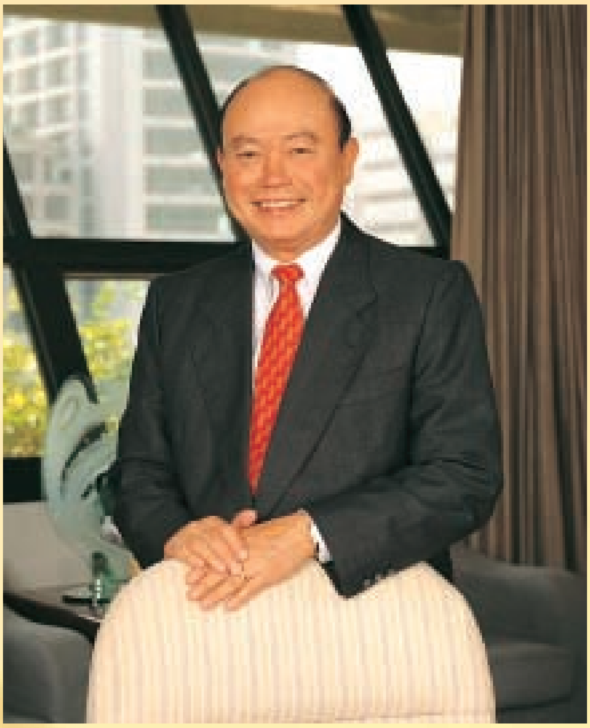
CHAIRMAN'S STATEMENT



Francisco C. Eizmendi, Jr.

Chairman

To Our Shareholders,

FINANCIAL RESULTS

Year 2003 was a most difficult year for the Group. A number of factors combined, resulting in a financial loss. Principal among these were:

- the impact of the SARS epidemic in the first six months of the year;
- the continued strong growth of the low priced segment of the beer market in Hong Kong and a consequent decline in profit margins; and
- a concerted drive to limit exposure to outstanding trade receivables which reduced sales volume and profit.

In our interim report to shareholders for the first six months of 2003, we anticipated trading profitably in the second half of the year and set ourselves the target of breaking even for the full year.

We traded profitably for the period July to December 2003, however, the actual performance has been reduced by provisions and adjustments at year end, most particularly, by additional amortisation charges of $3.677 million (including amortisation of the purchase price of the Dragon beer brand in South China) and a provision of $9.456 million for deferred tax, the latter pursuant to a new accounting standard introduced in 2003.

Loss attributable to shareholders for the year ended 31st December 2003 was $32.771 million compared with a profit of $31.721 million for 2002.

Consolidated gross turnover declined by 12.7% compared with the previous year. In Hong Kong, where the drive to restrict trade receivables had the greater impact and the growth in sales of low priced beer brands reduced average revenue per unit, the decline was 16%. In South China, gross turnover declined by 7.8%.

Throughout the year, every effort was made to contain costs.

Discounts rose from 26% of gross turnover in 2002 to 28% in 2003 while direct variable costs increased from 46% to 47%. However, these increases were caused by lower average revenue per unit of sales and not by actual dollar increases.

Fixed costs were reduced by $11.663 million below those of 2002.

Finance costs were lower in 2003 because of the continued decline in interest rates.

Other net income declined as a result of lower interest income and profit on asset disposals together with retrenchment costs incurred in 2003.

No profits tax was paid in 2003, however $9.456 million was provided for deferred tax pursuant to a new accounting standard. Deferred tax is a method for balancing tax taken up as cost from year to year and, in the Group's case, has the effect of evening out variances between accounting depreciation and tax deductible depreciation.

Despite the loss for 2003, cash and investments increased by $68.705 million from December 2002 to $383.518 million at the end of 2003. This increase was attributable to the drive to reduce trade receivables and the suspension of dividends. Trade receivables were reduced by $75.360 million.

Cash and investments at the end of 2003 were equal to 55.8% of the Company's market capitalisation as reflected in the closing share price of $1.84.

Total debt at year end was $260.998 million, 12.9% of shareholders funds.

DIVIDENDS

Directors have recommended that no final dividend be declared for the year 2003.

BUSINESS REVIEW

Growth in the world economy picked up in 2003 and equity markets rebounded strongly. The SARS epidemic affected growth in the Asian region and together with the war in Iraq reduced tourism spending in Asia and around the world.

The Chinese economy shows no signs of stopping, with growth estimated to have been 9.1% in 2003 and anticipated to be 7.6% in 2004.

Hong Kong commenced the climb out of recession, despite SARS, with estimated economic growth of 3% in 2003 and forecast growth of 4.5% in 2004. Price deflation is expected to end in Hong Kong in 2004 with a return to inflation in 2005.

HONG KONG OPERATIONS

The Company reported an operating loss in Hong Kong which was principally the result of reducing beer inventories in the market supply chain pursuant to the drive to limit risk exposure to trade receivables.

