CHAIRMAN'S STATEMENT

Francisco C. Eizmendi, Jr.
Chairman

To Our Shareholders,

The Group's financial result for the year was disappointing following a difficult year for operations in Hong Kong and Mainland China.

The Company's 2002 closing share price was $1.98 compared with $2.225 for 2001.

Shareholders received normal cash dividends of 12 cents per share during the year. This was a reduction of 4 cents per share compared with 2001 (excluding the 27 cents special dividend in 2001) as the Group took action to conserve cash resources.

FINANCIAL RESULTS

Profit attributable to shareholders was $39.726 million, substantially below last year's result of $88.734 million. Earnings per share were 10.63 cents compared with 23.75 cents in 2001.

Sales volume in the Hong Kong market was 1% ahead of the previous year, however exports fell 8.4%.

Sales volume in South China declined by 11.4% as the Company's subsidiary Guangzhou San Miguel Brewery Company Limited suffered fierce competition in Guangzhou City.

Consolidated sales turnover of $1,326.642 million was 3.6% less than the previous year.

Profit from operations of $38.942 million was well below the previous year's result of $101.787 million. The main factor in the decline was lower gross profit as a result of reduced volume in South China together with higher discount levels in both Hong Kong and South China. In addition, administrative and selling costs were up $15.973 million in 2002, following increased advertising and promotional expenditure in South China as a result of increased competition.

Other operating expenses increased by $3.995 million after additional bad debt provisions of $4.376 million in South China.

Profit attributable to shareholders benefitted from lower finance costs, which fell by $16.368 million as a result of lower average external debt for the year and substantially lower interest rates. However, interest income from cash balances was also reduced by $7.557 million, the main factor in the reduction of $5.477 million in other net income.

Total debt at year end was $272.998 million, 12.73% of shareholders funds. The US$25 million ($195 million) loan from Bank of America to San Miguel Shunde Brewery Company Limited was paid out in February 2002 and replaced by a loan of $195 million from The Hongkong & Shanghai Banking Corporation to the Company. This loan is for three years, expiring in February 2005.

Cash and investments at year end totalled $314.813 million, an increase of $24.785 million compared with the year 2001 after payments of $44.828 million in dividends.

Cash and investments at the end of 2002 were equal to 84.3 cents per share representing 42.6% of the Company's market capitalisation at that time.

The Company, on 27th January 2003, announced the acquisition of the 15% equity in San Miguel Shunde Brewery Company Limited held by Guangdong Province Shunde County Brewery for US$700,000 ($5.46 million) as well as the purchase of the Dragon beer brand from Guangdong Province Shunde County Brewery and its associated companies for US$5 million ($39 million).

DIVIDENDS

The Directors have recommended the payment of a fourth and final dividend for the year ended 31st December 2002 of 2 cents per share. Three interim dividends totalling 8 cents per share were paid in 2002. The final dividend will lift total dividends for 2002 to 10 cents per share, a decrease of 6 cents per share (37.5%) below the 16 cents per share (excluding the 27 cents special dividend in 2001) paid in 2001.

BUSINESS REVIEW

The world economy entered its third year of low growth in 2002. Equity markets in most regions of the world recorded their largest declines for many years, reflecting lower economic growth and investor confidence as well as the impact of terrorist activities and the threat of war in Iraq.

China, however, was out of step with the rest of the world as its economy is estimated to have grown 8% in 2002. The impressive performance of the Chinese economy has had an ameliorating impact on related Asian economies, including Hong Kong.

As Hong Kong adjusts to the new economic realities, its future success will be built upon closer integration with the Pearl River Delta Region and the continued freeing up of trade and tourism in the area.

The Group is fortunate to have its brewing operations located in the Pearl River Delta Region.

HONG KONG OPERATIONS

The Company achieved its operating profit target for Hong Kong for 2002, despite falling short of its sales volume objective.

Sales volume in the Hong Kong market was 1% higher than for 2001, however, exports were 8.4% below the previous year as a result of reduced sales of non-alcoholic beverages to Korea.

This result is considered to be satisfactory in light of the depressed state of the Hong Kong economy. Consumer confidence is low, the Government is wrestling with a burgeoning deficit, unemployment has risen and consumer spending has contracted.

The impact of the sluggish economy has been reflected in the beer industry by the continued growth in the low priced segment of the market. Economy beers, as they are known, now represent more than 28% of the beer market in Hong Kong, encouraged by a beer tax which favours most imported beers and financially penalises beer produced locally by the Company. The growth in the low priced segment of the market has been most noticeable in beers sourced from Mainland China.

San Miguel Pale Pilsen remains, by far, the number one brand in Hong Kong. Our professional and highly motivated sales team is a key factor in this achievement and a resource which is considered to be a competitive advantage.

SOUTH CHINA OPERATIONS

Financial results in South China were disappointing as Guangzhou San Miguel Brewery Company Limited reported its first ever loss.

Our sales volume declined in Guangzhou City by comparison with 2001. Sales volumes in other cities and regions were, in total, virtually the same as for 2001.

Major competitors, including regional, national and international brand owners, spent heavily promoting their brands in Guangzhou City. The impact on brand San Miguel was twofold, a loss of market share and increased promotional expenditure, resulting in a large reduction in profitability.

