SAN MIGUEL BREWERY HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 236)

ANNOUNCEMENT OF THE 2006 INTERIM RESULTS

INTERIM RESULTS

The directors of San Miguel Brewery Hong Kong Limited (the "Company") have announced the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2006 as follows:

CONSOLIDATED INCOME STATEMENT – UNAUDITED
for six months ended 30th June, in Hong Kong dollar thousands except per share data

	Note	Six months ended 30th June 2006	Six months ended 30th June Restated 2005	Year ended 31st December 2005
Gross turnover	2	**574,298**	590,324	1,268,346
Discounts		**(130,260)**	(149,325)	(304,457)
Cost of sales		**(208,183)**	(202,287)	(440,817)
Beer duty and taxes		**(71,919)**	(73,030)	(156,980)
Gross profit		**163,936**	165,682	366,092
Selling and distribution expenses		**(134,641)**	(119,000)	(253,337)
Administrative expenses		**(45,898)**	(58,954)	(104,970)
Other operating expenses		**(5,528)**	(6,834)	(6,307)
(Loss)/profit from operations		**(22,131)**	(19,106)	1,478
Finance costs		**(3,645)**	(2,865)	(6,163)
Other revenue		**8,161**	6,598	15,065
Other net (expenses)/income		**(7,994)**	(570)	431
Impairment losses		**(1,752)**	(1,321)	(69,869)
Loss before taxation	3	**(27,361)**	(17,264)	(59,058)
Income tax	4	**(3,448)**	(333)	(6,979)
Loss for the year	2	**(30,809)**	(17,597)	(66,037)
Attributable to:				
Equity shareholders of the Company		**(22,594)**	(12,415)	(35,641)
Minority interests		**(8,215)**	(5,182)	(30,396)
Loss for the year		**(30,809)**	(17,597)	(66,037)
Dividends payable to equity shareholders of the Company attributable to the interim period/year:	5			
Interim dividend declared after the interim period end		–	(3,736)	(3,736)
		–	(3,736)	(3,736)
Loss per share – Basic	6	**($0.06)**	($0.03)	($0.10)

CONSOLIDATED BALANCE SHEET – UNAUDITED
as at 30th June, in Hong Kong dollar thousands

	As at 30th June 2006		As at 31st December 2005	
Non-current assets				
Fixed assets				
– Property, plant and equipment	**1,638,673**		1,648,874	
– Investment properties	**85,345**		86,437	
– Interests in leasehold land held for own use under operating leases	**101,946**		102,853	
Intangible assets	**39,537**		39,525	
Goodwill	**5,044**		5,044	
Retirement benefit asset	**3,937**		3,937	
Other tangible assets	**47,892**		41,539	
		1,922,374		1,928,209
Current assets				
Inventories	**50,763**		50,700	
Trade and other receivables	**124,176**		126,743	
Amounts due from holding companies and fellow subsidiaries	**39,546**		38,346	
Current tax recoverable	**–**		798	
Cash and cash equivalents	**406,909**		383,331	
	621,394		599,918	
Current liabilities				
Bank loans (unsecured)	**(50,489)**		(50,408)	
Trade and other payables	**(160,028)**		(126,123)	
Amounts due to holding companies and fellow subsidiaries	**(7,774)**		(9,327)	
Leased factory maintenance provision	**(55,880)**		(53,208)	
	(274,171)		(239,066)	
Net current assets		**347,223**		360,852
Total assets less current liabilities		**2,269,597**		2,289,061
Non-current liabilities				
Bank loans (unsecured)	**(95,000)**		(95,000)	
Deferred tax liabilities	**(119,910)**		(116,425)	
		(214,910)		(211,425)
NET ASSETS		**2,054,687**		2,077,636
CAPITAL AND RESERVES				
Share capital		**186,785**		186,785
Reserves		**1,804,783**		1,820,487
Total equity attributable to equity shareholders of the Company		**1,991,568**		2,007,272
Minority interests		**63,119**		70,364
TOTAL EQUITY		**2,054,687**		2,077,636

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

This interim financial report is unaudited and has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial information relating to the financial year ended 31st December 2005 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24th February 2006.

