THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in San Miguel Brewery Hong Kong Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

SAN MIGUEL BREWERY HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 236)

DISCLOSEABLE AND CONNECTED TRANSACTION

Financial Adviser to San Miguel Brewery Hong Kong Limited

Ernst & Young Corporate Finance Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

CIMB-GK Securities (HK) Limited

A letter from the board of directors of San Miguel Brewery Hong Kong Limited is set out on pages 3 to 11 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 12 of this circular. A letter from CIMB-GK Securities (HK) Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 19 of this circular.

23 October 2006

CONTENTS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Asset Sale"	the sale of the Production Assets to GB by GSMB in connection with the Lease Termination
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"CIMB-GK"	CIMB-GK Securities (HK) Limited, a corporation licensed to carry out types 1, 4 and 6 of the regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Company"	San Miguel Brewery Hong Kong Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"GAAP"	Generally Accepted Accounting Principles
"GB"	Guangzhou Brewery, a state-owned enterprise established in the PRC
"Group"	the Company and its subsidiaries
"GSMB"	Guangzhou San Miguel Brewery Company Limited, a sino-foreign joint venture entity established in the PRC with limited liability, which is an indirectly owned subsidiary of the Company held as to 70% by San Miguel Guangdong and as to 30% by GB
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent committee of the Board established to advise the Independent Shareholders in respect of the terms of the Termination Agreement
"Independent Shareholders"	Shareholders other than GB and its associates (if they hold any Shares)
"JV Contract"	the joint venture contract dated 3 November 1990 (as amended from time to time) entered into between GB and San Miguel Guangdong in respect of the establishment of GSMB
"Latest Practicable Date"	19 October 2006, being the latest practicable date for ascertaining certain information contained in this circular
"LCH"	LCH (Asia-Pacific) Surveyors Limited, independent qualified valuer
"Lease Agreement"	the factory lease agreement dated 22 December 1990 (as amended from time to time) entered into between GB and GSMB in respect of the lease of the factory buildings, brewery equipment and related facilities from GB to GSMB

"Lease Termination"	the early termination of the Lease Agreement pursuant to the Termination Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MOU"	a non-legally binding memorandum of understanding dated 28 December 2005 entered into between GB and GSMB in respect of the preliminary terms of the Lease Termination and the Asset Sale
"Neptunia"	Neptunia Corporation Limited, an indirect wholly-owned subsidiary of SMC
"New Capital Expenditure"	any qualifying capital expenditure incurred by GSMB on the purchase or construction of any separate and identifiable equipment or building during the term of the Lease Agreement
"PRC"	the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular
"Production Assets"	production assets owned by GSMB to be sold to GB pursuant to the Termination Agreement, including certain separate and identifiable buildings and structures and plant and machinery which qualify as New Capital Expenditure under the Lease Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"Reserve Fund"	a reserve fund set aside annually by GSMB pursuant to the Lease Agreement, for the maintenance of factory buildings, brewery equipment and related facilities leased by GB to GSMB, which in fact is a fee payable to GB annually
"San Miguel Guangdong"	San Miguel (Guangdong) Limited, a company incorporated in Hong Kong with limited liability and a 92.989% subsidiary of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	the shareholders of the Company
"Shares"	shares of HK$0.50 each in the Company
"SMC"	San Miguel Corporation, the ultimate controlling shareholder of the Company
"SMGB"	San Miguel (Guangdong) Brewery Company Limited, a company incorporated in the PRC with limited liability and a 92% indirectly owned subsidiary of the Company
"SMIL"	San Miguel International Limited, a wholly-owned subsidiary of SMC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Termination Agreement"	the agreement dated 29 September 2006 entered into between GB and GSMB in respect of the Lease Termination and the Asset Sale

For the purpose of this circular, unless otherwise indicated, the exchange rate of HK$1 = RMB1.02 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such a rate or at any other rates.

SAN MIGUEL BREWERY HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 236)

Executive Director:
Mr. Chong Yoon Fatt

Non-executive Directors:
Mr. Ramon S. Ang *(Chairman)*
Mr. Faustino F. Galang *(Deputy Chairman)*
Ms. Minerva Lourdes Bibonia
Ms. Ma. Belen C. Buensuceso
Mr. Ferdinand K. Constantino
Mr. Roberto N. Huang

Independent non-executive Directors:
Dr. The Hon. Sir David K.P. Li
Mr. Ng Wai Sun
Mr. Ian F. Wade

Registered office and principal place of business in Hong Kong:
9th Floor
Citimark Building
28 Yuen Shun Circuit
Siu Lek Yuen
Shatin, New Territories
Hong Kong

23 October 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

On 29 September 2006, the Company announced that it entered into the Termination Agreement with GB in order to early terminate the Lease Agreement. The principal business activities of the Group are the manufacture and distribution of bottled, canned and draught beers. GSMB is an equity joint venture formed between San Miguel Guangdong and GB and is held as to 70% by San Miguel Guangdong and as to 30% by GB. Upon the establishment of GSMB in November 1990, GSMB entered into the Lease Agreement with GB whereby GSMB agreed to lease the factory buildings, brewery equipment and related facilities from GB for production purposes. The Lease Agreement expires on 29 November 2020.

After reviewing GSMB's operations, the Company believes that it is in its best interests to cease the production activities of GSMB and to terminate the Lease Agreement. On 28 December 2005, the non-legally binding MOU was signed between GSMB and GB in this respect. According to the MOU, GSMB will also sell its Production Assets to GB. Upon the Lease Termination becoming effective, GSMB will cease to have its own manufacturing operations but will continue to be engaged in the sale and distribution of beer. GSMB will have to source beer products from manufacturers. The Company proposes that GSMB will utilise the toll-processing services (i.e., manufacturing process involving the brewing and packaging of beer products) from SMGB and/or similar services from other suppliers after the Lease Termination.

The purpose of this circular is to provide you with further details of the Termination Agreement. The Independent Board Committee, comprising Dr. The Hon. Sir David K.P. Li, Mr. Ng Wai Sun and Mr. Ian F. Wade, has been formed to advise the Independent Shareholders on the terms of the Termination Agreement. CIMB-GK has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders. A letter from the Independent Board Committee is set out on page 12 of this circular and a letter from CIMB-GK is set out on pages 13 to 19 of this circular. Ernst & Young Corporate Finance Limited has been retained as the financial adviser to the Company in relation to the Lease Termination and the Asset Sale.

THE TERMINATION AGREEMENT

On 29 September 2006, GSMB and GB entered into the Termination Agreement in respect of the Lease Termination and the Asset Sale. Pursuant to the Termination Agreement, the handover by GSMB to GB of the factory and Production Assets following completion of the Termination Agreement will take place as from 31 October 2006 and is required to be completed within 3 days. 31 October 2006 has been adopted as the reference point in certain provisions of the Termination Agreement.

The Lease Termination

Pursuant to the terms of the Termination Agreement, GSMB agreed to pay to GB the following amounts, totalling approximately RMB32.20 million (equivalent to approximately HK$31.57 million), as a result of the Lease Termination:

(i) a security deposit already in GB's possession in the amount of RMB5 million (equivalent to approximately HK$4.90 million), together with the relevant interest of approximately RMB1.12 million (equivalent to approximately HK$1.10 million) up to 31 October 2006, in accordance with the provisions in the Lease Agreement;

(ii) a penalty for early termination of the Lease Agreement of approximately RMB6.34 million (equivalent to approximately HK$6.22 million) in accordance with the provisions in the Lease Agreement;

(iii) repair and maintenance costs of the leased assets of approximately RMB9.39 million (equivalent to approximately HK$9.21 million), which were determined based on arm's length negotiations between the parties with reference to, amongst other things, the obligations of GSMB under the Lease Agreement to repair and maintain the leased assets at its own expense to keep them in normal working condition, the assessments of the working condition of the leased assets and estimates of the costs (including market prices of the repair parts and standard labour costs in the PRC) required to restore certain assets back to normal working condition, as well as the book value of certain assets which are not capable of being restored to normal working condition; and

(iv) gratuity payment of approximately RMB10.35 million (equivalent to approximately HK$10.15 million), representing 6 months' rental under the Lease Agreement, which was determined based on arm's length negotiations between the parties with reference to the estimated time that GB may require to return the factory to full scale operation after the handover of the factory and assets following completion of the Termination Agreement.

The Asset Sale

Pursuant to the Termination Agreement, GSMB will also sell the Production Assets to GB for a consideration of approximately RMB37.29 million (equivalent to approximately HK$36.56 million). The consideration for the Asset Sale comprises buildings and structures of approximately RMB12.24 million (equivalent to approximately HK$12.00 million) and plant and machinery of approximately RMB25.05 million (equivalent to approximately HK$24.56 million). The consideration was determined based on arm's length negotiations between the parties with reference to the net book value of the Production Assets as shown in GSMB's accounts as at 31 August 2006 prepared under the PRC GAAP, which was approximately RMB34.85 million (equivalent to approximately HK$34.17 million).

