

**CHAIRMAN'S STATEMENT**

**Ramon S. Ang**  
*Chairman*

To Our Shareholders,

**FINANCIAL RESULTS**

In a year of challenges that saw San Miguel Brewery Hong Kong Limited delivering mixed results, the Company nevertheless took clear, decisive steps to strengthen its overall competitive potential in mainland China and Hong Kong. Over this last year, we have refocused our operations and invested behind our growth priorities.

Consolidated gross turnover of the Company remained stable at \$1.27 billion (2004: \$1.26 billion). In Hong Kong, gross turnover increased by 1% to \$704 million from \$697 million, while in mainland China, gross turnover remained essentially at par with 2004 levels at \$564 million.

Sales and volume performance of Hong Kong operations and San Miguel (Guangdong) Brewery Company Limited ("SMGB") improved steadily throughout the year, picking up sharply in the second half of 2005.

Hong Kong operations recorded a 63.5% increase in operating profit to \$15.2 million from \$9.3 million. SMGB posted a 287.2% increase to \$10.9 million (2004 profit: \$2.8 million). Guangzhou San Miguel Brewery Company Limited ("GSMB") incurred a loss from operations of \$24.6 million (2004 profit: \$7.6 million). These businesses collectively turned in a consolidated profit from operations of \$1.5 million as compared to 2004's profit of \$19.8 million.

The China beer market is currently facing higher costs and tough margin pressures. The Company is constantly looking for ways to reduce business risks, to enhance financial viability and to improve competitiveness for the long term. We are working with our joint venture partner Guangzhou Brewery ("GB") on a major business restructuring plan that will result in a more cost-efficient product sourcing set-up in South China.

In line with the above restructuring, we are required by the Hong Kong Accounting Standard, to book a one-time impairment charge of \$63.3 million arising from the termination of the factory lease agreement and subsequent sales of related assets to GB.

As such the Company recorded a consolidated loss from ordinary activities before taxation of \$59.1 million (2004 consolidated profit: \$15.5 million). Excluding the impact of the above mentioned one-time impairment charges, the Company's profit before taxation was more than \$4 million.

The Company continued to be cash positive in 2005. Cash and cash equivalents at 31st December 2005 amounted to \$383.3 million. This already takes into account repayment of bank loans of \$100 million in August 2005.

Consolidated loss attributable to equity shareholders after taxation and minority interests, was \$35.6 million (2004 profit: \$11.3 million).

**DIVIDENDS**

Directors have resolved that no final dividends will be declared for 2005.

## CHAIRMAN'S STATEMENT

### BUSINESS REVIEW

#### HONG KONG OPERATIONS

Despite Hong Kong's economic recovery, the local beer market remained weak. Total industry volume for 2005 was 1% lower than the previous year. In addition to the soft volumes, consumer preferences have shifted to economy-priced brands. Based on Retail Audit, the segment share of economy brands grew from 37.3% in 2004 to 40.7% in 2005.

Reflecting the industry decline, the Company's Hong Kong sales volume declined by 0.8%. Nevertheless, our flagship brand San Miguel retained its standing as the Number One brand in Hong Kong. To sustain this leadership position and meet the challenges posed by competitors, the Company has deployed various strategic programmes to reinforce San Miguel's brand value and to strengthen its connection with customers and consumers.

In June 2005, the Company launched a new marketing campaign "Our City, Our Beer" for brand San Miguel. The new campaign included television commercials, point of sales visibility blitz, on-line communications and public relation programmes. Independent market research indicated that the new campaign has been well received by the customers and consumers.

Building on the success of the last two years, the Company continued to implement the "San Miguel WildDayOut" programmes to solidify the brand San Miguel communication platform to young consumers. A series of bar shows and a year-end outdoor grand concert headlined by popular local and international artists helped build the San Miguel brand.

In March 2006, a giant San Miguel neon-sign will be erected on top of the Excelsior Hotel at Causeway Bay to reinforce our strong brand image in Hong Kong.

All these programmes and activities together with an emphasis on improved execution in the marketplace, have served to achieve our target to maintain market leadership in Hong Kong.

The volume of our economy beer brands in Hong Kong continued to grow in 2005. The Company is currently the largest player in this category. The Company has continually revisited its cost to maintain its profitability despite the change in volume mix.

Export volume grew 61% over the previous year.

#### SOUTH CHINA OPERATIONS

Driven by a solid 21.5% growth in SMGB's core local brand, Dragon, SMGB sales volume grew by 16.4% over year 2004, sustaining its strong double digit growth over the last two years. Indeed, the robustness of the Dragon brand reflected the Company's success following its having gained full control of the sales and marketing of the brand since its acquisition in mid 2003. A leading local beer brand is important in contributing to the overall revenue as well as providing critical scale to support the development and growth of the sales and distribution network in our key markets.

To satisfy growing product requirements, the Company plans to expand SMGB brewery facilities in 2006.

In addition to the on-going restructuring of GSMB and efforts to establish a more cost-efficient product sourcing set-up, a core team is currently addressing the need to strengthen San Miguel brand equity and re-development of the sales and distribution network in the key markets.

### COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

The Company regards itself as a good corporate citizen and is proud of its contribution to the economy and people of Hong Kong and South China.

The Company continued to make regular donations to charities and non-profitable organisations, and regularly sponsored and participated in various local community events in year 2005.

The Company is also committed to protecting the environment and ensuring that environmental standards are upheld.

## CHAIRMAN'S STATEMENT

### HUMAN RESOURCES

The Company continues to invest in its people. Our focus 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 in the highly competitive business environment.

The Company keeps abreast of market trends, offers competitive remuneration packages commensurate with market levels and provides appropriate fringe benefits, including medical and insurance coverage and retirement benefits to all employees.

An independent remuneration committee has been set up to review the remuneration policies and packages of senior executives.

### CORPORATE GOVERNANCE

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board of Directors and the senior management of the Company ensure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising high calibre Members, Board Committees and effective internal systems and controls.

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year 2005, except that all of the Non-Executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's Annual General Meeting. Details of compliances are set out in the Corporate Governance section on pages 17 to 22.

### DIRECTORS

A number of Directors resigned from the Board of Directors since we published our interim report on 25th August 2005. They were Messrs Ramon A. de la Llana (former Managing Director), Francis H. Jardeleza, Estelito P. Mendoza and Gabriel L. Villareal.

With the departure of Mr. Ramon A. de la Llana to San Miguel Corporation, Mr. Chong Yoon Fatt was appointed Managing Director on 9th December 2005. Three more Directors, namely Ms. Minerva Lourdes Bibonia, Ms. Ma. Belen C. Buensuceso and Mr. Roberto N. Huang were also appointed to the Board on 24th February 2006.

### FUTURE DIRECTIONS AND CHALLENGES

The objectives of the Company for year 2006 are:

- In Hong Kong, to continue to improve profitability and to reinforce the market leadership of San Miguel brand.
- In South China, to turnaround the business by consolidating the growth of Dragon brand in SMGB and the restructuring of GSMB.

Looking ahead, we anticipate that the momentum of our flagship San Miguel brand and the strength of our local brands will drive volume and turnover growth. This momentum will provide the platform to deliver profit growth for the Company in year 2006.

In closing, I would like 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, for your confidence and trust in the Company. We take this opportunity to renew our commitment to work towards becoming the kind of company that will perform consistently year after year.



**Ramon S. Ang**  
Chairman

24th February 2006