The same accounting policies adopted in the 2005 financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 financial statements.

2. Segment reporting

in Hong Kong dollar thousands

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of customers is chosen.

No business segments analysis of the Group is presented as all the Group's turnover and trading result are generated from the manufacture and distribution of bottled, canned, and draught beers.

	Hong Kong			PRC			Inter-segment elimination			Consolidated		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2006	Restated 2005	2005	**2006**	Restated 2005	2005	**2006**	Restated 2005	2005	**2006**	Restated 2005	2005
Revenue from external customers	**319,406**	329,249	703,946	**254,892**	261,075	564,400	**–**	–	–	**574,298**	590,324	1,268,346
Inter-segment revenue	**17,727**	16,392	35,091	**–**	–	–	**(17,727)**	(16,392)	(35,091)	**–**	–	–
Other revenue	**2,248**	2,329	4,647	**–**	–	–	**–**	–	–	**2,248**	2,329	4,647
Total revenue	**339,381**	347,970	743,684	**254,892**	261,075	564,400	**(17,727)**	(16,392)	(35,091)	**576,546**	592,653	1,272,993
Segment result	**(7,480)**	(2,392)	11,658	**(20,398)**	(14,955)	(5,101)				**(27,878)**	(17,347)	6,557
Unallocated operating income and expenses										**5,914**	4,269	10,417
Finance costs										**(3,645)**	(2,865)	(6,163)
Impairment losses	**(210)**	(549)	(758)	**(1,542)**	(772)	(69,111)				**(1,752)**	(1,321)	(69,869)
Income tax										**(3,448)**	(333)	(6,979)
Loss for the year										**(30,809)**	(17,597)	(66,037)

3. Loss before taxation

in Hong Kong dollar thousands

	Six months ended 30th June 2006	Six months ended 30th June Restated 2005	Year ended 31st December 2005
Loss before taxation is stated after charging/(crediting) the following items:			
Amortisation			
– Land lease premium for property held for own use	**1,257**	1,253	2,506
– Bottles and crates			
• Other tangible assets	**3,528**	–	4,681
• Inventories	**–**	6,785	6,785
– Trademarks	**–**	1,947	–
Depreciation			
– Investment properties	**1,092**	1,078	2,156
– Property, plant and equipment	**36,560**	36,861	73,084
Interest expenses	**3,562**	2,795	6,016
Inventory costs	**205,273**	199,136	434,407
Interest income	**(5,914)**	(4,269)	(10,418)
(Profit)/loss on disposal of property, plant and equipment	**(101)**	378	216

4. Income tax in the consolidated income statement

in Hong Kong dollar thousands

Taxation in the consolidated income statement represents:

	Six months ended 30th June 2006	Six months ended 30th June 2005	Year ended 31st December 2005
Current tax – Hong Kong Profits Tax Provision for the year	**–**	–	121
Deferred tax	**3,448**	333	6,858
	3,448	333	6,979

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% of the estimated assessable profits of one of the Hong Kong subsidiaries for the year. No provision for Hong Kong Profits Tax has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purposes.

No provision for overseas taxation has been made in the financial statements as the overseas subsidiaries sustained losses for taxation purposes.