According to the Company's audited consolidated accounts as at 31 December 2005, the net book value of the Production Assets prepared under Hong Kong GAAP was approximately RMB114.55 million (equivalent to approximately HK$112.30 million). According to the unaudited management accounts of GSMB as at 30 June 2006 and 31 August 2006 prepared under Hong Kong GAAP, the respective net book values of the Production Assets were approximately RMB112.19 million (equivalent to approximately HK$109.99 million) and approximately RMB110.90 million (equivalent to approximately HK$108.73 million). The above net book values were stated before deducting impairment loss on the Production Assets of approximately RMB58.20 million (equivalent to approximately HK$55.92 million based on the exchange rate used for compilation of the Group's annual report for the year ended 31 December 2005 (the "2005 Annual Report")) which was calculated based on the MOU and recorded in the 2005 Annual Report. Please refer to the section headed "Reasons for and benefits of the Termination Agreement" for details of the impairment losses. As described above, the consideration for the Asset Sale was determined with reference to the net book value of the Production Assets prepared under PRC GAAP which is much lower than the net book value prepared under Hong Kong GAAP primarily because of the higher depreciation rates used under the PRC GAAP. The significant loss on the Asset Sale/impairment loss on the Production Assets as described in the section headed "Reasons for and benefits of the Termination Agreement" is calculated by, among other things, comparing the consideration amount and the net book value of the Production Assets prepared under Hong Kong GAAP.

For the purpose of providing further information to the Company's shareholders, the Company has engaged LCH, an independent valuer in Hong Kong, to perform an independent valuation of the Production Assets as at 31 August 2006. LCH has adopted the depreciated replacement cost approach in arriving at the value in use for the buildings and structures at RMB12.20 million (equivalent to approximately HK$11.96 million). LCH has also adopted the cost approach in arriving at the fair market values in continued use for the plant and machinery items. The value was approximately RMB25.29 million (equivalent to approximately HK$24.79 million). The valuation reports are set out in Appendices I and II to this circular.

The Lease Agreement provides that during the lease term, GSMB shall set aside the Reserve Fund annually. The fee is payable upon expiration or early termination of the Lease Agreement and may be settled by the New Capital Expenditure. In the event that the value of the New Capital Expenditure exceeds the closing balance of the Reserve Fund upon the termination of the Lease Agreement, GB will have to pay GSMB the difference. In the event that the value of the New Capital Expenditure is less than the closing balance of the Reserve Fund upon the termination of the Lease Agreement, then GSMB will have to pay GB the difference. GSMB has purchased equipment and constructed building structures necessary for its manufacturing operations during the term of the Lease Agreement. Those equipment and buildings that are separate and identifiable qualified as New Capital Expenditure under the Lease Agreement. Almost all of the New Capital Expenditure having a residual net book value under the PRC GAAP are included as Production Assets which form the subject of the Asset Sale.

Settlement of amounts under the Termination Agreement

Under the Termination Agreement, the handover by GSMB to GB of the factory and Production Assets following completion of the Termination Agreement will take place as from 31 October 2006 and is required to be completed within 3 days. GSMB will have to continue to pay to GB factory rental (payable quarterly in advance) and set aside the Reserve Fund in accordance with the Lease Agreement up to 31 October 2006. GSMB shall surrender possession of and vacate certain administrative offices in the factory site no later than 31 January 2007. GB agreed to waive the rental payment for the lease of such offices during the transitional period after 31 October 2006 up to 31 January 2007.

GB will have to settle the outstanding balance of its current account with GSMB and in this respect will have to pay GSMB a sum of approximately RMB2.24 million (equivalent to approximately HK$2.20 million) until and up to 31 August 2006.

On 31 October 2006, the amounts owed by GSMB to GB under items (ii) to (iv) as described in the subsection headed "The Lease Termination", the factory rental for the month of October 2006 (amounting to approximately RMB1.73 million (equivalent to approximately HK$1.70 million)) and the Reserve Fund balance up to 31 October 2006 (amounting to approximately RMB58.98 million (equivalent to approximately HK$57.82 million)) as described in this subsection will be set off against the amounts owed by GB to GSMB as described in the subsection headed "The Asset Sale" and the current account of approximately RMB2.24 million (equivalent to approximately HK$2.20 million) as described in this subsection. After such set off, GSMB will pay GB approximately RMB47.26 million (equivalent to approximately HK$46.33 million) in two instalments by using internal resources of GSMB. The first instalment amounting to RMB10 million (equivalent to approximately HK$9.80 million) will be paid on 30 November 2006. The second instalment amounting to approximately RMB37.26 million (equivalent to approximately HK$36.53 million) will be paid on 15 January 2007.

However, if there is any delay in obtaining all the approvals under the subsection headed "Conditions precedent" below and the handover by GSMB to GB of the factory and Production Assets does not take place as from 31 October 2006, a new handover date will be determined and agreed by both parties. In this case, GSMB shall continue to pay GB a rental fee in an amount of RMB57,500 per day of delay (equivalent to the current rental payable by GSMB to GB under the Lease Agreement on a daily basis) and set aside Reserve Fund in an amount of RMB11,856 per day of delay (equivalent to the current Reserve Fund set aside by GSMB under the Lease Agreement on a daily basis). A further announcement will be made if GSMB continues to pay rental and set aside Reserve Fund after October 2006 due to delay in obtaining all the approvals under the subsection headed "Conditions precedent" below. If the reason for the delay is due to unintentional fault of either party, the party unintentionally at fault will advise the other party of the new handover date 3 working days in advance without any cost or penalty incurred.

Conditions precedent

Completion of the Lease Termination and the Asset Sale is subject to the Independent Shareholders' approval. The Asset Sale is also subject to the approval from the State Asset Supervision and Administration Commission and Guangzhou Foreign Economic and Trade Bureau.

CERTAIN CHANGES UPON THE LEASE TERMINATION AND THE ASSET SALE

Upon the Lease Termination and the Asset Sale, the JV Contract, the articles of association of GSMB and the trademark licensing agreements entered into in 1990 between GSMB and each of SMIL and GB will need to be amended to reflect the Lease Termination, and the cessation and consequential outsourcing of the manufacturing operation of GSMB. There will not be any material change to the other terms of such agreements. The supplemental agreements to effect the above-mentioned consequential changes were entered into on 29 September 2006 and are conditional upon, among other things, completion of the Termination Agreement and/or the approval of the amendment to the JV Contract and/or the articles of association of GSMB by the original approving authority of the JV Contract and/or the articles of association in the PRC.

GSMB will lay off all its production employees and is required to pay severance payments in accordance with the relevant PRC regulations. It is estimated that the severance payments will amount in aggregate to approximately RMB50.19 million (equivalent to approximately HK$49.21 million) and has been/will be paid by using internal resources of GSMB.

INFORMATION ON GB AND GSMB

GB is a PRC state-owned enterprise which is principally engaged in the manufacture and distribution of beer products. GSMB is a joint venture entity which was established by GB and San Miguel Guangdong in 1990 and is principally engaged in the manufacture and sale of beer products in the Guangdong and Hainan Provinces, the PRC. According to the Company's audited consolidated accounts for the year ended 31 December 2004, the profits of GSMB before and after taxation for the year ended 31 December 2004 prepared under Hong Kong GAAP were approximately RMB3.09 million (equivalent to approximately HK$2.91 million based on the exchange rate used for compilation of the Group's annual report for the 2004 Annual Report) and approximately RMB2.56 million (equivalent to approximately HK$2.41 million based on the exchange rate used for compilation of the 2004 Annual Report) respectively. According to the Company's audited consolidated accounts for the year ended 31 December 2005, the losses of GSMB before and after taxation for the year ended 31 December 2005 prepared under Hong Kong GAAP were approximately RMB28.65 million (equivalent to approximately HK$27.53 million based on the exchange rate used for compilation of the Group's annual report for the 2005 Annual Report) and approximately RMB30.70 million (equivalent to approximately HK$29.50 million based on the exchange rate used for compilation of the 2005 Annual Report) respectively. The above losses of GSMB were stated before deducting impairment loss of approximately RMB65.87

million (equivalent to approximately HK$63.29 million based on the exchange rate used for compilation of the 2005 Annual Report) which was calculated based on the MOU and recorded in the 2005 Annual Report. Please refer to the section headed "Reasons for and benefits of the Termination Agreement" for details of the impairment losses. According to the Company's unaudited interim report for the six months ended 30 June 2006 (the "2006 Interim Report"), the losses of GSMB before and after taxation for the six months ended 30 June 2006 prepared under Hong Kong GAAP were approximately RMB23.44 million (equivalent to approximately HK$22.77 million based on the exchange rate used for compilation of the 2006 Interim Report) and approximately RMB24.44 million (equivalent to approximately HK$23.73 million based on the exchange rate used for compilation of the 2006 Interim Report) respectively.

REASONS FOR AND BENEFITS OF THE TERMINATION AGREEMENT

GSMB has been facing intense competition in the PRC and, as set out in the preceding section, experienced a loss in 2005. During the year ended 31 December 2005, the Company performed a review of GSMB's operations. Based on the review, the Company proposed to cease the production activities of GSMB and early terminate the Lease Agreement. The continuing losses suffered by GSMB in the first half of 2006 further reinforced the Company's decision to early terminate the Lease Agreement. Following the cessation of its production activities, GSMB will outsource its production activities and focus its resources on distribution and selling of beer products in the future.

