

**CHAIRMAN'S STATEMENT**

**Ramon S. Ang**  
*Chairman*

To Our Shareholders,

**FINANCIAL RESULTS**

2006 was an important year strategically for San Miguel Brewery Hong Kong Limited as the Company completed its major initiative of restructuring its South China operations and rationalising its production capacities in the region.

Amid demanding and a highly competitive operating environment, the Company delivered mixed results. Though consolidated beer volume grew by 8.6% over previous year, consolidated gross turnover was at par with 2005 at HK\$1.3 billion. Netting of all discounts and taxes, consolidated turnover at HK\$826.8 million was 2.4% above last year. The continuous growth of the low-priced segment, competitive pricing and the increase in production cost greatly affected the Company's results.

Consolidated loss attributable to equity shareholders after taxation and minority interests increased from HK\$35.0 million to HK\$70.1 million. This however included one-time restructuring costs

of South China operations of HK\$60.6 million after minority interests. Without the restructuring costs, consolidated loss would have been HK\$9.5 million.

The Company continued to be cash positive in 2006. Net cash balances at 31 December 2006 amounted to HK\$240.9 million (2005: HK\$237.9 million). Total net assets maintained at HK\$1,974.1 million (2005: HK\$2,062.1 million) together with a low debt to equity ratio of 0.09 (2005: 0.07) and current ratio of 2.2 times (2005: 2.5 times).

**DIVIDENDS**

Directors have resolved that no dividends will be declared for 2006.

**BUSINESS REVIEW****HONG KONG OPERATIONS**

Intense price competition in the local beer market and shift in consumer preference toward low-priced brands continued to be the primary challenges for the beer industry and our Company. For two consecutive years, the beer industry suffered a volume decline with 2006 registering a 1.6% contraction from the previous year. This was brought about by the emergence of wine (both still and sparkling) and whisky drinkers challenging beer's substantial share of alcoholic beverage market.

Meanwhile, though the increasing share of low-priced brands have slowed down from 40.7% in 2005 to 40.9% in 2006, the general prices of beer have defied the inflationary trend of composite price index. Instead of following the increasing price index at 2.3%, beer prices resisted and recorded a deflation of 2.9%.

Unfortunately, the 26.3% and 5.4% increases over previous year in sales volume of imported premium brands and low-priced brands respectively were not able to offset the performance of San Miguel in the Hong Kong market. Nevertheless, the San Miguel brand retained its position as the Number One brand in 2006.

To ensure its leadership position and meet the challenges of the market, the Company has reviewed and devised a holistic set of plans and programs to reinforce and build San Miguel's brand equity specifically geared towards fortifying the bond with customers and consumers.

## CHAIRMAN'S STATEMENT

March 2006 witnessed the inaugural illumination of the giant San Miguel neon-sign on top of the Excelsior Hotel at Causeway Bay. This participation in the world-famous Hong Kong skyline shows San Miguel's dedication to highlight its position in the market.

In 2007, the Company will launch a new marketing campaign for the brand San Miguel which includes television commercials, complemented with market promotions revolving around the theme. Furthermore, point of sales visibility blitz, on-line communications and public relation programs will be intensified to support this drive.

Building on the huge success of the "San Miguel WildDayOut" programs in the last three years, the Company will continue to organize more WildDayOut bar shows and promotion programs to solidify the brand San Miguel communication platform to young consumers. All these will culminate with the year-end outdoor grand concert headlined by popular local and international artistes.

These programs and activities, on top of our continuous commitment to improve excellence in execution and management of cost base, will serve to help us achieve our target of maintaining market leadership in Hong Kong this year.

### SOUTH CHINA OPERATIONS

The Company's total sales volume and gross turnover in South China grew by 10.2% and 5.5% over previous year respectively. Before a one-time restructuring costs of HK\$93.2 million (2005: HK\$63.3 million), South China operations recorded a profit after tax of HK\$5.0 million, against a loss of HK\$25.0 million in 2005.