5. Dividends

in Hong Kong dollar thousands except per share data

(a) Dividends payable to equity shareholders of the Company attributable to the interim period/year

	Six months ended 30th June 2006	Six months ended 30th June 2005	Year ended 31st December 2005
Interim dividend declared after the interim period end of $nil (2005: $0.01) per ordinary share	**–**	3,736	3,736

The interim dividend declared after balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period/year

	Six months ended 30th June 2006	Six months ended 30th June 2005	Year ended 31st December 2005
Final dividend in respect of the previous financial year, approved and paid during the interim period/year of $nil (2005: $0.01) per ordinary share	**–**	3,736	3,736

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the period ended 30th June 2006 of $22,594,000 (30th June 2005 loss (restated) of: $12,415,000; 31st December 2005 loss of $35,641,000) and on 373,570,560 ordinary shares (at 30th June and 31st December 2005: 373,570,560 ordinary shares), being the weighted average number of ordinary shares in issue throughout the period/year.

The amount of diluted loss per share is not presented as there were no dilutive potential ordinary shares in existence.

INTERIM RESULTS

The interim results for the six months ended 30th June 2006 have not been audited by the Company's auditors, but were reviewed by the audit committee on 12th September 2006.

INTERIM DIVIDEND

The directors have resolved that no dividend be declared for the first six months ended 30th June 2006.

REVIEW AND PROSPECTS

Financial Results

With half of the year now complete and an encouraging second half outlook ahead of us, our message is one of continued confidence through sustained investments in our brands and cost savings initiatives.

Consolidated volumes grew by 8.4% for the first six months of 2006. However consolidated gross turnover was $574.298 million, representing a slight decline of 2.7% from the same period of 2005 because of a faster growth in the lower price segment of our markets. Gross profit margin grew incrementally from 28% in the first half of 2005 to 28.5% this year.

Consolidated loss after taxation attributable to equity holders of the Company for the six months ended 30th June 2006 was $22.594 million which includes one-time redundancy cost incurred in GSMB of $5.116 million after Minority Interest. Without the redundancy cost, consolidated loss would have been $17.478 million. In spite of the loss, operating activities recorded a net cash inflow of $47.169 million, 19.4% higher than the same period last year. As of 30th June 2006, cash and cash equivalents totaled $406.909 million, an increase of $23.578 million over the corresponding figure of $383.331 million at the end of December 2005.

The Company maintained an extremely healthy balance sheet, sustaining $347.223 million net current assets, a current ratio of 2.27 times and a quick ratio of 2.08 times. The company also sustained a low gearing, total net assets amounted to $2,054.687 million and a low 7.3% debt to equity ratio.

Business Review

Hong Kong Operations

Shift in consumer preference towards economy brands and intense price competition in the market continued to be the primary challenges for the beer industry and our Company in 2006.

Due to weak market conditions and narrower profit margins on economy-priced brands, our Hong Kong operations recorded a loss of $7.480 million compared to the restated $2.392 million loss last year.

Reflecting the market setbacks, the Company's sales to the local market were 4.6% below the first six months of the previous year. Nevertheless, the Company has put in place a new sales structure to intensify focus on key accounts development which is expected to improve volumes in the coming months and provide business stability despite an increasingly competitive situation.

Our premium brands provided a particularly bright spot for the business, finishing 33% higher than the previous year. Equally encouraging is the 8% increase in the volume of our economy-priced brands for the first half of 2006. The Company continues to be the biggest player in the beer market, successfully growing volume of its economy-priced brands over the last year.

On the whole, the Company managed to defend its leading position in the highly competitive marketplace and capitalized on its strengths in the growing economy segment to benefit from its penetration into other segments that are potentially more profitable.

Facing the challenges, the Company has taken measures to reinforce San Miguel popularity to sustain its leadership and boost its volume.

Building on the success of the "San Miguel WildDayOut" programs, more WildDayOut parties were organized in the first half of 2006 to solidify the brand San Miguel communication platform to young consumers. Early this year, a San Miguel neon sign has been added to the city's famous skyline. For the remainder of 2006, San Miguel intends to build brand presence above-the-line through the sponsorship of popular TV programs and movies that cater to our core drinkers, among others. All these programs and activities, together with an emphasis on improved execution in the marketplace, will continue to serve our target to maintain market leadership in Hong Kong.