It is expected that, subject to audit of the Group's relevant financial statements, the Group will record an estimated total one-off loss of approximately RMB160.04 million (equivalent to approximately HK$156.90 million) as a result of the Lease Termination and the Asset Sale and the consequential cessation of the production activities of GSMB. Such estimated one-off total loss comprises (i) the charges to be payable by GSMB to GB of approximately RMB32.20 million (equivalent to approximately HK$31.57 million) as a result of the early termination of the Lease Agreement as described in the subsection headed "The Lease Termination"; (ii) a loss on the Asset Sale of approximately RMB73.37 million (equivalent to approximately HK$71.93 million), which is estimated based on the net book value of the Production Assets as shown in GSMB's accounts as at 31 August 2006 prepared under Hong Kong GAAP and the expected further depreciation to be charged to such assets up to 31 October 2006 under Hong Kong GAAP; and (iii) other consequential charges of approximately RMB54.47 million (equivalent to approximately HK$53.40 million) primarily comprising severance payment of approximately RMB50.19 million (equivalent to approximately HK$49.21 million) paid and payable by GSMB in order to lay off all its production employees as described in the section headed "Certain changes upon the Lease Termination and the Asset Sale".

Out of the above estimated total one-off loss, the Group has recorded in the 2005 Annual Report an impairment loss of approximately RMB65.87 million (equivalent to approximately HK$63.29 million based on the exchange rate used for compilation of the 2005 Annual Report) which was calculated based on the MOU and primarily comprised an impairment loss on the Production Assets of approximately RMB58.20 million (equivalent to approximately HK$55.92 million based on the exchange rate used for compilation of the 2005 Annual Report). It is expected that the Group will record the estimated balance of approximately RMB94.17 million (equivalent to approximately HK$92.32 million) as a one-off charge before deferred taxation and minority interest in its consolidated financial statements for the year ending 31 December 2006, subject to audit. The one-off charge of approximately RMB54.8 million (equivalent to approximately HK$53.7 million) after deferred taxation and minority interest (subject to audit) will decrease the Group's earnings and net assets for the year ending 31 December 2006. However, as explained below, the Directors believe that the Lease Termination and the Asset Sale will, on balance, bring about a positive effect on the Group's earnings and net assets in the long run.

The Company has performed a cost-benefit analysis by considering, among other things, the substantial fixed manufacturing costs incurred by GSMB (primarily the factory rental and Reserve Fund payable under the Lease Agreement), the continuing lease commitment of GSMB up to 29 November 2020 under the Lease Agreement, the manufacturing costs to be incurred by GSMB using the toll-processing model instead of running its own manufacturing operation under the Lease Agreement as well as the above one-off loss which will arise as a result of the Termination Agreement and the consequential cessation of the production activities of GSMB.

Pursuant to the Lease Agreement, the current annual rental payable by GSMB to GB amounts to approximately RMB20.70 million (equivalent to approximately HK$20.29 million) and the current Reserve Fund which GSMB is required to set aside annually amounts to approximately RMB4.33 million (equivalent to approximately HK$4.25 million). If the Lease Termination does not proceed eventually, the continuing commitment of GSMB to pay rental and set aside Reserve Fund from 1 November 2006 up to 29 November 2020 under the Lease Agreement would in aggregate amount to approximately RMB352.4 million (equivalent to approximately HK$345.5 million).

Based on the historical manufacturing costs incurred by GSMB in 2005, the toll-processing fees to be charged by SMGB, prepared with reference to GSMB's historical production costs in 2005 and the eight months ended 31 August 2006, and the Company's current projections of production volume and costs for the year ending 31 December 2007, prepared with reference to GSMB's historical production volume and costs in 2005 and the eight months ended 31 August 2006, the Company estimates that the toll-processing manufacturing model to be adopted by GSMB following the Lease Termination and the Asset Sale would achieve annual cost savings in the region of approximately RMB28 million (equivalent to approximately HK$27 million) and would bring about a positive effect on the Group's earnings and net assets in the long run. Although the Group will record an estimated total one-off loss of approximately RMB160.04 million (equivalent to approximately HK$156.90 million) as a result of the Lease Termination and the Asset Sale, the Directors consider that such one-off loss can be justified by the cost savings in the long run.

Based on such cost-benefit review performed by the Company, the Directors consider that the Termination Agreement will provide considerable cost savings in the future operation of GSMB and will strengthen the Group's idea of re-development of the sales and distribution network in the PRC market. The Directors consider that the terms of the Termination Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon the Lease Termination becoming effective, GSMB will cease to have its own manufacturing operations but will continue to be engaged in the sale and distribution of beer. GSMB will have to source beer products from other manufacturers. Subject to completion of the Termination Agreement, GSMB will principally utilise the toll-processing services of SMGB, a subsidiary of the Company, which is located in the Guangdong Province and principally engaged in the manufacture and sale of beer products. The Company has been expanding the brewery facilities of SMGB in 2006. The Directors consider that SMGB has the necessary expertise to fulfil the manufacturing requirements of GSMB in respect of the beer products. The Directors consider that it is in the interests of the Company for GSMB to utilise the toll-processing services provided by SMGB and other independent manufacturers after the Lease Termination.

GENERAL

Based on the considerations relating to the Lease Termination and the Asset Sale, the respective applicable percentage ratios under the Listing Rules will not be less than 5% but will not be 25% or more. The Lease Termination and the Asset Sale constitute a discloseable transaction under Chapter 14 of the Listing Rules.

GB is a substantial shareholder of GSMB and GSMB is a subsidiary of the Company. Accordingly, GB is a connected person of the Company for the purposes of the Listing Rules. Based on the considerations relating to the Lease Termination and the Asset Sale, the respective applicable percentage ratios under the Listing Rules will not be less than 2.5%. The Lease Termination and the Asset Sale constitute a connected transaction under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, GB and its ultimate beneficial owner and their respective associates do not hold any shareholding interests in and do not have any relationship with SMC or any of its associates (including the Company and Neptunia), and are third parties independent of and not connected with the Company and the directors, chief executive and substantial shareholders of the Company or its subsidiaries or any of their respective associates, save for GB's interest in GSMB and the relevant agreements between GB and SMC's subsidiaries (including GSMB) mentioned in this circular. No Shareholder is required to abstain from voting if the Company were to convene an extraordinary general meeting for the approval of the Termination Agreement. Moreover, the Company has obtained a written approval from Neptunia, which controls 245,720,800 Shares representing approximately 65.78% of the issued share capital of the Company, in respect of the Termination Agreement and the transactions contemplated thereunder. The Company has obtained from the Stock Exchange a waiver from strict compliance with the requirement to hold a Shareholders' meeting.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 12 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders concerning the Termination Agreement and (ii) the letter from CIMB-GK set out on pages 13 to 19 of this circular which contains the recommendation from CIMB-GK to the Independent Board Committee and the Independent Shareholders in relation to the Termination Agreement and the principal factors considered by CIMB-GK in arriving at its recommendation.

Having taken into account the advice from CIMB-GK and in particular the principal factors set out in the letter from CIMB-GK, the Independent Board Committee considers that the entering into of the Termination Agreement is and the transactions contemplated thereunder are the interests of the Company and the Shareholders as a whole and that the terms of the Termination Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Your attention is drawn to the letter from the Independent Board Committee, the letter from CIMB-GK, the valuation reports from LCH set out in Appendices I and II and the general information set out in Appendix III to this circular.

By order of the Board
San Miguel Brewery Hong Kong Limited
Chong Yoon Fatt
Managing Director

SAN MIGUEL BREWERY HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 236)

23 October 2006

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular dated 23 October 2006 issued to the Shareholders (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you in respect of the Termination Agreement. CIMB-GK has been appointed as the independent financial adviser to advise us in respect of the terms of the Termination Agreement.

Having taken into account the advice from CIMB-GK and in particular the principal factors set out in the letter from CIMB-GK, we consider that the entering into of the Termination Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and that the terms of the Termination Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

We also draw attention of the Independent Shareholders to the letter from the Board, the letter from CIMB-GK and the appendices to the Circular.

Yours faithfully,

Dr. The Hon. Sir David K.P. Li **Mr. Ng Wai Sun** **Mr. Ian F. Wade**

Independent Board Committee

The following is the letter of advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

CIMB

CIMB-GK Securities (HK) Limited

25/F Central Tower
28 Queen's Road Central
Hong Kong

23 October 2006

To the Independent Board Committee and the Independent Shareholders of San Miguel Brewery Hong Kong Ltd.

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Termination Agreement. Details of the terms of the Termination Agreement are set out in the letter from the Board as contained in the circular of the Company to the Shareholder dated 23 October 2006 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 29 September 2006, GSMB and GB entered into a Termination Agreement in respect of the Lease Termination and the Asset Sale. The Lease Termination and the Asset Sale constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Since GB is a substantial shareholder of GSMB and GSMB is a subsidiary of the Company, GB is a connected person of the Company for the purposes of the Listing Rules. Accordingly, the Lease Termination and the Asset Sale also constitute a connected transaction for the Company under the Listing Rules and, based on the relevant percentage ratios, are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has obtained a written approval from Neptunia, which controls approximately 65.78% of the issued share capital of the Company, in respect of the Termination Agreement and the transactions contemplated thereunder. Accordingly, the Company has been granted a dispensation from the Stock Exchange for holding a physical Shareholders' meeting.

