

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"):

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

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

<i>Class B (par value of 5 pesos each):</i>	
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:

Share Options in San Miguel Corporation						
Name	Date granted	Exercise period up to	Exercise price (pesos)	Balance	Exercised during the year	Balance
				as at 1st January 2002		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	1.56

- (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.

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