

## REPORT OF THE DIRECTORS

*To be presented at the Forty-Second Annual General Meeting of shareholders to be held at the Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 7th April 2005 at 2:00pm.*

The directors submit herewith their annual report together with the audited financial statements for the year ended 31st December 2004.

### 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 12 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 2004, 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	8.6%
Five largest customers	36.5%

Purchases attributable to:

Largest supplier	4.4%
Five largest suppliers	19.0%

As at 31st December 2004, 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 2004 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.

### DIVIDENDS

No interim dividends were paid to shareholders during the year. The directors recommend the payment of a final dividend of 1 cent per share on 13th April 2005 to shareholders of record on 7th April 2005.

## REPORT OF THE DIRECTORS

### RESERVES

Movements in the reserves of the Company and the Group during the year are set out in Note 27 on the financial statements.

### CHARITABLE AND OTHER DONATIONS

The Group made donations for charitable and other purposes totalling \$31,000 (2003: \$28,000) during the financial year.

### FIXED ASSETS

The Group spent \$12.4 million (2003: \$16.7 million) on fixed assets during the year. Particulars of the movements of fixed assets during the year are set out in Note 13 on the financial statements.

### SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 16 on the financial statements.

### LIQUIDITY AND FINANCIAL RESOURCES

Working capital at the end of the year was \$485 million compared with \$380 million in 2003.

Cash and bank deposits at year end were \$455 million (2003: \$353 million) and are sufficient to fund working capital requirements and capital expenditure in 2005.

### BANK LOANS

The Group has short term credit facilities of \$168 million (2003: \$183 million) of which \$51 million (2003: \$66 million) had been utilised as at 31st December 2004.

Long term loans at year end amounted to \$195 million (2003: \$195 million).

Total borrowings at the year end for the Company were \$195 million (2003: \$195 million) and for the Group \$246 million (2003: \$261 million).

Particulars of bank loans of the Company and the Group are set out in Note 21 on the financial statements.

### DIRECTORS

With the exception of Messrs. Ferdinand K. Constantino and Francis H. Jardeleza, the directors of the Company, whose names appear on page 2 of the Annual Report, were directors for the whole year of 2004.

Messrs. Benjamin P. Defensor, Jr. and Carmelo L. Santiago, directors for the whole year of 2004, resigned from the office of director on 23rd February 2005.

## REPORT OF THE DIRECTORS

**DIRECTORS** *(Continued)*

Messrs. Francisco C. Eizmendi, Jr., Ramon S. Ang, Faustino F. Galang and David K.P. Li 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. Ferdinand K. Constantino and Francis H. Jardeleza, 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 2004, the directors and their associates had the following beneficial interests in the issued share capital and the underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required under Section 352 of the SFO:

**(1) INTERESTS IN ISSUED SHARE CAPITAL**

Name of Director	Number of ordinary shares of \$0.50 each in the Company			Approximate % of shareholding
	Personal interests	Family interests	Total	
Francisco C. Eizmendi, Jr.	2,816	—	2,816	—
David K.P. Li	300,000	—	300,000	0.08%

Name of Director	Number of shares in San Miguel Corporation			Approximate % of shareholding
	Personal interests	Family interests	Total	
<b>Class A (par value of 5 pesos each):</b>				
Francisco C. Eizmendi, Jr.	298,768	—	298,768	0.01%
Ramon S. Ang	6,050	—	6,050	—
Ramon A. de la Llana	12,539	—	12,539	—
Faustino F. Galang	165,042	—	165,042	0.01%
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	5,600	—	5,600	—
Faustino F. Galang	5,270	—	5,270	—
Gabriel L. Villareal	—	29,000	29,000	—

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS *(Continued)*

#### (2) INTERESTS IN UNDERLYING SHARES

Certain directors of the Company have been granted share options to subscribe for shares in San Miguel Corporation. Particulars of share options in San Miguel Corporation held by directors during the year and as at 31st December 2004 are as follows:

		Share options in San Miguel Corporation					
Name of Director	Date granted	Exercise period up to	Exercise price per share (pesos)	Balance	Granted during the year	Exercised during the year	Balance
				as at 1st January 2004			as at 31st December 2004
Class A (par value of 5 pesos each):							
Ramon S. Ang	26/06/03 (Note 1)	26/06/11	54.50	–	259,422	–	259,422
	01/10/04	01/10/12	57.50	–	266,854	–	266,854
Ramon A. de la Llana	26/06/03 (Note 1)	26/06/11	54.50	–	13,876	–	13,876
	01/10/04	01/10/12	57.50	–	31,422	–	31,422
Faustino F. Galang	01/04/97	01/04/05	40.57	51,860	–	51,860	–
	26/03/98	26/03/06	34.71	49,703	–	49,703	–
	26/06/03 (Note 1)	26/06/11	54.50	–	85,306	–	85,306
	01/10/04	01/10/12	57.50	–	87,751	–	87,751
Thomas R. Mainwaring	26/03/98	26/03/06	34.71	15,524	–	15,524	–
	26/06/03 (Note 1)	26/06/11	54.50	–	16,419	–	16,419
	01/10/04	01/10/12	57.50	–	10,687	–	10,687