BASIS OF ADVICE

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the dispatch of the Circular. We consider that we have reviewed sufficient information and documents to satisfy ourselves that we have a reasonable basis to assess the fairness and reasonableness of the terms of the Termination Agreement in order to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or GB or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion on the terms of the Termination Agreement, we have taken into consideration the following principal factors and reasons:

Background and rationale

The Group is principally engaged in the manufacture and distribution of bottled, canned and draught beers. GSMB is a 70% subsidiary of San Miguel Guangdong jointly established with GB in November 1990 to engage in the manufacture and sale of beer products in the Guangdong and Hainan Provinces, the PRC. The Lease Agreement was entered into between GSMB and GB at that time to govern the leasing by GSMB from GB of the factory buildings, brewery equipment and related facilities for production purposes.

As stated in the Company's 2005 annual report, the Directors noted the intense competition, mainly as a result of the increase in number of multi-brand drinkers and increase in production capacity of breweries and tough margin pressures prevailing in the PRC beer market. We understand from the Company that GSMB, being no exception, has been facing with such intense competition in recent years. Based on the financial statements of GSMB provided by the Company, we note that save for an audited net profit prepared under Hong Kong GAAP of approximately RMB2.56 million recorded in 2004, GSMB recorded an audited net loss prepared under Hong Kong GAAP of approximately RMB30.7 million (before taking account of the impairment loss) in 2005 and an unaudited net loss prepared under Hong Kong GAAP of approximately RMB24.4 million for the six months ended 30 June 2006. The Directors advise that based on the current market conditions and in the absence of the Termination Agreement, they do not envisage material improvement in GSMB's performance in the near future.

In light of these market conditions and the performance of GSMB, the Company has started to perform a review analysis (the "Analysis") on GSMB's operations since late 2005 with an aim to reduce costs, achieve more cost-efficient production set up so as to improve the Group's overall competitiveness in the PRC beer market in the long term. As disclosed in the Letter from the Board, based on the historical manufacturing costs incurred by GSMB in 2005, the outsourcing production fees payable under the toll-processing services to be provided by SMGB, prepared with reference to GSMB's historical production costs in 2005 and the eight months ended 31 August 2006 and the Company's projected production volume and costs for the year ending 31 December 2007, prepared with reference to GSMB's historical production volume and costs in 2005 and the eight months ended 31 August 2006, the Company expects that by effecting the Lease Termination and to adopt the toll-processing manufacturing model upon the Lease Termination becoming effective, GSMB estimates to achieve an annual savings of approximately RMB28 million (equivalent to approximately HK$27 million).

We note that on 28 December 2005, GSMB entered into the non-legally binding MOU with GB to effect the early termination of the Lease Agreement. The Termination Agreement is to formalize the MOU and to effect the Lease Termination. Following completion of the Termination Agreement, GSMB will cease to engage in beer production and will outsource its production activities in order to redirect its focus and resources on the sale and distribution of beer products in the PRC beer market, which is crucial for the future performance of GSMB in the highly competitive PRC beer market. We note that subject to audit of the Group's relevant financial statements, the Group will record an estimated total one-off loss (the "One-off Loss") of approximately RMB160.04 million (equivalent to approximately HK$156.90 million) as a result of the Termination Agreement. The One-off

Loss principally comprises the charges and penalties payable as a result of the early termination of the Lease Agreement, the loss on the Asset Sale and the severance payment obligations relating to the lay off of all its production and related staff. Further details of the One-off Loss is set out in the sub-section headed "One-off Loss" below.

We note that in performing the Analysis, the Directors have compared the One-off Loss against (i) GSMB's savings in the annual fixed production costs (payable under the Lease Agreement); (ii) GSMB's savings in the production overhead costs following completion of the Termination Agreement; and (iii) the additional outsourcing costs and the incremental increase in the delivery costs to be incurred by GSMB to outsource its production under the toll-processing model following the Lease Termination. Based on the estimated annual cost savings as indicated under the Analysis, the Directors believe that the One-off Loss is justifiable in the long run, and that it is in the interests of the Company and the Shareholders as a whole to effect the Lease Termination.

We have discussed with the management of the Group and have reviewed the following bases and assumptions adopted by the Directors in preparing the Analysis.

One-off Loss

The estimated One-off Loss comprises the following items:

Nature of loss/payment	**Amount** *(RMB in million)*
Loss arises under the Termination Agreement:	
(i) the charges and penalties to be payable by GSMB to GB as a result of the early termination of the Lease Agreement	32.20
(ii) loss on the Asset Sale	73.37
Consequential expenses arise as a result of entering into the Termination Agreement:	
(iii) principally comprises GSMB's severance payment obligations relating to the lay off of all of its production and related employees	54.47
Total:	160.04

We note that the charges and penalties payable under item (i) have been determined with reference to the existing terms of the Lease Agreement and after arm's length negotiations (as the case maybe). Further analysis on item (i) is set out in the sub-paragraph headed "Lease Termination" below. As for item (ii), the loss on the Asset Sale principally represents the difference between the consideration payable for the Production Assets and the unaudited net book value of the Production Assets as at 31 August 2006 prepared under Hong Kong GAAP and the estimated additional depreciation to be charged to the Production Assets up to 31 October 2006. We note that the consideration payable for the Production Assets is comparable to the Valuation (as defined below). Further analysis of the loss on Asset Sale is set out in sub-paragraph headed "Asset Sale" below. As for item (iii), the severance payment obligations are not governed by the Termination Agreement but is payable in accordance with the applicable PRC rules and regulations. We have reviewed the bases and computation of such severance payment and have discussed with and advised by the management of the Group that the computation of severance payment is in accordance with the relevant PRC laws and regulations. We further note that approximately half of the One-off Loss is non-cash item including the loss on the Asset

Sale (approximately RMB73.37 million) and the forfeiture of security deposit with accrued interest paid to GB (approximately RMB6.12 million), which will not require actual cash outflow from the Group.

Savings in the fixed production costs

We note that this estimation principally comprises savings from the annual factory rental of RMB20.70 million and the annual contribution to the Reserve Fund of RMB4.33 million, which are required to be payable by GSMB under the Lease Agreement. Upon the Lease Termination becoming effective, GSMB will no longer be required to pay this amount.

Savings in the production overhead costs

We note that this estimated savings principally comprises savings in labour costs following the lay-off of all of GSMB's production staff, and savings in the logistics overhead costs. We note that GSMB computed such estimated annual savings amount based on the historical production overhead costs incurred in 2005, 2006 and the relevant budgeted expenses to be incurred in 2007 (assuming the Lease Termination becoming effective).

Additional outsourcing costs and incremental increase in the delivery costs

Upon the Lease Termination becoming effective, GSMB will cease to have its production operations and will principally utilize the toll-processing services of SMGB. We note that GSMB estimated the additional outsourcing costs together with the incremental increase in the delivery costs based on the relevant historical costs incurred in 2005 and 2006; and the relevant budgeted expenses to be incurred in 2007 (assuming the Lease Termination becoming effective).

Views

Having taken into account the historical performance of GSMB in recent years, particularly the losses incurred for the year ended 31 December 2005 and the six months ended 30 June 2006, our review on the bases of the Analysis set out above, and the continuing lease commitment of GSMB payable under the remaining term of the Lease Agreement till November 2020 (in the absence of the Lease Termination), we concur with the views of the Directors that by entering into the Termination Agreement, GSMB could achieve long term cost savings in its future operation, and enable it to be more focused on the sale, distribution and marketing of beer products in the PRC market. Accordingly, we consider the Termination Agreement is in the interests of the Company and its Shareholders as a whole.

Terms of the Termination Agreement

Lease Termination

The following table sets out the principal terms under the Lease Termination.

Nature of payment	**Amount** *(RMB in million)*
(i) forfeiture of the security deposit with interest (up to 31 October 2006)	6.12
(ii) penalty for early termination of the Lease Agreement	6.34
(iii) repair and maintenance costs of the leased assets	9.39
(iv) gratuity payment for transitional period	10.35
Total:	32.20

As for items (i) and (ii), we note that the amount has been determined in accordance with the existing provisions of the Lease Agreement.

As for item (iii), we note that the amount has been determined after arm's length negotiations between the parties in accordance with the terms of the Lease Agreement. This amount comprises a) the amount to be payable by GSMB in discharging its obligations under the Lease Agreement to repair and maintain the leased assets in order to keep the lease assets in normal working condition; and b) the book value (equivalent to the replacement value) of certain of the leased assets which are incapable of being restored to normal working condition. We have been advised by the Directors and noted that in arriving at such repair and maintenance costs, GSMB has assigned appropriate staff to conduct examination on the relevant leased assets so as to assess their working condition, and conducted negotiations with the staff of GB relating to the estimated repair and maintenance costs (including market prices of the repair parts and standard labour costs in the PRC).

As for item (iv), we note that the amount has been determined based on arm's length negotiations between the parties with reference to the estimated time GB may require to restore the factory to full-scale operation after the handover of the factory and assets following completion of the Termination Agreement. Such amount is equivalent to six months' rental under the Lease Agreement. We have discussed with the management of the Company and understand that based on their experience and estimation, the Directors consider the six months transitional period required by GB to restore the factory to full-scale operation after the handover of the factory and assets following completion of the Termination Agreement is fair and reasonable.

