

Our Consumers
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REPORT OF THE DIRECTORS

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

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

PRINCIPAL ACTIVITIES

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Gross turnover attributable to:

Largest customer	6.8%
Five largest customers	29.3%

Purchases attributable to:

Largest supplier	5.6%
Five largest suppliers	22.3%

As at 31st December 2001, none of the directors, their associates, or any shareholder (which to the knowledge of the directors owned more than 5% of the Company's share capital) had any interest in the above major customers or suppliers.

FINANCIAL STATEMENTS

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

REPORT OF THE DIRECTORS

DIVIDENDS

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

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

CHANGE OF INTERIM REPORTING PERIOD

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

CHANGE OF BOARD LOT SIZE

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

RESERVES

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

CHARITABLE AND OTHER DONATIONS

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

FIXED ASSETS

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

SUBSIDIARIES

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

REPORT OF THE DIRECTORS

BANK LOANS AND OTHER BORROWINGS

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

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

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

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

DIRECTORS

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

Messrs. Freddy W.M. Kwan, Dr. David K.P. Li and Ian F. Wade retire by rotation in accordance with Article 105 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

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

DIRECTORS' INTERESTS

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

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS (Continued)

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

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

Share Options in San Miguel Corporation				
Name	Number of Options	Date Granted	Exercisable Period Up To	Exercise Price (pesos)
Class A (par value of 5 pesos each):				
Francisco C. Eizmendi, Jr.	293,410	24/02/94	24/02/02	37.04
	284,430	27/03/95	27/03/03	44.13
	32,805	10/04/96	10/04/04	35.18
	213,805	01/04/97	01/04/05	40.57
	294,531	26/03/98	26/03/06	34.71
Faustino F. Galang	68,015	27/03/95	27/03/03	44.13
	51,860	01/04/97	01/04/05	40.57
	49,703	26/03/98	26/03/06	34.71
Freddy W.M. Kwan	19,028	01/04/97	01/04/05	44.63
	53,722	26/03/98	26/03/06	38.18
Thomas R. Mainwaring	4,277	26/03/99	26/03/06	42.00
	4,277	26/03/00	26/03/06	42.00
	4,277	26/03/01	26/03/06	42.00
Class B (par value of 5 pesos each):				
Francisco C. Eizmendi, Jr.	91,631	01/04/97	01/04/05	70.25
	126,227	26/03/98	26/03/06	49.84
Faustino F. Galang	22,226	01/04/97	01/04/05	70.25
	21,302	26/03/98	26/03/06	49.84
Freddy W.M. Kwan	8,155	01/04/97	01/04/05	77.27
	23,024	26/03/98	26/03/06	54.82
Thomas R. Mainwaring	1,833	26/03/99	26/03/06	60.30
	1,833	26/03/00	26/03/06	60.30
	1,833	26/03/01	26/03/06	60.30

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS (Continued)

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

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

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

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2001 according to the register required under Section 16(1) of the SDI Ordinance, the Company was notified that the following shareholders had an interest of 10% or more of its issued share capital:

Name	Number of shares of \$0.50 each	
	Ordinary shares held	Percentage of total issued shares
Neptunia Corporation Limited	245,720,800	65.78%
HKSCC Nominees Limited	71,168,074	19.05%

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

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

(in dollars thousand except percentage)

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

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

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

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

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

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

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

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

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

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

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

DISCLOSURE UNDER PRACTICE NOTICE 19 TO THE LISTING RULES

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

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

REPORT OF THE DIRECTORS

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

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

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

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

RETIREMENT AND PENSION PLANS, PERSONNEL AND PAYROLL

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

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

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

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

REPORT OF THE DIRECTORS

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

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

- (A) The actuary of the Fund is Mr. A. Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the aggregate cost valuation method was used. Other major assumptions used in the valuation were: Investment return 9% per annum; Salary escalation 7% per annum; Mortality Rates 1991 Hong Kong Life Tables; Normal retirement age 60; Early retirement rates allowed between ages 55 to 60.
- (B) The market value of the Fund assets was \$106,544,000 as at 31st December 1999.
- (C) The minimum level of funding as recommended by the Fund actuary was 7.3% of salary.
- (D) The solvency basis funding surplus was \$13,160,000 at 31st December 1999.

The unaudited market value of Fund investments as of 31st December 2001 was \$89,351,000.

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

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

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

FIVE YEAR SUMMARY

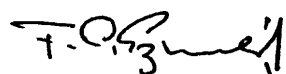
A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 53 of this Annual Report.

CODE OF BEST PRACTICE

Throughout 2001 the Company has complied with paragraphs 1 to 14 of the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

AUDITORS

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



Francisco C. Eizmendi, Jr.

Chairman

7th March 2002