**DIRECTORS' INTERESTS** *(Continued)*

Share options in San Miguel Corporation							
Name of Director	Date granted	Exercise period	Exercise price per share (pesos)	Balance	Granted during the year	Exercised during the year	Balance
				as at 1st January 2004			as at 31st December 2004
<b>Class B (par value of 5 pesos each):</b>							
Ramon S. Ang	26/06/03 (Note 1)	26/06/11	62.50	–	111,181	–	111,181
	01/10/04	01/10/12	70.50	–	114,366	–	114,366
Ramon A. de la Llana	01/04/97	01/04/05	70.25	2,456	–	–	2,456
	26/06/03 (Note 1)	26/06/11	62.50	–	5,947	–	5,947
	01/10/04	01/10/12	70.50	–	13,466	–	13,466
Faustino F. Galang	01/04/97	01/04/05	70.25	22,226	–	–	22,226
	26/03/98	26/03/06	49.83	21,302	–	21,302	–
	26/06/03 (Note 1)	26/06/11	62.50	–	36,560	–	36,560
	01/10/04	01/10/12	70.50	–	37,607	–	37,607
Thomas R. Mainwaring	26/03/98	26/03/06	49.83	6,653	–	6,653	–
	26/06/03 (Note 1)	26/06/11	62.50	–	7,036	–	7,036
	01/10/04	01/10/12	70.50	–	4,580	–	4,580

**Note 1:**

These share options were approved and granted by the board of San Miguel Corporation on 29th January 2004, and were retroactive to 26th June 2003.

The only share options exercised by directors during the year were those disclosed above.

All interests in the shares and underlying shares of the Company and its associated corporations are long positions.

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 2004 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	% of total issued shares
Neptunia Corporation Limited (note 1)	245,720,800	65.78%
HKSCC Nominees Limited	66,105,802	17.70%
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 Trustee 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.*

### 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

The directors, including the independent non-executive directors, of the Company have reviewed the above-mentioned connected transactions and have 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 Company had obtained a conditional waiver from the Stock Exchange from strict compliance with the disclosure requirements under the Listing Rules which were in effect prior to 31st March 2004 (the "Old Listing Rules") in respect of the Group's purchases of cans, bottles, crates and packaged beer from the SMC Group and the Group's sales of packaged beer to the SMC Group. Due to an inadvertent oversight, the Directors did not appreciate that following the coming into effect of the revisions to the Listing Rules (the "Revised Listing Rules") on 31st March 2004, the Company could no longer rely on the waiver previously granted to it by the Stock Exchange. The value of such transactions carried out between the Group and the SMC Group for the period from 1st April 2004 to 31st December 2004 is set out below:—

	<b>For the 9 months from 1st April 2004 to 31st December 2004 HK\$'000</b>
Purchase of cans by the Group from the SMC Group	15,637
Purchase of bottles by the Group from the SMC Group	21,112
Purchase of crates by the Group from the SMC Group	2,951
Purchase of packaged beer by the Group from the SMC Group	2,132
Sales of packaged beer by the Group to the SMC Group	23,461

The purchase of crown seals by the Group from the SMC Group was not covered by the previous waiver granted by the Stock Exchange. Due to an oversight, the level of purchases of crown seals by the Group in 2001, 2002, 2003 and 2004 of approximately HK\$1,074,000, HK\$2,827,000, HK\$1,382,000 and HK\$2,233,000 respectively exceeded the relative de minimis thresholds for disclosure under the Old Listing Rules for 2001, 2002 and 2003 and the Revised Listing Rules for 2004, but were not disclosed.

The Group's purchases of cans, crates, crown seals and packaged beer each is subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the purchase of bottles by the Group from the SMC Group and the sales of packaged beer by the Group to the SMC Group is each subject also to the requirement for approval by Independent Shareholders under Rule 14A.35 of the Revised Listing Rules. The Company is now taking appropriate steps to ensure compliance with the Revised Listing Rules as soon as practicable and intends to seek a new waiver in respect of such continuing connected transactions.



## REPORT OF THE DIRECTORS

### 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 2004 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 7.5% per annum; Salary increases over the 3-year projection period: 0% per annum for 2005 and 3% per annum for 2006 and 2007; Mortality Rates 2001 Hong Kong Life Tables; Normal retirement age 60; Early retirement rates allowed between ages 55 to 60.
- (b) The unaudited market value of the Fund assets was \$92,705,000 as at 31st December 2004.
- (c) The minimum level of funding as recommended by the Fund actuary was 12% of salary for 2005 and 16% for 2006 and 2007.
- (d) The solvency deficit was \$23,860,000, i.e. the obligation under this Fund was 80% covered by the Fund's assets, at 31st December 2004.

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 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed shares.

### FIVE YEAR SUMMARY

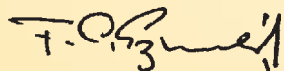
A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 53 of this Annual Report.

### CODE OF BEST PRACTICE

Throughout 2004 the Company has complied with 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, 24th February 2005