Asset Sale

In addition to the Lease Termination, GSMB will also sell its Production Assets to GB for a consideration of approximately RMB37.29 million (equivalent to approximately HK$36.56 million) which comprises buildings and structures of approximately RMB12.24 million (equivalent to approximately HK$12.00 million) and plant and machinery of approximately RMB25.05 million (equivalent to approximately HK$24.56 million). The consideration was determined based on arm's length negotiations between the parties with reference to the unaudited net book value of the Production Assets of approximately RMB34.85 million (equivalent to approximately HK$34.17 million) as shown in GSMB's accounts as at 31 August 2006 prepared under the PRC GAAP.

We note that according to the unaudited management accounts of GSMB as at 31 August 2006 prepared under Hong Kong GAAP, the net book value of the Production Assets amounted to approximately RMB110.90 million (equivalent to approximately HK$108.73 million). As noted from the Letter from the Board of the Circular, the difference between the unaudited net book value of the Production Assets as at 31 August 2006 prepared under the PRC GAAP and HK GAAP is principally due to the higher depreciation rates charged to the Production Assets under the PRC GAAP. Accordingly, the loss on the Asset Sale principally represents the difference between the consideration amount and the unaudited net book value of the Production Asset as at 31 August 2006 prepared under Hong Kong GAAP and the estimated additional depreciation to be charged to the Production Assets up to 31 October 2006.

Notwithstanding the loss on the Asset Sale, we note that consideration payable under the Asset Sale represents a discount of approximately 1% to the independent valuation (the "Valuation") of the Production Assets as at 31 August 2006 of approximately RMB37.49 million (equivalent to approximately HK$36.75 million) as prepared by the independent professional valuer (the "Valuer") in Hong Kong. We have discussed with the Valuer as to their valuation methodologies and the principal bases and assumptions in arriving at the Valuation. The Valuer has adopted i) the depreciated replacement cost approach in arriving at the value in use for the buildings and structures at RMB12.20 million (equivalent to approximately HK$11.96 million), and ii) the cost approach in arriving at the fair market values in continued use for the plant and machinery items of approximately RMB25.29 million (equivalent to approximately HK$24.79 million). We understand from the Valuer that the depreciated replacement cost approach is commonly used in the valuation of buildings and structures whilst the cost approach is also an appropriate method in arriving at the fair market values in continued use for the plant and machinery items of the Production Assets.

Payment and settlement

Under the Termination Agreement, the handover by GSMB to GB of the factory and Production Assets following completion of the Termination Agreement will take place as from 31 October 2006 and is required to be completed within three days. GSMB shall surrender possession of and vacate certain administrative offices in the factory site no later than 31 January 2007. GB agreed to waive the rental payment for the lease of such offices during the transitional period after 31 October 2006 up to 31 January 2007. GB will have to settle the outstanding balance of its current account with GSMB and in this respect will have to pay GSMB a sum of approximately RMB2.24 million (equivalent to approximately HK$2.20 million) up to 31 August 2006.

Furthermore, pursuant to the Termination Agreement, GSMB will set off its payment obligations against the consideration receivable from GB as follows:

Nature of payment	**Amount** *(RMB in million)*
Payment to GB (note):	
– penalty for early termination of the Lease Agreement	6.34
– repair and maintenance costs of the leased assets	9.39
– gratuity payment for transitional period	10.35
– factory lease rental for the month of October 2006	1.73
– Reserve Fund payable up to 31 October 2006	58.98
	86.79
Less:	
Consideration from GB:	
– consideration for the Asset Sale	(37.29)
– current account balance as of 31 August 2006	(2.24)
	(39.53)
Net payment due to GB *(note):*	47.26

Note: This involves the actual cash outflow from GSMB, which excludes the forfeiture of the security deposits and accrued interests up to 31 October 2006 of approximately RMB6.12 million.

The first instalment of RMB10.00 million (equivalent to approximately HK$9.80 million) will be paid on 30 November 2006, whilst the second instalment of approximately RMB37.26 million (equivalent to approximately HK$36.53 million) will be paid on 15 January 2007.

Pursuant to the Termination Agreement, if the handover by GSMB to GB of the factory and assets does not take place on 31 October 2006 due to delay in obtaining all the approvals, a new handover date will be determined and agreed by both parties, and GSMB shall have to continue paying GB factory rental and to make contribution to the Reserve Fund for an amount of RMB57,500 and RMB11,856 per day of delay, respectively. We note that such daily factory rental and daily contribution to the Reserve Fund in the case of delayed handover is equivalent to the relevant rates and contribution payable by GSMB under the Lease Agreement calculated on a daily basis.

Views

Having considered the principal factors and reasons as discussed above, we consider that the terms of the Termination Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Estimated financial effects

Profit and loss account

As a result of the Termination Agreement, the Company will record a One-off Loss of RMB160.04 million. Of which, approximately RMB65.87 million had been recorded in the Company's 2005 annual report, and the estimated balance of approximately RMB94.17 million before deferred taxation and minority interest will be recorded as a one-off charge in the Group's financial statements for the year ending 31 December 2006, subject to audit. The One-off Loss of approximately RMB54.8 million after deferred taxation and minority interest (subject to audit) will decrease the Group's earnings for the year ending 31 December 2006. Based on the Analysis preformed by the Company and our review thereon as set out in the paragraph headed "Background and rationale" above, we concur with the views of the Directors that the estimated annual cost savings to be arisen from the Termination Agreement would have a positive impact on the performance of GSMB, hence the performance of the Group in future.

Net asset value

Based on the latest published interim report of the Group, the unaudited net asset value of the Group amounted to approximately HK$1,991.6 million as at 30 June 2006. As aforesaid, given that the Group will record the estimated balance of the One-off Loss, after deduction of minority interest and related deferred tax impact in the Company's accounts for the year ending 31 December 2006 of approximately RMB54.8 million, the net asset value of the Group will decrease as a result thereof.

Working capital

As stated in the section headed "Payment and settlement" above, the net cash outflow under the Termination Agreement amounts to approximately RMB47.26 million (equivalent to HK$46.3 million, which represents approximately 11.39% of the Group's total cash and bank balances of the Group as at 30 June 2006 of approximately HK$406.91 million. Furthermore, given the estimated annual cost savings to be achieved by the Group following completion of the Termination Agreement, the Directors consider and we concur that the Termination Agreement would not have a material adverse impact on the working capital position of the Group in future.

RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the Termination Agreement is in the interests of the Company and the Shareholders as a whole and that the terms thereof are fair and reasonable so far as the Company and Independent Shareholders are concerned.

Yours faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited
Alex Lau **Flavia Hung**
Executive Vice President *Senior Vice President*

The following is the text of the letter and valuation certificate on the buildings and structures of the Production Assets as at 31 August 2006 prepared by LCH for the purpose of inclusion in this circular.

利 駿 行 測 量 師 有 限 公 司
L C H (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the HKIS Valuation Standards on Properties, First Edition, 2005 ("HKIS Standards") published by the Hong Kong Institute of Surveyors (the "HKIS") which entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer.

27th Floor
Li Dong Building
No. 9 Li Yuen Street East
Central
Hong Kong

23 October 2006

The Directors
San Miguel Brewery Hong Kong Limited
9th Floor, Citimark Building
No. 28 Yuen Shun Circuit
Siu Lek Yuen, Shatin
New Territories
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of San Miguel Brewery Hong Kong Limited (hereinafter referred to as the "Company") to us to value certain designated buildings and structures (hereinafter referred to as "Subject Property") erected on a parcel of land and currently occupied by Guangzhou San Miguel Brewery Company Limited (hereinafter referred to as the "JV") and located in Guangzhou, Guangdong Province of the People's Republic of China (hereinafter referred to as the "PRC" or "China"), we confirm that we have inspected the Subject Property, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value of the Subject Property as at 31 August 2006 (hereinafter referred to as the "date of valuation") for the Company's internal management reference purpose. Our findings and conclusion in this valuation are documented in a valuation report and submitted to the Company at today's date.

At the request of the management of the Company, we prepared this summary report (including this letter and valuation certificate) to summarise our findings and conclusion as documented in the valuation report for the purpose of inclusion in this circular at today's date for the Company's shareholders' reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also apply to this report.

We understand that the use of our work product (regardless of form of presentation) would form part of the Company's business due diligence on the Subject Property and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which a rational investor should conduct in reaching business decisions regarding the Subject Property. Our work is designed solely to provide information that will allow the management of Company to make an informed view.

We further understand that the JV is a sino-foreign joint venture company formed between San Miguel (Guangdong) Limited, a 92.989% subsidiary of the Company, and Guangzhou Brewery, the Chinese partner of the JV. San Miguel (Guangdong) Limited has 70 per cent. equity interest while Guangzhou Brewery has 30 per cent. equity interest of the JV. The Subject Property is considered as "New Expenses" as defined in a factory lease agreement annexed to a joint-venture contract dated 3 November 1990 and made between the JV and Guangzhou Brewery. According to the joint-venture contract, the JV would last for a term of 30 years from the date of issuance of an Enterprise Legal Person Business Licence. The aforesaid Enterprise Legal Person Business Licence was granted out on 29 November 1990 with an operation period commencing from 29 November 1990 to 29 November 2020 i.e. a term of 30 years.

Basis of Valuation

In accordance with the International Valuation Standards (hereinafter referred to as "IVS"), Seventh Edition, 2005 published by the International Valuation Standards Committee, which the HKIS Standards also follows, there are two bases of valuation, namely market value basis and bases other than market value (i.e. the non-market value basis). Having considered the inherent characteristics of the Subject Property valued, our valuation of the Subject Property is on non-market value basis.