CHAIRMAN'S STATEMENT

The effect of the SARS epidemic on beer sales was most felt in the second quarter of the year and severely reduced the business of restaurants, bars and night outlets. There were numerous business closures, some temporary and some permanent, with Chinese restaurants the hardest hit.

The market share of low priced beer brands continued to expand and these now represent more than 33% of the market compared with 28% a year ago. The Company's own sales, by volume, of low priced brands rose from 12.1% of local Hong Kong volume in 2002 to 24.5% in 2003.

Early in 2003, in anticipation of continued growth in the low priced beer segment of the market, the Company embarked on a programme of securing a major share of this segment, with good results. The Company accounted for 18.3% by volume of this segment in 2003 compared with 12.4% for 2002.

However, the changing structure of the Hong Kong market has a cost because profit margins are very lean for low priced brands and the Company's increased volume in the low priced segment has reduced average profit margins.

All popular brands, those of the Company and competitors, have suffered as the popular beer segment shrinks and the low priced segment expands.

The winners in the low priced segment have been principally beer brands from mainland China and, more recently, our Company's low priced brands.

Total beer industry volume in Hong Kong for the year was 149.3 million litres, a fall of 7% compared with 2002 and the lowest volume recorded in 15 years.

The Company's market share increased 0.7%, however this was a combination of a decline in brand San Miguel and increases in low priced brands.

Export volume rose by 21.4% over the 2002 levels.

SOUTH CHINA OPERATIONS

South China reported an operating profit for the year, a major improvement over results for 2002.

For Guangzhou San Miguel Brewery Company Limited ("GSMB"), total sales volume was the same as for 2002 although there was a change in sales mix. Higher discounts were offset by savings in variable costs and substantial reductions in fixed costs, with the final result being a major improvement in operating profit.

As for Hong Kong operations, GSMB suffered from the effect of SARS in the first half of the year.

The implementation of improvements in sales and distribution systems and associated personnel was successful in reversing the decline in sales volume which occurred in 2002, particularly in Guangzhou city where the loss of sales volume was halted. Sales volume growth was achieved in Dongguan and East Guangdong while lower sales were reported in Shenzhen and West Guangdong.

San Miguel Shunde Brewery Company Limited traded profitably for the year. Sales volume of Dragon beer brand declined by 2.8%. However, this decline was the result of a decision to reduce inventory levels in the marketplace to an appropriate level.

Sales volume of Valor increased 7.8%.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

The Group takes pride in its status as a responsible corporate citizen and is proud of its contribution to the economy and people of Hong Kong for more than 50 years and to the people of South China for more than 10 years.

The Group has shared its success with the communities in which it operates through a wide range of philanthropic events and activities.

The Group is also committed to protecting the environment wherever it operates and ensures that environmental standards set by governments are met or exceeded.

Training and development activities are conducted throughout the year to help employees increase their awareness of effective safety and health practices in their workplace and at the same time ensure compliance with regulations.

HUMAN RESOURCES

Our people are our most important asset and are critical to the long term performance of the Group in achieving its objectives in a highly competitive marketplace.

Our aim, 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 targetted results.

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 2004 DIRECTIONS AND CHALLENGES

The beer industry in Hong Kong and South China is changing rapidly. The major brewing companies in the region are consolidating their operations and in many cases seeking alliances with international beer companies.

The growth in beer consumption in the region has occurred principally in the low priced segment of the market and not in the popular and premium segments.

The Group is faced with a major challenge for the future – to protect and strengthen our flagship brand San Miguel and to return profitability to targetted levels in the face of declining profit margins from the growth of low priced brands.

In addressing this challenge, we shall take the long term view, build our portfolio of brands and position ourselves to take advantage of current and future opportunities in the beer market.

The objectives for 2004 are:

- To complete a comprehensive brand review:
  - To resolve pricing and brand positioning issues for brand San Miguel;
  - To develop the Dragon beer brand, acquired in 2003, on a regional basis; and
  - To ensure that there is a comprehensive array of brands to participate successfully in each market segment in each region.
- In Hong Kong, to maintain the market share of brand San Miguel and continue to gain market share in the low priced segment.
- To consolidate sales and distribution in South China.

All activities will be geared to support the long term objective of building a leadership position in the Pearl River Delta region with a significant presence in all market segments and ensuring that San Miguel is the preeminent beer brand in the region.

DIRECTORS

Mr. Freddy W.M. Kwan retired as Managing Director on 16th September 2003 and we thank him for his contribution to the Group over the past seven years.

On behalf of the Board, I take this opportunity to welcome his successor, Mr. Ramon A. de la Llana who was appointed Managing Director of the Company on 16th September 2003.

In closing, we wish to thank our employees for their efforts and dedication throughout a difficult year, our directors for their wise counsel and support, and our customers and shareholders for their continuing trust and confidence in the Company.

Francisco C. Eizmendi, Jr.
Chairman
26th February 2004