Francisco C. Eizmendi, Jr.
Chairman

To Our Shareholders,

FINANCIAL RESULTS

We are pleased to report that your Company has returned to profitability in 2004.

Profit attributable to shareholders for the year ended 31st December 2004 was $11.578 million compared with a loss of $32.771 million for 2003.

The challenge for the Company in 2005 and beyond is to build upon the 2004 performance and achieve continuous improvements in profitability. As beer consumers continued to favour low priced brands, the 2004 result was still below the levels of previous years.

Sales volume in local markets in Hong Kong and South China was up 8.6% over the previous year, while export volume was 7.5% lower.

Total sales revenue rose by 8.9%.

In the continuing drive to contain and reduce costs, substantial reductions were achieved in discounts, distribution costs and administrative and selling expenses, $16.46 million in total, despite the higher sales volume.

Cost of sales as a percentage of gross turnover rose from 30.3% to 32.7%. This was mainly the result of the inclusion, for a whole year, of the full production costs of the Dragon beer brand at San Miguel (Guangdong) Brewery Company Limited, formerly known as San Miguel Shunde Brewery Company Limited.

The Dragon beer brand was acquired by the Company in August 2003 from our former partner in the Shunde brewery. Until that date, Dragon beer had been produced on a contract basis and the costs of bottles and crates were borne by our partner. In 2004 these costs were included in cost of sales for a full year.

Other operating expenses increased by $4.13 million principally as a result of a provision for write-off of fixed assets of $5.18 million at Guangzhou San Miguel Brewery Company Limited.

Finance costs fell by $1.73 million reflecting the very low interest rates in Hong Kong for 2004.

Other net expense was higher by $1.96 million as a result of loss on disposal of fixed assets at San Miguel (Guangdong) Brewery Company Limited.

CHAIRMAN'S STATEMENT

Cash and investments held by the Company increased by $85.1 million to $468.61 million at 2004 year end.

Total debt at the end of 2004 was $245.55 million, a reduction of $15.45 million from December 2003.

The Company's cash and investments less total debt was $223.06 million, the equivalent of 35.1% of the Company's market capitalisation at the end of 2004 as reflected in the closing share price of $1.70.

DIVIDEND

Directors have recommended payment of a final dividend of one cent per share.

BUSINESS REVIEW

The world economy experienced high growth in 2004, spurred by the growth in the economy of the United States. The continued rapid expansion of China stimulated world trade, particularly in commodities required to satisfy energy requirements and construction.

Mainland China's economy grew 9.5% in 2004 and is forecast to grow at a similar rate in 2005.

Hong Kong's economy grew an estimated 7.5% in 2004. Growth for 2005 is forecast to be 5% with inflation at 0.4%. It is anticipated that the Hong Kong economy will continue to benefit from the rapidly increasing numbers of tourists from mainland China.

HONG KONG OPERATIONS

In 2003 the Company's performance in Hong Kong was responsible for the consolidated loss. Similarly, in 2004, the turnaround to profitability in Hong Kong accounts for the increase in profit attributable to shareholders.

Shareholders will recall that 2003 was severely affected by the SARS epidemic and the drive to reduce exposure to outstanding accounts receivable.

The Company's sales volume in the Hong Kong market rose by more than 10% in 2004. However, the growth was mostly in the low priced segment of the market where profit margins are thin. This restricted the growth in total profit.

The share of low priced beer brands in the Hong Kong beer market increased to 37.3% in 2004 compared with 33.6% in 2003. This growth was partly due to the current "ad valorem" beer duty system, which favours low priced beers and encourages consumers to down trade. In a recent submission to the Financial Secretary of the Hong Kong Special Administrative Region Government, the majority of the participants in the Hong Kong beer industry, including your Company, requested for a return to a specific duty system, that is a fixed duty regardless of value.

In May 2004, the Company raised its prices for San Miguel branded beers. The price increase, the first in five years, was implemented with the objective of properly positioning the San Miguel brand in the higher priced segment of the market.

Total beer industry volume in Hong Kong for the year was 153 million litres, an increase of 2.5% compared with 2003.

The Company's market share in 2004 increased by 1.5 market share points.

A highlight of the year was the very successful San Miguel WildDayOut programme, a platform for brand San Miguel to build connections with young consumers. This programme was a series of twenty bar shows, culminating in a grand outdoor concert allowing young consumers close contact with local and international artists.

In recognition of the premium quality of brand San Miguel, the Company has received a number of awards during the year, including the Readers' Digest SuperBrands Golden Award and the Chinese Manufacturers' Association Hong Kong Top Brand Award.

SOUTH CHINA OPERATIONS

In South China, both of the Company's operations in Guangzhou and Shunde achieved the financial objectives set for them at the commencement of the year. As in Hong Kong, Guangzhou San Miguel Brewery Company Limited achieved a turnaround in profitability in 2004 against the previous year.