The term "Market Value" is defined by the IVS as well as the HKIS Standards as:

> "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Generally speaking, we would only assign commercial (or market) value to property interests absolutely held by the legally interested party in the property. In other words, the JV must have free and uninterrupted rights to assign, to mortgage and to let the property interests i.e. an absolute title for the whole of the unexpired term as granted and any premiums payable have already been paid in full. Should this not be the case as at the date of valuation, no commercial (or market) value will be assigned to the particular property for it is difficult for us to estimate the actual disposal cost and to deduct it from the valuation to arrive at the market value. However, a property without commercial (or market) value does not necessarily mean without a value in use to the owner. Since the JV did not possess any long term title certificate, or the like, of the Subject Property as at the date of valuation, thus, for the sake of the Company's shareholders' reference, a value in use to the JV is given on the Subject Property.

Our valuation of the Subject Property is our opinion of its value in use to the Company, at its existing state and on continued use basis, and is classified as a non-market value basis of valuation. According to the IVS, the term "Value in Use" is defined as "the value a specific property has for a specific use to a specific user and therefore non-market related. This value type focuses on the value that specific property contributes to the entity of which it is a part, without regard to the property's highest and best use or the monetary amount that might be realised upon its sales".

We need to state that our opinion of value of the Subject Property is not necessarily intended to represent the amount that might be realised from disposition of the land use rights or various buildings of the Subject Property on piecemeal basis in the open market.

Having considered the general and inherent characteristics of the Subject Property, we have adopted the depreciated replacement cost, which is an application of the Cost Approach, in valuing the Subject Property. The value of the Subject Property is assessed by its net replacement cost as at the date of valuation. This net replacement cost equals to the then gross replacement cost less depreciation to reflect physical deterioration and all relevant forms of obsolescence. The gross replacement cost of the buildings and structures should take into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the date of valuation, fit for and capable of being occupied and used for the current use. These costs are not to be estimated to erect buildings in the future but to have the buildings available for occupation at the date of valuation, the work having commenced at the appropriate time.

The valuation of the Subject Property is on the assumption that the Subject Property is subject to the test of adequate potential profitability of the business having due regard to the value of the total assets employed and the nature of the operation.

Matters that Might Affect the Value Reported

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Subject Property. Unless otherwise stated, it is assumed that the Subject Property is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

We are unable to identify any adverse news against the Subject Property which may affect the reported value in our work product as at the Latest Practicable Date of this circular. Thus, we are not in the position to report and comment on its impact (if any) to the Subject Property. However, should it be established subsequently that such news did exist at the date of valuation, we reserve the right to adjust the value reported herein.

Establishment of Titles

Due to the purpose of this engagement, the management of the Company is requested to provide us the necessary title documents to support that the legally interested party in the Subject Property was the JV as at the date of valuation. We are given to understand that the legally interested party in the land where the Subject Property is erected on is Guangzhou Brewery, and the land was occupied by the JV under a lease agreement. No title document regarding the land and the Subject Property is available. However, the inherent defects in the land registration system of China forbid us to inspect the original documents from the relevant land registration departments to verify the existing titles of the Subject Property or any material encumbrances that might be attached to the Subject Property. We are not attorney by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Subject Property. In the course of valuation, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and relied solely on the copy of the PRC legal opinion as provided by the Company with regard to the titles in the Subject Property as disclosed in this report and in our detailed valuation report. We are given to understand that the PRC legal opinion was prepared by the JV's PRC legal adviser, 廣州金鵬律師事務所 (translated as Kingpound Law Partnership), a qualified PRC legal adviser. No responsibility or liability is assumed in relation to those legal opinions.

Inspections and Investigations of the Subject Property in Accordance with VS 4 of the HKIS Standards

We have inspected the exterior, and where possible, the interior of the Subject Property, in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the Subject Property which were covered, unexposed, not being arranged or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of the Subject Property and our work product should not be taken as making any implied representation or statement about the condition of the Subject Property. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the Subject Property inspected. We are not, however, able to report that the Subject Property is free from rot, infestation or any other structural defects. No tests were carried out on the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the Subject Property, and that the inspection and the use of this work product do not purport to be a building survey of the Subject Property. If the management of the Company wants to satisfy themselves as to the condition of the Subject Property, then the management of the Company should obtain a surveyor's detailed inspection report of their own.

We have not carried out on-site measurements to verify the correctness of the areas of the Subject Property, but have assumed that the areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the Subject Property did not include an independent land survey to verify the legal boundaries and the exact location of the Subject Property. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries and locations of the Subject Property that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the Subject Property should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Subject Property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the Subject Property. We have not carried out any investigation into past or present uses, either of the Subject Property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Subject Property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Subject Property or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

Sources of Information and its Verification in Accordance with VS 5 of the HKIS Standards

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

The scope of valuation has been determined by reference to the property list provided by the management of the Company. All buildings and structures on the list have been included in our valuation. The management of the JV has confirmed to us that there are no buildings and structures which are included in the Asset Sales (as defined in this circular) other than those specified on the list supplied to us.

Our valuation has been made based solely on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility and liability is assumed.

To the best of our knowledge, all data set forth in our work product is true and accurate. Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and/or the management of the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applies in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Company of material and latent facts that may affect the valuation.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("RMB").

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Limiting Conditions of This Summary Report

Our opinion of value of the Subject Property in this report is valid only for the stated purpose and only for the date of valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise the attached valuation certificate to reflect events or conditions, which occur or are made known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this circular to the Company's shareholders.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of our services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against by the Company, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence or fault of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

Statements

Our report is prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in the HKIS Standards. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of this summary report and the detailed valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date of this report and will be destroyed thereafter. We consider these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The valuation of the Subject Property depends solely on the assumptions made in our work product and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present nor prospective interest in the Subject Property, the Company and its subsidiaries, Guangzhou Brewery, the JV or the value reported.

The valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi
B.Sc. PG Dip RPS (GP)
Managing Director

Elsa Ng Hung Mui
B.Sc. M.Sc. RPS (GP)
Associate Director

Contributing valuer
Terry Fung Chi Hang BSc

Notes:

1. Mr. Joseph Ho Chin Choi has been conducting assets valuation (including real estate properties) and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Finland, Germany, Guyana, Canada and the United States of America for various purposes since 1988. He has more than 18 years of experience in valuing real estate properties in mainland China.

2. Ms. Elsa Ng Hung Mui is a Registered Professional Surveyor who has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 8 years of experience in valuing properties in mainland China.

3. Both Mr. Joseph Ho Chin Choi and Ms. Elsa Ng Hung Mui are valuers on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

VALUATION CERTIFICATE

Property occupied by the JV in the PRC and valued on non-market value basis

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state as at 31 August 2006 *RMB*
Designated buildings and structures erected on a parcel of land located at No. 63 Xizeng Road Xicun Liwan District Guangzhou Guangdong Province The People's Republic of China	The property comprises 3 various buildings and structures which include the whole of the 2nd Floor of a 2-storey building, a 3-storey high speed bottle line workshop and a 2-storey sewage treatment plant, and a foundation structure having a total gross floor area of approximately 8,726 sq.m. *(see Note 3 below)* The buildings and structures were completed in between 1994 and 1996. According to the information made available to us, the property is erected on a parcel of land which is subject to a lease agreement till 29 November 2020. *(see Note 1 below)*	The property is currently occupied by the JV for manufacturing, office, and supporting facilities purposes.	12,200,000 (100 per cent.) *(see Note 5 below)*

Notes:

1. According to a joint venture contract dated 3 November 1990 and made between Guangzhou Brewery and San Miguel (Guangdong) Limited, and the factory lease agreement annexed to the contract and made between Guangzhou Brewery and Guangzhou San Miguel Brewery Company Limited (hereinafter referred as to the "JV") and subsequent supplementary agreements, the land of the property together with certain designated fixed assets (including manufacturing machinery and equipment, and buildings and structures) were leased to the JV for a term till 29 November 2020. According to the information made available to us, the current annual rental is approximately RMB20.7 million.

2. According to an Enterprise Legal Person Business Licence, the JV is a sino-foreign joint venture established in the PRC with a valid Enterprise Legal Person Business Licence for operation from 29 November 1990 to 29 November 2020.

3. According to the information made available to us, the area breakdowns of each building and structure of the property are as follows:

		Gross Floor Area *(sq.m.)*
(i)	The whole of the 2nd Floor (office floor) of a 2-storey building	400
(ii)	A 3-storey high speed bottle line workshop	6,180
(iii)	A 2-storey sewage treatment plant	2,146
(iv)	The foundation of 8 various equipments	

4. According to the legal opinion as prepared by the Company's PRC legal adviser, Kingpound Law Partnership, the following opinions are noted:

   (i) The JV is a sino-foreign joint venture established in the PRC with a valid Enterprise Legal Person Business Licence for operation from 29 November 1990 to 29 November 2020;

   (ii) according to a State-owned Land Grant Contract made between Guangzhou Brewery and the Land Bureau of Guangzhou City on 6 August 1993, the land use rights of a parcel of land having a site area of 5,137 sq.m. was granted to Guangzhou Brewery for a term of 50 years for industrial purpose at a consideration of RMB 852,742;

   (iii) the consideration as mentioned in Note 4(ii) above has been fully paid and there is no legal impediment for Guangzhou Brewery to obtain the State-owned Land Use Rights Certificate of the property;

   (iv) although Guangzhou Brewery has not obtained the State-owned Land Use Rights Certificate of the property, Guangzhou Brewery is the only legally interested party in the land of the property and has the right to lease the land of the property and the buildings legally erected thereon to others; and

   (v) the JV is allowed to erect various buildings and structures (i.e. the property) on the land. Since the JV provided the capital for the erection of these buildings and structures, it has the absolute right to assign these buildings and structures legally.

