

Our Products

我們的產品



CHAIRMAN'S STATEMENT



Mr. Francisco C. Eizmendi, Jr.
Chairman

To Our Shareholders,

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

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

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

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

FINANCIAL RESULTS

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

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

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

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

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

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

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

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

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

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

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

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

CHANGE IN BOARD LOT SIZE

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

DIVIDENDS

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

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

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

BUSINESS REVIEW

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

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

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

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HONG KONG OPERATIONS

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

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

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

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

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

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

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

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

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

SOUTH CHINA OPERATIONS

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

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

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

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

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

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

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

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

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

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

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

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

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

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

HUMAN RESOURCES

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

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

YEAR 2002 DIRECTION AND CHALLENGES

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

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


The objectives for 2002 include:

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

DIRECTORS

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

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



Francisco C. Eizmendi, Jr.

Chairman

7th March 2002