SAN MIGUEL BREWERY HONG KONG LTD.

INTERIM REPORT
January to August 1998

The Directors' Statement

To Our Shareholders:

Interim Results

The Directors of San Miguel Brewery Hong Kong Limited ("the Company") are pleased to announce **the unaudited consolidated results** of the Company and its subsidiaries ("the Group") for the eight months ended 31st August 1998 as follows:

8 months ended 31st August	**1998 $'000**	1997 $'000	Increase/ (Decrease)
Turnover	**849,848**	809,989	5%
Operating profit	**25,342**	14,063	80%
Other (expenses)/income	**(10,429)**	(12,167)	14%
Profit from ordinary activities before taxation	**14,913**	1,896	687%
Taxation *(Note 2)*	**4,714**	(781)	(704%)
Profit After Taxation	**10,199**	2,677	281%
Minority Interests	**222**	(3,359)	
Profit attributable to shareholders	**9,977**	6,036	65%
Dividends			
First Interim Dividend of $nil per share (1997: $0.04)	**0**	14,943	
Second Interim Dividend of $0.01 per share (1997: $0.04)	**3,736**	14,943	
Retained profit for the year	**6,241**	(23,850)	126%
Earnings Per Share *(Note 3)*	**$0.027**	$0.016	69%

Notes:

1. *In this report, all monetary values are expressed in Hong Kong dollars unless stated otherwise.*
2. *Taxation charge is made up as follows :*

	1998 $'000	*1997 $'000*
Hong Kong profits tax	—	*180*
Overseas taxation	***4,714***	*5,691*
Deferred taxation	—	*(6,652)*
	4,714	*(781)*

No provision for Hong Kong profits tax has been made (1997: nil) as deductible allowances applied to the profit for the period have eliminated tax which would have been assessed in their absence.

Overseas taxation is calculated at the appropriate tax rates on the estimated assessable overseas profits for the period.

Deferred taxation is provided at the current rates on time differences to the extent that a liability is expected to crystallize in the future.

3. *The calculation of earnings per share is based on profit for the period of $9,977,000 (1997: $6,036,000) and 373,570,560 shares (1997: 373,570,560 shares) in issue during the period.*

Interim Dividends

No dividend was declared for the first interim of the year 1998. The Directors have declared a dividend of $0.01 per share for the eight months ended 31st August 1998 payable on Thursday, 5th November 1998 to Shareholders of record on Friday, 23rd October 1998.

Closure of Transfer Books and Register of Members

The Transfer Books and Register of Members of the Company will be closed from Friday, 23rd October 1998 to Monday, 26th October 1998, both days inclusive. To qualify for the dividend, Shareholders should ensure that transfers are lodged at the Company's Share Registrars, Central Registration Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Thursday, 22nd October 1998.

Review and Prospects

In spite of the increasingly competitive marketplace in Hong Kong and Southern China, together with a progressively uncertain economy, the financial results for the eight months ending August 1998 show an encouraging upward trend. This improving trend, which we expect to continue through to the end of the year, is evident not only in Hong Kong, but also in the markets served by our joint ventures in Guangzhou and Shunde.

Sales revenue increased 5% (from $809.989 million to $849.848 million), reflecting a 16% volume increase in the PRC joint ventures. In Hong Kong, sales volume to the local market was equal to the previous year, but export sales were 35% lower than 1997. The increase in revenue was restricted by the decision to limit price increases in the local Hong Kong market.

Operating profit increased 80% (from $14.063 million to $25.342 million), assisted by the increase in total volume, and an 11% reduction in variable costs per hectolitre. These gains were partially offset by substantially increased expenditures on advertising and promotion directed at producing future gains.

The 1998 interim result is a higher quality result than that of 1997 because of the improvements in operating profit from beer production and distribution, the lower dependence on investment income and the lack of extraordinary adjustments. The 1997 result benefited from a $6.62 million write back of deferred tax provisions.

The Group's trading for the eight months to end August 1998 has been strongly cash positive pursuant to high depreciation charges and low capital expenditure.

The balance sheet for the end of 1998 will reveal a significant reduction in debt and correspondingly reduced interest charges.

In Hong Kong, after the disappointing results of 1997 and the associated loss of market share, three major priorities were identified to be addressed during 1998. These were, stabilisation of market share, early return to operating profitability and maximisation of positive cashflow, together with reduced indebtedness and associated interest expenses.

To date the Company is making good progress with all three objectives.

To address our market share problems, during the year, the Company has committed a higher level of marketing investment than in previous years, to exploit the major initiative of its "Take A Fresh Look" campaign initiated at the end of last year. The packaging of its flagship brand, San Miguel Pale Pilsen, has been completely revised, together with all merchandising and vehicle liveries. These innovations have been warmly received in the marketplace by our consumers. The TV campaigns, which will continue, featuring Tony Leung, have been equally well-received. These activities, together with other sales initiatives in the marketplace, have stabilised our market share as evidenced by recent monthly figures. Thus, we are well-poised to begin to grow and consolidate the position of San Miguel Pale Pilsen as Hong Kong's leading brand.