5. According to the Listing Rules published by The Stock Exchange of Hong Kong Limited, property in China is required to have a transferable long term title certificate, i.e. State-owned Land Use Rights Certificate or Realty Title Certificate, before the valuer can assign any commercial value to the property. Since the JV did not possess any long term title certificate, or the like, of the property as at the date of valuation, thus the value in use to the JV is given on the property for the Company's shareholders' reference.

The following is the summary valuation report on the plant and machinery of the Production Assets as at 31 August 2006 prepared by LCH for the purpose of inclusion in this circular.

利駿行測量師有限公司
L C H (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with internationally accepted plant and machinery valuation standards and entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer.

27th Floor
Li Dong Building
No. 9 Li Yuen Street East
Central
Hong Kong

23 October 2006

The Directors
San Miguel Brewery Hong Kong Limited
9th Floor, Citimark Building
No. 28 Yuen Shun Circuit
Siu Lek Yuen, Shatin
New Territories
Hong Kong

Dear Sirs,

1. INSTRUCTIONS

With reference to your instructions to value certain designated plant and machinery ("subject plant and machinery") presented to us as those held by **Guangzhou San Miguel Brewery Company Limited** (the "JV"), we confirm that we have carried out inspections, made relevant inquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of their fair market value in continued use as at **31 August 2006** ("relevant valuation date").

We understand that this summary valuation report is required by San Miguel Brewery Hong Kong Limited (the "Company") for incorporation in this public circular and for the reference of the Company's shareholders.

This summary valuation report forms part of our detailed valuation report dated 23 October 2006 which comprises the following:

- A narrative section which identifies the subject plant and machinery, the scope and character of our investigation; the premise of the value adopted; the valuation process employed and the opinion of the value (as disclosed in this circular);

- Annex I showing a list of the subject plant and machinery with brief description and the appraised value for each item or group of items;

- Annex II showing General Assumptions and Limiting Conditions that apply to this valuation; and

- Annex III showing a certification from the professionals involved in the valuation.

The detailed valuation report, together with all the items in the above bullet points, will form part of the documents available for inspection as disclosed in this circular.

2. DESCRIPTION OF THE SUBJECT PLANT AND MACHINERY

We understand that the JV is renting the production facilities of Guangzhou Brewery according to a factory lease agreement till 29 November 2020 and is now considering an early termination of the factory lease.

The subject plant and machinery, considered as "New Expenses" as defined in the factory lease agreement, form part of the capital investments made by the JV between commencement of the factory lease to the relevant valuation date to increase production volume, maintain consistent and improved product quality, improve plant efficiency and equipment replacements to the rented brewery.

The items valued were taken from the "New Expenses" asset list provided to us by the Company prior to the commencement of our valuation which comprise cleaning-in-place ("CIP") equipment for various production sections, chillers and heat exchangers for the filtration section, bright beer tanks, a complete bottling line, keg filling machines, a complete waste water treatment plant, electricity generators, additional equipment to increase the capacity of the carbon dioxide recovery plant and refrigeration system, forklifts for the handling of materials and products and various laboratory equipment.

Items acquired by the JV as replacement to the equipment rented from Guangzhou Brewery that had broken down or were inefficient comprise components like empty bottle testers, a tray packer for the canning line, test equipment, various air conditioners, fans and blowers and cargo elevators for the warehouse.

The subject plant and machinery were acquired by the JV between 1990 and the relevant valuation date.

3. LOCATION

The subject plant and machinery are located at 63 Xizeng Road, Xicun, Liwan District, Guangzhou, Guangdong Province, the People's Republic of China (the "PRC" or "China").

4. EXCLUSIONS

This valuation is limited to the subject plant and machinery described above and was based on the list provided to us by the Company. Other assets like rented plant and machinery and types of inventories, materials on hand, all other tangible assets that are current in nature and intangible assets that might exist have been excluded.

5. BASIS OF VALUATION

Based on our understanding that this valuation is required by the Company for their reference in connection with their planned early termination of the factory lease and continued use of the subject plant and machinery under a separate arrangement, we have adopted fair market value in continued use as the basis of our valuation.

Fair market value in continued use is defined by the American Society of Appraisers ("ASA") as:

> "the estimated amount in terms of money that may be reasonably expected for assets in exchange between a willing buyer and a willing seller with equity to both, neither being under any compulsion to sell or buy, both fully aware of all relevant facts and including installation, as of an appraisal date, and assuming that the earnings support the value reported."

Under the premise of continued use, the opinion of fair market value assumes operation of the subject plant and machinery in its present location for continuation of the existing business.

This opinion of value is not related to the earning capacity of the business. It assumes that prospective earnings would provide a reasonable return to the assets valued, plus the value of other assets not included in this valuation and adequate working capital.

6. VALUATION METHODOLOGY

There are three generally accepted approaches to value, namely:

6.1 The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, installation, commissioning and consultants' fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age and functional and economic/external obsolescence.

6.2 The Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

6.3 The Income Approach

The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to investment properties, general-use properties where there is an established and identifiable rental market or to an aggregation of assets in an entire business enterprise including working capital and tangible and intangible assets.

In all situations, all approaches to value must be considered, as one or more may be applicable to the subject plant and machinery. In some situations, elements of the three approaches may be combined to reach a value conclusion. However, the relative strength, applicability, and significance of the approaches and their resulting values must be analyzed and reconciled.

7. VALUATION ANALYSIS

In the absence of any market information in the PRC regarding sales and purchases of similar assets and the complex procedure required in segregating the income stream derived from the subject plant and machinery from the over-all value of the business enterprise, we have generally used the cost approach (commonly referred to as depreciated replacement cost approach or DRC) in arriving at our valuation.

In conducting our valuation, we made an on-site inspection of the subject plant and machinery, gathered relevant accounting and financial information, investigated market conditions and interviewed relevant factory personnel to establish their condition, usage, maintenance, operation and history.

In using the cost approach to value the subject plant and machinery, we estimated their gross current replacement cost taking into consideration the basic equipment cost and other associated costs such as freight and handling, installation, design and engineering fees, and contractor's fees and overhead.

We arrived at our estimated basic equipment cost by referring to the historical costs provided to us, price inquiry from the JV's suppliers, published Chinese equipment databases like the Quotation Price Guide to Chinese Mechanical and Electronic Products, and from our internal database. Installation and other associated costs were estimated by using published process plant cost estimating standards adjusted to local labor productivity and material costs.

The gross current replacement cost developed above was depreciated by reference to generally accepted service lives of similar equipment which was adjusted to reflect their existing physical condition based on our on-site inspection and allowance for physical and economic obsolescence. Depending of the type of asset, we have used service lives ranging from 5 years for computers and other office equipment, 15 years for most production equipment and 20 years for electrical equipment. The depreciated replacement cost was then taken as the fair market value in continued use of the subject plant and machinery.

A detailed list of the subject plant and machinery is shown in Annex I of our detailed valuation report.

8. VALUATION COMMENTS

We reviewed historical accounting records, technical specifications and other documents relating to the subject plant and machinery. Though we have not carried out an independent investigation of the said information, we found no reason not to rely to a considerable extent on such information in arriving at our opinion of value.

For reference purposes, we have used the exchange rate of RMB1.02 per HK$1 which is the prevailing rate as at the relevant valuation date.

We have assumed that all material information that would affect the value of the subject plant and machinery has been properly disclosed.

We confirm that we have no present or contemplated future interest in the subject plant and machinery or any other interests that may prevent our having arrived at a fair and unbiased assessment of value.

No deduction has been made in our valuation in respect of any outstanding amounts owed under any finance lease or hire purchase agreement. The assets have been valued as being wholly owned and free of all encumbrances. We have not investigated the titles to or any liabilities affecting the subject plant and machinery.

This valuation is concerned solely with the value of the subject plant and machinery and our opinion of value is not related to or dependent upon the earning capacity of the business. We did not attempt to arrive at the value of the factory as a total business entity.

This report has been made in conformity with the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and in line with the International Valuation Guidance Note 3: Valuation of Plant and Equipment in the International Valuation Standards published by the International Valuation Standards Committee, 2005.

We retain a copy of this report in our files, together with the data from which it was prepared. We considered these records confidential, and do not permit access to them by anyone without the client's authorization and prior arrangement made with us. Moreover, we will add the name of the client into our client list for our future reference.