The sales decline in Guangzhou City was entirely in the wholesale distribution channel. Positive growth was achieved in direct sales, a result which underlines the importance of the Group's programme to develop the best sales team possible with the support of high quality information and technical back-up.

Sales of Dragon beer in Shunde fell 9.5%, a performance over which the Group had no control, as Dragon beer in 2002 was produced under a contract manufacturing arrangement and sold and distributed by other parties.

On 27th January 2003, the Company's subsidiary, San Miguel Shunde Holdings Limited, acquired the 15% equity in San Miguel Shunde Brewery Company Limited held by Guangdong Province Shunde County Brewery.

San Miguel Shunde Holdings Limited now holds 100% of the equity capital of San Miguel Shunde Brewery Company Limited.

San Miguel Shunde Holdings Limited is, in turn, now owned 92.2% by the Company.

The Company also acquired the Dragon beer brand from Guangdong Province Shunde County Brewery and its associated companies.

These transactions are conditional upon the approval of regulatory authorities in The People's Republic of China.

The acquisitions will allow the Group to proceed with its plans to integrate fully the operations of the breweries in South China and to achieve economies of scale in manufacturing and selling.

The acquisition of Dragon beer gives the Group a high volume and profitable brand which it will now be free to develop in Shunde City as well as in other markets in the Pearl River Delta Region.

Regaining our former market position in Guangzhou City is a priority, which will be achieved through a strong sales team and reallocation of resources to build on the equity of the San Miguel brand.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

The Group regards itself as a good corporate citizen and shares its success with the community through a wide range of philanthropic events and activities. The Group made regular donations to charitable institutions and non-profit organisations in 2002 and, in collaboration with five leading corporations in Hong Kong, contributed to the "Bounceback Hong Kong" campaign.

The Group also remains committed to its environmental protection initiatives by meeting and often surpassing the standards stipulated by government.

Following the completion of a Safety Audit in May 2002, the first of its kind in the Hong Kong beverage industry, employees participated in various training and development activities during the year to further increase their awareness of effective safety and health practices in the workplace and to ensure compliance with regulations.

HUMAN RESOURCES

The Group continues to invest in its people, a significant intangible asset and a major force in supporting its long-term growth. Our focus, as stated in previous reports, is to ensure that all employees continue to receive appropriate training and competent support from their colleagues, with emphasis on a strong team spirit to achieve targeted results. Major initiatives in improving our processes and systems were implemented during the year to enhance our competitive edge in the beer industry and to create long-term value for our shareholders.

During the year, a staff intranet website was launched to promote more effective communication on a Company wide basis.

The Group offers competitive remuneration packages commensurate with market levels in the beverage industry and provides appropriate fringe benefits, including medical and insurance coverage and retirement benefits to all employees.

YEAR 2003 DIRECTION AND CHALLENGES

The Group is faced with demanding challenges in 2003 and beyond.

The Group's leadership in the premium beer segment of the market in South China is being challenged.

The growth of the economy beer segment in the Hong Kong market is a growing threat to the Company's primary position in that market.

Competitors should be in no doubt that the Group will meet these challenges, and maintain market leadership in both Hong Kong and the Pearl River Delta Region.

Despite the unsatisfactory sales results in South China in 2002, the Group has achieved important organisational targets in South China as it strives to build a sophisticated operational structure with the highest levels of technical support as a base for sustained future growth. These include people skills, information systems, distribution systems, and marketing and selling strategy and methodology.

With the acquisition of 100% ownership of San Miguel Shunde Brewery Company Limited and the Dragon beer brand on 27th January 2003, the Group has taken a major step toward the full integration of South China operations and the associated economic benefits which will flow from reorganisation.

The objectives for 2003 include:

– In Hong Kong, building upon the primary market position held by brand San Miguel through channel specific programmes.

– In Hong Kong, making significant inroads in market share in other segments of the beer market.

– Restructuring the selling and distribution systems in South China to ensure more effective distributor management and improved off-take at the retail level.

– Strengthening the marketing strategy for South China's portfolio of brands, focusing San Miguel brands in the premium segment, revitalising the local brands in the mainstream market, and realising the benefits of the Dragon beer acquisition.

– All activities supporting the overriding objective of maintaining and increasing leadership in the premium segment in the Pearl River Delta Region and market leadership in Hong Kong, and ensuring that San Miguel is the preeminent beer brand in the region.

DIRECTORS

Mr. Luis E. Poblete, Jr. resigned as director and member of the Audit Committee on 13th June 2002 and we thank him for his past contribution.

Professor Arthur K.C. Li resigned as Alternate Director to Dr. David K.P. Li on 1st August 2002. We take this opportunity to acknowledge, with appreciation, Professor Li's service to the Company and also to welcome his replacement, Mr. Adrian M.K. Li, who was appointed Alternate Director to Dr. Li on 1st August 2002.

Three directors were appointed to the Board on 27th February 2003, Messrs. Benjamin P. Defensor, Jr., Carmelo L. Santiago and Gabriel L. Villareal. These appointments restore the Board to full strength of twelve directors.

In closing, we acknowledge our gratitude to our employees for their efforts and dedication throughout a difficult year, to our directors for their wise counsel and to our loyal customers and shareholders, all of whom are important participants in our past and future success.

Francisco C. Eizmendi, Jr.
Chairman
27th February 2003