26/03/99	26/03/06	60.30
	1,833	26/03/00	26/03/06	60.30

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

Save as disclosed herein, none of the directors or their associates had any interests in the issued share capital or in share options of the Company or any of its associated corporations.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2000 according to the register required under Section 16(1) of the SDI Ordinance, the Company was notified that the following shareholders had an interest of 10% or more of its issued share capital:—

Name	Number of shares of \$0.50 each	
	Ordinary shares held	Percentage of total issued shares
Neptunia Corporation Limited	245,720,800	65.78%
HKSCC Nominees Limited	72,859,136	19.5%

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

## DIRECTORS’ INTERESTS IN CONTRACTS

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

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

## **TRANSACTIONS WITH CONTROLLING SHAREHOLDER OR ITS SUBSIDIARIES**

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

## **DISCLOSURE UNDER PRACTICE NOTICE 19 TO THE LISTING RULES**

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

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

- a) SMC is required to own beneficially, directly or through wholly owned subsidiaries, 64% or more of the issued share capital of SMBIL;
- b) SMC is required to exercise full control of the Company;
- c) SMC is required to own beneficially an attributable interest of at least 64% in the issued share capital of the Company;
- d) SMBIL is required to exercise full control of SMSB;
- e) SMBIL is required to own beneficially an attributable interest of at least 50% in the registered capital of SMSB.

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

## **CODE OF BEST PRACTICE**

Throughout 2000 the Company has complied with paragraphs 1 to 14 of the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

## **RETIREMENT AND PENSION PLANS, PERSONNEL AND PAYROLL**

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

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

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

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

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

- (A) The actuary of the Fund is Mr. A. Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the aggregate cost valuation method was used. Other major assumptions used in the valuation were: Investment return 9% per annum; Salary escalation 7% per annum; Mortality Rates 1991 Hong Kong Life Tables; Normal retirement age 60; Early retirement rates allowed between ages 55 to 60.
- (B) The market value of the Fund assets was \$106,544,000 as at 31st December 1999.



- (C) The minimum level of funding as recommended by the Fund actuary was 7.3% of salary.
- (D) The solvency basis funding surplus was \$13,160,000 at 31st December 1999.

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

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

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

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

#### **FIVE YEAR SUMMARY**

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

#### **AUDITORS**

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



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

9th February 2001