For Guangzhou San Miguel Brewery Company Limited, total sales volume increased 11.2% over the previous year with strong growth in San Miguel and Guang's Pineapple beer brands.

Sales volume in Guangzhou City, an important market, rose by 17.2% in 2004.

Substantial cost reductions were achieved in overhead costs. Expenditures associated with discounts and promotion costs were more effective pursuant to a continuing programme to ensure that discretionary promotional expenditures achieve the maximum results in terms of generated sales volume.

The quality of distribution and of sales teams is critical for success in the highly competitive Chinese market. Refinements of the dealer/wholesaler network were implemented in 2004 and the skills, performance and incentives of the sales teams continued to be upgraded.

Two new product variants were introduced in the latter half of 2004. Red Label Double Happiness, a new Double Happiness variant targetting the popular price segment, was launched in Guangzhou in August 2004. San Miguel Bittersweet, a new San Miguel variant positioned in the growing local premium segment, was also launched in Guangdong province late in 2004.

Guangzhou San Miguel Brewery Company Limited was awarded three gold medals, one silver medal and an International High Quality Prize for its beers at the 43rd Monde Selection in 2004.

At San Miguel (Guangdong) Brewery Company Limited, total sales volume increased by 17.7%. This was due to a 28% increase in the volume of Dragon brand beer. The success of the Dragon brand beer in 2004 reflects the Company's full ownership and control of the marketing and sales of the brand since August 2003.

Sales volume of Valor remained stable.

Valor Light, a premium variant to build Valor brand image and profitability, was introduced in Dongguan in October 2004. It is positioned in the local premium segment.

San Miguel (Guangdong) Brewery Company Limited was awarded one gold medal and one silver medal for its beers at the 43rd Monde Selection in 2004.

CHAIRMAN'S STATEMENT

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

The Company is a responsible corporate citizen and is proud of its record in contributing to the people and the economy of Hong Kong and South China for so many years.

The Company is committed to the support of the local communities where its operations are located via both charitable contributions and community activities.

The Company is also dedicated to protecting the environment where it operates by meeting and exceeding environmental standards set by governments and other agencies.

HUMAN RESOURCES

People are our most important asset and are critical to the long term performance of the Company 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 Company 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.

CORPORATE GOVERNANCE

The board of directors and management of the Company are firmly committed to fostering and maintaining a high standard of corporate governance by fair disclosure and transparent reporting. We strive to ensure long-term and sustainable growth in order to maximise shareholders' value in a socially responsible manner, whilst recognising the interests of other stakeholders including our employees, trading partners, customers and the community.

The Board currently comprises 12 directors, including three Independent Non-executive Directors and two Executive Directors, and meets at least five times a year to review the financial and operating performance of the Company and to consider and approve future strategic developments and annual budgets. The biographies of the directors are set out in the "Directors and Management Executives" section in pages 20-22 of this report.

The Board established the Audit Committee, in accordance with Appendix 14 of the Listing Rules, in 1998. The Audit Committee currently comprises Dr. The Hon. David K.P. Li, as Chairman, Mr. Wai Sun Ng and Mr. Ian F. Wade, who are all Independent Non-executive Directors of the Company. The functions of the Audit Committee are to review the financial results of the Company prior to their publication and to review connected transactions with Company executives and external auditors; to review internal control procedures of the Company; and to ensure that the Company complies with the Listing Rules and Codes of Corporate Governance of The Stock Exchange of Hong Kong Limited.

The Audit Committee has reviewed the audited financial results of the Company for 2004 with the Company executives and the external auditors and recommended their adoption by the Board.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE

All directors who held office during 2004 have confirmed to the Company their compliance during 2004 with Appendix 10 of the Listing Rules of The Stock Exchange of Hong Kong Limited, the Model Code for Securities Transaction by Directors of Listed Issuers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company received, during 2004, confirmation from Dr. The Hon. David K.P. Li, Mr. Wai Sun Ng and Mr. Ian F. Wade of their independence.

The Company considers the above-named directors to have remained independent.

YEAR 2005 DIRECTIONS AND CHALLENGES

The objectives for 2005 are:

In Hong Kong:

– To continue the improvement in profitability;

– To strengthen the positioning of brand San Miguel in the premium segment of the market and reinforce its market leadership; and

– To further expand the growth of brand San Miguel in the youth segment of the market, building upon the success of the San Miguel WildDayOut programme.

In South China:

– To continue the focus on the Pearl River Delta region taking advantage of opportunities in specific markets;

– To reinforce the premium image of brand San Miguel through activity based promotions and to build volume commensurate with the brand's favourable disposition amongst consumers; and

– To continue building local beer brands, including Dragon and Valor, in target markets.

In closing, I thank all those who have contributed to the turnaround in performance for the year including our employees, our directors and our customers. I also thank our shareholders for their continuing trust and confidence.

Francisco C. Eizmendi, Jr.
Chairman
24th February 2005