

## REPORT OF THE DIRECTORS

*To be presented at the Forty-First Annual General Meeting of shareholders to be held at the Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, 30th March 2004 at 2:00 p.m.*

The directors submit herewith their annual report together with the audited financial statements for the year ended 31st December 2003.

### 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, profit and loss are almost entirely attributable to these activities, no analysis by activity is provided.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2003, 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	8.2%
Five largest customers	33.8%

Purchases attributable to:

Largest supplier	3.6%
Five largest suppliers	14.9%

As at 31st December 2003, 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 loss of the Group for the year ended 31st December 2003 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 directors have resolved that no dividends be declared for the year 2003.

### **RESERVES**

Movements in the reserves of the Company and the Group during the year are set out in Note 28 on the financial statements.

### **CHARITABLE AND OTHER DONATIONS**

The Group made donations for charitable and other purposes totalling \$28,000 (2002: \$123,000) during the financial year.

### **FIXED ASSETS**

The Group spent \$16.7 million (2002: \$9.5 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 17 on the financial statements.

### **LIQUIDITY AND FINANCIAL RESOURCES**

Working capital at the end of the year was \$380 million compared with \$382 million in 2002.

Cash and bank deposits at year end were \$353 million (2002: \$265 million) and are sufficient to fund working capital requirements and capital expenditure in 2004.

### **BANK LOANS**

The Group has short term credit facilities of \$183 million (2002: \$237 million) of which \$66 million (2002: \$78 million) had been utilised as at 31st December 2003.

Long term loans at year end amounted to \$195 million (2002: \$195 million).

Total borrowings at the year end for the Company were \$195 million (2002: \$195 million) and for the Group \$261 million (2002: \$273 million).

Particulars of bank loans of the Company and the Group are set out in Note 22 on the financial statements.

## REPORT OF THE DIRECTORS

### DIRECTORS

With the exception of Messrs. Ramon A. de la Llana, Benjamin P. Defensor, Jr., 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.

Mr. Freddy W. M. Kwan resigned from the office of Director during the year.

Messrs. Thomas R. Mainwaring, Estelito P. Mendoza, Wai Sun Ng 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. Ramon A. de la Llana, 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 2003, the directors and their associates had the following beneficial interests in the issued share capital of the Company and its associated corporations as recorded in the register required under Section 352 of the Securities and Futures Ordinance ("SFO"):-

Name	Number of ordinary shares of \$0.50 each in the Company				Percentage of interest in shares to total issued share capital
	Personal interests	Family interests	Equity derivatives	Total	
Francisco C. Eizmendi, Jr.	2,816	—	—	2,816	—
David K.P. Li	300,000	—	—	300,000	0.08%

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS (Continued)

Name	Number of shares in San Miguel Corporation				Percentage of interest in shares to total issued share capital
	Personal interests	Family interests	(Note) Equity derivatives	Total	
Class A (par value of 5 pesos each):					
Francisco C. Eizmendi, Jr.	298,768	—	—	298,768	0.02 %
Ramon S. Ang	6,050	—	—	6,050	—
Ramon A. de la Llana	11,539	—	—	11,539	—
Faustino F. Galang	165,042	—	101,563	266,605	0.01 %
Thomas R. Mainwaring	—	—	15,524	15,524	—
Estelito P. Mendoza	31,972	—	—	31,972	—
Gabriel L. Villareal	24,572	10,500	—	35,072	—
Class B (par value of 5 pesos each):					
Ramon A. de la Llana	4,700	—	2,456	7,156	—
Faustino F. Galang	5,270	—	43,528	48,798	—
Thomas R. Mainwaring	—	—	6,653	6,653	—
Gabriel L. Villareal	—	29,000	—	29,000	—

*Note: These represent interests of options granted to directors under the share option scheme to subscribe for shares of San Miguel Corporation, further details of which are set out below.*

Particulars of share options in San Miguel Corporation held by directors during the year and as at 31st December 2003 are as follows:

Share options in San Miguel Corporation					
					Balance
Name	Date granted	Exercise period up to	Exercise price (pesos)	Exercised during the year	as at 31st December 2003
<b><i>Class A (par value of 5 pesos each):</i></b>					
Francisco C. Eizmendi, Jr.	27/03/95	27/03/03	44.13	284,430	–
	10/04/96	10/04/04	35.18	32,805	–
	01/04/97	01/04/05	40.57	213,805	–
	26/03/98	26/03/06	34.71	294,531	–
Faustino F. Galang	01/04/97	01/04/05	40.57	–	51,860
	26/03/98	26/03/06	34.71	–	49,703
Thomas R. Mainwaring	26/03/98	26/03/06	34.71	–	15,524



## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS (Continued)

Share options in San Miguel Corporation					
Name	Date granted	Exercise period up to	Exercise price (pesos)	Exercised during the year	Balance
					as at 31st
					December 2003
<b>Class B (par value of 5 pesos each):</b>					
Francisco C. Eizmendi, Jr.	01/04/97	01/04/05	70.25	—	—
	26/03/98	26/03/06	49.83	126,277	—
Ramon A. de la Llana	01/04/97	01/04/05	70.25	—	2,456
Faustino F. Galang	01/04/97	01/04/05	70.25	—	22,226
	26/03/98	26/03/06	49.83	—	21,302
Thomas R. Mainwaring	26/03/98	26/03/06	49.83	—	6,653

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.

### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2003 according to the register required under Section 336 of the SFO, the Company was notified that the following shareholders had an interest of 5% 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 (note 1)	245,720,800	65.78%
HKSCC Nominees Limited	64,043,066	17.14%
Conroy Assets Limited (note 2)	13,624,600	3.65%
Hamstar Profits Limited (note 2)	10,078,400	2.70%

Notes:

1. 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.
2. Mr. Li Ka-Shing, Cheung Kong (Holdings) Limited, Li Ka-Shing Unity Trustee Company Limited, Li Ka-Shing Unity Trust Corporation Limited and Li Ka-Shing Unity Trustcorp Limited are all deemed to hold the above disclosed interest of Conroy Assets Limited ("Conroy") and Hamstar Profits Limited ("Hamstar") in the Company. The aggregate interest of Conroy and Hamstar exceeding 5% of the issued share capital of the Company constitutes a duty of disclosure under the SFO.

## REPORT OF THE DIRECTORS

### 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, Ramon A. de la Llana, Faustino F. Galang, Thomas R. Mainwaring, Estelito P. Mendoza and Gabriel L. Villareal 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.

### 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 dollar thousands)*

	2003	2002
Purchase of cans by the Company from San Miguel Yamamura Ball Corporation	19,916	31,611
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.	10,704	28,407
Purchase of crates by GSMB from San Miguel Shunde Packaging Co., Ltd.	Nil	699
Purchase of packaged beer by the Company from SMC	2,638	3,551
Sales of packaged beer by the Company and its subsidiaries, GSMB and SMSB, to San Miguel Brewing International Limited and San Miguel Bada (Boading) Brewery Co., Ltd.	39,738	35,547

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.

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### CONNECTED TRANSACTIONS *(Continued)*

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 2002.
- (b) On 18th March 2003, the Company issued a corporate guarantee of US\$10,000,000 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 1st March 1998, Best Investments International Inc. ("BILL"), a wholly owned subsidiary of the Company, advanced to SMSB HK\$74,933,947 for five years. The loan is unsecured and renewable subject to agreement between the parties. Interest rate is calculated at the annual London Interbank Offer Rate plus 1%. The loan was renewed for a further year on 1st March 2003.
- (d) On 17th April 2001, BILL 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. The loan was renewed for a further year on 17th April 2002 and 17th April 2003 respectively.
- (e) On 27th February 2002, BILL 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. On 27th February 2003, the loan was renewed for a further year.
- (f) On 27th January 2003, San Miguel Shunde Holdings Limited ("SMSH"), a 92% owned subsidiary of the Company, entered into an equity transfer agreement for the acquisition of 15% equity of SMSB from Guangdong Province Shunde County Brewery ("Shunde Brewery") for a consideration of US\$700,000 (HK\$5,460,000). The acquisition was completed on 23rd May 2003. SMSB, which owns and operates a brewery at Shunde in the People's Republic of China, became a wholly owned subsidiary of SMSH.



## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS *(Continued)*

- (g) On 27th January 2003, the Company entered into agreements to acquire trademarks of the Dragon beer from Shunde Brewery and companies associated with Shunde Brewery for an aggregate consideration of US\$5,000,000 (HK\$38,957,000). The acquisition was completed on 29th July 2003.

### 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.

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 as at 31st December 2003 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 7% per annum; Salary escalation 3% per annum; Mortality Rates 2001 Hong Kong Life Tables; Normal retirement age 60; Early retirement rates allowed between ages 55 to 60.



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

- (b) The unaudited market value of the Fund assets was \$92,426,000 as at 31st December 2003.
- (c) The minimum level of funding as recommended by the Fund actuary was 12.0% of salary.
- (d) The solvency deficit was \$21,646,000, i.e. the obligation under this Fund was 81% covered by the Fund's assets, at 31st December 2003.

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 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed shares.

### FIVE YEAR SUMMARY

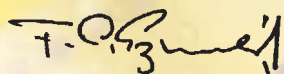
A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 53 of this Annual Report.

### CODE OF BEST PRACTICE

Throughout 2003 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*

Hong Kong, 26th February 2004