Sales volume of San Miguel (Guangdong) Brewery Company Limited ("SMGB") continued to sustain its solid growth by 33.8% over the previous year, mainly driven by Dragon and Valor brand. The launching of Dragon television commercial in Shunde and nearby counties, "Refreshing to Fly" and eye-catching outlet signage in key outlets in Greater Foshan, have further improved the brand awareness and brand equity in the local beer market.

To cater to the volume requirements of Guangzhou San Miguel Brewery Company Limited ("GSMB") and its growing market requirements, SMGB has embarked on an expansion program last year aimed at increasing the brewery's production to an annual capacity of 1.3 million hectolitre in 2006. As of December 2006, SMGB has completed 82% of its phase I expansion. It is expected to be completed by May 2007 in time for the peak season.

On the other hand, GSMB has shown strong recovery and progress after the handover of the factory and production assets to Guangzhou Brewery last October. While the sales volume in 2006 declined by 0.9% over the previous year, the strategic intent to push for higher-priced products enabled sales revenue to increase by 5.0%.

The launch of the San Mig Light television commercial and outdoor advertising in core markets were very successful in driving brand awareness and consumption contributing significantly to San Mig Light's volume growth of 4.3% year on year.

For 2007, GSMB will continue to rebuild and improve its organization developing a cohesive and fully engaged team to enhance dealership and outlet management programs that will further strengthen the San Miguel brand.

### COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

Similar to past years, the Company regularly sponsored and participated in various local community events in year 2006.

The Company is also committed to protecting the environment where it operates and ensures that environmental standards set by governments and other authorities are met or exceeded.

### HUMAN RESOURCES

The Company continues to invest in its people. 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

## CHAIRMAN'S STATEMENT

environment. To further foster camaraderie among employees in working towards a common goal, everyone is kept abreast of the latest developments within the Company via annual corporate direction briefings, intranet messaging and emails.

The Company also offers competitive remuneration packages commensurate with market standards and provides attractive fringe benefits, including medical and insurance coverage and retirement packages to all employees.

Moreover, to enhance employee's sense of belonging, the Company encourages employees and their families to participate in company-sponsored staff activities. Aside from promoting teamwork, this boosts employees' morale and creates a harmonious working environment.

### CORPORATE GOVERNANCE

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 2006 except all of the non-executive directors are not appointed for a specific term but are subject to retirement and rotation and re-election at the Company's Annual General Meeting. Details of compliances are set out in the Company's Annual Report's Corporate Governance section.

### DIRECTORS

A number of directors resigned from the Board since we published our interim report on 12 September 2006. They were Ms. Ma. Belen C. Buensuceso and Mr. Roberto N. Huang. We thank Ms. Buensuceso and Mr. Huang for their contributions to the Group over the past years.

Likewise, Messrs Carlos M. Berba and Francis H. Jardeleza were nominated to fill the vacated office at the forthcoming Annual General Meeting.

### FUTURE DIRECTION AND CHALLENGES

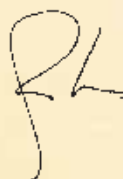
The objectives of the Company for the year 2007 are:

- In Hong Kong, to improve profitability, increase our market share and continue to reinforce the market leadership of San Miguel brand.
- In South China, to rebuild the organization after the restructuring of GSMB, strengthen San Miguel brand equity and consolidate the growth of Dragon brand.

Moving forward, as the Company has a number of dynamic growth strategies in place, together with the set of highly motivated teams and a healthy cash position to support these initiatives, we anticipate that we will be able to provide a firm foundation for the Company's sustained growth in 2007.

In closing, I would like to take this opportunity to thank our Board for its support and guidance, all the employees for their dedication and hard work, and our customers and business associates for their continuing support and trust over the years.

Thanks also go to our shareholders for their keen interest in our Company and their confidence that the Company will have a very rewarding future.



**Ramon S. Ang**  
Chairman

6 March 2007