9. OPINION OF VALUE

Based on the above, we are of the opinion that as at the relevant valuation date, the appraised fair market value in continued use of the subject plant and machinery was reasonably represented by the amount of **RMB25,290,000 Yuan (RENMINBI TWENTY FIVE MILLION TWO HUNDRED NINETY THOUSAND YUAN).**

This valuation is subject to our standard General Assumptions and Limiting Conditions.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited
Rolando R. Arcaya *BSME, ASA*
Director

Note: Mr. Rolando R. Arcaya is a mechanical engineer and a senior accredited appraiser (ASA designation) of the American Society of Appraisers in Machinery and Technical Specialties/Machinery and Equipment. He has over 20 years plant and machinery valuation experience of which over 15 years were spent in Hong Kong and mainland China.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Revised Listing Rules, were as follows:

(1) Interests in issued share capital

	Number of ordinary shares of $0.50 each in the Company			
Name of Director	**Personal interests**	**Family interests**	**Total**	**Approximate % of shareholdings**
David K. P. Li	300,000	–	300,000	0.08%

	Number of shares in SMC			
Name of Director	**Personal interests**	**Family interests**	**Total**	**Approximate % of shareholdings**
Class A (par value of 5 pesos each):				
Ramon S. Ang	6,050	–	6,050	0.000192%
Faustino F. Galang	83,800	–	83,800	0.002664%
Minerva Lourdes Bibonia	30,000	–	30,000	0.000954%
Ma. Belen C. Buensuceso	45,018	–	45,018	0.001432%
Ferdinand K. Constantino	134,224	2,070	136,294	0.004333%
Roberto N. Huang	12,430	–	12,430	0.000395%
Class B (par value of 5 pesos each):				
Faustino F. Galang	60,000	–	60,000	0.001909%
Minerva Lourdes Bibonia	30,000	–	30,000	0.000954%
Roberto N. Huang	2,750	–	2,750	0.000087%

(2) Interests in underlying shares

Certain Directors have been granted share options to subscribe for shares in SMC. Particulars of share options in SMC held by Directors as at the Latest Practicable Date were as follows:

	Share options in SMC			
Name of Director	**Date granted**	**Exercisable period up to**	**Exercise price** *(pesos)*	**Balance of options as at the Latest Practicable Date**
Class A (par value of 5 pesos each):				
Ramon S. Ang	26/06/03	26/06/11	54.50	259,422
	01/10/04	01/10/12	57.50	266,854
	10/11/05	10/11/13	65.00	204,654
Faustino F. Galang	26/06/03	26/06/11	54.50	28,435
	01/10/04	01/10/12	57.50	87,751
	10/11/05	10/11/13	65.00	67,090
Chong Yoon Fatt	10/11/05	10/11/13	65.00	1,027
Minerva Lourdes Bibonia	26/06/03	26/06/11	54.50	11,928
	01/10/04	01/10/12	57.50	26,750
	10/11/05	10/11/13	65.00	33,824
Ma. Belen C. Buensuceso	26/06/03	26/06/11	54.50	36,144
	01/10/04	01/10/12	57.50	38,854
	10/11/05	10/11/13	65.00	30,789
Ferdinand K. Constantino	26/06/03	26/06/11	54.50	16,838
	01/10/04	01/10/12	57.50	56,643
	10/11/05	10/11/13	65.00	48,391
Roberto N. Huang	26/06/03	26/06/11	54.50	36,144
	01/10/04	01/10/12	57.50	40,529
	10/11/05	10/11/13	65.00	31,967
Class B (par value of 5 pesos each):				
Ramon S. Ang	26/06/03	26/06/11	62.50	111,181
	01/10/04	01/10/12	70.50	114,366
	10/11/05	10/11/13	89.50	136,436
Faustino F. Galang	26/06/03	26/06/11	62.50	12,186
	01/10/04	01/10/12	70.50	37,607
	10/11/05	10/11/13	89.50	44,727
Chong Yoon Fatt	10/11/05	10/11/13	89.50	684
Minerva Lourdes Bibonia	26/06/03	26/06/11	62.50	5,112
	01/10/04	01/10/12	70.50	11,464
	10/11/05	10/11/13	89.50	22,550
Ma. Belen C. Buensuceso	26/06/03	26/06/11	62.50	5,163
	01/10/04	01/10/12	70.50	16,652
	10/11/05	10/11/13	89.50	20,526
Ferdinand K. Constantino	26/06/03	26/06/11	62.50	7,216
	01/10/04	01/10/12	70.50	24,275
	10/11/05	10/11/13	89.50	32,260
Roberto N. Huang	26/06/03	26/06/11	62.50	15,490
	01/10/04	01/10/12	70.50	17,370
	10/11/05	10/11/13	89.50	21,312

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Revised Listing Rules.

(b) Persons or corporations who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of members of the Group

So far as is known to each Director or the chief executive of the Company, as at the Latest Practicable Date, the following persons or corporations had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such persons's/corporation's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

	Number of Shares	
Name	**Ordinary shares held**	**% of total issued shares**
Neptunia Corporation Limited *(note 1)*	245,720,800	65.78%
Conroy Assets Limited *(note 2)*	13,624,600	3.65%
Hamstar Profits Limited *(note 2)*	10,078,400	2.70%

Notes:

1. SMC, San Miguel International Limited ("SMIL"), San Miguel Holdings Limited ("SMHL") and San Miguel Brewing International Limited ("SMBIL") are all deemed to hold the above disclosed interests of Neptunia Corporation Limited in the Company because SMC has a controlling interest in SMIL, SMIL has a controlling interest in SMHL, SMHL has a controlling interest in SMBIL and SMBIL has a controlling interest in Neptunia Corporation Limited.

2. Mr. Li Ka-Shing, Cheung Kong (Holdings) Limited, Li Ka-Shing Unity Trustee Company Limited, Li Ka-Shing Unity Trustee Corporation Limited and Li Ka-Shing Unity Trustcorp Limited are all deemed to hold the above disclosed interest of Conroy Assets Limited ("Conroy") and Hamstar Profits Limited ("Hamstar") in the Company. The aggregate interest of Conroy and Hamstar exceeds 5% of the issued share capital of the Company resulting in a duty of disclosure under the SFO.

3. The following Directors are directors/employees of the companies which have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

   Mr. Ramon S. Ang is the Vice Chairman, President and Chief Operating Officer of SMC. He is also the Chairman and President of SMIL and SMHL respectively.

Mr. Faustino F. Galang is the President of Beer Division of SMC. He is the Deputy Chairman of SMIL. He is a director of SMHL. He is also the Chairman of SMBIL and Neptunia Corporation Limited respectively.

Ms. Minerva Lourdes Bibonia is the Senior Vice President of Corporate Marketing Division of SMC. She is also a director of SMBIL.

Ms. Ma. Belen C. Buensuceso is the Senior Vice President of Corporate Planning & Development Division of SMC.

Mr. Ferdinand K. Constantino is the Chief Finance Officer and Treasurer of SMC. He is a director and the Chief Finance Officer of SMIL. He is a director of SMBIL. He is also a director, the Vice President and Treasurer of SMHL and Neptunia Corporation Limited respectively.

Name of subsidiary	Name of shareholder	% of interest in subsidiary
Guangzhou San Miguel Brewery Company Limited	Guangzhou Brewery	30%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person or corporation who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

3. SERVICE CONTRACTS

Pursuant to an agreement dated 12 June 1963, Neptunia Corporation Limited provides technical and advisory services to the Company and may be paid a General Managers' Commission. Mr. Ramon S. Ang, Mr. Faustino F. Galang, Mr. Chong Yoon Fatt, Ms. Minerva Lourdes Bibonia, Ms. Ma. Belen C. Buensuceso, Mr. Ferdinand K. Constantino and Mr. Roberto N. Huang are interested parties to this contract to the extent that they either have equity interests in or are directors of SMC, the ultimate holding company of Neptunia Corporation Limited. General Managers' Commission has not been paid by the Company or charged by Neptunia Corporation Limited since the 1995 financial year.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and his/her associates had any interests which competed or was likely to compete, either directly or indirectly, with the Company's business.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Company since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up.

7. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

Save as disclosed in the section headed "Service Contracts" above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Company.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice, which are contained or referred to in this circular:

Name	Qualifications
CIMB-GK	a corporation licensed to carry out types 1, 4 and 6 of the regulated activities under the SFO
LCH	Chartered Surveyors

CIMB-GK and LCH have made their letter/reports for incorporation in this circular. CIMB-GK and LCH have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letter/reports and references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, CIMB-GK and LCH were not interested in any Shares or share in any member of the Group nor did they have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, CIMB-GK and LCH did not have any direct or indirect interest in any asset which had been, since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

9. GENERAL

(a) The secretary and the qualified accountant of the Company is Mr. Wan Yick Kin, who is a member of The Hong Kong Institute of Certified Public Accountants.

(b) The Company's share registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's registered office, 9th Floor, Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong during normal business hours up to and including 9 November 2006:

(a) the Termination Agreement;

(b) the amendment agreements in relation to the JV Contract, the articles of association of GSMB and the trademark licensing agreements entered into in 1990 between GSMB and each of SMIL and GB as referred to in the section headed "Certain changes upon the Lease Termination and the Asset Sale" in the Letter from the Board;

(c) the agreement referred to in the section headed "Service contracts" in this appendix;

(d) the letter from the Independent Board Committee, the text of which is set out in this circular;

(e) the letter from CIMB-GK, the text of which is set out in this circular;

(f) the summary valuation report on buildings and structures from LCH, the text of which is set out in Appendix I to this circular;

(g) the detailed valuation report on plant and machinery from LCH, the summary report of which is set out in Appendix II to this circular; and

(h) the consent letters of CIMB-GK and LCH referred to in the section headed "Qualifications and consents of experts" in this appendix.