South China Operations

Operating profit of San Miguel (Guangdong) Brewery Company Limited surged 10 times to $6.885 million in 2006 from $0.704 million (restated) in 2005. Guangzhou San Miguel Brewery Company Limited booked a loss of $27.283 million which includes redundancy cost of $7.871 million. Together, the Company's South China operations recorded a loss of $20.398 million, compared with last year's loss of $14.955 million. Without the GSMB redundancy cost, South China operations would have recorded a loss of $12.527 million, a 16% improvement over last year's loss.

Owing to the Company's healthy financial position, the loss does not severely impact the financial stability of its South China operations.

San Miguel (Guangdong) Brewery Company Limited once again reported very strong volume growth, with volumes soaring 21% in the first six months of 2006. The increase came primarily from the popularity of Valor and the leading local brand Dragon Beer.

The Company is expanding the brewery facilities of San Miguel (Guangdong) Brewery Company Limited in 2006 to satisfy the growing demand in the region; with the significant improvement in the distribution coverage in our core markets, aggressive outlet merchandising drive in key outlets and the launch of the new Dragon TVC in Shunde and in the nearby counties, we expect to further consolidate the strength of Dragon brand in Shunde to achieve even higher profitability.

Guangzhou San Miguel Brewery Company Limited has undergone considerable change over the year while operating in the most challenging market environment.

During the first six months of 2006, Guangzhou San Miguel Brewery Company Limited experienced a slowdown in revenue. Total sales volume dropped slightly by 3% over the same period in 2005.

To turnaround the business, Guangzhou San Miguel Brewery Company Limited has been aggressively implementing the planned sales and marketing initiatives to further strengthen San Miguel brand positioning in both established and new markets. These initiatives include the establishment and implementation of stable trade pricing guidelines across regions, development of dealership programs and outlet management activities, and the expansion of San Mig Light (SML) penetration in core markets.

The company has also accelerated its restructuring to improve its profitability. We continue to execute cost savings and productivity initiatives, which are helping our South China operations to partially mitigate the cost inflation we are experiencing. We have had good productivity savings year-to-date.

Throughout the year, the Company maintained its strength in the Hong Kong beer market by reinforcing the flagship brand San Miguel's popularity and increasing penetration of economy brands. It also achieved significant breakthroughs in South China with the outstanding performance of local brands like Dragon and Valor.

Moving forward, the Company has a number of dynamic growth strategies in place, together with a very healthy cash position and our highly motivated teams in both Hong Kong and South China, we have established a firm foundation for the future growth of the Company.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2006.

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 (the "Listing Rules") during the period under review, save for the deviations discussed below:

1. All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1) but are subject to retirement by rotation once every three years and re-election at the annual general meeting under the Company's Articles of Association.
2. The Company is currently in the process of developing the procedures for the review of the effectiveness of its internal control system under Code Provision C.2.1. The procedures would be completed and implemented prior to the end of this year.

PUBLICATION OF DETAILED INTERIM RESULTS

A detailed results announcement containing all the information required by the Rules Governing the Listing of Securities on the Exchange will be published on the Exchange's website and the Company's websites, info.sanmiguel.com.hk and www.sanmiguel.com.hk in due course.

By order of the Board
Ramon S. Ang
Chairman

Hong Kong, 12th September 2006

(All monetary values in this announcement are expressed in Hong Kong Dollars unless stated otherwise.)

As at the date of this announcement, the executive director is Mr. Chong Yoon Fatt; non-executive directors are Mr. Ramon S. Ang (chairman), Mr. Faustino F. Galang (deputy chairman), Ms. Minerva Lourdes Bibonia, Ms. Ma. Belen C. Buensuceso, Mr. Ferdinand K. Constantino and Mr. Roberto N. Huang; and independent non-executive directors are Dr. The Hon. Sir David K.P. Li, Mr. Ng Wai Sun and Mr. Ian F. Wade.