

CHAIRMAN'S STATEMENT

To Our Shareholders,

For the first six months of 2005, your Company retained its standing as the producer of Hong Kong's favourite beer and overall market leader in a weakening beer industry. In a good many areas, we performed well, but in some areas we fell short of expectations.

With the departure of Francisco C. Eizmendi, Jr. and Thomas R. Mainwaring, the former Chairman and former Chief Finance Officer respectively, I have assumed the role of Chairman of the Company. I would like to take this opportunity to thank them both for their many contributions to growing our business. On a personal note I am looking forward to working with everyone in the Company to deliver further value to our customers, consumers and particularly to you, our shareholders.

Consolidated gross turnover grew by 1.9% to \$590.324 million over the same period 2004. In Hong Kong, gross turnover increased by 2.6% to \$329.249 million; in mainland China, the gain was 0.9% to \$261.075 million.

Operations continue to be cash positive despite the consolidated loss after taxation for the six months to June 2005. Cash and cash equivalents at 30th June 2005 amounted to \$482.584 million, \$27.767 million higher than the corresponding figure of \$454.817 million at the end of December 2004.

Consolidated loss after taxation attributable to equity holders of the parent for the six months ended 30th June 2005 was \$12.415 million, as compared with

the loss of \$3.519 million in 2004. In 2004, the Company's results benefited from a tax refund of \$6.101 million from the prior year, for a comparable loss of \$9.620 million.

The first half of 2005 has proven to be a period of considerable challenges in our particular segment of the larger beverage market. While the local economy in Hong Kong continues to strengthen, the beer industry as a whole has contracted, reflecting shifting consumer preferences to other beverage products as well as consumer durables. Yet having recognised this trend early on, we have worked hard to keep pace and provide consumers products of ever greater quality, relevance and convenience.

Indeed, the strategic emphasis during much of the first half has been on further improving the brand value of our flagship brand in each of its markets and investing heavily in local market leader such as Dragon Beer.

Local market leading beer has proven to be important contributor to our overall revenues, providing critical scale to support the development and growth of the San Miguel brand in our key markets. We saw our strongest performances in San Miguel (Guangdong) Brewery Company Limited, which was supported by excellent growth from its local brand, Dragon Beer. Having recorded a 28% growth from the period 2003 to 2004, the brand grew a further 25.7% for the first six months of 2005.

Yet admittedly, the shift in sales mix from high-margin San Miguel brands to lower-margin local brands has redounded to weaker operating results for your business.

To directly address this problem, we have worked to create excitement for our products, generating our own consumption occasions to build a connection with younger drinkers, particularly in our primary market of Hong Kong. Our efforts have been largely successful. For the first six months of the year, we have managed not only to strengthen market share, but have also generated volume growth that inconsistent with the shrinking total beer drinker base. The strength of the core brand performance is a reflection of the sustained investment in brand building over the past few years.

Following stepped up efforts to push volumes and control costs, the second quarter produced a significantly stronger showing, with clear signs of recovery coming from a weak first quarter. While our Hong Kong operations' steadily strengthening performance and that of San Miguel (Guangdong) Brewery Company Limited, contrast with the results reported by Guangzhou San Miguel Brewery Company Limited, we remain optimistic about meeting our growth targets for the second half of the year and fully expect a return to profitability in the second half of 2005.

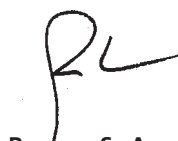
Looking ahead, we anticipate that the momentum of our flagship brand (buoyed in Hong Kong by a new advertising campaign, "Our City, Our Beer") and the strength of our local brands, will drive volume and turnover growth, even as certain aspects of our business remain challenging. We will work double-

time to retain consumers who enjoy our brands and attract and excite new consumers to win greater market share. This momentum will provide us with the platform to deliver continued earnings growth for the remainder of 2005.

I strongly believe that we have the right ingredients for success and through our efforts have helped create a solid foundation for future growth. Clearly, we still have more work to do, yet as Chairman of your Company, I am focused on driving the Company toward improved performance, consistency of operations and profitable growth.

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

Our thanks also go to you, our shareholders. We take this opportunity to renew our commitment to work towards becoming the kind of company that will perform consistently year after year. I look forward to keeping you updated on our progress.



Ramon S. Ang, *Chairman*

25th August 2005