Hong Kong sales volume was equal to that of last year, a considerable improvement over the consistent declines experienced in previous years and our performance is better than the industry volume trend which has fallen an estimated 2% during the period.

Export markets have not shown the same resilience as the local market, and volumes have declined by some 35%, not least due to the relative strength of the Hong Kong currency in the South East Asia region.

The cost base of the Company has been subjected to intense scrutiny, and, wherever possible, reductions have been made whilst protecting the ongoing strength of the business. Priorities for expenditures have been re-assessed and revised, senior and middle management staffing has been reduced, and major efforts have been made to improve the productivity of all staff. Cost savings from all these initiatives are now beginning to flow through, and are contributing to an improved level of operating profit compared to last year. It is expected that the major benefits from these activities will come to fruition later this year and, particularly next year.

Quality of product to the consumer is receiving major emphasis, and the Company has been pleased to receive the award of a Gold Medal from Monde Selection in Europe for the outstanding quality of San Miguel Pale Pilsen brewed in Hong Kong. The Hong Kong Brewery has also received the ISO9002 accreditation for quality systems and management. We will continue to emphasise the quality value of "fresh beer" to our discriminating consumers.

The benefits of all these developments are also being demonstrated in improved employee morale. Our employees have a greater understanding of the challenge of the business, and are committed to continue improving performance. With the benefit of better productivity the Company has an appropriate manpower cost structure to cope with the difficult months ahead in our local Hong Kong economy.

In the PRC market, our joint venture companies, Guangzhou San Miguel Brewery Company Limited, and San Miguel Shunde Brewery Limited, have also implemented a number of initiatives, including adopting the revised packaging for the San Miguel brand, launching a mid price brand Valor, and relaunching Guang's Pineapple Beer. Together with the local brands, sales volume of both breweries have advanced and, in total, are substantially ahead of last year. The Guangzhou joint venture continues to show operating profits, and, pleasingly, San Miguel Shunde, in accordance with plan, is now delivering positive earnings at the operating profit level.

The better results anticipated for 1998 by the Board of Directors at the end of last year are now beginning to arrive. As the intensity of effort directed at improved sales volume and profitability continues, the Board of Directors looks forward to declaring a better financial profit at the year end, and to progressively better results for future years.

Disclosure of Interests

As at 31st August 1998, the Directors and their associates had the following beneficial interests in the issued share capital of the Company and its associated corporations as recorded in the register required by Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

	Number of ordinary shares of $0.50 each in the Company		
Name	*Personal Interests*	*Corporate Interests*	*Total*
F.C. Eizmendi, Jr.	2,816	—	2,816
David K.P. Li	300,000	—	300,000
Raul S. Roco	17,600	—	17,600

Save as disclosed herein, none of the Directors or their associates had any interests in the issued share capital of the Company or any of its associated corporations.

Substantial Interests in the Share Capital of the Company

As at 31st August 1998, according to the register required by Section 16(1) of the SDI Ordinance, the Company was notified that the following shareholders had an interest of 10% or more of its issued share capital:

Name	*Ordinary shares held*	*Percentage of Total issued shares*
Neptunia Corporation Limited	245,720,800	65.78%
HKSCC Nominees Limited	72,756,009	19.48%

Note:

San Miguel Corporation ("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 interest 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.

Save as disclosed herein, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital.

Purchase, Sale and Redemption of the Company's Listed Shares

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed shares.

Year 2000 Compliance of Computing Systems

Hong Kong

The Company commenced planning for Year 2000 compliance in 1994 and will complete the programme prior to June 1999.

The achievement of Year 2000 compliance has been part of a much broader programme involving the adoption of a fully integrated business information system employing SAP software. SAP and its associated processing hardware are Year 2000 compliant and were installed in September 1996. This is the central system on which the Company's operations are based.

In 1996 the Company commissioned a new brewery at Yuen Long and, accordingly, has avoided the potential difficulties which might have risen from old processing equipment at its former brewery.

The Company operates other computer systems such as desk-top computers and "PCs" incorporating software developed "in house", some of which are not Year 2000 compliant. It is anticipated that 70% of these applications and other systems (such as security systems) will be compliant before the end of 1998. Prior to June 1999 the remaining 30% will be upgraded or replaced.

The Company is also, currently, conducting an audit of the Year 2000 status of all of its suppliers and this will be followed by a second audit in early 1999.

Expenditure on Year 2000 compliance activities has been incorporated in the overall upgrade of information technology. Budget provisions for the coming year are more than adequate to cover any contingencies.

PRC

With respect to our joint ventures in the PRC, a review is currently underway and the status will be reported to Shareholders in our 1998 Annual Report.

Compliance with the Code of Best Practice

None of the Directors are aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

JOHN L. DUNWELL, *Managing Director*
Hong Kong, 25th September 1998