CHAIRMAN'S STATEMENT

To Our Shareholders,

Financial Results

The Company has recorded a small loss for the first six months of 2004, however the performance was a major improvement over that of the previous year.

The loss attributable to shareholders for the six months ended 30th June 2004 was $3.519 million, an improvement of $32.061 million over the loss of $35.580 million reported in 2003.

In 2003, results were affected by the SARS epidemic in South China and Hong Kong as well as the programme of reducing accounts receivable in Hong Kong which programme had the effect of reducing sales volumes.

Sales volume for the Group increased by 22.2% and gross turnover grew by 20.5%. In Hong Kong gross turnover increased by 22.1%, while in South China the gain was 18.6%.

Discounts, as a percentage of gross turnover, were reduced from 22.1% in 2003 to 16.9% in 2004. This is the result of improvements achieved in South China in the sales volume yield from promotional expenditure as well as reduced cost in Hong Kong by comparison with 2003 when promotional costs were higher as a result of the drive to reduce beer stocks in the market.

Cost reductions were implemented in all areas of operations with the result that the Company has achieved a significant reduction in the total cost of beer per unit of volume.

Despite the small loss attributable to shareholders, operations were cash positive for the six months to June 2004. Cash and investments at 30th June 2004 were $424.202 million, an increase of $40.684 million over the corresponding figure of $383.518 million at the end of December 2003.

Total debt at the end of the period was $261.294 million compared with $260.998 million on 31st December 2003.

Dividends

Directors have resolved that no dividends be declared for the first six months of 2004.

Business Review

Hong Kong Operations

In Hong Kong, sales to the local market were 32.8% above the first six months of the previous year. Exports were 21.6% lower than the previous year.

Total beer industry volume in Hong Kong was 5.2% up on the previous year. However this growth has been in the low price segment of the market. The total market share of low priced brands has increased from 32% for the first half year of 2003 to more than 35% for the first six months of 2004. The low price segment share was 38% for the month of June 2004.

The Company's share of the Hong Kong market for beer increased by 2.7% of the total market. Market share in the premium segment was maintained and increased share was gained in the low price segment.

The Hong Kong market has changed dramatically over the past several years as consumers have increasingly shifted preferences from premium and popular brands to low priced brands.

Apart from reducing the sales of higher priced brands, the shift to low priced brands is significantly reducing profit margins.

In the light of the continuing change in the market for beer the Company has adopted different strategies in order to maintain its position of market leadership.

The Company is now a major participant in the low price beer segment and will continue to gain market share in this area.

However this demands that the Company continually review its operating costs and structure in order to achieve profitability in the face of diminishing profit margins.

The prices of San Miguel brands were increased in May 2004, the first price increase in five years. Prices were increased in order to recover some of the cost increases over the past five years, most particularly the increase in beer duty rate from 30% to 40% in March 2001. When the beer duty increase was announced in 2001, the Company decided to absorb the cost and not raise prices. This has meant that the Company has suffered a reduction of $20 million in profit per annum since the beer duty increase.

The Company believes that consumers are in a better position to accept the price increase in the improved economic conditions prevailing in 2004.

South China Operations

Guangzhou San Miguel Brewery Company Limited achieved sales volume growth of 17.4%. This improvement was spread across all beer brands including San Miguel and is a pleasing result when considering the intensity of competition, particularly in the past three years.

Sales volume growth of 13.4% was recorded in Guangzhou City. This is another good result, as sales volumes in Guangzhou City have declined in recent years and only stabilised in 2003.

The growth in sales volume is the result of the consolidation of sales and distribution networks implemented over the past two years.

The result has been a substantial increase in the profitability of Guangzhou San Miguel Brewery Company Limited for the first six months of 2004 compared with the previous year.

San Miguel Shunde Brewery Company Limited recorded sales volume growth of 19.2%. This growth was derived principally from the Dragon beer brand which was acquired from the previous joint venture partner at the end of July 2003.

The Company is establishing a comprehensive array of brands to compete successfully in each market segment in South China.

Dragon Hau Shuang was launched in Shunde and Foshan in May 2004 to compete in the low price segment of the market. Three variants of existing brands will be launched in other market segments in August 2004.

The Group traditionally experiences greater profitability in the second half of each year as this period includes the summer period of higher beer sales.

The Company anticipates a return to profitability in this period and expects to report a profit for the year.

I would like to take this opportunity to thank our employees for their dedication and hard work, the directors for their wise counsel, and to our customers and suppliers for their continued support.

Francisco C. Eizmendi, Jr., *Chairman*

26th August 2004